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

2018
INTERIM REPORT

INTERIM RESULTS

The board of directors (the "**Board**") of Lap Kei Engineering (Holdings) Limited (the "**Company**"), together with its subsidiaries (collectively the "**Group**"), is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018 (the "**Relevant Period**"), together with the corresponding comparative figures of 2017, as follows:

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

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
Revenue	*3*	**149,451**	160,333
Cost of sales		**(120,948)**	(124,030)
Gross profit		**28,503**	36,303
Other income		**603**	65
Administrative expenses		**(8,807)**	(8,047)
Finance costs		**(180)**	(154)
Profit before taxation	*4*	**20,119**	28,167
Income tax expense	*5*	**(3,354)**	(4,904)
Profit and total comprehensive income for the period		**16,765**	23,263
Earnings per share			
— Basic (HK cents)	*7*	**1.31**	1.82

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**771**	465
Deposit paid for a life insurance policy		**1,133**	1,132
		1,904	1,597
Current assets			
Contract assets		**97,371**	–
Amounts due from customers for contract work		**–**	62,812
Trade and other receivables	*8*	**60,810**	84,556
Pledged bank deposits		**14,408**	15,804
Bank balances and cash		**32,371**	32,443
		204,960	195,615

	Notes	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Current liabilities			
Contract liabilities		**5,042**	–
Amounts due to customers for contract work		**–**	1,363
Trade and other payables	*9*	**43,152**	61,274
Amount due to a related party		**–**	45
Tax payable		**4,387**	1,033
Bank borrowings	*10*	**17,242**	2,136
		69,823	65,851
Net current assets		**135,137**	129,764
Net assets		**137,041**	131,361
Capital and reserve			
Share capital	*11*	**12,800**	12,800
Reserves		**124,241**	118,561
		137,041	131,361

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (note)	Retained earnings HK$'000	Total HK$'000
As at 1 January 2018 (audited)	**12,800**	**30,855**	**610**	**87,096**	**131,361**
Impact on initial application of HKFRS 9	**–**	**–**	**–**	**(1,101)**	**(1,101)**
Adjusted balance at 1 January 2018	**12,800**	**30,855**	**610**	**85,995**	**130,260**
Profit and total comprehensive income for the Relevant Period	**–**	**–**	**–**	**16,765**	**16,765**
Dividend paid *(Note 6)*	**–**	**–**	**–**	**(9,984)**	**(9,984)**
As at 30 June 2018 (unaudited)	**12,800**	**30,855**	**610**	**92,776**	**137,041**
As at 1 January 2017 (audited)	12,800	30,855	610	65,198	109,463
Profit and total comprehensive income for the Relevant Period	–	–	–	23,263	23,263
Dividend paid	–	–	–	(5,376)	(5,376)
As at 30 June 2017 (unaudited)	12,800	30,855	610	83,085	127,350

note: Merger reserve represented the difference between the aggregated share capital of the relevant subsidiaries (which were transferred from Mr. Wong Kang Kwong ("**Mr. Wong**") and Ms. So Nui Ho ("**Ms. So**") 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 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	**(6,000)**	2,972
Net cash (used in)/generated from investing activities	**(590)**	10,575
Net cash generated from financing activities	**6,518**	13,988
Net (decrease)/increase in cash and cash equivalents	**(72)**	27,535
Cash and cash equivalents at the beginning of the period	**32,443**	7,059
Cash and cash equivalents at the end of the period, represented by cash at banks and on hand	**32,371**	34,594

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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.

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 Company transferred the listing of its shares from GEM to the Main Board of the Stock Exchange with effect from 12 February 2018.

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 for the Relevant Period (the "**Interim Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of the Listing Rules. The Interim Financial Statements have been prepared under the historical cost convention and are presented in Hong Kong dollars ("**HK$**"), which is the same as the functional currency of the Company. The Interim Financial Statements are unaudited, but have been reviewed by the audit committee of the Company.

The preparation of the Interim Financial Statements requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income and expenses. Actual results may differ from these estimates.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation in the Interim Financial Statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

2. BASIS OF PREPARATION (CONTINUED)

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's unaudited condensed financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures set out in the Interim Financial Statements.

Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

Expected impacts of the new requirements on the Group's consolidated financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The classification is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group did not designate or re-designate any financial assets or financial liability at FVTPL.

2. BASIS OF PREPARATION (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves at 1 January 2018.

Retained earnings

	HK$'000
Recognition of additional expected credit losses on	
— Trade and other receivables	(787)
— Contract assets	(314)
Net decrease in retained earnings at 1 January 2018	(1,101)

The following table reconciles the closing allowance for doubtful debts determined in accordance with HKAS 39 as at 31 December 2017 with the opening allowance for doubtful debts determined in accordance with HKFRS 9 as at 1 January 2018.

Allowance for doubtful debts

	HK$'000
Allowance for doubtful debts at 31 December 2017 under HKAS 39	1,270
Additional credit loss recognised at 1 January 2018	
— Trade and other receivables	787
— Contract assets	314
Allowance for doubtful debts at 1 January 2018 under HKFRS 9	2,371

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these unaudited condensed consolidated financial statements.

2. BASIS OF PREPARATION (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The following tables summarise the estimated impact of the adoption of HKFRS 15 on the Interim Financial Statements, by comparing the amounts reported under HKFRS 15 with estimates of the hypothetical amounts that would have been recognised under HKAS 11 if it had continued to be applied in 2018 instead of HKFRS 15. These tables show only line items impacted by the adoption of HKFRS 15.

(a) Unaudited condensed consolidated statement of profit or loss (Extract)

	Impact of changes in accounting policies		
For the six months ended 30 June 2018	**Amounts reported in accordance with HKFRS 15**	**Estimated impact of the adoption of HKFRS 15**	**Hypothetical amounts under HKAS 11**
	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*
Cost of sales	(120,948)	(2,794)	(123,742)
Income tax expense	(3,354)	495	(2,859)
Profit for the period	16,765	(2,299)	14,466

(b) Unaudited condensed consolidated statement of financial position (Extract)

	Impact of changes in accounting policies		
As at 30 June 2018	**Amounts reported in accordance with HKFRS 15**	**Estimated impact of the adoption of HKFRS 15**	**Hypothetical amounts under HKAS 11**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Contract assets	97,685	(97,685)	–
Amounts due from customers for contract work	–	93,093	93,093
Liabilities			
Contract liabilities	5,042	(5,042)	–
Amounts due to customers for contract work	–	3,244	3,244
Tax payable	4,387	(495)	3,892

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these unaudited condensed consolidated financial statements.

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Building services engineering work	**143,167**	154,469
Maintenance, repair and other services	**6,284**	5,864
	149,451	160,333

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

For the six months ended 30 June 2018

	Building services engineering work	**Maintenance, repair and other services**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue			
External sales	**143,167**	**6,284**	**149,451**
Segment results	**27,819**	**684**	**28,503**
Other income			**603**
Administrative expenses			**(8,807)**
Finance costs			**(180)**
Profit before taxation			**20,119**

3. **REVENUE AND SEGMENT INFORMATION (CONTINUED)**

For the six months ended 30 June 2017

	Building services engineering work *HK$'000*	Maintenance, repair and other services *HK$'000*	Total *HK$'000*
Segment revenue			
External sales	154,469	5,864	160,333
Segment results	34,705	1,598	36,303
Other income			65
Administrative expenses			(8,047)
Finance costs			(154)
Profit before taxation			28,167

4. **PROFIT BEFORE TAXATION**

	Six months ended 30 June	
	2018 ***HK$'000*** **(Unaudited)**	2017 *HK$'000* (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' remuneration	**1,743**	1,587
Other staff costs:		
Salaries and other allowances	**17,748**	16,930
Retirement benefit scheme contributions	**677**	710
Total staff costs	**20,168**	19,227
Auditor's remuneration	**549**	500
Depreciation of property, plant and equipment	**305**	285
Bank interest income	**(21)**	(28)

5. **INCOME TAX EXPENSE**

	Six months ended 30 June	
	2018 ***HK$'000*** **(Unaudited)**	2017 *HK$'000* (Unaudited)
Hong Kong profits tax	**3,354**	4,904

Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2017: 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 resolved not to pay an interim dividend for the six months ended 30 June 2018.

During the six months ended 30 June 2018, a final dividend in respect of the year ended 31 December 2017 of HK$9,984,000 (HK0.78 cents per Share) has been paid and recognised as distribution by the Company.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the six months ended 30 June 2017 and 2018 are based on the followings:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	**16,765**	23,263
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,280,000**	1,280,000

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 (defined in Note 11) 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

	As at	
	30 June	31 December
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables, net	**24,286**	47,141
Retention receivables *(note)*	**31,264**	29,672
Other receivables, deposits and prepayments	**5,260**	7,743
Total trade and other receivables	**60,810**	84,556

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:

	As at	
	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**14,831**	14,290
31–60 days	**1,871**	2,196
61–90 days	**416**	13,560
> 90 days	**7,168**	17,095
	24,286	47,141

9. TRADE AND OTHER PAYABLES

	As at	
	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**36,891**	44,540
Bills payable	**–**	6,303
Accruals	**5,705**	9,875
Receipt in advance	**556**	556
Total trade and other payables	**43,152**	61,274

The credit period on trade payables is 30 days.

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

	As at	
	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0–30 days	**22,614**	24,815
31–60 days	**6,598**	21,175
61–90 days	**2,761**	523
> 90 days	**4,918**	4,330
	36,891	50,843

10. BANK BORROWINGS

	As at	
	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Advance drawn on bills receivables discounted within one year — secured:		
Variable rate	**17,242**	2,136

The Group's variable rate bank borrowings as at 30 June 2018 were denominated in HK$ and carried interest at Hong Kong Prime Rate minus 2%. The bank borrowings were secured by trade receivables in connection with invoice discounting bank loan arrangements at 30 June 2018.

11. SHARE CAPITAL

The share capital of the Company as at 31 December 2017 and 30 June 2018 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 2017 and 30 June 2018		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 2017 and 30 June 2018		1,280,000,000	12,800

note:

(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.

(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 Golden Luck ("**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 30 June 2018, 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:

	As at	
	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within one year	**996**	1,062
In the second to fifth year inclusive	**490**	980
	1,486	2,042

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 transactions with its related parties:

Related parties	Nature of transactions	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Kin Kwan Decoration, Co *(note)*	Sub-contracting expense from building services engineering contracts	**110**	71
LKWC	Rental expense	**244**	233
Mr. Wong and Ms. So	Rental expense	**246**	234

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

	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Salaries and other allowances	**1,716**	1,560
Retirement benefit scheme contributions	**27**	27
	1,743	1,587

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 undertaking more projects of larger scale; (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 decreased from approximately HK$160.3 million for the six months ended 30 June 2017 to approximately HK$149.5 million for the six months ended 30 June 2018, representing a drop of approximately 6.7%. Such decrease was mainly due to the decrease in building services engineering projects provided by the Group as a result of the delay in progress in certain building services engineering projects and the decrease in number of contracting projects undertaken by the Group during the Relevant Period.

Cost of Sales

The cost of sales decreased from approximately HK$124.0 million for the six months ended 30 June 2017 to approximately HK$120.9 million for the six months ended 30 June 2018, representing a decrease of approximately 2.5%. Such decrease was mainly attributable to the decrease in building services engineering projects provided by the Group during the Relevant Period.

Gross Profit

Gross profit of the Group decreased by approximately 21.5% from approximately HK$36.3 million for the six months ended 30 June 2017 to approximately HK$28.5 million for the six months ended 30 June 2018. The decrease was mainly driven by the decrease in revenue for the six months ended 30 June 2018 as discussed above.

The overall gross profit margin decreased from approximately 22.6% for the six months ended 30 June 2017 to approximately 19.1% for the six months ended 30 June 2018 as the extent of decrease in revenue is greater than that of decrease in subcontracting charges and direct labour costs for the six months ended 30 June 2018.

Administrative Expenses

Administrative expenses of the Group increased by approximately 9.4% from approximately HK$8.0 million for the six months ended 30 June 2017 to approximately HK$8.8 million for the six months ended 30 June 2018. Administrative expenses primarily consist of rental expenses and staff costs. The increase was attributable to the increase in administrative staff salary and other administrative expenses during the Relevant Period.

Income Tax Expense

Income tax expense of the Group decreased by approximately 31.6% from approximately HK$4.9 million for the six months ended 30 June 2017 to approximately HK$3.4 million for the six months ended 30 June 2018. The decrease was mainly due to the decrease in profit before tax, excluding the effect of non-deductible expenses.

Profit and Total Comprehensive Income

Profit and total comprehensive income for the Relevant Period decreased by approximately 27.9% from approximately HK$23.3 million for the six months ended 30 June 2017 to approximately HK$16.8 million for the six months ended 30 June 2018. Such decrease was primarily attributable to the combined effect of (i) the decrease in revenue and gross profit for the six months ended 30 June 2018; and (ii) the increase in administrative expenses for the six months ended 30 June 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had total assets of approximately HK$206.9 million (31 December 2017: approximately HK$197.2 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$69.8 million (31 December 2017: approximately HK$65.9 million) and approximately HK$137.0 million (31 December 2017: approximately HK$131.4 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings) of the Group as at 30 June 2018 were approximately HK$17.2 million (31 December 2017: 2.1 million), and current ratio as at 30 June 2017 was approximately 2.94 times (31 December 2017: approximately 3.0 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 Relevant Period.

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 2018 was approximately 12.6% (31 December 2017: 1.6%), which was due to the raising of short-term interest-bearing bank borrowings under the bank facilities available to the Group 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 2018, the Group pledged its bank deposits to a bank of approximately HK$14.4 million as collateral to secure bank facilities granted to the Group (31 December 2017: HK$15.8 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 2018, 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 GEM of the Stock Exchange on 25 September 2015 and transferred to the Main Board of the Stock Exchange on 12 February 2018. 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 31 December 2017 and 30 June 2018, 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$1.5 million as at 30 June 2018 (31 December 2017: HK$2.0 million). As at 30 June 2018, the Group did not have any capital commitment.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have other plans for material investments or capital assets as of 30 June 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2018, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed a total of 92 employees (31 December 2017: 100 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK$20.2 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: approximately HK$19.2 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 by the Company, the Group did not hold any significant investments during the six months ended 30 June 2018.

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 2018, 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 the Model Code as set out in Appendix 10 to the 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 2018, 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 the Model Code as set out in Appendix 10 to the 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 2018, 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 or debentures of the Company 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 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 2018, 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 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.

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 during the Relevant Period.

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 14 to the 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 the Model Code for securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all the Directors, all the 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 resolved not to pay 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 compliance with the provisions of chapter 17 of the 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 2018.

Other than the Scheme, at no time during the six months ended 30 June 2018 and up to the date of this report was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") on 10 September 2015 with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code. The 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 oversee the continuing connected transactions of the Company. 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, 31 August 2018

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