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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 2022

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 2022 (the “**Year**”) together with the comparative figures for the corresponding year ended 31 December 2021. The financial information set out below has been approved by the Board.

SUMMARY

	For the year ended 31 December		
	2022	2021	Change %
	HK\$'000	HK\$'000	
Revenue	401,922	261,378	53.8%
Gross profit	26,301	27,211	(3.3%)
Profit attributable to owners of the Company	11,498	10,708	7.4%
Profit per share (<i>HK cents</i>)	0.75	0.73	

- The Group’s revenue amounted to approximately HK\$401.9 million for the year ended 31 December 2022, representing an increase of approximately HK\$140.5 million or approximately 53.8% as compared with the year ended 31 December 2021.
- The profit attributable to owners of the Company is approximately HK\$11.5 million for the year ended 31 December 2022, representing an increment from the profit attributed to owners of the Company at approximately HK\$10.7 million for the year ended 31 December 2021.
- The Directors resolved not to recommend the payment of any final dividend in respect of the year ended 31 December 2022 (2021: nil).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	2	401,922	261,378
Cost of revenue		<u>(375,621)</u>	<u>(234,167)</u>
Gross profit		26,301	27,211
Other income and other gains or losses		3,091	1,016
Administrative expenses		(19,946)	(17,366)
Impairment loss recognised under expected credit loss (“ECL”) model, net of reversal		296	(1,979)
Finance costs		<u>(370)</u>	<u>–</u>
Profit before income tax	3	9,372	8,882
Income tax credit	4	<u>2,126</u>	<u>1,826</u>
Profit and total comprehensive income for the year		<u>11,498</u>	<u>10,708</u>
Earnings per share		<i>HK cents</i>	<i>HK cents</i>
— Basic and diluted	6	<u>0.75</u>	<u>0.73</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		10,154	9,329
Deposit paid for a life insurance policy		1,209	1,191
Intangible assets		171	229
Deferred tax assets		<u>3,544</u>	<u>2,003</u>
		15,078	12,752
Current assets			
Trade and other receivables	7	140,515	68,165
Contract assets	8	116,379	84,977
Pledged bank deposits		5,398	5,397
Bank balances		<u>17,471</u>	<u>46,879</u>
		279,763	205,418
Current liabilities			
Trade and other payables	9	137,526	82,928
Contract liabilities	10	1,160	–
Bank borrowings		<u>10,000</u>	<u>–</u>
		148,686	82,928
Net current assets		<u>131,077</u>	<u>122,490</u>
Total assets less current liabilities		<u>146,155</u>	<u>135,242</u>
Non-current liabilities			
Deferred tax liabilities		<u>–</u>	<u>585</u>
Net assets		<u>146,155</u>	<u>134,657</u>
EQUITY			
Share capital		15,300	15,300
Reserves		<u>130,855</u>	<u>119,357</u>
Total equity		<u>146,155</u>	<u>134,657</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(a) Adoption of amended HKFRSs — first effective on 1 January 2022

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

Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41	Annual Improvements to HKFRSs 2018–2020
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments)

None of these 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 HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to HKAS 1	Non-current liabilities with Covenants (“2022 Amendments”) ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²

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

² Effective for annual periods beginning on or after 1 January 2024.

2. REVENUE AND SEGMENT INFORMATION

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

(i) Disaggregation of revenue from contracts with customers

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Type of services		
Building services engineering work	384,538	243,487
Maintenance, repair and other services	<u>17,384</u>	<u>17,891</u>
	<u><u>401,922</u></u>	<u><u>261,378</u></u>

Timing of revenue recognition on all services are transferred over time. All revenue from contracts with customers are arising from Hong Kong during the year and prior year.

(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 for these construction services is recognised 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 that is received and allocated to these services is recognised as a contract liability 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 period of 30 days (2021: 30 days) to its customers of 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 the end of the reporting period and the expected timing of recognising revenue is set out below:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of building services engineering work		
— Within one year	325,477	395,406
— More than one year but not more than two years	57,254	310,349
	<u>382,731</u>	<u>705,755</u>

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 performance obligations 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 2022

	Building services engineering work HK\$'000	Maintenance, repair and other services HK\$'000	Total HK\$'000
Segment revenue			
External sales	<u>384,538</u>	<u>17,384</u>	<u>401,922</u>
Segment results	<u>21,862</u>	<u>4,439</u>	<u>26,301</u>
Other income and other gains or losses			3,091
Administrative expenses			(19,946)
Impairment loss recognised under ECL model, net of reversal			296
Finance costs			<u>(370)</u>
Profit before income tax			<u><u>9,372</u></u>

For the year ended 31 December 2021

	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>243,487</u>	<u>17,891</u>	<u>261,378</u>
Segment results	<u>22,102</u>	<u>5,109</u>	27,211
Other income and other gains or losses			1,016
Administrative expenses			(17,366)
Impairment loss recognised under ECL model, net of reversal			<u>(1,979)</u>
Profits before income tax			<u><u>8,882</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 2022 and 2021 individually contributing over 10% of the Group's revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	106,434	–
Customer B	72,552	N/A ¹
Customer C	40,574	–
Customer D	N/A ¹	65,947
Customer E	<u>N/A¹</u>	<u>50,170</u>

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 2022 and 2021.

3. PROFIT BEFORE INCOME TAX

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Directors' remuneration	7,779	6,068
Other staff costs:		
— Salaries and other allowances	47,862	43,412
— Retirement benefits scheme contributions	1,933	1,663
	<hr/>	<hr/>
Total staff costs	57,574	51,143
Auditor's remuneration	900	850
Amortisation on intangible assets	58	5
Depreciation of property, plant and equipment	1,743	806
Impairment loss recognised on trade receivables	362	186
Impairment loss (reversed)/recognised on contract assets	(658)	1,793
	<hr/>	<hr/>
	(296)	1,979
Bank interest income	(2)	(10)
Interest income on a deposit paid for a life insurance policy	(18)	(16)
Gain on disposal of property, plant and equipment	–	(582)
Rental expense on short-term leases in respect of warehouse, office premises and car parks (<i>note (a)</i>)	1,834	1,788
Increase in fair value of an investment property	–	(350)
Government subsidies (<i>note (b)</i>)	(2,860)	–
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Note (a): The Group regularly entered into short-term leases for warehouse, office premises and car parks.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong Profits Tax		
— Overprovision in prior years	–	(223)
Deferred tax	(2,126)	(1,603)
	<hr/>	<hr/>
	(2,126)	(1,826)
	<hr/> <hr/>	<hr/> <hr/>

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 have estimated tax losses brought forward to offset against the estimated assessable profits or did not derive any assessable profits.

At the end of the reporting period, the Group has unused tax losses of HK\$19,080,000 (2021: HK\$26,922,000) available to offset against the future taxable profit. A deferred tax asset of HK\$3,148,000 (2021: HK\$2,003,000) has been recognised in respect of tax losses of approximately HK\$19,080,000 (2021: HK\$12,139,000). Under 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 resolved not to recommend the payment of any final dividend in respect of the year ended 31 December 2022 (2021: Nil).

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2022 is based on the profit for the year of HK\$11,498,000 (2021: HK\$10,708,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2022 of 1,530,000,000 (2021: 1,473,713,000).

The Group has no potential dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

7. TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	98,129	59,373
Less: allowance for credit loss	<u>(4,881)</u>	<u>(4,519)</u>
	93,248	54,854
Other receivables, deposits and prepayments	<u>47,267</u>	<u>13,311</u>
Total trade and other receivables	<u><u>140,515</u></u>	<u><u>68,165</u></u>

The Group allows a credit period ranging from 0 to 30 days (2021: 0 to 30 days) to its customers for 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0–30 days	67,343	30,378
31–60 days	13,076	4,276
61–90 days	7,863	3,105
> 90 days	<u>4,966</u>	<u>17,095</u>
	<u><u>93,248</u></u>	<u><u>54,854</u></u>

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$25,905,000 (2021: HK\$24,476,000), which are past due as at the end of the reporting period. Out of the past due balances, aggregate carrying amount of HK\$4,195,000 (2021: HK\$15,814,000) 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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contract assets	118,037	87,293
Less: allowance for credit loss	<u>(1,658)</u>	<u>(2,316)</u>
	<u>116,379</u>	<u>84,977</u>
Analysed as current:		
Unbilled revenue of building services engineering contracts (<i>note a</i>)	74,172	60,660
Retention receivables of building services engineering contracts (<i>note b</i>)	<u>42,207</u>	<u>24,317</u>
	<u>116,379</u>	<u>84,977</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		
Within one year	19,411	10,433
After one year	<u>22,796</u>	<u>13,884</u>
	<u>42,207</u>	<u>24,317</u>

Changes of contract assets during the year ended 31 December 2022 were mainly due to increase 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 services engineering that the relevant services were provided 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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables (<i>note a</i>)	58,833	55,835
Retention payables (<i>note b</i>)	6,046	–
Accrued sub-contracting and material costs	61,786	15,368
Accrued staff costs	9,508	10,589
Other payables and accruals	1,353	1,136
	<u>137,526</u>	<u>82,928</u>

Notes:

- (a) The credit period on trade payables range from 30 to 60 days (2021: 30 to 60 days).

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0–30 days	30,299	26,420
31–60 days	9,240	8,997
61–90 days	2,949	5,362
> 90 days	16,345	15,056
	<u>58,833</u>	<u>55,835</u>

- (b) Based on the terms and conditions agreed in relation to the release of retention monies to subcontractors and taking into account the status of rectification work, the retention payables as at the end of the reporting period are to be settled as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
On demand or within one year	2,778	–
After one year	<u>3,268</u>	<u>–</u>
	<u><u>6,046</u></u>	<u><u>–</u></u>

10. CONTRACT LIABILITIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Advances from customers of building services engineering contracts, current	<u>1,160</u>	<u>–</u>

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

No revenue recognised during the year was included in the contract liabilities balance at the beginning of the year (2021: HK\$349,000).

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 Group has obtained banking facilities of HK\$73,700,000 (2021: HK\$53,700,000) which are secured by the properties owned by Mr. Wong, assignment of trade receivables and by the Group's pledged assets. The carrying amounts of the assets pledged by the Group to banks are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Property, plant and equipment	5,310	5,536
Pledged bank deposits	<u>5,398</u>	<u>5,397</u>
	<u><u>10,708</u></u>	<u><u>10,933</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

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

Looking forward, the Directors consider that the future opportunities and challenges 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 2022, the Group had 33 projects on hand (including projects in progress and projects that are about to commence) with total outstanding contract value of approximately HK\$382.7 million.

FINANCIAL REVIEW

Revenue

Our revenue significantly increased from approximately HK\$261.4 million for the year ended 31 December 2021 to approximately HK\$401.9 million for the Year, representing an increment of approximately 53.8%. Such increase was mainly due to an increase in the number of projects undertaken by the Group during the Year and an increase in the average contract amount undertaken by the Group as compared to that for the year ended 31 December 2021.

Cost of Sales

Our cost of sales increased from approximately HK\$234.2 million for the year ended 31 December 2021 to approximately HK\$375.6 million for the Year, representing an increase of approximately 60.4%. Such increase was mainly attributable to the increase in our subcontracting charges and material costs due to the rise in the number of projects undertaken and increase in our contract size during the Year, which is in line with the increase in revenue of the Group during the Year.

Gross Profit

Gross profit of the Group was approximately HK\$26.3 million for the Year while gross profit of the Group was approximately HK\$27.2 million for the year ended 31 December 2021. The decrease in gross profit was mainly driven by the increase in cost of sales for the Year, which outweighed the increase in revenue.

The overall gross profit margin was approximately 6.5% for the Year while gross profit margin of the Group was approximately 10.4% for the year ended 31 December 2021 as the extent of increase in cost is higher than that of increase in revenue for the Year. During the year, the Group experienced higher equipment and material costs from the Group's suppliers due to shortage of certain materials. Therefore, It drove up the Group's costs which resulted in lower gross profit margin compared to that of prior year.

Administrative Expenses

Administrative expenses of the Group increased by approximately 14.4% from approximately HK\$17.4 million for the year ended 31 December 2021 to approximately HK\$19.9 million for the Year. Administrative expenses primarily consist of rental expenses and staff costs. The increase was mainly attributable to an increase in staff salary and discretionary bonus by approximately HK\$1.3 million during the Year.

Other income

Other income increased significantly by approximately HK\$2.1 million, or 210.0%, from approximately HK\$1.0 million for the year ended 31 December 2021 to approximately HK\$3.1 million for the Year. The increase in other income was mainly due to the one-off subsidy under the employment support scheme of the Hong Kong SAR Government received in the Year.

Income Tax Credit

The Group recorded an income tax credit of approximately HK\$2,126,000 (2021: HK\$1,826,000) mainly due to recognition of deferred tax assets arising from tax losses and temporary differences relating to allowance for expected credit loss. The increase was due to recognition of temporary differences.

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

Profit and total comprehensive income for the Year increased by approximately 7.5% from approximately HK\$10.7 million for the year ended 31 December 2021 to approximately HK\$11.5 million for the year ended 31 December 2022. Such increase was primarily attributable to the effect of the increase in revenue and other income outweighing the increase in cost of sales and administrative expense for the year ended 31 December 2022.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had total assets of approximately HK\$294.8 million (2021: HK\$218.2 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$148.7 million (2021: HK\$83.5 million) and approximately HK\$146.1 million (2021: HK\$134.7 million), respectively.

The total interest-bearing loans and borrowings of the Group as at 31 December 2022 were HK\$10,000,000 (2021: nil), and current ratio as at 31 December 2022 was approximately 1.9 times (2021: 2.5 times).

GEARING RATIO

The gearing ratio of the Group as at 31 December 2022 was 6.8% (2021: nil).

The gearing ratio is calculated based on the total loans and borrowings divided by total equity as at 31 December 2021 and 2022, respectively.

TREASURY POLICY

The Group has adopted a prudent financial management approach with an aim of preserving the value of the assets of the Group towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. No financial investment other than cash and bank deposits were held by the Group as at 31 December 2022. 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 2022, the Group pledged its bank deposits of approximately HK\$5.4 million (2021: HK\$5.4 million) and charge on property of approximately HK\$5.3 million (2021: HK\$5.5 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 transactions or 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.

As at 31 December 2022, the Company’s issued share capital was HK\$15,300,000 (2021: HK\$15,300,000) and the number of its issued Shares was 1,530,000,000 of HK\$0.01 each (2021: 1,530,000,000). There has been no change in the capital structure of the Group during the Year.

COMMITMENTS

The Group had no operating lease commitments as at 31 December 2022 (2021: nil).

SEGMENTAL INFORMATION

Segmental information of the Group has been presented on note 2 to the consolidated financial statements of this announcement.

CAPITAL COMMITMENTS

As at 31 December 2022, the Group did not have any material capital commitments (2021: 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 2022, the Group did not have any material contingent liabilities (2021: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group employed a total of 132 employees (2021: 123 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$57.6 million for the Year (2021: HK\$51.1 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. The Group also offered induction trainings as well as on the job continuous trainings to staff members regularly.

SIGNIFICANT INVESTMENTS HELD

Save the investment in its subsidiaries by the Company, the Group did not hold any significant investments during the year ended 31 December 2022.

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. All proceeds were fully applied according to the disclosure in the Prospectus during the year ended 31 December 2021.

USE OF PROCEEDS FROM PLACING UNDER GENERAL MANDATE

As per the Company's announcements dated 27 April 2021, 4 May 2021 and 13 May 2021, 200,000,000 placing Shares were successfully placed to not less than six independent places at the placing price of HK\$0.061 per placing Share under general mandate (the "Placing"). The gross proceeds and the net proceeds (after deducting the placing fee and other related expenses incurred in the Placing) from the Placing were approximately HK\$12.2 million and approximately HK\$11.9 million, respectively. The net proceeds from the Placing provides the Group with the capital necessary for carrying out the long term development plan and support the growth of the Group. During the Year, the Company had applied part of the net proceeds according to the disclosure as set out in the announcement dated 27 April 2021 (the "Announcement") and the Company will continue to apply the net proceeds according to the disclosure in the Announcement.

An analysis of the utilisation of the net proceeds from the Placing as at 31 December 2022 is set out below:

	Planned use of net proceeds as stated in the Announcement (HK\$'000)	Actual use of net proceeds up to 31 December 2022 (HK\$'000)	Net proceeds utilised during the year ended 31 December 2022 (HK\$'000)	Unutilised net proceeds as at 31 December 2022 (HK\$'000)
Payment of the premium of the performance bonds of the new projects	4,200	4,200	–	–
Payment of upfront costs of the new projects	6,300	6,300	–	–
General working capital	1,400	1,400	1,400	–
Total	<u>11,900</u>	<u>11,900</u>	<u>1,400</u>	<u>–</u>

As at 31 December 2022, all proceeds from the Placing have been fully applied according to the disclosure in the announcements of the Company dated 27 April 2021 and 13 May 2021.

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 the 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 under the Model Code 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 resolved not to recommend payment of any final dividend for the Year.

AUDITOR

The consolidated financial statements for the Year have been audited by Messrs. BDO Limited (“**BDO**”). BDO shall retire in the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO as auditors of the Company will be proposed at the 2023 AGM. The Company has not changed its external auditor during the Year and up to the date of this announcement.

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 D.3.3 and D.3.7 of the CG Code. The Audit Committee consists of three members, namely Mr. Chung Yuk Ming Christopher, Mr. Lau Kwok Lok Geoffrey 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 2022.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 11 May 2023 (the “**2023 AGM**”) , 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 2023 AGM, the register of members of the Company will be closed from Friday, 5 May 2023 to Thursday, 11 May 2023, both dates inclusive, the period during which no transfer of the shares of the Company will be registered. In order to be eligible to attend and vote at the 2023 AGM, shareholders 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 4 May 2023.

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 2022 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 2022 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 staff members 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 2023

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. Lau Kwok Lok Geoffrey 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.