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: 1690)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Lap Kei Engineering (Holdings) Limited (the "**Company**") is pleased to announce the audited combined financial information of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 together with the comparative figures for the corresponding year ended 31 December 2017. The financial information has been approved by the Board.

SUMMARY

	For the year ended 31 December		
	2018	2017	
	HK$'000	*HK$'000*	Change %
Revenue	**308,506**	282,651	9.1%
Gross profit	**42,466**	51,344	(17.3)%
Profit attributable to owners of the Company	**17,817**	27,274	(34.7)%
Earnings per share *(HK cents)*	**1.39**	2.13	

- The Group's revenue amounted to approximately HK$308.5 million for the year ended 31 December 2018, representing an increase of approximately HK$25.8 million in approximately 9.1% as compared with the year ended 31 December 2017.
- The profit attributable to owners of the Company is approximately HK$17.8 million for the year ended 31 December 2018, representing a decrease of approximately HK$9.5 million or 34.7% as compared with the year ended 31 December 2017.
- The Directors did not recommend the payment of any dividend in respect of the year ended 31 December 2018 (2017: HK0.78 cents per share).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	2	**308,506**	282,651
Cost of sales		**(266,040)**	(231,307)
Gross profit		**42,466**	51,344
Other income and other gains		**491**	95
Administrative expenses		**(19,468)**	(15,082)
Other expenses		**–**	(1,440)
Impairment loss		**(2,006)**	(1,270)
Finance costs		**(272)**	(275)
Profit before taxation		**21,211**	33,372
Income tax expense	3	**(3,394)**	(6,098)
Profit and total comprehensive income for the year	4	**17,817**	27,274
Earnings per share			
Basic (HK cents)	6	**1.39**	2.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Non-current assets			
Plant and equipment		**1,218**	465
Deposit paid for a life insurance policy		**1,145**	1,132
		2,363	1,597
Current assets			
Contract assets	*7*	**130,725**	–
Amounts due from customers for contract work	*8*	**–**	62,812
Trade and other receivables	*9*	**46,183**	84,556
Amount due from a related party		**8**	–
Tax recoverable		**2,666**	–
Pledged bank deposits		**13,473**	15,804
Bank balances and cash		**28,269**	32,443
		221,324	195,615
Current liabilities			
Contract liabilities	*10*	**2,165**	–
Amounts due to customers for contract work	*8*	**–**	1,363
Trade, bill and other payables	*11*	**73,079**	61,274
Amount due to a related party		**–**	45
Tax payable		**–**	1,033
Bank borrowings	*12*	**10,151**	2,136
		85,395	65,851
Net current assets		**135,929**	129,764
Total assets less current liabilities		**138,292**	131,361
Non-current liability			
Deferred tax liabilities		**199**	–
Net assets		**138,093**	131,361
Capital and reserves			
Share capital		**12,800**	12,800
Reserves		**125,293**	118,561
		138,093	131,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs, Hong Kong Accounting Standard ("HKAS") and Hong Kong (International Financial Reporting Interpretation Committee) Interpretations ("HK (IFRIC) - Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, i.e. 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Building services engineering work
- Maintenance, repair and other services

Information about the Group's performance obligations resulting from application of HKFRS 15 are disclosed in note 2.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 *HK$'000*	Reclassification *HK$'000*	**Carrying amounts under HKFRS 15 at 1 January 2018*** ***HK$'000***
Current assets				
Contract assets	*(a) & (b)*	–	92,484	**92,484**
Amounts due from customers for contract work	*(a)*	62,812	(62,812)	**–**
Trade and other receivables	*(b)*	84,556	(29,672)	**54,884**
Current liabilities				
Contract liabilities	*(c)*	–	1,919	**1,919**
Amounts due to customers for contract work	*(c)*	1,363	(1,363)	**–**
Trade, bills and other payables	*(c)*	61,274	(556)	**60,718**

* The amounts in this column are before the adjustments from the application of HKFRS 9.

(a) At the date of initial application, unbilled revenue of HK$62,812,000 arising from the building services engineering contracts are conditional on the satisfaction by the customers on the building services engineering work completed by the Group and the work was pending for the certification by the customers, and such balance was reclassified from amounts due from customers from contract work to contract assets.

(b) At the date of initial application, retention receivables of HK$29,672,000 arising from the building services engineering contracts are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, and such balance was reclassified from trade and other receivables to contract assets.

(c) As at 1 January 2018, amounts due to customers for contract work of HK$1,363,000 and advances from customers of HK$556,000 previously included in trade, bills and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position at 31 December 2018

	As reported *HK$'000*	Adjustments *HK$'000*	Amount without application of HKFRS 15 *HK$'000*
Current assets			
Contract assets	130,725	(130,725)	–
Amounts due from customers for contract work	–	97,684	97,684
Trade and other receivables	46,183	33,041	79,224
Current liabilities			
Contract liabilities	2,165	(2,165)	–
Trade, bills and other payables	73,079	2,165	75,244

HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses ("ECL") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts); and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31st December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Trade and other receivables *HK$'000*	Amount due from customers for contract work *HK$'000*	Contract assets *HK$'000*	Accumulated profits *HK$'000*
Closing balance at 31 December 2017					
— HKAS 39		84,556	62,812	–	87,096
Effect arising from initial application of HKFRS 15		(29,672)	(62,812)	92,484	–
Effects arising from initial application of HKFRS 9:					
Remeasurement					
Impairment under ECL model	*(a)*	(639)	–	(462)	(1,101)
Opening balance at 1 January 2018		54,245	–	92,022	85,995

Note:

(a) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables based on provision matrix. Except for those which had been determined as credit impaired under HKAS 39, contract assets and trade receivables have been assessed individually. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including amount due from a related party, pledged bank deposits and bank balances are assessed on 12-month ECL as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$1,101,000 has been recognised against accumulated profits. The loss additional allowance is charged against the respective asset.

All loss allowances, including contract assets and trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Contract assets *HK$'000*	**Trade and other receivables** *HK$'000*
At 31 December 2017 — HKAS 39	–	1,270
Amounts remeasured through Opening retained profits	462	639
At 1 January 2018	462	1,909

Impacts on opening consolidated statement of financial position arising from the application of all new HKFRSs

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 *HK$'000* (Audited)	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	**1 January 2018** ***HK$'000*** **(Restated)**
Current assets				
Contract assets	–	92,484	(462)	**92,022**
Amounts due from customers for contract work	62,812	(62,812)	–	**–**
Trade and other receivables	84,556	(29,672)	(639)	**54,245**
Current liabilities				
Contract liabilities	–	1,919	–	**1,919**
Amounts due to customers for contract work	1,363	(1,363)	–	**–**
Trade, bills and other payables	61,274	(556)	–	**60,718**
Capital and reserves				
Reserves	118,561	–	(1,101)	**117,460**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

2. REVENUE AND SEGMENT INFORMATION

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

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

(i) Building services engineering work – provision of building services engineering work including ventilation and air-conditioning system, electrical system, plumbing and drainage system, fire system and other related works

(ii) Maintenance, repair and other services – provision of maintenance and repair services for building services system and replacement of parts

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

Segment revenue and results

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

For the year ended 31 December 2018

	Building services engineering work *HK$'000*	**Maintenance, repair and other services** *HK$'000*	**Total** *HK$'000*
Segment revenue			
External sales	**294,631**	**13,875**	**308,506**
Segment results	**37,924**	**4,542**	**42,466**
Other income			**491**
Administrative expenses			**(19,468)**
Impairment loss			**(2,006)**
Finance costs			**(272)**
Profit before taxation			**21,211**

For the year ended 31 December 2017

	Building services engineering work *HK$'000*	Maintenance, repair and other services *HK$'000*	Total *HK$'000*
Segment revenue			
External sales	269,148	13,503	282,651
Segment results	45,160	6,184	51,344
Other income			95
Administrative expenses			(15,082)
Other expenses			(1,440)
Impairment loss			(1,270)
Finance costs			(275)
Profit before taxation			33,372

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

Geographical information

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

Information about major customers

Revenue from customers in respect of building services engineering work during the years ended 31 December 2018 and 2017 individually contributing over 10% of the Group's revenue is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Customer A	**N/A[1]**	59,464
Customer B	**N/A[1]**	42,338
Customer C	**122,000**	N/A[1]
Customer D	**37,639**	N/A[1]

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

No single customer in respect of maintenance, repair and other services contributed 10% or more to the Group's revenue for each of the years ended 31 December 2018 and 2017.

3. INCOME TAX EXPENSE

	2018 *HK$'000*	2017 *HK$'000*
Hong Kong Profits Tax		
— Current year	**3,230**	6,122
Overprovision in prior year		
— Hong Kong	**(35)**	(24)
Deferred tax	**199**	–
	3,394	6,098

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

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

4. PROFIT FOR THE YEAR

	2018 *HK$'000*	2017 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Director's remuneration	**3,591**	3,224
Other staff costs:		
Salaries and other allowances	**36,180**	30,781
Retirement benefit scheme contributions	**1,261**	1,377
Total staff costs	**41,032**	35,382
Auditor's remuneration	**855**	1,030
Depreciation of plant and equipment	**486**	570
Impairment loss on contract assets	**1,910**	–
Impairment loss on trade receivables	**96**	1,270
Write-down of inventories	**–**	29
Bank interest income	**(33)**	(46)
Gain on disposal of plant and equipment	**(445)**	(46)
Interest income on a deposit paid for a life insurance policy	**(13)**	(12)

Note: Legal and professional fee amounted to approximately HK$1,440,000 was incurred in the transfer of the Company's shares from listing on GEM to Main Board during the year ended 31 December 2017 and was included in the "other expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

5. DIVIDEND

For the year ended 31 December 2017, a final dividend of an aggregate of HK$9,984,000 (approximately of HK0.78 per share) was declared and paid to the shareholders, the full amount of which was recognised as distribution. The Directors did not recommend the payment of any dividend in respect of the year ended 31 December 2018.

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2018 is based on the profit for the year of approximately HK$17,817,000 (2017: HK$27,274,000) and the number of ordinary shares in issue during the year ended 31 December 2018 of approximately 1,280,000,000 (2017: 1,280,000,000). No diluted earnings per share is presented for both years as there was no potential ordinary share outstanding.

7. CONTRACT ASSETS

	At 31 December 2018	At 1 January 2018*
	HK$'000	*HK$'000*
Analysed as current:		
Unbilled revenue of building services engineering contracts	**97,684**	62,498
Retention receivables of building services engineering contracts	**33,041**	29,524
	130,725	92,022
The retention receivables are to be settled, based on the expiry of the defect liability period, at the end of the reporting period:		
Retention receivable of building services engineering contracts		
On demand or within one year	**18,028**	18,115
After one year	**15,013**	11,409
	33,041	29,524

* The amounts in this column are after the adjustments from the application of HKFRS 9 and 15.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

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

	2017
	HK$'000
Contracts in progress at the end of the reporting period:	
Contract costs incurred to date	414,266
Add: Recognised profits less recognised losses	135,773
	550,039
Less: Progress billings	(488,590)
	61,449
Analysed for reporting purposes as:	
Amounts due from customers for contract work	62,812
Amounts due to customers for contract work	(1,363)
	61,449

As at 31 December 2017, retention receivables held by customers for contract work amounted to HK$29,672,000 as set out in note 9.

9. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables (inclusive of factored debts amounting HK$3,000,000 as at 31 December 2018 (2017: HK$2,136,000))	**43,245**	48,411
Less: allowance for credit loss	**(2,005)**	(1,270)
	41,240	47,141
Retention receivables *(Note)*	**–**	29,672
Other receivables, deposits and prepayments	**4,943**	7,743
Total trade and other receivables	**46,183**	84,556

Note: Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from one to two years from the date of the completion of the respective project as at 31 December 2017.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts amounted to HK$41,240,000 and HK$46,502,000, respectively.

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

	2017 *HK$'000*
On demand or within one year	18,206
After one year	11,466
	29,672

Upon application of HKFRS 15, the retention receivables were classified to contract assets.

The Group allows a credit period of 30 days (2017: 30 days) to its customers for its trade receivables.

The following is an aging analysis of trade receivables (net of allowance for credit loss) presented based on invoice dates at the end of each reporting period:

	2018 ***HK$'000***	2017 *HK$'000*
0–30 days	**10,310**	14,290
31–60 days	**24,545**	2,196
61–90 days	**1,300**	13,560
> 90 days	**5,085**	17,095
	41,240	47,141

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$30,874,000, which are past due as at the reporting date. Out of the past due balances, HK$3,761,000 has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK$32,851,000, which were past due as at the reporting date for which the Group has not provided for impairment loss because management is of the opinion that the fundamental credit quality of these customers has not deteriorated considering credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of these trade receivables. The Group does not hold any collateral over these balances.

10. CONTRACT LIABILITIES

	At **31 December** **2018** ***HK$'000***	At 1 January 2018* *HK$'000*
Advances from customers of building services engineering contracts, current	**2,165**	1,919

* The amount is after the adjustment from the application of HKFRS 15.

Contract liabilities which are expected to be settled within the Group's normal operating cycle, are classified as current.

Revenue from building services engineering contracts recognised during the year ended 31 December 2018 that was included in the contract liabilities at the beginning of the year was amounted to HK$1,919,000.

11. TRADE, BILLS AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**49,514**	44,540
Bills payable	**–**	6,303
Accruals	**23,565**	9,875
Receipt in advance	**–**	556
Total trade, bills and other payables	**73,079**	61,274

The credit period on trade and bills payables range from 30 days to 60 days (2017: 30 days to 52 days).

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

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**17,149**	24,815
31–60 days	**17,459**	21,175
61–90 days	**3,790**	523
> 90 days	**11,116**	4,330
	49,514	50,843

12. BANK BORROWINGS

	2018	2017
	HK$'000	*HK$'000*
Advance drawn on bills receivables discounted with recourse	**3,000**	2,136
Corporate tax loan	**7,151**	–
	10,151	2,136
The carrying amounts of the above borrowings are repayable within one year — secured and variable rate	**10,151**	2,136

The Group's advance drawn on bills receivables discounted with recourse as at 31 December 2018 and 2017 were denominated in HK$ and carried interest at Hong Kong Prime Rate minus 2%. The advance were secured by trade receivables in connection with invoice discounting bank loan arrangements at 31 December 2018 and 2017.

The Group's corporate tax loan as at 31 December 2018 was denominated in HK$ and carried interest at Hong Kong Prime Rate minus 2%. The corporate tax loan was secured by pledged bank deposit at 31 December 2018.

At 31 December 2018, the Group had obtained bank facilities of HK$96,687,000 (2017: HK$96,038,000) which are secured by fixed deposits amounting to HK$13,473,000 (2017: HK$15,804,000) held by the Group.

13. OPERATING LEASE COMMITMENTS

The Group as lessee has made minimum lease payments of HK$1,121,000 (2017: HK$1,066,000) under operating leases during the year ended 31 December 2018 in respect of warehouses and office premises.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with LKW Company Limited, a direct wholly-owned subsidiary of Golden Luck Limited which is owned as to 99% by Mr. Wong Kang Kwong ("**Mr. Wong**") and 1% by Ms. So Nui Ho ("**Ms. So**"), in respect of warehouses and office premises which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**158**	1,062
In the second to fifth year inclusive	**1,071**	980
	1,229	2,042

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

On 12 February 2018, the Company was successful transferred the listing of its shares from GEM to the Main Board of the Stock of Exchange (the "**Transfer of Listing**"). The Transfer of Listing greatly promoted the Group's brand in Hong Kong as well as provided the Group with a readily accessible capital platform for the Group's future business development.

FINANCIAL REVIEW

Revenue

Our revenue increased from approximately HK$282.7 million for the year ended 31 December 2017 to approximately HK$308.5 million for the year ended 31 December 2018 (the "**Year**"), representing a growth of approximately 9.1%. Such increase was mainly due to increase in provision of building services engineering work which contributed a significant revenue for the year end 31 December 2018 as a result of the overall development in the construction industry in Hong Kong.

Cost of Sales

Our cost of sales increased from approximately HK$231.3 million for the year ended 31 December 2017 to approximately HK$266.0 million for the year ended 31 December 2018, representing an increase of approximately 15.0%. Such increase was mainly attributable to the increases in our subcontracting charges and material costs which were more than the increase in revenue for the Year.

Gross Profit

Gross profit of the Group decreased by approximately 17.3% from approximately HK$51.3 million for the year ended 31 December 2017 to approximately HK$42.5 million for the year ended 31 December 2018. The decrease was mainly driven by the increase in cost of sales for the year ended 31 December 2018 as discussed above.

The overall gross profit margin decreased from approximately 18.2% for the year ended 31 December 2017 to approximately 13.8% for the year ended 31 December 2018 as the extent of increases in subcontracting charges and direct labour costs was greater than that of the increase in revenue for the year ended 31 December 2018. Due to the increase of subcontracting charges and direct labour, a few of projects recorded losses for the Year.

Other Expenses

Other expenses represented non-recurring listing expenses of approximately HK$1.4 million recognised as expenses by the Group in connection with the Transfer of Listing for the year ended 31 December 2017. No listing expense in connection with the Transfer of Listing was recognised for the year ended 31 December 2018.

Administrative Expenses

Administrative expenses of the Group increased by approximately 29.1% from approximately HK$15.1 million for the year ended 31 December 2017 to approximately HK$19.5 million for the year ended 31 December 2018. Administrative expenses primarily consist of staff costs and rental expenses. The increase was attributable to an increase in staff cost by approximately HK$5.7 million mainly due to a one-off discretionary bonus paid to staff for their contribution for the year ended 31 December 2018.

Income Tax Expense

Income tax expense for the Group decreased by approximately 44.3% from approximately HK$6.1 million for the year ended 31 December 2017 to approximately HK$3.4 million for the year ended 31 December 2018. The decrease was mainly due to the decrease in profit before tax as discussed above.

Profit and Total Comprehensive Income for the Year Attributable to Owners of the Company

Profit and total comprehensive income for the Year decreased by approximately 34.7% from approximately HK$27.3 million for the year ended 31 December 2017 to approximately HK$17.8 million for the year ended 31 December 2018. Such decrease was primarily attributable to the effect of the increase in revenue for the year ended 31 December 2018; offset with the fact the increase in cost of sales for the year ended 31 December 2018; and the increase in administrative expenses for the year ended 31 December 2018.

Liquidity and Financial Resources

As at 31 December 2018, the Group had total assets of approximately HK$223.7 million (2017: HK$197.2 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$85.6 million (2017: HK$65.8 million) and approximately HK$138.1 million (2017: HK$131.4 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 December 2018 were approximately HK$10.2 million (2017: HK$2.1 million), and current ratio as at 31 December 2018 was approximately 2.6 times (2017: 3.0 times).

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

Gearing Ratio

The gearing ratio of the Group as at 31 December 2018 was approximately 7.4% (2017: 1.6%).

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

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Pledge of Assets

As at 31 December 2018, the Group pledged its bank deposits of approximately HK$13.5 million (2017: HK$15.8 million) to banks as collateral to secure bank facilities granted to the Group.

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

Foreign Exchange Exposure

All of the revenue-generating operations and borrowings of the Group were transacted in Hong Kong Dollars which is the presentation currency of the Group. For the year ended 31 December 2018, there was no significant exposure to foreign exchange rate fluctuations and the Group has not maintained any hedging policy against foreign currency risk. The management will consider hedging significant currency exposure should the need arise.

Capital Structure

The shares of the Company were successfully listed on GEM on 25 September 2015 and transferred to the Main Board of the Stock Exchange on 12 February 2018. There has been no change in the capital structure of the Group for the year ended 31 December 2017. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2018, the Company's issued share capital was HK$12,800,000 and the number of its issued ordinary shares was 1,280,000,000 of HK$0.01 each. During the year ended 31 December 2018, there has been no change to the number of issued shares in the Company.

Commitments

The operating lease commitments of the Group were primarily related to the leases of its office premises and the warehouses. The Group's operating lease commitments amounted to approximately HK$1.2 million as at 31 December 2018 (2017: HK$2.0 million).

Segmental Information

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

Future Plans for Material Investments and Capital Assets

Save as disclosed in the prospectus of the Company dated 18 September 2015 (the "**Prospectus**") and this announcement, the Group did not have any plans for material investments or capital assets as of 31 December 2018.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the financial year ended 31 December 2018, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities (2017: Nil).

Employees and Remuneration Policies

As at 31 December 2018, the Group employed a total of 124 employees (2017: 100 employees). The staff costs, including Directors' emoluments of the Group for the year ended 31 December 2018 were approximately HK$41.0 million (2017: HK$35.4 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees' performance, qualification and experience). On top of basic salaries, bonuses may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include provision of retirement benefits, medical benefits and sponsorship of training courses. Share options may also be granted to eligible employees by reference to the Group's performance as well as individual contribution.

Significant Investments Held

The Group did not hold any significant investments during the year ended 31 December 2018.

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the 25 September 2015 to 31 December 2018 is set out below:

Business objectives	**Actual business progress up to 31 December 2018**
Further development of the Group's building services engineering business	The Group is in the progress of identifying suitable business opportunities with potential customers and the Group has also committed to undertaking new construction projects. A deposit of HK$22.6 million was required and has been paid up to 31 December 2018 (which was financed as to approximately HK$16.5 million by the proceeds from the listing on GEM (the "**Listing**") on 25 September 2015 and as to the remaining approximately HK$6.1 million by the Group's internal resources).

Business objectives	Actual business progress up to 31 December 2018
Further expansion of service scope	The Group has used approximately HK$1.3 million for recruiting staff with relevant experiences. During the Year, the Group's application made to the Works Branch of Development Bureau for the registration of approved contractor on the air-conditioning installation category (Group II) of the Specialist List has been approved. An increase of HK$4.1 million in the paid-up share capital of Lap Kei Engineering Company Limited from HK$600,000 to HK$4.7 million, as one of the minimum requirements for registration, was made in 20 December 2017, before the approval of the aforesaid application by the Works Branch of Development Bureau.
Further strengthening the Group's engineering department	The Group has sponsored its engineering staff to attend technical seminars and occupational health and safety courses organised by third parties. The Group has used approximately HK$6.6 million for adding 10 headcount of middle to senior level engineering staff to cope with its business development and has paid additional staff costs for retaining such additional employees during the Year. The Group regularly reviews the need for further recruitments to cope with its business development.

Use of Proceeds

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

An analysis of the utilisation of the net proceeds from the Listing as at 31 December 2018 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2018	**Actual use of net proceeds up to 31 December 2018**
	HK$'000	*HK$'000*
Further development of the Group's building services engineering business	16,500	16,500
Further expansion of service scope	8,500	5,400
Further strengthening the Group's engineering department	6,600	6,600

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

As at 31 December 2018, the unused net proceeds from the Listing of approximately HK$3.1 million was placed in an interest bearing account with bank in accordance with the disclosure in the Prospectus. The Company intends to apply the unutilised portion of the proceeds in accordance with the planned use of the proceeds as stated in the Prospectus.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**")) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2018. During the year ended 31 December 2018, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code. Further information on the corporate governance practices of the Company will be set out in 2018 annual report of the Company, which will be sent to the shareholders of the Company in April 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, the Directors and the Company were not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

DIVIDEND

The Directors did not recommend the payment of any dividend in respect of the year ended 31 December 2018.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu, who will retire, being eligible, offer themselves for re-appointment at the AGM (as defined below). A resolution for their re-appointment will be proposed at the AGM.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") with its written terms of reference in compliance with the Listing Rules, in accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company. The primary duties of the Audit Committee are, among other things, to review and monitor the financial reporting process and the internal control and risk management systems of the Group, nominate and monitor external auditor and to monitor the integrity of the Company's financial statements, annual reports and accounts. The Audit Committee consists of three members, namely Mr. Chung Yuk Ming, Christopher, Mr. Fok Ka Chi and Mr. Tam Chun Chung, all being independent non-executive Directors of the Company. Mr. Tam Chun Chung currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed with the management and the Company's auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements for the Year and was of the opinion that the audited financial statements of the Group fro the year ended 31 December 2018 comply with the applicable accounting standards, the Listing Rules and adequate disclosure has been made.

ANNUAL GENERAL MEETING

The annual general meeting ("**AGM**") of the Company will be held on Friday, 24 May 2019, the notice of which shall be sent to the shareholders of the Company in accordance with the articles of association of the Company, the Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Monday, 20 May 2019 to Friday, 24 May 2019, both dates inclusive, during which period no transfer of the shares of the Company will be registered. Shareholder of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 17 May 2019.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period of the Group.

APPRECIATION

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

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

Hong Kong, 27 March 2019

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

This announcement will remain on the website of the Stock Exchange at www.hkex.com.hk on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.lapkeieng.com.