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 2019

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Lap Kei Engineering (Holdings) Limited (the "**Company**") is pleased to announce the audited consolidated financial information of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the comparative figures for the corresponding year ended 31 December 2018. The financial information set out below has been approved by the Board.

SUMMARY

	For the year ended 31 December		
	2019	2018	
	HK$'000	*HK$'000*	Change %
Revenue	**153,475**	308,506	(50.3)%
Gross (loss)/profit	**(15,863)**	42,466	(137.4)%
(Loss)/profit attributable to owners of the Company	**(31,708)**	17,817	(278.0)%
(Loss)/earnings per share *(HK cents)*	**(2.42)**	1.39	

- The Group's revenue amounted to approximately HK$153.5 million for the year ended 31 December 2019, representing a decrease of approximately HK$155.0 million or approximately 50.3% as compared with the year ended 31 December 2018.

- The loss attributable to owners of the Company is approximately HK$31.7 million for the year ended 31 December 2019, representing a decrease in profit of approximately HK$49.5 million or 278.0% as compared with the year ended 31 December 2018.

- The Directors did not recommend the payment of any final dividend in respect of the year ended 31 December 2019 (2018: nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

	NOTES	**2019** **HK$'000**	2018 *HK$'000*
Revenue	*2*	**153,475**	308,506
Cost of sales		**(169,338)**	(266,040)
Gross (loss) profit		**(15,863)**	42,466
Other income and other gains or losses		**140**	491
Administrative expenses		**(14,861)**	(19,468)
Impairment loss under expected credit loss ("ECL") model, net of reversal		**(1,005)**	(2,006)
Finance costs		**(119)**	(272)
(Loss) profit before tax		**(31,708)**	21,211
Income tax expense	*3*	**–**	(3,394)
(Loss) profit and total comprehensive (expenses) income for the year	*4*	**(31,708)**	17,817
(Loss) earnings per share			
Basic (HK cents)	*6*	**(2.42)**	1.39

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	NOTES	**2019** **HK$'000**	2018 *HK$'000*
Non-current assets			
Plant and equipment		**1,636**	1,218
Investment property		**6,100**	–
Deposit paid for a life insurance policy		**1,159**	1,145
		8,895	2,363
Current assets			
Contract assets	*7*	**72,924**	130,725
Trade and other receivables	*8*	**34,252**	46,183
Amount due from a related party		**8**	8
Tax recoverable		**2,666**	2,666
Pledged bank deposits		**7,903**	13,473
Bank balances		**64,380**	28,269
		182,133	221,324
Current liabilities			
Contract liabilities	*9*	**1,997**	2,165
Trade and other payables	*10*	**75,006**	73,079
Bank borrowings	*11*	**–**	10,151
		77,003	85,395
Net current assets		**105,130**	135,929
Total assets less current liabilities		**114,025**	138,292
Non-current liability			
Deferred tax liabilities		**199**	199
Net assets		**113,826**	138,093
Capital and reserves			
Share capital		**13,300**	12,800
Reserves		**100,526**	125,293
		113,826	138,093

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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

1.1 HKFRS 16 "Leases"

The Group has applied HKFRS 16 "Leases" ("**HKFRS 16**") for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	**1,229**
Less: Recognition exemption — short-term leases *(note)*	**(1,229)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	**–**

Note: The management of the Group has reassessed the operating lease commitments as at date of initial application and has considered all leases are applicable to apply recognition exemption of short term leases.

Summary of effects arising from initial application of HKFRS 16

Based on the assessment, the adoption of HKFRS 16 did not have significant impact on the Group's financial positions and the financial performance. Accordingly, no adjustment has been made to the accumulated profits as at 1 January 2019.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the *Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRS mentioned below the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and

- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial positions and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;

- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;

- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable from provision of building services engineering work and maintenance, repair and other services.

(i) Disaggregation of revenue from contracts with customers

	2019	2018
	HK$'000	*HK$'000*
Type of services		
Building services engineering work	**136,136**	294,631
Maintenance, repair and other services	**17,339**	13,875
	153,475	308,506

(ii) Performance obligations for contracts with customers

The Group provides building engineering services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these construction services based on the stage of completion of the contract using output method. Contracts with the Group's customers are agreed in fixed-price. In certain circumstances, the amount of payment received is in excess of the certified revenue to date. Such difference will be recorded as contract liabilities.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which ranges from one to two years from the date of the practical completion of the contracts. The relevant amount of contract assets is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the services performed comply with agreed-upon specifications and such assurance cannot be purchased separately.

Revenue relating to the maintenance, repair and other services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released on a straight-line basis over the period of service. Contract liabilities represent the portion of fees that the Group received from the customers in relation to maintenance, repair and other services that have not been performed.

The Group allows a credit of 30 days (2018: 30 days) to its customers from building services engineering work. The Group does not grant any credit period to its customers of maintenance, repair and other services.

(iii) Transaction price allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) for contracts with customers that remain outstanding as at reporting date and the expected timing at recognising revenue is set out below:

	2019	2018
	HK$'000	*HK$'000*
Provision of building services engineering work		
— Within one year	**107,777**	169,000
— More than one year but not more than two years	**17,249**	32,917
	125,026	201,917

All provision of maintenance, repair and other services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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 of the Company, in order for CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

(i) Building services engineering work — provision of building services engineering work including mechanical 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 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 2019

	Building services engineering work *HK$'000*	**Maintenance, repair and other services** *HK$'000*	**Total** *HK$'000*
Segment revenue			
External sales	**136,136**	**17,339**	**153,475**
Segment results	**(20,618)**	**4,755**	**(15,863)**
Other income and other gains or losses			**140**
Administrative expenses			**(14,861)**
Impairment loss under ECL model, net of reversal			**(1,005)**
Finance costs			**(119)**
Loss before tax			**(31,708)**

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 and other gains or losses			491
Administrative expenses			(19,468)
Impairment loss under ECL model			(2,006)
Finance costs			(272)
Profit before tax			21,211

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 2019 and 2018 individually contributing over 10% of the Group's revenue is as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Customer A	**31,890**	N/A[1]
Customer B	**22,647**	122,000
Customer C	**21,977**	N/A[1]
Customer D	**N/A[1]**	37,639

[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 2019 and 2018.

3. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
— Current year	**–**	3,230
— Overprovision in prior years:	**–**	(35)
Deferred tax	**–**	199
	–	3,394

No Hong Kong Profits Tax has been provided as the Group has no taxable profit derived in Hong Kong for the year ended 31 December 2019.

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, the Hong Kong Profits Tax of the qualifying group entity for the year ended 31 December 2018 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. (LOSS) PROFIT AND TOTAL COMPREHENSIVE (EXPENSES) INCOME FOR THE YEAR

	2019	2018
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Directors' remuneration	**4,023**	3,591
Other staff costs:		
Salaries and other allowances	**34,824**	36,180
Retirement benefits scheme contributions	**931**	1,261
Total staff costs	**39,778**	41,032
Auditor's remuneration	**1,200**	855
Depreciation of plant and equipment	**546**	486
Impairment loss recognised on trade receivables	**2,070**	96
Impairment loss (reversed) recognised on contract assets	**(1,065)**	1,910
Bank interest income	**(43)**	(33)
Gain on disposal of plant and equipment	**–**	(445)
Interest income on a deposit paid for a life insurance policy	**(14)**	(13)
Rental expense on short-term leases in respect of warehouse and office premises *(note)*	**1,133**	–
Operating lease rentals in respect of warehouse and office premises	**–**	1,121
Decrease in fair value of investment property	**159**	–
Gross fixed rental income from investment property	**(131)**	–
Less: direct operating expenses incurred for an investment property that generated rental income during the year	**21**	–
	(110)	–

Note: The Group regularly entered into short-term leases for warehouse and office premises. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense.

5. DIVIDEND

During the year ended 31 December 2018, a 2017 final dividend for ordinary shareholders of the Company of HK$9,984,000 (approximately of HK0.78 cents per share) was recognised as distribution.

Subsequent to the end of the reporting period, the directors of the Company do not recommend the payment of any final dividend in respect of the year ended 31 December 2019 (2018: Nil).

6. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year ended 31 December 2019 is based on the loss for the year of HK$31,708,000 (2018: profit of HK$17,817,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2019 of approximately 1,310,958,904 (2018: 1,280,000,000). The weighted average number of ordinary shares for the purpose of basic (loss) earnings per share has been adjusted for the placing of new shares on 20 May 2019. No diluted (loss) earnings per share is presented for both years as there was no potential ordinary share outstanding.

7. CONTRACT ASSETS

	2019	2018
	HK$'000	*HK$'000*
Contracts assets	**74,231**	133,097
Less: allowance for credit loss	**(1,307)**	(2,372)
	72,924	130,725
Analysed as current:		
Unbilled revenue of building services engineering contracts *(note a)*	**47,990**	97,684
Retention receivables of building services engineering contracts *(note b)*	**24,934**	33,041
	72,924	130,725
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	**4,296**	18,028
After one year	**20,638**	15,013
	24,934	33,041

As at 1 January 2018, contract assets amounted to HK$92,022,000.

Notes:

(a) Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the contract work completed by the Group and the work is pending for the certification by the customers or external surveyors. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed contract work from the customers or external surveyors.

(b) Retention receivables included in contract assets represents amounts not yet billed to customers which is conditional until the expiry of defect liability period in respect of building services engineering contracts. The retention receivables are transferred to the trade receivables when the rights become unconditional.

Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 1 to 2 years from the date of the completion of the respective project. The Group does not hold any collateral over these balances.

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

8. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables (inclusive of factored debts amounting to Nil, as at 31 December 2019 (2018: HK$3,000,000))	**33,474**	43,245
Less: allowance for credit loss	**(4,075)**	(2,005)
	29,399	41,240
Other receivables, deposits and prepayments	**4,853**	4,943
Total trade and other receivables	**34,252**	46,183

As at 1 January 2018, trade receivables from contracts with customers amounted to HK$46,502,000.

The Group allows a credit period of 30 days (2018: 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 the reporting period:

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**18,416**	10,310
31–60 days	**2,443**	24,545
61–90 days	**5,433**	1,300
> 90 days	**3,107**	5,085
	29,399	41,240

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$10,983,000 (2018: HK$30,874,000), which are past due as at the reporting date. Out of the past due balances, HK$2,327,000 (2018: 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.

During the year ended 31 December 2018, the Group discounted trade receivables in aggregate amounts of HK$3,000,000 (2019: Nil) to a bank for short term financing. In the opinion of the directors of the Company, the receipts from the trade discounting were in substance the receipt from trade customers and therefore, were presented as financing cash flows in the consolidated statement of cash flows.

9. CONTRACT LIABILITIES

	2019	2018
	HK$'000	*HK$'000*
Advances from customers of building services engineering contracts, current	**1,000**	2,165
Advance from customers of maintenance, repair and other services, current	**997**	–
	1,997	2,165

As at 1 January 2018, contract liabilities amounted to HK$1,919,000.

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 2019 that was included in the contract liabilities at the beginning of the year was amounted to HK$2,165,000 (2018: HK$1,919,000).

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Building services engineering contracts and maintenance, repair and other services

When the Group receives upfront payment or cash advances before the construction activity and maintenance, repair and other services activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the cash advance.

10. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**47,223**	49,514
Retention payable *(note)*	**500**	–
Accrued subcontracting and material costs	**20,644**	18,016
Accrued staff costs	**4,308**	3,349
Other payables and accruals	**2,331**	2,200
Total trade and other payables	**75,006**	73,079

Note: Retention payable is expected to be settled within twelve months from the end of reporting period.

The credit period on trade payables range from 30 days to 60 days (2018: 30 days to 60 days).

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

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**14,808**	17,149
31–60 days	**8,275**	17,459
61–90 days	**4,634**	3,790
> 90 days	**19,506**	11,116
	47,223	49,514

11. BANK BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
Advance drawn on bills receivables discounted with recourse	**–**	3,000
Corporate tax loan	**–**	7,151
	–	10,151
The carrying amounts of the above borrowings that contain a repayment on demand clause are repayable within one year — secured and variable rate	**–**	10,151

The Group's advance drawn on bills receivables discounted with recourse as at 31 December 2018 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.

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 deposits at 31 December 2018.

At 31 December 2019, the Group had obtained bank facilities of HK$37,838,000 (2018: HK$96,687,000) which are secured by fixed deposits and the investment property amounting to HK$7,903,000 (2018: HK$13,473,000) and HK$6,100,000 (2018: nil), respectively held by the Group.

12. OPERATING LEASE

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

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases with LKW Company Limited, a wholly-owned subsidiary of Golden Luck Limited, and Mr. Wong Kang Kwong and Ms. So Nui Ho, in respect of warehouses and office premises which fall due as follows:

	2018
	HK$'000
Within one year	158
In the second to fifth year inclusive	1,071
	1,229

Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

The Group as lessor

Property rental income earned during the year was HK$131,000 (2018: Nil). The properties which are leased out as at 31 December 2019 have rental yield of approximately 3.34% and with committed tenants with the longest tenure for two years.

At the end of the reporting period, minimum lease payments receivable on lease are as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**204**	–
In the second year	**102**	–
	306	–

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.

As at 31 December 2019, the Group had 14 projects on hand (including projects in progress and projects that are about to commence) with total outstanding contract value of approximately HK$125.0 million.

FINANCIAL REVIEW

Revenue

Our revenue decreased from approximately HK$308.5 million for the year ended 31 December 2018 to approximately HK$153.5 million for the Year, representing a decline of approximately 50.3%. Such decrease was mainly due to decrease in the number of projects undergoing during the Year and the Group's average contract amount decreased compared to that for the year ended 31 December 2018.

Cost of Sales

Our cost of sales decreased from approximately HK$266.0 million for the year ended 31 December 2018 to approximately 169.3 million for the Year, representing a decrease of approximately 36.3%. Such decrease was mainly attributable to the decrease in our subcontracting charges and material costs due to drop in the number of projects undergoing and plummet in our contract size during the Year.

Gross Loss

Gross loss of the Group was approximately HK$15.9 million for the Year while gross profit of the Group was approximately HK$42.5 million for the year ended 31 December 2018. The change was mainly driven by the decrease in revenue for the Year as discussed above.

The overall gross loss margin was approximately 10.7% for the for the Year while gross profit margin of the Group was approximately 13.8% for the year ended 31 December 2018 as the extent of decrease in revenue is greater than that of decrease in subcontracting charges and direct labour costs for the Year. During the Year, since the Group had substantial fixed direct labour costs, the drop in the cost of sales of the Group during the Year was not proportionate to the drop in revenue. In addition, prolongation of projects further drove down our margin during the Year.

Administrative Expenses

Administrative expenses of the Group decreased by approximately 23.7% from approximately HK$19.5 million for the year ended 31 December 2018 to approximately HK$14.9 million for the Year. Administrative expenses primarily consist of rental expenses and staff costs. The decrease was mainly attributable to a decrease in discretionary bonus by approximately HK$2.1 million.

Income Tax Expense

Income tax expense for the Group decreased from approximately HK$3.4 million for the year ended 31 December 2018 to nil for the Year. The decrease was mainly due to the net loss before tax as discussed above.

(Loss)/Profit and Total Comprehensive (Expenses)/Income for the Year Attributable to Owners of the Company

The Group recorded loss and total comprehensive expenses of approximately HK$31.7 million for the Year, whereas the Group recorded profit and total comprehensive income of approximately HK$17.8 million for the year ended 31 December 2018. Such change was primarily attributable to the combined effect of the significant decrease in revenue and gross loss recorded for the Year as discussed above; and the decrease in administrative expenses for the Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had total assets of approximately HK$191.0 million (2018: HK$223.7 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$77.2 million (2018: HK$85.6 million) and approximately HK$113.8 million (2018: HK$138.1 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings) of the Group as at 31 December 2019 were nil (2018: HK$10.2 million), and current ratio as at 31 December 2019 was approximately 2.4 times (2018: 2.6 times).

GEARING RATIO

The gearing ratio of the Group as at 31 December 2019 was nil (2018: 7.4%).

The gearing ratio is calculated based on the total loans and borrowings (interest-bearing bank borrowings) divided by shareholders' 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 2019, the Group pledged its bank deposits of approximately HK$7.9 million (2018: HK$13.5 million) and the investment property of approximately HK$6.1 million located at workshop No. B9 on 6/F of Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong to banks as collateral to secure bank facilities granted to the Group.

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, 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. During the year, the Group did not entered into any financial instruments for hedging purposes.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 25 September 2015 and transferred to the Main Board of the Stock Exchange on 12 February 2018. On 20 May 2019, 50,000,000 shares of HK$0.01 each of the Company were issued at a price of HK$0.155 by way of placing under general mandate (the "**Placing**"). The share capital of the Group only comprises ordinary shares.

As at 31 December 2019, the Company's issued share capital was HK$13,300,000 (31 December 2018: HK$12,800,000) and the number of its issued ordinary shares was 1,330,000,000 of HK$0.01 each (31 December 2018: 1,280,000,000).

Placing under general mandate completed on 20 May 2019

On 6 May 2019, the Company entered into a placing agreement with Silverbricks Securities Company Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out type 1 (dealing in securities) regulated activities, as placing agent (the "**Placing Agent**"), whereby the Company agreed to issue and the Placing Agent agreed to place up to 50,000,000 new shares under general mandate to not less than six placees at the placing price of HK$0.155 per placing share. The Placing was completed on 20 May 2019 and the Placing Agent successfully placed an aggregate of 50,000,000 placing shares, representing approximately 3.76% of the issued share capital of the Company as enlarged by the issue of 50,000,000 placing shares to not less than six independent Placees at the Placing Price of HK$0.155 per placing Share.

The gross proceeds and the net proceeds (after deducting the placing fee and other related expenses incurred in the Placing) from the Placing were HK$7.75 million and HK$7.47 million, respectively. For further information in relation to the Placing, please refer to the announcements of the Company dated 6 May 2019, 8 May 2019 and 20 May 2019 (the "**Announcements**").

COMMITMENTS

The operating lease commitments of the Group were primarily related to the leases of its office premises and the warehouses. The Group had no operating lease commitments as at 31 December 2019 (2018: HK$1.2 million).

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 2 of 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 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed a total of 87 employees (2018: 91 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK$39.8 million for the Year.

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

In May 2019, the Group completed an acquisition of an investment property at Workshop B9, 6/F., Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong (the "**Investment Property**") from an independent third party at the consideration of approximately HK$6.2 million as a long-term investment of the Group with a view to generate stable income steam and capital appreciation in the future. As all applicable percentage ratios under Chapter 14 of the Listing Rules were less than 5%, the acquisition of the Investment Property was not subject to announcement or shareholders' approval. The Investment Property is currently leased to an independent third party at market rent.

Save as disclosed above and the investment in its subsidiaries by the Company, the Group did not hold any significant investments during the Year.

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 2019 is set out below:

Business objectives	Actual business progress up to 31 December 2019
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$32.1 million was required and has been paid up to 31 December 2019 (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$15.6 million by the Group's internal resources).
Further expansion of service scope	The Group has used approximately HK$2.0 million for recruiting staff with relevant experiences. During 2018 and 2019, 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) and electrical installation (Group III) of the Specialist List have 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

Use of proceeds from the Listing

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 2019 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2019 *HK$'000*	**Actual use of net proceeds up to 31 December 2019** *HK$'000*
Further development of the Group's building services engineering business	**16,500**	**16,500**
Further expansion of service scope	**8,500**	**6,100**
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 2019, the unused net proceeds from the Listing of approximately HK$2.4 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.

Placing under General Mandate

The gross proceeds and the net proceeds (after deducting the placing fee and other related expenses incurred in the Placing) from the Placing were HK$7.75 million and HK$7.47 million, respectively.

An analysis of the utilisation of the net proceeds from the Placing as at 31 December 2019 is set out below:

	Planned use of net proceeds as stated in the Announcements *HK$'000*	Actual use of proceeds up to 31 December 2019 *HK$'000*
Payment of upfront cost and performance bond of the new projects awarded to the Company	**6,720**	**6,720**
General working capital	**700**	**700**

As at 31 December 2019, all proceeds from the Placing has been applied according to the disclosure in the Announcements.

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 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.

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. During the year ended 31 December 2019, 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 2019 annual report of the Company, which will be sent to the shareholders of the Company in April 2020.

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 made by the Company, the Directors confirmed that the Company were not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

DIVIDEND

The Directors did not recommend the payment of any dividend in respect of the Year.

AUDITOR

The consolidated financial statements of the Group for the Year have been audited by Deloitte Touche Tohmatsu, who will retire and 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 annual results for the Year, 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 for the Year 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, 29 May 2020, 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, 25 May 2020 to Friday, 29 May 2020, both dates inclusive, the period during which 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, 22 May 2020.

EVENTS AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of the new coronavirus ("**COVID-19**") has impacted on the global business environment. As at the date of this announcement, the Directors are of the view that the measures for preventing the spread of COVID-19, including the quarantine measures imposed by the Hong Kong government, might have impact on the Group's operation. Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial conditions could not be resonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements. The Directors will continue to closely monitor the situation and continue to assess and react actively to the impact of COVID-19 outbreak on the Group's operations, financial position and financial performance accordingly.

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 staffs 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, 31 March 2020

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.