

# 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: 8369



**INTERIM REPORT**  
**2016**

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## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*This report, for which the directors (the “**Directors**”) of Lap Kei Engineering (Holdings) Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively the “**Group**”). The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## INTERIM RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2016 (the “**Relevant Period**”), together with the corresponding comparative figures of 2015, as follows:

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and six months ended 30 June 2016

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>43,200</b>	27,565	<b>106,490</b>	70,962
Cost of sales		<b>(34,878)</b>	(20,713)	<b>(86,855)</b>	(51,590)
<b>Gross profit</b>		<b>8,322</b>	6,852	<b>19,635</b>	19,372
Other income		372	49	394	63
Administrative expenses		(2,748)	(2,334)	(5,747)	(5,121)
Listing expenses		–	(5,598)	–	(5,598)
Finance costs		(8)	(49)	(57)	(87)
Profit/(loss) before taxation	4	<b>5,938</b>	(1,080)	<b>14,225</b>	8,629
Income tax expense	5	<b>(1,018)</b>	(747)	<b>(2,347)</b>	(2,347)
<b>Profit/(loss) and total comprehensive income for the period</b>		<b>4,920</b>	(1,827)	<b>11,878</b>	6,282
<b>Earnings/(loss) per share</b>					
— Basic (HK\$ cents)	7	<b>0.38</b>	(0.17)	<b>0.93</b>	0.58

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		1,320	1,605
Deposit paid for a life insurance policy		1,119	1,118
		<b>2,439</b>	2,723
<b>Current assets</b>			
Inventories — raw materials and consumables		32	30
Amounts due from customers for contract work		31,697	54,355
Trade and other receivables	8	58,611	61,810
Pledged bank deposits		23,018	18,000
Bank balances and cash		23,358	4,021
		<b>136,716</b>	138,216

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

		As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
<b>Current liabilities</b>			
Amounts due to customers for contract work		1,607	1,585
Trade and other payables	9	38,970	46,624
Amount due to a related party		39	1
Tax payable		3,735	1,329
Bank borrowings	10	427	3,590
Bank overdrafts		–	5,311
		<b>44,778</b>	58,440
<b>Net current assets</b>		<b>91,938</b>	79,776
<b>Net assets</b>		<b>94,377</b>	82,499
<b>Capital and reserve</b>			
Share capital	11	12,800	12,800
Reserves		81,577	69,699
		<b>94,377</b>	82,499

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i> <i>(Note)</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2016 (audited)	12,800	30,855	610	38,234	82,499
Profit and total comprehensive income for the Relevant Period	-	-	-	11,878	11,878
As at 30 June 2016 (unaudited)	12,800	30,855	610	50,112	94,377
As at 1 January 2015 (audited)	610	-	-	56,716	57,326
Effect of reorganisation	(610)	-	610	-	-
Profit and total comprehensive income for the period	-	-	-	6,282	6,282
Dividend recognised as distribution	-	-	-	(22,002)	(22,002)
As at 30 June 2015 (unaudited)	-	-	610	40,996	41,606

Note: Merger reserve represented the difference between the aggregated share capital of the relevant subsidiaries (which were transferred from Mr. Wong and Ms. So (defined in note 6) to LKW Enterprise Limited ("**LKW Enterprise**") pursuant to the Reorganisation, as set out in note 1) and the newly issued share capital of LKW Enterprise.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Net cash generated from/(used in) operating activities	<b>32,850</b>	(24,036)
Net cash (used in)/generated from investing activities	<b>(4,982)</b>	3,311
Net cash used in financing activities	<b>(3,220)</b>	(7,646)
Net increase/(decrease) in cash and cash equivalents	<b>24,648</b>	(28,371)
Cash and cash equivalents at beginning of the period	<b>(1,290)</b>	34,065
Cash and cash equivalents at end of the period, represented by cash at banks and on hand	<b>23,358</b>	5,694

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2016*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 April 2015. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The headquarters and principal place of business of the Company in Hong Kong is located at Room 6, 6/F, Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong.

The Company's issued ordinary shares of HK\$0.01 each have been listed and traded on GEM since 25 September 2015 (the "**Listing Date**").

Pursuant to the reorganisation of the Group (the "**Reorganisation**") in connection with the listing of the shares of the Company (the "**Shares**") on GEM (the "**Listing**"), the Company became the holding company of the companies comprising the Group on 18 May 2015. Details of the Reorganisation are set out in the prospectus of the Company dated 18 September 2015 (the "**Prospectus**") under the section headed "History, Reorganisation and Corporate Structure".

The principal activity of the Company is investment holding. The Group's principal activities are the provision of engineering services for building services systems in Hong Kong.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the Relevant Period have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure requirements of the GEM Listing Rules.

The Group resulting from the Reorganisation is regarded as a continuing entity. The unaudited condensed consolidated financial statements have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger accounting under common control combination" issued by the HKICPA. Accordingly, the financial information relating to the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 including the comparative figures for the six months ended 30 June 2015, are presented as if the current group structure had been in existence and remained unchanged throughout both periods, or since their respective dates of incorporation, where this is a shorter period.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Relevant Period are consistent with those used in the audited financial statements of the Group for the year ended 31 December 2015.

HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the Relevant Period. There have been no significant changes to the accounting policies applied in these financial statements for the Relevant Period presented as a result of these developments.



## 2. BASIS OF PREPARATION (CONTINUED)

The unaudited condensed consolidated financial statements of the Group for the Relevant Period have been prepared under the historical cost convention.

The unaudited condensed consolidated financial statements for the Relevant Period have not been audited by the Company's independent auditor, but have been reviewed by the Company's audit committee.

The preparation of the unaudited condensed consolidated financial statements of the Group for the Relevant Period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group's accounting policies.

The unaudited condensed consolidated financial statements of the Group for the Relevant Period are presented in Hong Kong dollars ("HK\$"), which is the same functional currency of the Company.

## 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for services rendered by the Group to outside customers, less discount. Information reported to the Company's executive Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

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

	Three months ended 30 June		Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Building services engineering work	39,541	23,003	99,655	60,380
Maintenance, repair and other services	3,659	4,562	6,835	10,582
	<b>43,200</b>	27,565	<b>106,490</b>	70,962

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

**For the six months ended 30 June 2016**

	<b>Building services engineering work HK\$'000</b>	<b>Maintenance, repair and other services HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue			
External sales	99,655	6,835	106,490
Segment results	17,759	1,876	19,635
Other income			394
Administrative expenses			(5,747)
Finance costs			(57)
Profit before taxation			14,225

**For the six months ended 30 June 2015**

	Building services engineering work HK\$'000	Maintenance, repair and other services HK\$'000	Total HK\$'000
Segment revenue			
External sales	60,380	10,582	70,962
Segment results	14,222	5,150	19,372
Other income			63
Administrative expenses			(5,121)
Listing expenses			(5,598)
Finance costs			(87)
Profit before taxation			8,629

#### 4. PROFIT BEFORE TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):				
Director's remuneration	699	459	1,398	846
Other staff costs:				
Salaries and other allowances	6,668	6,778	12,606	13,110
Retirement benefit scheme contributions	314	269	599	519
Total staff costs	7,681	7,506	14,603	14,475
Auditor's remuneration	302	189	535	364
Depreciation of property, plant and equipment	142	150	285	298
Bank interest income	(9)	–	(18)	(11)

#### 5. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Hong Kong profits tax	1,018	747	2,347	2,347

Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2015: 16.5%) of the estimated assessable profit of the Group for the period as stated above.

No deferred tax assets and liabilities have been provided in the financial statements as there is no material temporary differences arising between tax bases of assets and liabilities and their carrying amounts as at the reporting dates.

#### 6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

During the six months ended 30 June 2015, an interim dividend of HK\$22,000,000 (HK\$36.7 per Share) was recognised as distribution by Lap Kei Engineering Company Limited ("**Lap Kei**"), an indirect wholly-owned subsidiary of the Company, to its then shareholders, namely Mr. Wong Kang Kwong ("**Mr. Wong**") and Ms. So Nui Ho ("**Ms. So**"), spouse of Mr. Wong.

## 7. EARNINGS PER SHARE

The calculations of basic earnings per share for the three months and six months ended 30 June 2016 are based on the followings:

	Three months ended 30 June		Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Earnings:</b>				
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	4,920	(1,827)	11,878	6,282
	'000	'000	'000	'000
<b>Number of shares:</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,280,000	1,088,000	1,280,000	1,088,000

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue as described in the Prospectus had been effective on 1 January 2015.

No diluted earnings per share was presented as there was no potential ordinary shares in issue during the Relevant Period.

## 8. TRADE AND OTHER RECEIVABLES

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables	40,894	42,472
Retention receivables ( <i>Note</i> )	16,124	14,573
Other receivables, deposits and prepayments	1,593	4,765
Total trade and other receivables	58,611	61,810

*Note:* 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 allows a credit period of 30 days to its customers for its trade receivables.

## 8. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an ageing analysis of trade receivables presented based on invoice dates at the end of each reporting period:

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
0–30 days	25,664	28,492
31–60 days	2,074	6,174
61–90 days	3,199	1,696
> 90 days	9,957	6,110
	<b>40,894</b>	<b>42,472</b>

## 9. TRADE AND OTHER PAYABLES

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
Trade payables	10,802	20,314
Retention payables ( <i>Note</i> )	819	588
Accruals	16,348	17,107
Receipt in advance	11,001	8,615
Total trade and other payables	<b>38,970</b>	<b>46,624</b>

*Note:* Retention payables are interest-free and payable at the end of the defect liability period of individual contracts, ranging from 1 to 2 years from the completion date of the respective project.

The credit period on trade payables is 30 days.

## 9. TRADE AND OTHER PAYABLES (CONTINUED)

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

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
0–30 days	8,778	13,223
31–60 days	342	5,102
61–90 days	432	629
> 90 days	1,250	1,360
	<b>10,802</b>	<b>20,314</b>

## 10. BANK BORROWINGS

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
Bank borrowings — secured:		
Variable rate	427	3,590
	<b>427</b>	<b>3,590</b>
Carrying amounts repayable ( <i>Note</i> ):		
On demand or within one year	427	3,590
Amount shown under current liabilities	<b>427</b>	<b>3,590</b>

*Note:* All bank borrowings contain a repayment on demand clause and are shown under current liabilities. The amounts due are presented based on scheduled repayment dates set out in the loan agreements.

The variable rate bank borrowings as at 30 June 2016 carry interest at Hong Kong Prime Rate plus 1.50%. The effective interest rate on borrowings (which are also equal to contracted interest rate) is 6.50% per annum.

The Group's bank borrowings are denominated in HK\$. These bank borrowings are under banking facilities for drawing loans and issuing performance bonds. As at 30 June 2016, the banking facilities are secured by a fixed deposit amounting to HK\$23,018,000 held by the Group.

## 11. SHARE CAPITAL

The share capital of the Company as at 31 December 2015 and 30 June 2016 is as follows:

	Notes	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Ordinary shares of HK\$0.01 each			
Authorised:			
At 29 April 2015 (date of incorporation)	(a)	38,000,000	380
Increase in authorised share capital	(b)	3,962,000,000	39,620
At 31 December 2015 and 30 June 2016		4,000,000,000	40,000
Issued and fully paid			
Allotted and issued on 29 April 2015 (date of incorporation)	(a)	1	–
Capitalisation issue of shares	(c)	1,087,999,999	10,880
Issue of shares pursuant to the listing of the Company's shares	(d)	192,000,000	1,920
At 31 December 2015 and 30 June 2016		1,280,000,000	12,800

The following changes in the share capital of the Company took place during the period from 29 April 2015 (date of incorporation) to 30 June 2016.

- (a) The Company was incorporated on 29 April 2015 in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. Upon incorporation, one ordinary share was allotted, issued and fully paid to an initial subscriber, which was then transferred to Golden Luck Limited ("Golden Luck") on the same day.
- (b) On 10 September 2015, the authorised share capital of the Company was increased from HK\$380,000 to HK\$40,000,000 by the creation of the additional 3,962,000,000 new shares of HK\$0.01 each. These new shares rank pari passu in all respects with the existing shares.

## 11. SHARE CAPITAL (CONTINUED)

- (c) Pursuant to the written resolution passed by the then sole shareholder of the Company dated 10 September 2015, conditional on the share premium account of the Company being credited as a result of the issue of shares by the Company pursuant to the Listing, the directors of the Company were authorised to allot and issue 1,087,999,999 ordinary shares of HK\$0.01 each of the Company, by way of capitalisation of the sum of approximately HK\$10,880,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholder of the Company appearing on the register of members of the Company ("**Capitalisation Issue**"). The Capitalisation Issue was completed on 25 September 2015.
- (d) On 25 September 2015, 192,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.25 by way of placing. On the same date, the Company's shares were listed on the Stock Exchange. The proceeds of HK\$1,920,000 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK\$46,080,000, before issuing expenses, were credited to share premium account.

## 12. OPERATING LEASE ARRANGEMENT

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with LKW Company Limited ("**LKWC**"), a wholly-owned subsidiary of Golden Luck, in respect of warehouses and office premises which fall due as follows:

	<b>30 June 2016 HK\$'000 (Unaudited)</b>	31 December 2015 HK\$'000 (Audited)
Within one year	<b>933</b>	933
In the second to fifth year inclusive	<b>466</b>	933
	<b>1,399</b>	1,866

Leases are negotiated for an average term of 2.5 years and rentals are fixed for an average of 2.5 years.



### 13. RELATED PARTY DISCLOSURES

#### (i) Transactions

The Group entered into the following transaction with its related parties:

Related parties	Nature of transactions	Three months ended 30 June		Six months ended 30 June	
		2016	2015	2016	2015
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Kin Kwan Decoration, Co (Note)	Sub-contracting expense from building services engineering contracts	42	208	106	232
LKWC	Rental expense	117	–	233	–
Mr. Wong and Ms. So	Interim dividend	–	–	–	22,000
	Rental expense	117	108	234	216

In addition, Mr. Wong and Ms. So have provided certain properties and personal guarantees for unlimited amounts to banks to secure the banking facilities granted to the Group. Details were disclosed in note 20 of the 2015 annual report of the Company. All of these securities were released during the year ended 31 December 2015.

Note: Kin Kwan Decoration, Co is a sole proprietorship owned by Mr. Wong Kang Hong, being the younger brother of Mr. Wong, an executive Director and a controlling shareholder of the Company.

#### (ii) Compensation of key management personnel

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Salaries and other allowances	690	450	1,380	828
Retirement benefit scheme contributions	9	9	18	18
	699	459	1,398	846

# 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 which the Group faces will be affected by the development of the property market in Hong Kong as well as factors affecting the labour costs and material costs. The Directors are of the view that the number of properties to be built and maintained in Hong Kong is the key driver for the growth of the Hong Kong building services industry.

With the Group’s experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to pursue the following key business strategies: (i) further developing the Group’s building services engineering business by making use of additional financial resources available from the Listing which allows the Group to undertake more projects of larger scale that

require the provision of surety bond; (ii) further expanding the Group's service scope by application for additional licences, permits or qualifications which may be required; and (iii) further strengthening the Group's engineering department through recruiting additional qualified and experienced staff.

## **FINANCIAL REVIEW**

### **Revenue**

The revenue increased from approximately HK\$71.0 million for the six months ended 30 June 2015 to approximately HK\$106.5 million for the six months ended 30 June 2016, representing a growth of approximately 50.1%. Such increase was mainly due to the increase in both building services engineering projects and the maintenance projects provided by the Group as a result of the overall development in the construction industry in Hong Kong and the increase in number of contracting projects undertaken by the Group during the Relevant Period.

### **Cost of Sales**

The cost of sales increased from approximately HK\$51.6 million for the six months ended 30 June 2015 to approximately HK\$86.9 million for the six months ended 30 June 2016, representing an increase of approximately 68.4%. Such increase was mainly attributable to the increase in the subcontracting charges with the increase in the number of contracting projects undertaken by the Group during the Relevant Period.

### **Gross Profit**

Gross profit of the Group increased by approximately 1.4% from approximately HK\$19.4 million for the six months ended 30 June 2015 to approximately HK\$19.6 million for the six months ended 30 June 2016. The increase was mainly driven by the increase in revenue for the six months ended 30 June 2016 as discussed above.

The overall gross profit margin dropped from approximately 27.3% for the six months ended 30 June 2015 to approximately 18.4% for the six months ended 30 June 2016 as the extent of increase in subcontracting charges and direct labour costs is greater than that of increase in revenue for the six months ended 30 June 2016.

## **Listing Expenses**

During the six months ended 30 June 2015, the Group recognised non-recurring listing expenses of approximately HK\$5.6 million as expenses in connection with the Listing. No listing expenses was recognised for the six months ended 30 June 2016.

## **Administrative Expenses**

Administrative expenses of the Group increased by approximately 12.2% from approximately HK\$5.1 million for the six months ended 30 June 2015 to approximately HK\$5.7 million for the six months ended 30 June 2016. Administrative expenses primarily consist of rental expenses and staff costs. The increase was attributable to the increase in rental expenses, staff salary and bonus due to business expansion during the Relevant Period.

## **Income Tax Expense**

Income tax expense of the Group remained stable at HK\$2.3 million in the Relevant Period as compared to the six months ended 30 June 2015, due to the profit before tax for the Relevant Period being comparable to the profit before tax for the six months ended 30 June 2015, excluding the effect of non-deductible expenses, e.g. the listing expenses and non-chargeable other income items.

## **Profit and Total Comprehensive Income**

Profit and total comprehensive income for the Relevant Period increased by approximately 89.1% from approximately HK\$6.3 million for the six months ended 30 June 2015 to approximately HK\$11.9 million for the six months ended 30 June 2016. Such increase was primarily attributable to the net effect of (i) the increase in revenue and gross profit for the six months ended 30 June 2016; (ii) the fact that no listing expenses was incurred for the six months ended 30 June 2016; and (iii) the increase in administrative expenses for the six months ended 30 June 2016.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2016, the Group had total assets of approximately HK\$139.2 million (31 December 2015: approximately HK\$140.9 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$44.8 million (31 December 2015: approximately HK\$58.4 million) and approximately HK\$94.4 million (31 December 2015: approximately HK\$82.5 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings) of the Group as at 30 June 2016 were approximately HK\$0.4 million (31 December 2015: approximately 8.9 million), and current ratio as at 30 June 2016 was approximately 3.1 times (31 December 2015: approximately 2.4 times).

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

For further details regarding the borrowings, please refer to note 10 to the unaudited condensed consolidated financial statements.

## **GEARING RATIO**

The gearing ratio of the Group as at 30 June 2016 was less than 1% (31 December 2015: approximately 10.8%), which remained low as the Group was not in need of any material debt financing during the Relevant Period.

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

## **TREASURY POLICY**

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Relevant Period. 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 30 June 2016, the Group pledged its bank deposits to a bank of approximately HK\$23.0 million as collateral to secure bank facilities granted to the Group (31 December 2015: HK\$18.0 million).

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

## **FOREIGN EXCHANGE EXPOSURE**

All of the revenue-generating operations and borrowings of the Group were transacted in Hong Kong Dollars which is the presentation currency of the Group. For the six months ended 30 June 2016, there was no significant exposure to foreign exchange rate fluctuations and the Group has not maintained any hedging policy against the foreign currency risk. The management will consider hedging significant currency exposure should the need arise.

## **CAPITAL STRUCTURE**

The Shares of the Company were successfully listed on the GEM Board of the Stock Exchange on 25 September 2015. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises ordinary shares.

As at 30 June 2016, the Company's issued share capital was HK\$12,800,000 and the number of its issued ordinary shares was 1,280,000,000 of HK\$0.01 each.

## **COMMITMENTS**

The contractual commitments of the Group were primarily related to the leases of its office premises and warehouses. The Group's operating lease commitments amounted to approximately HK\$1.4 million as at 30 June 2016 (31 December 2015: HK\$1.9 million). As at 30 June 2016, the Group did not have any capital commitment.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

Save as disclosed in the Prospectus and in this report, the Group did not have other plans for material investments or capital assets as of 30 June 2016.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

During the six months ended 30 June 2016, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

## **CONTINGENT LIABILITIES**

As at 30 June 2016, the Group did not have any material contingent liabilities (31 December 2015: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2016, the Group employed a total of 102 employees (31 December 2015: 100 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$14.6 million for the six months ended 30 June 2016 (for the six months ended 30 June 2015: approximately HK\$14.5 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.

## **SIGNIFICANT INVESTMENTS HELD**

Except for investment in its subsidiaries, the Group did not hold any significant investments during the six months ended 30 June 2016.

## 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 Listing Date to 30 June 2016 is set out below:

Business strategies as stated in the Prospectus	Business objectives up to 30 June 2016 as stated in the Prospectus	Actual business progress up to 30 June 2016
Further development of the Group's building services engineering business	Undertake more projects for the building services engineering business should the Group be able to identify and secure suitable business opportunities by earmarking HK\$12.0 million for satisfying potential customers' requirements for surety bonds	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\$23.0 million was required and has been paid up to 30 June 2016 (which was financed as to approximately HK\$12.0 million by the proceeds from the Listing and as to the remaining approximately HK\$11.0 million by the Group's internal resources)
Further expansion of service scope	Recruit two staff with relevant experience to prepare relevant submission documents to the Works Branch of Development Bureau for the registration of approved contractor on the air-conditioning installation category (Group II) of the Specialist List in order to broaden the Group's business opportunities, and HK\$4.1 million is earmarked for increasing the paid-up share capital of Lap Kei from HK\$600,000 to a minimum of HK\$4.7 million, as one of the requirements for the application of approved contractor on the air-conditioning installation category (Group II) of the Specialist List	The Group has recruited the staff with relevant experience. And the Group is in the progress of increasing the paid-up share capital of Lap Kei.



Business strategies as stated in the Prospectus	Business objectives up to 30 June 2016 as stated in the Prospectus	Actual business progress up to 30 June 2016
Further strengthening the Group's engineering department	Submit the application to the Works Branch of Development Bureau for the registration of approved contractor on the air-conditioning installation category (Group II) of the Specialist List	The Group is in the progress of preparation of the application to the Works Branch of Development Bureau for the registration of approved contractor on the air-conditioning installation category (Group II) of the Specialist List
	Sponsor the engineering staff to attend technical seminars and occupational health and safety courses organised by third parties	The Group has sponsored its engineering staff to attend technical seminars and occupational health and safety courses organised by third parties
	Recruit 5–9 additional middle to senior level engineering staff to cope with the business development and the plan to further develop the Group's building services engineering business	The Group has recruited 4 additional middle to senior level engineering staff, and the Group is in the progress of recruiting additional middle to senior level engineering staff to cope with the business development

## USE OF PROCEEDS

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

An analysis of the utilisation of the net proceeds from the Listing up to 30 June 2016 is set out below:

	<b>Planned use of net proceeds as stated in the Prospectus up to 30 June 2016 HK\$'000</b>	<b>Actual use of net proceeds up to 30 June 2016 HK\$'000</b>
Further development of the Group's building services engineering business	12,000	12,000
Further expansion of service scope	5,500	250
Further strengthening the Group's engineering department	1,800	86

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.

## **DISCLOSURE OF INTERESTS**

### **A. Directors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares or Debentures**

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such director or chief executive was taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to standard of dealings by the Directors as referred

to in Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the Shares

Name of Director	Capacity/ Nature of interest	Number of the Shares held/ interested in	Percentage of shareholding
Mr. Wong	Interest in controlled corporation (Note 1)	653,000,000	51.02%
Ms. So	Interest of spouse (Note 2)	653,000,000	51.02%

Notes:

1. Mr. Wong beneficially owns 99% of the issued share capital of Golden Luck. By virtue of the SFO, Mr. Wong is deemed to be interested in the same number of the Shares held by Golden Luck.
2. Ms. So is the spouse of Mr. Wong. Under the SFO, Ms. So is deemed to be interested in the same number of the Shares in which Mr. Wong is interested.

(ii) Long position in the ordinary shares of associated corporations

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of the Shares held/ interested in	Percentage of shareholding
Mr. Wong	Golden Luck	Beneficial owner	99	99%
Ms. So	Golden Luck	Beneficial owner	1	1%

Save as disclosed above, as at 30 June 2016, none of the Directors nor chief executive of the Company has registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to

Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

**B. Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares, Underlying Shares or Debentures**

So far as the Directors are aware, as at 30 June 2016, the following persons (other than the Directors and chief executive of the Company) had or deemed or taken to have an interest or short position in the Shares or underlying Shares which were required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name of shareholder	Capacity/ Nature of interest	Number of the Shares held/ interested in	Long/short position	Percentage of shareholding
Golden Luck	Beneficial owner	653,000,000	Long	51.02%

Save as disclosed above, as at 30 June 2016, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in the Shares, the Underlying Shares or Debentures" above, had notified the Company of an interest or short position in the Shares, underlying Shares or debentures of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**COMPETING INTERESTS**

During the Relevant Period, so far as the Directors are aware, none of the Directors or the controlling shareholders of the Company, neither themselves nor their respective close associates (as defined in the GEM Listing Rules) had any business or interest that competes or may compete with the business of the Group, and the Directors are also not aware of any other conflict of interests which any such person has or may have with the Group.

## INTEREST OF COMPLIANCE ADVISOR

As at 30 June 2016, as notified by the Company's compliance advisor, Messis Capital Limited (the "**Compliance Advisor**"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated on 17 September 2015, neither the Compliance Advisor nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 30 June 2016.

## CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. During the Relevant Period, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of provisions of conduct regarding securities transactions by the Directors (the "**Code of Conduct**") on terms no less exacting than the required standards of dealings concerning securities transactions by the Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the Relevant Period.

## DIVIDEND

The Board does not recommend the payment of an interim dividend for the Relevant Period.

## SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 10 September 2015 (the “**Scheme**”). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 30 June 2016.

## 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 Rules 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group, nominate and monitor external auditors and to provide advices and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, namely Mr. Chung Yuk Ming, Christopher, Mr. Fok Ka Chi and Mr. Tam Chun Chung, all being independent non-executive Directors. Mr. Tam Chun Chung currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Relevant Period.

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

Hong Kong, 12 August 2016

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