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Lap Kei Engineering (Holdings) Limited

立基工程（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1690)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

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**”, “**we**” or “**us**”) for the year ended 31 December 2020 (the “**Year**”) together with the comparative figures for the corresponding year ended 31 December 2019. The financial information set out below has been approved by the Board.

SUMMARY

	For the year ended 31 December		
	2020	2019	
	HK\$'000	HK\$'000	Change %
Revenue	132,272	153,475	(13.8)%
Gross profit/(loss)	8,161	(15,863)	151.4%
Loss attributable to owners of the Company	(1,764)	(31,708)	94.4%
Loss per share (<i>HK cents</i>)	(0.13)	(2.42)	

- The Group’s revenue amounted to approximately HK\$132.3 million for the year ended 31 December 2020, representing a decrease of approximately HK\$21.2 million or approximately 13.8% as compared with the year ended 31 December 2019.
- The loss attributable to owners of the Company is approximately HK\$1.8 million for the year ended 31 December 2020, representing a reduction in loss of approximately HK\$29.9 million or 94.4% as compared with the year ended 31 December 2019.
- The Directors resolved not to recommend the payment of any final dividend in respect of the year ended 31 December 2020 (2019: nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	2	132,272	153,475
Cost of revenue		<u>(124,111)</u>	<u>(169,338)</u>
Gross profit/(loss)		8,161	(15,863)
Other income and other gains or losses		4,856	140
Administrative expenses		(15,319)	(14,861)
Impairment loss reversed/(recognised) under expected credit loss (“ECL”) model, net of reversal		526	(1,005)
Finance costs		<u>(2)</u>	<u>(119)</u>
Loss before income tax	3	(1,778)	(31,708)
Income tax credit	4	<u>14</u>	<u>–</u>
Loss and total comprehensive income for the year		<u>(1,764)</u>	<u>(31,708)</u>
Loss per share		<i>HK cents</i>	<i>HK cents</i>
— Basic (HK cents)	6	<u>(0.13)</u>	<u>(2.42)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>NOTES</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,070	1,636
Investment property		5,300	6,100
Deposit paid for a life insurance policy		1,175	1,159
		7,545	8,895
Current assets			
Trade and other receivables	7	53,464	34,252
Contract assets	8	27,694	72,924
Amount due from a related party		–	8
Tax recoverable		3,028	2,666
Pledged bank deposits		7,241	7,903
Bank balances		58,286	64,380
		149,713	182,133
Current liabilities			
Trade and other payables	9	44,662	75,006
Contract liabilities	10	349	1,997
		45,011	77,003
Net current assets		104,702	105,130
Total assets less current liabilities		112,247	114,025
Non-current liabilities			
Deferred tax liabilities		185	199
Net assets		112,062	113,826
EQUITY			
Share capital		13,300	13,300
Reserves		98,762	100,526
Total equity		112,062	113,826

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new or amended HKFRSs — first effective on 1 January 2020

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

None of these new or amended HKFRSs has a 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. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

(b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 16	Covid-19-Related Rent Concessions ¹
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendment to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
Amendments to Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41	Annual Improvements to HKFRSs 2018–2020 ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁴
HKFRS 17	Insurance contracts ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

¹ Effective for annual periods beginning on or after 1 June 2020.

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective for annual periods beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after 1 January 2023.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The directors of the Company do not anticipate that the application of these amendments in the future will have an significant impact on the financial statements.

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

	2020 HK\$'000	2019 HK\$'000
Type of services		
Building services engineering work	114,028	136,136
Maintenance, repair and other services	18,244	17,339
	<u>132,272</u>	<u>153,475</u>

(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 (2019: 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.

All revenue from contracts with customers are arising from Hong Kong during the year and prior year.

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

	2020 HK\$'000	2019 HK\$'000
Provision of building services engineering work		
— Within one year	272,805	107,777
— More than one year but not more than three years	239,115	17,249
	511,920	125,026

All the Group's 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.

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

For the year ended 31 December 2020

	Building services engineering work <i>HK\$'000</i>	Maintenance, repair and other services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue			
External sales	<u>114,028</u>	<u>18,244</u>	<u>132,272</u>
Segment results	<u>2,740</u>	<u>5,421</u>	<u>8,161</u>
Other income and other gains or losses			4,856
Administrative expenses			(15,319)
Impairment loss reversed under ECL model, net of reversal			526
Finance costs			<u>(2)</u>
Loss before income tax			<u><u>(1,778)</u></u>

For the year ended 31 December 2019

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

Segment results mainly represented gross profit earned by each segment.

Geographic 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 2020 and 2019 individually contributing over 10% of the Group's revenue is as follows:

	2020 HK\$'000	2019 HK\$'000
Customer A	N/A ¹	31,890
Customer B	N/A ¹	22,647
Customer C	N/A ¹	21,977
Customer D	33,180	N/A ¹
Customer E	28,259	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 2020 and 2019.

3. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	2020 HK\$'000	2019 HK\$'000
Directors' remuneration	5,026	4,023
Other staff costs:		
— Salaries and other allowances	32,291	34,824
— Retirement benefits scheme contributions	1,210	931
Total staff costs	38,527	39,778
Auditor's remuneration	800	1,200
Depreciation of plant and equipment	566	546
Impairment loss recognised on trade receivables	258	2,070
Impairment loss reversed on contract assets	(784)	(1,065)
Bank interest income	(33)	(43)
Interest income on a deposit paid for a life insurance policy	(16)	(14)
Rental expense on short-term leases in respect of warehouse, office premises and car parks (note (a))	1,776	1,133
Decrease in fair value of an investment property	800	159
Government subsidiaries (note (b))	(4,536)	—
Gross fixed rental income from an investment property	(153)	(131)
Less: direct operating expenses incurred for an investment property that generated rental income	23	21
	(130)	(110)

Note (a): The Group regularly entered into short-term leases for warehouse, office premises and car parks. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense.

Note (b): Government subsidies related to cash subsidies from government in respect of Covid-19 relief measures which are grants with conditions having been satisfied.

4. INCOME TAX CREDIT

	2020 HK\$'000	2019 HK\$'000
Hong Kong Profits Tax		
— Current year	—	—
— Overprovision in prior years:	—	—
Deferred tax	<u>14</u>	<u>—</u>
	<u>14</u>	<u>—</u>

The Group is subject to Hong Kong Profits Tax. No Hong Kong profits tax was provided for the Company's subsidiaries in Hong Kong for the current year and prior year as they either did not derive any assessable profits or had estimated tax losses brought forward to offset against the estimated assessable profits.

The income tax credit for the year can be reconciled to the loss before income tax expense in the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 HK\$'000	2019 HK\$'000
Loss before income tax	<u>(1,778)</u>	<u>(31,708)</u>
Tax at Hong Kong Profits Tax rate of 16.5% (2019: 16.5%)	(293)	(5,232)
Tax effect of income not taxable for tax purpose	(8)	(9)
Tax effect of expenses not deductible for tax purpose	194	220
Utilisation of tax losses previously not recognised	(21)	(426)
Tax effect of tax losses not recognised	142	5,453
Tax at concessionary rate	<u>—</u>	<u>(6)</u>
Income tax credit for the year	<u>14</u>	<u>—</u>

At the end of the reporting period, the Group has unused tax losses of HK\$33,780,000 (2019: HK\$33,047,000) available for an offset against future profits. No deferred tax asset has been recognised in respect of the entire amount of tax losses due to the unpredictability of future profit streams under the current tax legislation. Tax losses can be carried forward indefinitely.

5. DIVIDEND

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 2020 (2019: Nil).

6. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31 December 2020 is based on the loss for the year of HK\$1,764,000 (2019: loss of HK\$31,708,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2020 of 1,330,000,000 (2019: 1,310,958,904).

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the placing of new shares on 20 May 2019. No diluted loss per share is presented for both years as there was no potential ordinary share outstanding.

7. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 <i>HK\$'000</i>
Trade receivables	44,377	33,474
Less: allowance for credit loss	(4,333)	(4,075)
	40,044	29,399
Other receivables, deposits and prepayments	13,420	4,853
Total trade and other receivables	53,464	34,252

The Group allows a credit period of 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:

	2020 HK\$'000	2019 <i>HK\$'000</i>
0–30 days	15,186	18,416
31–60 days	8,827	2,443
61–90 days	8,148	5,433
> 90 days	7,883	3,107
	40,044	29,399

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$24,858,000 (2019: HK\$10,983,000), which are past due as at the end of the reporting period. Out of the past due balances, aggregate carrying amount of HK\$5,762,000 (2019: HK\$2,327,000) 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.

8. CONTRACT ASSETS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contract assets	28,217	74,231
Less: allowance for credit loss	(523)	(1,307)
	<u>27,694</u>	<u>72,924</u>
Analysed as current:		
Unbilled revenue of building services engineering contracts (<i>note a</i>)	4,673	47,990
Retention receivables of building services engineering contracts (<i>note b</i>)	23,021	24,934
	<u>27,694</u>	<u>72,924</u>
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	11,564	4,296
After one year	11,457	20,638
	<u>23,021</u>	<u>24,934</u>

Changes of contract assets during the year ended 31 December 2020 were mainly due to decrease in: (1) the amount of retention receivables in accordance with the number of ongoing and completed contracts under the defect liability period; and (2) the size and number of contracts in respect of building engineering services that the relevant services were completed but yet certified by customers or external surveyors at the end of the reporting period.

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 represent amounts not yet billed to customers which are 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.

9. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	32,183	47,223
Retention payable (<i>Note</i>)	–	500
Accrued sub-contracting and material costs	4,460	20,644
Accrued staff costs	6,541	4,308
Other payables and accruals	1,478	2,331
	<u> </u>	<u> </u>
Total trade and other payables	<u>44,662</u>	<u>75,006</u>

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 (2019: 30 days to 60 days).

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

	2020 HK\$'000	2019 HK\$'000
0–30 days	5,742	14,808
31–60 days	6,748	8,275
61–90 days	998	4,634
> 90 days	18,695	19,506
	<u> </u>	<u> </u>
	<u>32,183</u>	<u>47,223</u>

10. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Advances from customers of building services engineering contracts, current	–	1,000
Advance from customers of maintenance, repair and other services, current	349	997
	<u> </u>	<u> </u>
	<u>349</u>	<u>1,997</u>

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 2020 that was included in the contract liabilities at the beginning of the year was amounted to HK\$1,997,000 (2019: HK\$2,165,000).

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.

11. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the assets pledged by the Group to banks in order to secure banking facilities to the extent of HK\$38,700,000 (2019: HK\$53,900,000) granted by these banks to the Group are as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
Pledged bank deposits	7,241	7,903
Investment property	5,300	6,100
	12,541	14,003

12. OPERATING LEASE

The Group as lessor

Property rental income earned during the year was HK\$153,000 (2019: HK\$131,000). The properties which are leased out as at 31 December 2020 have rental yield of approximately 3.34% (2019: 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:

	2020 HK\$'000	2019 <i>HK\$'000</i>
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 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 2020, the Group had 15 projects on hand (including projects in progress and projects that are about to commence) with total outstanding contract value of approximately HK\$511.9 million.

FINANCIAL REVIEW

Revenue

Our revenue decreased from approximately HK\$153.5 million for the year ended 31 December 2019 to approximately HK\$132.3 million for the Year, representing a decline of approximately 13.8%. Such decrease was mainly due to decrease in the number of projects undergoing during the Year and the Group’s average contract amount decreased as compared to that for the year ended 31 December 2019.

Cost of Sales

Our cost of sales decreased from approximately HK\$169.3 million for the year ended 31 December 2019 to approximately 124.1 million for the Year, representing a decrease of approximately 26.7%. Such decrease was mainly attributable to the decrease in our subcontracting charges and material costs due to the drop in the number of projects undergoing and plummet in our contract size during the Year.

Gross Profit/(Loss)

Gross profit of the Group was approximately HK\$8.2 million for the Year while gross loss of the Group was approximately HK\$15.9 million for the year ended 31 December 2019. The change was mainly driven by the decrease in costs for the Year which outweighed the decrease in revenue.

The overall gross profit margin was approximately 6.2% for the for the Year while gross loss margin of the Group was approximately 10.3% for the year ended 31 December 2019 as the extent of decrease in revenue is lesser than that of decrease in subcontracting charges and direct labour costs for the Year. During the year the Group has employed more on-site workers instead of subcontracting to subcontractors, which helped to reduce our costs. Also, less prolongation of projects further drove up our gross profit margin during the Year.

Administrative Expenses

Administrative expenses of the Group increased by approximately 3.1% from approximately HK\$14.9 million for the year ended 31 December 2019 to approximately HK\$15.3 million for the Year. Administrative expenses primarily consist of rental expenses and staff costs. The increase was mainly attributable to a increase in staff salary and discretionary bonus by approximately HK\$0.8 million.

Other Income

Other income increased significantly by approximately HK\$4.7 million, or 3,368.5%, from approximately HK\$140,000 for the year ended 2019 to approximately HK\$4.9 million for the Year. The increase in other income was mainly due to a one-off subsidy under the Employment Support Scheme of the Hong Kong SAR Government.

Income Tax Credit

The Group recorded a income tax credit of approximately HK\$14,000 (2019: nil) due to accelerated tax depreciation.

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

Loss and total comprehensive income reduced by approximately HK\$29.9 million or 94.4%, from approximately HK\$31.7 million for the year ended 31 December 2019 to approximately HK\$1.8 million for the year ended 31 December 2020. Such change was primarily attributable to the decrease in costs outweighing the decrease in revenue, which substantially improve the Group's gross profit margin; and the increase in administrative expenses for the Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had total assets of approximately HK\$157.3 million (2019: HK\$191.0 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$45.2 million (2019: HK\$77.2 million) and approximately HK\$112.1 million (2019: HK\$113.8 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 December 2020 were nil (2019: nil), and current ratio as at 31 December 2020 was approximately 3.3 times (2019: 2.4 times).

GEARING RATIO

The gearing ratio of the Group as at 31 December 2020 was nil (2019: nil).

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 31 December 2019 and 2020, respectively.

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. No financial investment other than cash was held by the Group as at 31 December 2020. 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 2020, the Group pledged its bank deposits of approximately HK\$7.2 million (2019: HK\$7.9 million) and the Investment Property of approximately HK\$5.3 million (2019: 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 enter 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 2020, the Company’s issued share capital was HK\$13,300,000 (31 December 2019: HK\$13,300,000) and the number of its issued ordinary shares was 1,330,000,000 of HK\$0.01 each (31 December 2019: 1,330,000,000). There has been no change in the issued share capital during the year.

COMMITMENTS

As at 31 December 2019, 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 2020 (2019: HK\$306,000).

SEGMENTAL INFORMATION

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

CAPITAL COMMITMENTS

As at 31 December 2020, the Group did not have any material capital commitments (2019: nil).

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 2020, the Group did not have any material contingent liabilities (2019: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 115 employees (2019: 87 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$38.5 million for the Year (2019: HK\$39.8 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

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 stream and capital appreciation in the future. 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 2020 is set out below:

Business objectives	Actual business progress up to 31 December 2020
Further development of the Group's building services engineering business	<p>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 2020 (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).</p>
Further expansion of service scope	<p>The Group has used approximately HK\$2.6 million for recruiting staff with relevant experiences.</p> <p>During 2019 and 2020, 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.</p>
Further strengthening the Group's engineering department	<p>The Group has sponsored its engineering staff to attend technical seminars and occupational health and safety courses organised by third parties.</p> <p>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.</p>

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 2020 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2020 HK\$'000	Actual use of net proceeds up to 31 December 2020 HK\$'000	Unutilised balance as at 31 December 2020 HK\$'000	Expected timeline for the intended use
Further development of the Group's building services engineering business	16,500	16,500	–	31 December 2021
Further expansion of service scope	8,500	6,700	1,800	
Further strengthening the Group's engineering department	6,600	6,600	–	
Total	<u>31,600</u>	<u>29,800</u>	<u>1,800</u>	

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

As at 31 December 2020, the unused net proceeds from the Listing of approximately HK\$1.8 million was placed in an interest bearing account with bank in accordance with the disclosure in the Prospectus. There was a delay in the use of proceeds as to expansion of service scope and the unutilised portion of the net proceeds represent the salaries and payments payable to the additional staff members recruited for expansion of service scope. The Company expects the unutilised portion of the net proceeds will be utilised by 2021. 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 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**") in Appendix 14 to the Listing Rules. During the Year, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The 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 they have complied with the required standards as set out in the Model Code 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the Year.

AUDITOR

Messrs. BDO Limited ("**BDO**") was appointed as the auditors of the Company in place of Messrs. Deloitte Touche Tohmatsu ("**Deloitte**") immediately following the resignation of Deloitte as auditors of the Company on 24 September 2020 and to hold office until the conclusion of the 2021 AGM. The consolidated financial statements of the Group for FY2020 have been audited by BDO, who will retire and, being eligible, offer themselves for reappointment at the 2021 AGM. A resolution for their re- appointment as auditors of the Company will be proposed at the 2021 AGM.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) on 10 September 2015 with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code. The Audit Committee consists of three members, namely Mr. Chung Yuk Ming, Christopher, Mr. Fok Ka Chi and Mr. Tam Chun Chung, all being INEDs. Mr. Tam Chun Chung currently serves as the chairman of the Audit Committee, who has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall comprise non-executive Directors and shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he/she will cease to be a member of the Audit Committee automatically.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.21 of the Listing Rules. In addition, the majority of the Audit Committee shall be INEDs. The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2020.

ANNUAL GENERAL MEETING

The annual general meeting (“**AGM**”) of the Company will be held on 11 May 2021, 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 AGM, the register of members of the Company will be closed from Thursday, 6 May 2021 to Tuesday, 11 May 2021, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 5 May 2021.

EVENTS AFTER THE REPORTING PERIOD

After the outbreak of Novel Coronavirus (“**Covid-19**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. Construction industry in Hong Kong has been affected as a consequence of Covid-19, which are directly and indirectly affecting the operations of the engineering projects.

During the year ended 31 December 2020 and up to the date of these financial statements, Covid-19 has resulted in impacts on the financial performance of the Group and might be adversely affected to the subsequent construction and operation of the engineering projects of the Group (such as delays in construction and increased costs), which will depend on the new development concerning the global severity of and actions taken to contain the Covid-19 outbreak that are highly uncertain. The Group will continue to pay close attention to the development of the Covid-19 outbreak and evaluate its impact on the consolidated financial statements and operation results.

SCOPE OF WORK OF BDO ON THIS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by BDO, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements and consequently no assurance has been expressed by BDO on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.lapkeieng.com and the website of the Stock Exchange at www.hkex.com.hk. The 2020 annual report of the Company will be despatched to the shareholders.

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, 23 March 2021

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.