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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 2021 AND PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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 2021 (the “**Year**”) together with the comparative figures for the corresponding year ended 31 December 2020. The financial information set out below has been approved by the Board.

SUMMARY

	For the year ended 31 December		
	2021	2020	Change %
	HK\$'000	HK\$'000	
Revenue	261,378	132,272	97.6%
Gross profit	27,211	8,161	233.4%
Profit/(loss) attributable to owners of the Company	10,708	(1,764)	(707.0)%
Profit/(loss) per share (HK cents)	0.73	(0.13)	

- The Group’s revenue amounted to approximately HK\$261.4 million for the year ended 31 December 2021, representing an increase of approximately HK\$129.1 million or approximately 97.6% as compared with the year ended 31 December 2020.
- The profit attributable to owners of the Company is approximately HK\$10.7 million for the year ended 31 December 2021, representing a turnaround from the loss attributed to owners of the Company at approximately HK\$1.8 million for the year ended 31 December 2020.
- The Directors resolved not to recommend the payment of any final dividend in respect of the year ended 31 December 2021 (2020: nil).

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

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	2	261,378	132,272
Cost of revenue		<u>(234,167)</u>	<u>(124,111)</u>
Gross profit		27,211	8,161
Other income and other gains or losses		1,016	4,856
Administrative expenses		(17,366)	(15,319)
Impairment loss recognised under expected credit loss (“ECL”) model, net of reversal		(1,979)	526
Finance costs		<u>–</u>	<u>(2)</u>
Profit/(Loss) before income tax	3	8,882	(1,778)
Income tax credit	4	<u>1,826</u>	<u>14</u>
Profit/(Loss) and total comprehensive income for the year		<u>10,708</u>	<u>(1,764)</u>
Earnings/(Loss) per share		<i>HK cents</i>	<i>HK cents</i>
— Basic and diluted	6	<u>0.73</u>	<u>(0.13)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		9,329	1,070
Investment property		–	5,300
Deposit paid for a life insurance policy		1,191	1,175
Intangible assets		229	–
Deferred tax assets		2,003	–
		<u>12,752</u>	<u>7,545</u>
Current assets			
Trade and other receivables	7	68,165	53,464
Contract assets	8	84,977	27,694
Tax recoverable		–	3,028
Pledged bank deposits		5,397	7,241
Bank balances		46,879	58,286
		<u>205,418</u>	<u>149,713</u>
Current liabilities			
Trade and other payables	9	82,928	44,662
Contract liabilities	10	–	349
		<u>82,928</u>	<u>45,011</u>
Net current assets		<u>122,490</u>	<u>104,702</u>
Total assets less current liabilities		<u>135,242</u>	<u>112,247</u>
Non-current liabilities			
Deferred tax liabilities		585	185
Net assets		<u>134,657</u>	<u>112,062</u>
EQUITY			
Share capital		15,300	13,300
Reserves		119,357	98,762
Total equity		<u>134,657</u>	<u>112,062</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

(a) Adoption of amended HKFRSs — first effective on 1 January 2021

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:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

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.

Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 2021 (amendments) ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendment to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41	Annual Improvements to HKFRSs 2018–2020 ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Accounting periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements — interim or annual — not authorised for issue at 9 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ No mandatory effective date yet determined but available for adoption.

Amendments to HKFRS 16, COVID-19-Related Rent Concessions beyond 2021

The 2021 Amendment to HKFRS 16 extends the availability of the practical expedient in paragraph 46A of HKFRS 16 so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

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

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Type of services		
Building services engineering work	243,487	114,028
Maintenance, repair and other services	17,891	18,244
	<u>261,378</u>	<u>132,272</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 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 (2020: 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.

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 of recognising revenue is set out below:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Provision of building services engineering work		
— Within one year	395,406	272,805
— More than one year but not more than two years	310,349	239,115
	705,755	511,920

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 2021

	Building services engineering work HK\$'000	Maintenance, repair and other services HK\$'000	Total HK\$'000
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>	<u>27,211</u>
Other income and other gains or losses			1,016
Administrative expenses			(17,366)
Impairment loss recognised under ECL model, net of reversal			(1,979)
Finance costs			<u>–</u>
Profit before tax			<u><u>8,882</u></u>

For the year ended 31 December 2020

	Building services engineering work HK\$'000	Maintenance, repair and other services HK\$'000	Total HK\$'000
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>	8,161
Other income and other gains or losses			4,856
Administrative expenses			(15,319)
Impairment loss recognised under ECL model, net of reversal			526
Finance costs			<u>(2)</u>
Loss before tax			<u><u>(1,778)</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 2021 and 2020 individually contributing over 10% of the Group's revenue is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A	65,947	N/A ¹
Customer B	50,170	N/A ¹
Customer C	N/A ¹	33,180
Customer D	N/A ¹	28,259

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 2021 and 2020.

3. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Directors' remuneration	6,068	5,026
Other staff costs:		
— Salaries and other allowances	43,412	32,291
— Retirement benefits scheme contributions	1,663	1,210
Total staff costs	51,143	38,527
Auditor's remuneration	850	800
Amortisation on intangible assets	5	—
Depreciation of property, plant and equipment	806	566
Impairment loss recognised on trade receivables	186	258
Impairment loss recognised/(reversed) on contract assets	1,793	(784)
	1,979	(526)

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank interest income	(10)	(33)
Interest income on a deposit paid for a life insurance policy	(16)	(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>)	1,788	1,776
(Increase)/decrease in fair value of an investment property	(350)	800
Government subsidiaries (<i>note (b)</i>)	–	(4,536)
Gross fixed rental income from an investment property	–	(153)
Less: direct operating expenses incurred for an investment property that generated rental income	–	23
	<u>–</u>	<u>(130)</u>

Note (a): The Group regularly entered into short-term leases for warehouse, office premises and car parks. As at 31 December 2021 and 2020, 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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong Profits Tax		
— Current year	–	–
— Overprovision in prior years	(223)	–
Deferred tax	<u>(1,603)</u>	<u>(14)</u>
	<u>(1,826)</u>	<u>(14)</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 have estimated tax losses brought forward to offset against the estimated assessable profits or did not derive any assessable profits.

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

	2021	2020
	HK\$'000	HK\$'000
Profit/(loss) before tax	<u>8,882</u>	<u>(1,778)</u>
Tax at Hong Kong Profits Tax rate of 16.5% (2020: 16.5%)	1,466	(293)
Tax effect of income not taxable for tax purpose	(147)	(8)
Tax effect of expenses not deductible for tax purpose	474	166
Utilisation of tax losses previously not recognised	(1,574)	(21)
Tax effect of tax losses not recognised	181	142
Recognition of previously unrecognised tax losses	(2,003)	–
Overprovision in prior year	(223)	–
Income tax credit for the year	<u>(1,826)</u>	<u>(14)</u>

At the end of the reporting period, the Group has unused tax losses of HK\$26,922,000 (2020: HK\$35,360,000) available to offset against the future taxable profit. A deferred tax asset of HK\$2,003,000 (2020: Nil) has been recognised in respect of tax losses of approximately HK\$12,139,000 (2020: Nil). No deferred tax have been recognised in respect of the remaining tax losses as it is uncertain whether future taxable profit will be available for utilising the tax losses. 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 2021 (2020: Nil).

6. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2021 is based on the profit for the year of HK\$10,708,000 (2020: loss of HK\$1,764,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2021 of 1,473,713,000 (2020: 1,330,000,000).

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the placing of new shares on 13 May 2021 as disclosed on page 19. The diluted earnings/(loss) per share is the same as basic earnings/(loss) per share for both years as there was no potential ordinary share outstanding.

7. TRADE AND OTHER RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	59,373	44,377
Less: allowance for credit loss	<u>(4,519)</u>	<u>(4,333)</u>
	54,854	40,044
Other receivables, deposits and prepayments	<u>13,311</u>	<u>13,420</u>
Total trade and other receivables	<u><u>68,165</u></u>	<u><u>53,464</u></u>

The Group allows a credit period ranging from 0 to 30 days (2020: 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	30,378	15,186
31–60 days	4,276	8,827
61–90 days	3,105	8,148
> 90 days	<u>17,095</u>	<u>7,883</u>
	<u><u>54,854</u></u>	<u><u>40,044</u></u>

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$24,476,000 (2020: HK\$24,858,000), which are past due as at the end of the reporting period. Out of the past due balances, aggregate carrying amount of HK\$15,814,000 (2020: HK\$5,762,000) 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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contract assets	87,293	28,217
Less: allowance for credit loss	(2,316)	(523)
	<u>84,977</u>	<u>27,694</u>
Analysed as current:		
Unbilled revenue of building services engineering contracts (<i>note a</i>)	60,660	4,673
Retention receivables of building services engineering contracts (<i>note b</i>)	24,317	23,021
	<u>84,977</u>	<u>27,694</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	10,433	11,564
After one year	13,884	11,457
	<u>24,317</u>	<u>23,021</u>

Changes of contract assets during the year ended 31 December 2021 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 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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	55,835	32,183
Accrued sub-contracting and material costs	15,368	4,460
Accrued staff costs	10,589	6,541
Other payables and accruals	<u>1,136</u>	<u>1,478</u>
Total trade and other payables	<u><u>82,928</u></u>	<u><u>44,662</u></u>

The credit period on trade payables range from 30 to 60 days (2020: 30 to 60 days).

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	26,420	5,742
31–60 days	8,997	6,748
61–90 days	5,362	998
> 90 days	<u>15,056</u>	<u>18,695</u>
	<u><u>55,835</u></u>	<u><u>32,183</u></u>

10. CONTRACT LIABILITIES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Advances from customers of building services engineering contracts, current	–	–
Advance from customers of maintenance, repair and other services, current	–	349
	<u>–</u>	<u>349</u>
	<u>–</u>	<u>349</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, maintenance, repair and other service contracts recognised during the year ended 31 December 2021 that was included in the contract liabilities at the beginning of the year was amounted to HK\$349,000 (2020: HK\$1,997,000).

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\$53,700,000 (2020: HK\$38,700,000) which are secured by the properties owned by Mr. Wong and by the Group's pledged assets. The carrying amounts of the assets pledged by the Group to banks are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Property, plant and equipment	5,536	–
Investment property	–	5,300
Pledged bank deposits	5,397	7,241
	<u>10,933</u>	<u>12,541</u>

The investment property has been occupied and used by the Group for administrative purpose since 1 July 2021. The investment property was reclassified to property, plant and equipment since 1 July 2021.

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 2021, the Group had 27 projects on hand (including projects in progress and projects that are about to commence) with total outstanding contract value of approximately HK\$705.8 million.

FINANCIAL REVIEW

Revenue

Our revenue increased from approximately HK\$132.3 million for the year ended 31 December 2020 to approximately HK\$261.4 million for the Year, representing a increment of approximately 97.6%. 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 Group’s average contract amount as compared to that for the year ended 31 December 2020.

Cost of Sales

Our cost of sales increased from approximately HK\$124.1 million for the year ended 31 December 2020 to approximately 234.2 million for the Year, representing an increase of approximately 88.7%. 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.

Gross Profit

Gross profit of the Group was approximately HK\$27.2 million for the Year while gross profit of the Group was approximately HK\$8.2 million for the year ended 31 December 2020. The change was mainly driven by the increase in revenue for the Year which outweighed the increase in cost of sales.

The overall gross profit margin was approximately 10.4% for the for the Year while gross profit margin of the Group was approximately 6.2% for the year ended 31 December 2020 as the extent of increase in revenue is higher than that of increase 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 reduce our costs. Also, reduction in prolongation of projects further drove up our gross profit margin during the Year.

Administrative Expenses

Administrative expenses of the Group increased by approximately 13.7% from approximately HK\$15.3 million for the year ended 31 December 2020 to approximately HK\$17.4 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\$1.4 million during the Year.

Other income

Other income decreased significantly by approximately HK\$3.9 million, or 79.6%, from approximately HK\$4.9 million for the year ended 31 December 2020 to approximately HK\$1.0 million for the Year. The decrease in other income was mainly due to the absence of a one-off subsidy under the employment support scheme of the Hong Kong SAR Government received in prior year.

Income Tax Credit

The Group recorded an income tax credit of approximately HK\$1,826,000 (2020: HK\$14,000) due to recognition of deferred tax assets arising from tax losses.

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

The Group's result recorded a turnaround from loss and total comprehensive income of approximately HK\$1.8 million of last year to profit and total comprehensive income of approximately HK\$10.7 million for the Year. Such improvement in the Group's result was primarily attributable to the increase in revenue by 97.6% which outweighed the increase in cost of sales by 88.7%, and partly offset by the increase in administrative expense for the Year and the decrease in other income during the Year. The net profit margin is approximately 4.1% for the Year as compared to the net loss margin of approximately 1.3% for the year ended 31 December 2020.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had total assets of approximately HK\$218.2 million (2020: HK\$157.3 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$83.5 million (2020: HK\$45.2 million) and approximately HK\$134.7 million (2020: HK\$112.1 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 December 2021 were nil (2020: nil), and current ratio as at 31 December 2021 was approximately 2.5 times (2020: 3.3 times).

GEARING RATIO

The gearing ratio of the Group as at 31 December 2021 was nil (2020: 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 2020 and 2021, 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 2021. 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 2021, the Group pledged its bank deposits of approximately HK\$5.4 million (2020: HK\$7.2 million) and charge on property, which was reclassified from investment property to property, plant and equipment during the Year, of approximately HK\$5.5 million (2020: HK\$5.3 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.

On 13 May 2021, 200,000,000 shares of HK\$0.01 each of the Company (the “**Share(s)**”) were issued at a price of HK\$0.061 by way of placing under general mandate (the “**Placing**”). The share capital of the Group only comprises ordinary Shares.

As at 31 December 2021, the Company’s issued share capital was HK\$15,300,000 (31 December 2020: HK\$13,300,000) and the number of its issued Shares was 1,530,000,000 of HK\$0.01 each (31 December 2020: 1,330,000,000).

PLACING UNDER GENERAL MANDATE

On 27 April 2021, the Company entered into a placing agreement with Silverbricks Securities Company Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in future contracts) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as placing agent (the “**Placing Agent**”), pursuant to which the Company agreed to issue and the Placing Agent agreed to place up to 200,000,000 new Shares (the “**Placing Shares**”) under general mandate to not less than six placees at the Placing price of HK\$0.061 per Placing Share, representing a discount of approximately 18.7% to the closing price of HK\$0.075 per Share on the date of announcement of the Placing. After deducting the expenses involved in the Placing, the net issue price of each Placing Share is approximately HK\$0.0595. The Placing was completed on 13 May 2021 and the Placing Agent successfully placed an aggregate of 200,000,000 Placing Shares, representing approximately 13.1% of the issued share capital of the Company as enlarged by the issue of 200,000,000 Placing Shares, to not less than six independent placees at the Placing Price of HK\$0.061 per Placing Share. The nominal value of the Placing Shares is HK\$2,000,000. In order to support the Group in taking up the newly awarded contracts, the Directors consider that the Placing offers a good opportunity to raise additional funds for the Company’s business expansion for taking up additional projects while broadening the shareholders’ and capital base of the Company.

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. For further information in relation to the Placing, please refer to the announcements of the Company dated 27 April 2021, 4 May 2021 and 13 May 2021 and the paragraph headed “Use of Proceeds” in this announcement below.

COMMITMENTS

The Group had no operating lease commitments as at 31 December 2021 (2020: HK\$Nil).

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 2021, the Group did not have any material capital commitments (2020: 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 2021, the Group did not have any material contingent liabilities (2020: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group employed a total of 123 employees (2020: 115 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$51.1 million for the Year (2020: HK\$38.5 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 2021. During the Year, the property at Workshop No. B9 on 6/F of Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong which was previously classified as investment property was reclassified to property, plant and equipment.

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 2021 is set out below:

Business objectives	Actual business progress up to 31 December 2021
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 2021 (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\$4.4 million for recruiting staff with relevant experiences.</p> <p>During 2021, the Group was approved by the Works Branch of Development Bureau for the registration of approved contractor on the air-conditioning installation category (Group II), Electrical installation (Group III) and plumbing installation (Group II) of the Specialist List on a probation basis. The Group will further target certain types of project to fulfil the requirement in the near future. 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 section headed “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 2021 is set out below:

	Planned use of net proceeds as stated in the Prospectus <i>HK\$'000</i>	Amount of net proceeds utilised during the Year <i>HK\$'000</i>	Actual use of net proceeds up to 31 December 2021 <i>HK\$'000</i>	Unutilised balance as at 31 December 2021 <i>HK\$'000</i>
Further development of the Group's building services engineering business	16,500	–	16,500	–
Further expansion of service scope	8,500	1,800	8,500	–
Further strengthening the Group's engineering department	6,600	–	6,600	–
Total	<u>31,600</u>	<u>1,800</u>	<u>31,600</u>	<u>–</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 2021, all proceeds from the Placing has been fully applied according to the disclosure in the Prospectus. During the Year, net proceeds of the amount of HK\$1.8 million were utilised as the salaries and payments payable to the additional staff members recruited for expansion of service scope.

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 placees at the placing price of HK\$0.061 per Placing Share 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 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 2021 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 2021 (HK\$'000)	Net proceeds utilised during the year ended 31 December 2021 (HK\$'000)	Unutilised net proceeds as at 31 December 2021 (HK\$'000)	Expected timeline for the intended use
Payment of the premium of the performance bonds of the new projects	4,200	4,200	4,200	–	
Payment of upfront costs of the new projects	6,300	6,300	6,300	–	
General working capital	1,400	–	–	1,400	By June 2023
Total	<u>11,900</u>	<u>10,500</u>	<u>10,500</u>	<u>1,400</u>	

The unutilised portion of the net proceeds from the Placing has been put as bank deposits in bank in Hong Kong.

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 annual general meeting 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 2022 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 independent non-executive Directors (the “**INED(s)**”). 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 2021.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 11 May 2022 (the “**2022 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 2022 AGM, the register of members of the Company will be closed from Thursday, 5 May 2022 to Wednesday, 11 May 2022, 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 2022 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 Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 4 May 2022.

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 2021 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 2021 annual report of the Company will be despatched to the shareholders.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board proposes to amend the existing articles of association of the Company ("**Articles**") in order to bring the Articles in line with the latest legal and regulatory requirements, including the amendments made to Appendix 3 to the Listing Rules which took effect on 1 January 2022.

The proposed amendments to the Articles ("**Proposed Amendments**") are summarised below:

1. to specify that the Company shall hold an annual general meeting within six months after the end of the Company's financial year;
2. to provide that all Shareholders shall have the right to (i) speak at a general meeting of the Company; and (ii) vote at a general meeting of the Company, except where a Shareholder is required, by the Listing Rules, or the rules, codes or regulations of any competent regulatory authority, to abstain from voting to approve the matter under consideration;
3. to provide that in addition to the right to convene an extraordinary general meeting on the requisition of one or more Shareholders holding not less than one tenth (1/10th) of the paid up capital of the Company having the right of voting at general meetings, such Shareholder(s) shall also have the right to add resolutions to the meeting agenda of a general meeting;

4. to provide that the branch register of Shareholders in Hong Kong may be closed on terms equivalent to section 632 of the Companies Ordinance (Chapter 622 of the Laws in Hong Kong); and
5. to make other necessary amendments for updating the Articles and better aligning with the wording in the applicable laws of Cayman Islands and the Listing Rules.

The Proposed Amendments are subject to consideration and approval by the Shareholders by way of a special resolution at the 2022 AGM. A circular containing, among other things, particulars relating to Proposed Amendments together with a notice convening the 2022 AGM will be despatched to the shareholders of the Company according to the applicable law, the Articles and the Listing Rules.

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 2022

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.