

# 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

**2017**  
THIRD QUARTERLY REPORT



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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. 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.*

## FINANCIAL HIGHLIGHT

- The Group's revenue amounted to approximately HK\$212.0 million for the nine months ended 30 September 2017, representing an increase of approximately HK\$62.8 million or 42.1% as compared with the nine months ended 30 September 2016.
- The profit and total comprehensive income for the period of the Company is approximately HK\$27.7 million for the nine months ended 30 September 2017, representing an increase of approximately HK\$10.4 million or 60.2% as compared with the nine months ended 30 September 2016.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2017.

## THIRD QUARTERLY RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the nine months ended 30 September 2017 (the “**Relevant Period**”), together with the unaudited comparative figures for the corresponding period in 2016, as follows:

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

For the nine months ended 30 September 2017

		Nine months ended 30 September	
	Notes	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
<b>Revenue</b>	3	211,976	149,143
Cost of sales		(167,096)	(119,962)
<b>Gross Profit</b>		<b>44,880</b>	29,181
Other income		66	412
Administrative expenses		(11,245)	(8,791)
Finance costs		(260)	(130)
<b>Profit before tax</b>		<b>33,441</b>	20,672
Income tax expense	4	(5,783)	(3,411)
<b>Profit and total comprehensive income for the period</b>		<b>27,658</b>	17,261
<b>Earnings per share</b>			
— Basic and diluted (HK cents)	6	<b>2.16</b>	1.35

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2017

	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 2017 (audited)	<b>12,800</b>	<b>30,855</b>	<b>610</b>	<b>65,198</b>	<b>109,463</b>
Profit and total comprehensive income for the period	-	-	-	27,658	27,658
Dividend paid	-	-	-	(5,376)	(5,376)
As at 30 September 2017 (unaudited)	<b>12,800</b>	<b>30,855</b>	<b>610</b>	<b>87,480</b>	<b>131,745</b>
As at 1 January 2016 (audited)	12,800	30,855	610	38,234	82,499
Profit and total comprehensive income for the period	-	-	-	17,261	17,261
As at 30 September 2016 (unaudited)	12,800	30,855	610	55,495	99,760

Note: Merger reserve represented the difference between the aggregated share capital of the relevant subsidiaries which were transferred from Mr. Wong Kang Kwong and Ms. So Nui Ho (spouse of Mr. Wong Kang Kwong) to LKW Enterprise Limited pursuant to corporate reorganisation and the issued share capital of LKW Enterprise Limited.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the nine months ended 30 September 2017*

## 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 headquarter 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 nine months ended 30 September 2017 including the comparative figures for the nine months ended 30 September 2016, 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.

## 2. BASIS OF PREPARATION (CONTINUED)

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 2016.

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.

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

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   |

### 3. REVENUE (CONTINUED)

	Nine months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Building services engineering work	202,901	138,473
Maintenance, repair and other services	9,075	10,670
	<b>211,976</b>	<b>149,143</b>

### 4. INCOME TAX EXPENSE

	Nine months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Hong Kong profits tax	5,783	3,411

Hong Kong profits tax has been provided at the rate of 16.5% based on the estimated assessable profits of the Group for the periods as stated above.

### 5. DIVIDEND

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

During the nine months ended 30 September 2017, a final dividend in respect of the year ended 31 December 2016 of HK\$5,376,000 (HK0.42 cents per share) has been recognised as distribution by the Company.



## 6. EARNINGS PER SHARE

The calculation of basic earnings per Share is based on the following data:

	<b>Nine months ended 30 September</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings:</b>		
Earnings for the purpose of calculating basic earnings per Share (profit and total comprehensive income for the period)	<b>27,658</b>	17,261
	<b>'000</b>	'000
<b>Number of Shares:</b>		
Weighted average number of ordinary Shares for the purpose of calculating basic earnings per Share	<b>1,280,000</b>	1,280,000

No diluted earnings per Share was presented as there were no potential ordinary Shares in issue during the periods under review.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased from approximately HK\$149.1 million for the nine months ended 30 September 2016 to approximately HK\$212.0 million for the Relevant Period, representing a growth of approximately 42.1%. Such increase was mainly due to the increase in both building services engineering work and maintenance, repair and other services 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 Group's cost of sales increased from approximately HK\$120.0 million for the nine months ended 30 September 2016 to approximately HK\$167.1 million for the Relevant Period, representing an increase of approximately 39.3%. Such increase was mainly attributable to the increase in the subcontracting charges and direct labour costs with the increase in number of contracting projects undertaken by the Group during the Relevant Period.

### Gross Profit

Gross profit of the Group increased by approximately 53.8% from approximately HK\$29.2 million for the nine months ended 30 September 2016 to approximately HK\$44.9 million for the Relevant Period. The increase was mainly driven by the result of increase in revenue for the Relevant Period as discussed above.

## **Administrative Expenses**

Administrative expenses of the Group increased by approximately 27.9% from approximately HK\$8.8 million for the nine months ended 30 September 2016 to approximately HK\$11.2 million for the Relevant Period. Administrative expenses primarily consist of rental expenses and staff costs. The increase was attributable to the increase in staff salary and rental expenses due to business expansion as well as the professional fees incurred in relation to the application of proposed transfer of listing from GEM to the Main Board of the Stock Exchange during the Relevant Period.

## **Income Tax Expense**

Income tax expense for the Group increased by approximately 69.5% from approximately HK\$3.4 million for the nine months ended 30 September 2016 to approximately HK\$5.8 million for the Relevant Period. The increase was mainly due to the increase in profit before tax, excluding the effect of non-deductible expenses.

## **Profit and Total Comprehensive Income for the Period**

Profit and total comprehensive income for the period increased by approximately 60.2% from approximately HK\$17.3 million for the nine months ended 30 September 2016 to approximately HK\$27.7 million for the Relevant Period. Such increase was primarily attributable to the net effect of (i) the increase in revenue and gross profit for the Relevant Period and (ii) the increase in administrative expenses for the Relevant Period.

## **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) 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 buildings and new buildings; 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 or upgrade of building services systems as set out in the scope of work under the contracts. 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 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 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.

## DISCLOSURE OF INTERESTS

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

As at 30 September 2017, 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 position in the Shares

Name of Director	Capacity/ Nature of interest	Number of the Shares held/ interested in	Percentage of shareholding
Mr. Wong Kang Kwong ("Mr. Wong")	Interest in controlled corporation (Note 1)	653,000,000	51.02%
Ms. So Nui Ho ("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 Limited ("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 September 2017, 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 September 2017, the following persons (other than the Directors or chief executive of the Company) had or deemed or taken to have an interest and/or short position in the Shares, the underlying Shares or debentures of the Company which were required to be recorded in the register of interests required to be kept by the Company under 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 September 2017, the Directors were not aware of any other persons or companies who had or deemed or taken to have any interest or short position in the Shares, underlying Shares or debentures of the Company that was 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 or the GEM Listing Rules.

## **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, or any other conflict of interests which any such person has or may have with the Group.

## **INTEREST OF COMPLIANCE ADVISOR**

As at 30 September 2017, 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, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **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 September 2017.



## 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 monitor the financial reporting process and the internal control and risk management 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 of the Company. 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, 13 November 2017

*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.*