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
Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Wong Kang Kwong
Ms. So Nui Ho
Mr. Tang Chun Man Joseph
(appointed on 1 November 2018)
Mr. Wong Chi Kei (resigned on 25 August 2018)

Independent non-executive Directors:

Mr. Chung Yuk Ming, Christopher
Mr. Fok Ka Chi
Mr. Tam Chun Chung

BOARD COMMITTEES

Audit Committee

Mr. Tam Chun Chung *(Chairman)*
Mr. Chung Yuk Ming, Christopher
Mr. Fok Ka Chi

Remuneration Committee

Mr. Fok Ka Chi *(Chairman)*
Mr. Chung Yuk Ming, Christopher
Mr. Tam Chun Chung

Nomination Committee

Mr. Chung Yuk Ming, Christopher *(Chairman)*
Mr. Fok Ka Chi
Mr. Tam Chun Chung

COMPANY SECRETARY

Mr. Chan Chun Sing (*Certified Public Accountant)*

AUTHORISED REPRESENTATIVES

Mr. Wong Kang Kwong
Mr. Chan Chun Sing (*Certified Public Accountant)*

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAWS

ONC Lawyers

REGISTERED OFFICE IN THE CAYMAN ISLANDS

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 6, 6/F, Block B
Tonic Industrial Centre
19 Lam Hing Street
Kowloon Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
Grand Cayman
KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANK

Shanghai Commercial Bank Limited
Shops G1–2, G/F.
Metro City Plaza III
The Metropolis
8 Mau Yip Road
Tseung Kwan O
New Territories
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

COMPANY WEBSITE

www.lapkeieng.com
(information of this website does not form part of this report)

STOCK CODE

1690

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Lap Kei Engineering (Holdings) Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), I am delighted to present the consolidated financial results of the Group for the year ended 31 December 2018.

A NOTE OF APPRECIATION

On behalf of the Board , I wish to take this opportunity to express my sincere gratitude to our shareholders, customers, subcontractors and business partners for their continuous support, and to our management and staff members for their diligence, dedication and contribution to the growth of the Group.

FINANCIAL RESULTS

The total revenue of the Group increased by approximately HK$25.8 million or 9.1% from approximately HK$282.7 million for the year ended 31 December 2017 to approximately HK$308.5 million for the year ended 31 December 2018 (the "**Year**"). The Group's profits attributable to shareholders remain stable for two years ended 31 December 2018.

BUSINESS REVIEW AND PROSPECT

During the year ended 31 December 2018, the overall market condition of the construction industry in Hong Kong was relatively stable and expected to keep steady growth in the coming years.

Looking ahead, despite certain industry-wide challenging factors such as (i) intense competition in the market; (ii) increasing construction labour and material costs; and (iii) shortage of the industry professionals which may exert pressure on the Group's business, the Group remains positive about the prospects of the construction market and will continue to focus on our core business of building services engineering works. In order to maximise the long term returns to our shareholders, the Group will devote more resources towards the development of our contracting business.

Lap Kei Engineering (Holdings) Limited
Wong Kang Kwong
Chairman and Executive Director

Hong Kong, 26 April 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

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

Looking forward, the Directors consider that the future opportunities and challenges facing the Group will continue to be affected by the development of the property market in Hong Kong as well as factors affecting 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 remains to be the key driver for the growth of the Hong Kong building services industry.

As at 31 December 2018, the Group had 20 projects on hand (including projects in progress and projects that get to commerce) with total contract value of approximately HK$202.3 million.

FINANCIAL REVIEW

Revenue

Our revenue increased from approximately HK$282.7 million for the year ended 31 December 2017 to approximately HK$308.5 million for the year ended 31 December 2018, representing a growth of approximately 9.1%. Such increase was mainly due to increase in provision of building services engineering projects which contributed a significant revenue for the year end 31 December 2018 as a result of the overall development in the construction industry in Hong Kong.

Cost of Sales

Our cost of sales increased from approximately HK$231.3 million for the year ended 31 December 2017 to approximately HK$266.0 million for the year ended 31 December 2018, representing an increase of approximately 15.0%. Such increase was mainly attributable to the increase in our subcontracting charges and material costs which were more than the increase in revenue for the year ended 31 December 2018.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by approximately 17.3% from approximately HK$51.3 million for the year ended 31 December 2017 to approximately HK$42.5 million for the year ended 31 December 2018. The decrease in gross profit was mainly driven by the relatively higher increase in cost of sales for the year ended 31 December 2018.

The overall gross profit margin decreased from approximately 18.2% for the year ended 31 December 2017 to approximately 13.8% for the year ended 31 December 2018 as the extent of increase in subcontracting charges and direct labour costs was greater than that of the increase in revenue for the year ended 31 December 2018. Due to the increase of subcontracting charges and direct labour, a few projects were completed with actual costs higher than the budget.

Other Expenses

Other expenses represented non-recurring listing expenses of approximately HK$1.4 million recognised as expenses by the Group in connection with the Transfer of Listing for the year ended 31 December 2017.

Administrative Expenses

Administrative expenses of the Group increased by approximately 29.1% from approximately HK$15.1 million for the year ended 31 December 2017 to approximately HK$19.5 million for the year ended 31 December 2018. Administrative expenses primarily consist of rental expenses and staff costs. The increase was attributable to an increase in staff cost by approximately HK$5.7 million due to a one-off discretionary bonus paid to staff for their contribution for the year ended 31 December 2018.

Income Tax Expense

Income tax expense for the Group decreased by approximately 44.3% from approximately HK$6.1 million for the year ended 31 December 2017 to approximately HK$3.4 million for the year ended 31 December 2018. The decrease was mainly due to the decrease in profit before tax as discussed above.

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

Profit and total comprehensive income for the Year decreased by approximately 34.7% from approximately HK$27.3 million for the year ended 31 December 2017 to approximately HK$17.8 million for the year ended 31 December 2018. Such decrease was primarily attributable to the effect of the increase in revenue for the year ended 31 December 2018; offset with the fact that the increase in cost of sales for the year ended 31 December 2018; and the increase in administrative expenses for the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had total assets of approximately HK$223.7 million (2017: HK$197.2 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$85.6 million (2017: HK$65.9 million) and approximately HK$138.1 million (2017: HK$131.4 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 December 2018 were approximately HK$10.2 million (2017: HK$2.1 million), and current ratio as at 31 December 2018 was approximately 2.6 times (2017: 3.0 times).

GEARING RATIO

The gearing ratio of the Group as at 31 December 2018 was approximately 7.4% (2017: 1.6%).

The gearing ratio is calculated based on the total loans and borrowings (interest-bearing bank borrowings and bank overdrafts) divided by total equity as at 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 Year. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

PLEDGE OF ASSETS

As at 31 December 2018, the Group pledged its bank deposits of approximately HK$13.5 million (2017: HK$15.8 million) to banks as collateral to secure bank facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

All of the revenue-generating operations and borrowings of the Group were transacted in Hong Kong dollars which is the presentation currency of the Group. For the year ended 31 December 2018, there was no significant exposure to foreign exchange rate fluctuations and the Group has not maintained any hedging policy against foreign currency risk. The management will consider hedging significant currency exposure should the need arise.

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 of ordinary Shares.

As at 31 December 2017 and 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. During the year ended 31 December 2018, there has been no change to the number of issued shares in the Company.

COMMITMENTS

The operating lease commitments of the Group were primarily related to the leases of its office premises and the warehouses. The Group's operating lease commitments amounted to approximately HK$1.2 million as at 31 December 2018 (2017: HK$2.0 million).

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 5 to the consolidated financial statements of this report.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group did not have any material capital commitments (2017: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the financial year ended 31 December 2018, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 124 employees (2017: 100 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK$41.0 million for the year ended 31 December 2018 (2017: HK$35.4 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

The Group did not hold any significant investments during the year ended 31 December 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's key risk exposures are summarised as follows:

(i) The Group's past revenue and profit margin may not be indicative of the Group's future revenue and profit margin, in particular, the Group's revenue is derived substantially from building services engineering projects, which are non-recurrent in nature, and the Group may achieve lower-than expected revenue if it fails to maintain continuity of the Group's order book for its new projects;

(ii) The Group is dependent on its senior management and in-house engineers, inability to retain its staff may adversely affect the Group's business operations;

(iii) Loss of authorised signatory and technical director for the Group's registrations maintained with the Buildings Department could materially and adversely affect the Group's business;

(iv) Failure to accurately estimate and control the costs of the Group's projects may adversely affect the Group's financial performance;

(v) The Group may not be able to maintain or increase its success rate of attaining engagement of projects tendered and quoted;

(vi) Any delays in the Group's projects may affect the Group's cash flows and may have adverse impact on the Group's business and reputation;

(vii) Failure to renew the Group's current registrations and licences may adversely affect the Group's business operations; and

(viii) The Group is exposed to environmental liability.

For other risks and uncertainties facing the Group, please refer to the section headed "Risks Factors" in the Prospectus.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's operations are subject to certain environment requirements pursuant to the laws in Hong Kong, including primarily those in relation to prevention and reduction of pollution, water pollution control and waste disposal control.

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group aims to promote efficient use of resources and adopting green technologies for emission reduction. For instance, the Group seeks to replace the equipment by the environmental friendly machines in order to minimise overall exhaust emission.

During the Year, the Group did not record any non-compliance with applicable environmental requirements that resulted in prosecution or penalty being brought against the Group. During the Year, the Group was not subject to any environmental claims, lawsuit, penalties or any disciplinary action.

For further information in relation to the environmental policies and performance of the Group, please refer to the Group's Environment, Social and Governance Report for the year ended 31 December 2018 which will be published on the respective websites of the Stock Exchange and the Company within three months of the date of this report in accordance with the requirements of the Listing Rules.

KEY PERFORMANCE INDICATORS ("KPIS") WITH THE STRATEGY OF THE GROUP

The KPIs of the Group for the year ended 31 December 2018 are set out below:

Strategy	KPIs
Maximise value for the Shareholders	Gross profit margin = 13.8% (2017: 18.2%)
	Return on equity = 12.9% (2017: 20.8%)
Improve the Group's liquidity	Net cash used in operating activities = HK$3.5 million (2017: Net cash generated from operating activities HK$18.2 million)
	Current ratio = 2.6 times (2017: 3.0 times)

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries during the Year.

RELATIONSHIP WITH CUSTOMERS, SUPPLIERS, SUBCONTRACTORS AND EMPLOYEES

Customers

The Group's customers mainly include main contractors who contract all or part of the engineering works for building services systems to other subcontractors, such as the Group, and landlords or occasionally property developers (or its consultants). During the Year, the Group solely served customers from the private sector in Hong Kong. During the Year, the Directors consider that the Group is not reliant on any single customer. The Group has had business relationship with most of the top customers ranging from one year to over 10 years which the Directors believe implying that the Group is one of the selected subcontractors on such customers' approved lists of subcontractors and the Group being invited to tender or quote from time to time.

Suppliers and Subcontractors

During the Year, the suppliers of goods and services which were specific to the business of the Group and were required on a regular basis to enable the Group to continue to carry on its business included (i) subcontractors engaged by the Group to perform the site works; (ii) material and equipment suppliers to supply materials and equipment used in the site work; and (iii) suppliers of other miscellaneous goods and services required for the Group's business operations.

The Group maintains an internal list of approved subcontractors, for each categories of building services engineering where the list is updated on a continuous basis. While engaging subcontractors, the Group generally selects the most suitable subcontractor from the approved list based on their relevant skill sets and experience, subject to their availability and fee quotations.

The Group generally maintains multiple suppliers and subcontractors for products and services to avoid over-reliance on a few suppliers and subcontractors and did not experience any material difficulties in sourcing materials from suppliers or assigning subcontractors during the Year. The Group did not have any significant disputes with any of its top five suppliers and subcontractors during the Year.

Employees

The Group recognises employees as valuable assets of the Group and during the Year, the Group has complied with the applicable labour laws and regulations and regularly reviewed the existing staff benefits for improvement. The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing an attractive remuneration package. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary raises, bonuses and promotions based on the performance of each employee.

The Directors consider that the Group has maintained good relationship with its employees. The Group has not experienced any strikes, work stoppages or labour disputes which affected its operations during the Year. The Directors also consider that the relationship and co-operation between the management team and the employees have been good during the Year.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the 25 September 2015 to 31 December 2018 is set out below:

Business objectives	Actual business progress up to 31 December 2018
Further development of the Group's building services engineering business	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$22.6 million was required and has been paid up to 31 December 2018 (which was financed as to approximately HK$16.5 million by the proceeds from the listing on GEM (the "**Listing**") on 25 September 2015 and as to the remaining approximately HK$6.1 million by the Group's internal resources).
Further expansion of service scope	The Group has used approximately HK$1.3 million for recruiting staff with relevant experiences.
	During the Year, the Group's application made 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 has been approved. An increase of HK$4.1 million in the paid-up share capital of Lap Kei Engineering Company Limited from HK$600,000 to HK$4.7 million, as one of the minimum requirements for registration, was made in 20 December 2017, before the approval of the aforesaid application by the Works Branch of Development Bureau.
Further strengthening the Group's engineering department	The Group has sponsored its engineering staff to attend technical seminars and occupational health and safety courses organised by third parties.
	The Group has used approximately HK$6.6 million for adding 10 headcount of middle to senior level engineering staff to cope with its business development and has paid additional staff costs for retaining such additional employees during the Year. The Group regularly reviews the need for further recruitments to cope with its business development.

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 as at 31 December 2018 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2018 HK$'000	Actual use of net proceeds up to 31 December 2018 HK$'000
Further development of the Group's building services engineering business	16,500	16,500
Further expansion of service scope	8,500	5,400
Further strengthening the Group's engineering department	6,600	6,600

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

As at 31 December 2018, the unused net proceeds from the Listing of approximately HK$3.1 million was placed in an interest bearing account with bank in accordance with the disclosure in the Prospectus. The Company intends to apply the unutilised portion of the proceeds in accordance with the planned use of the proceeds as stated in the Prospectus.

EXECUTIVE DIRECTORS

Mr. WONG Kang Kwong (黃鏡光), aged 53, is the co-founder of the Group and one of the controlling shareholders of the Company. Mr. Wong was appointed as a Director of the Company on 29 April 2015 and was re-designated as an executive Director of the Company on 10 September 2015. He also serves as the chairman of the Board. He is primarily responsible for the overall business development, management and operation of the Group. Mr. Wong is also a director of Lap Kei Engineering Company Limited ("**Lap Kei**"). He is the spouse of Ms. So.

Mr. Wong has over 28 years of experience in building services engineering industry. He completed the course of cold storage and air-conditioning and the course of application design for air-conditioning and ventilation in the Hong Kong Institute of Air-conditioning in September 1983 and September 1990 respectively. In 1988, Mr. Wong established Lap Ki Engineering Works, a sole proprietorship established in Hong Kong, which is principally engaged in air-conditioning installation and repairing.

In December 1997, Mr. Wong founded Lap Kei with Ms. So and he has been handling the Group's business operation since then.

Ms. SO Nui Ho (蘇女好), aged 48, is the co-founder of the Group and one of the controlling shareholders of the Company. Ms. So was appointed as a Director of the Company on 19 May 2015 and was redesignated as an executive Director of the Company on 10 September 2015. She is primarily responsible for the overall management of the Group's financial and administrative matters. Ms. So is also a director of Lap Kei and Wealth E & M Limited ("**Wealth E & M**"). She is the spouse of Mr. Wong.

Ms. So completed her secondary education and participated in the Hong Kong Certificate of Education Examination in 1988. She obtained a business studies diploma from Hong Kong School of Commerce in June 1989. Ms. So completed a one-year part-time evening post-secondary 5 course at Kwai Chung Technical Institute and was awarded a certificate in higher accounting in July 1991. She was awarded a certificate for passing accounting (third level) examination from the London Chamber of Commerce and Industry Examinations Board in 1992.

Ms. So has more than 21 years of experience in accounting, financing and administration. Prior to joining the Group, she served in the finance and administration department of an insurance company in Hong Kong from August 1993 to December 1996 and her last position held was an assistant supervisor. In December 1997, Ms. So founded Lap Kei with Mr. Wong and she has been handling the Group's financial and administrative matters since then.

Mr. TANG Chun Man Joseph (鄧順文), aged 44, was appointed as an executive Director of the Company on 1 November 2018.

Mr. Tang holds a bachelor's degree of Arts (Honours) in Accountancy from the University of Bolton in United Kingdom. Mr. Tang obtained a diploma in computer programming from the School of Continuing and Professional Studies of the Chinese University of Hong Kong in October 2007. He has over 20 years of financial management experiences. He assisted in group financial management, accounting operations monitoring and treasury management. Before joining the Group during the period from December 1992 to March 1998, Mr. Tang worked in Hong Kong Aircraft Engineering Company Limited with his last position as accounts assistant. During the period from March 1998 to March 2002, he worked in Hsin Chong Group Holdings Limited (formerly known as Hsin Chong Construction Group Limited) (stock code: 404) with the last position as senior account clerk. From April 2002 to May 2016 and from January 2017 to October 2018, he worked in Synergis Management Services Limited, a wholly-owned subsidiary of Synergis Holdings Limited (stock code: 2340) with the last position as accounting manager.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHUNG Yuk Ming, Christopher (鍾育明), aged 45, was appointed as an independent non-executive Director of the Company on 10 September 2015. He has been a project director of Fruit Design & Build Limited, a company that provides construction-related consulting services in Hong Kong, from September 2014 to August 2018.

Mr. Chung has over 20 years of experience in developer and contractor role in the real estate and construction industry. He obtained a bachelor's degree of science in building surveying from City University of Hong Kong in November 1995, a master's degree of science in urban planning from the University of Hong Kong in December 1999, and a bachelor's degree of laws from the Manchester Metropolitan University, the United Kingdom, (a long distance learning course) in July 2006. Mr. Chung has been a Registered Construction Manager of Hong Kong Institute of Construction Managers since February 2016, a member of the Hong Kong Institute of Directors since October 2015, a professional member of the Royal Institution of Chartered Surveyors since August 2015, a member of the Royal Town Planning Institute since January 2009 and a member of Hong Kong Institute of Construction Managers since August 2005.

Mr. Chung was an executive director of Dafy Holdings Limited (stock code: 1826) (formerly known as FDB Holdings Limited, a company listed on GEM (stock code: 8248) and was transferred to the main board on 10 July 2017), the holding company of Fruit Design & Build Limited, from August 2016 to January 2018. He worked in China International Fund Limited from April 2007 to August 2010 and from October 2012 to March 2014, Right Year Investment Limited from September 2010 to August 2012 and Penta Ocean Construction Co., Ltd. from August 1995 to July 2005 with the last position being held as construction manager.

Mr. FOK Ka Chi (霍嘉誌), aged 37, was appointed as an independent non-executive Director of the Company on 10 September 2015. He is currently practicing as a barrister-at-law in Hong Kong and is also a member of the Hong Kong Bar Association.

Mr. Fok has experience in the area of commercial and property litigations. He obtained a bachelor's degree of laws (LLB) and a postgraduate certificate in laws (PCLL) from the City University of Hong Kong in November 2006 and July 2007 respectively. Mr. Fok was admitted as a Barrister in Hong Kong in 2008. He was an independent non-executive director of AID Life Science Holdings Limited (formerly known as AID Partners Technology Holdings Limited) (stock code: 8088) from May 2013 to September 2013.

Mr. TAM Chun Chung (譚振忠), aged 46, was appointed as an independent non-executive Director of the Company on 10 September 2015. He has been the joint company secretary of China Railway Group Limited (stock code: 390) since November 2007 and was an independent non-executive director of Huiyin Smart Community Co., Ltd. (formerly known as Huiyin Household Appliances (Holdings) Co., Ltd.) (stock code: 1280) from March 2010 to January 2019.

Mr. Tam has more than 24 years of experience in the fields of accounting, auditing and compliance matters of listed companies in Hong Kong. He obtained a bachelor's degree of business administration from the Chinese University of Hong Kong in December 1994 and an Executive Master of Business Administration from the Chinese University of Hong Kong in November 2015. Mr. Tam was admitted as a member of the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) in December 1997 and a fellow of the Association of Chartered Certified Accountants since November 2002.

Prior to joining China Railway Group Limited (stock code: 390), Mr. Tam served as a qualified accountant and joint company secretary of Jilin Qifeng Chemical Fiber Co., Ltd. (delisted from the Stock Exchange in June 2017) from September 2005 to November 2007. During January 2000 to May 2005, he worked in the finance department in China Motion Telecom International Limited (currently known as Ground International Development Limited and was then listed on the Stock Exchange (stock code: 989)) as an assistant manager, and was subsequently promoted to the position as a senior manager. Mr. Tam worked for KPMG from September 1994 to January 2000 and his last position held was an assistant manager.

SENIOR MANAGEMENT

The following are the senior management team of our Group:

Mr. LAU Kai Sum (劉啟森), aged 62, is a senior project manager of the Group. He joined the Group on 2 October 2010 and he is primarily responsible for the overall management of site works, quality control and work safety supervision regarding the building services projects of the Group.

Mr. Lau has over 37 years of experience in the building services industry. He obtained a higher certificate in mechanical engineering from the Hong Kong Polytechnic (currently known as the Polytechnic University) in November 1986. Prior to joining the Group, Mr. Lau worked in several engineering companies and was involved in numerous building services projects. Immediately before joining the Group, Mr. Lau was the chief engineer at Shinryo (Hong Kong) Limited from December 2009 to September 2010 where he was responsible for planning, organising, supervising, controlling and coordinating building services installation activities.

Mr. LEE Man Kei (李文基), aged 41, is a project manager of the Group. He joined the Group on 14 October 2004 and he is primarily responsible for the overall management of site works, quality control and work safety supervision regarding the building services projects of the Group.

Mr. Lee has over 14 years of experience in the building services industry. He obtained a higher diploma in building services engineering from the Hong Kong Institute of Vocational Education in July 2002. Mr. Lee also obtained a bachelor's degree of engineering in building services engineering and a master of science in fire and safety engineering from the Hong Kong Polytechnic University in October 2008 and October 2011 respectively. Mr. Lee first joined the Group as an assistant engineer and was subsequently promoted to the position as an engineer, a senior engineer, an assistant project manager and his current position as a project manager.

Mr. CHAN Chi Sing (陳志成), aged 43, is a project manager of the Group. He joined the Group on 1 March 1998 and he is primarily responsible for the tendering work of the building services projects of the Group.

Mr. Chan has over 21 years of experience in the building services industry. He obtained a higher diploma in building services engineering and a bachelor's degree of engineering in building services engineering from the Hong Kong Polytechnic University in November 1997 and October 2014 respectively. Mr. Chan joined the Group as an engineer, and was subsequently promoted to the position as a senior engineer, an assistant project manager and his current position as a project manager.

Mr. LAU Hing Cheong (劉慶昌), aged 40, is a project manager of the Group. He joined the Group in May 2004 and he is primarily responsible for the overall management of site works, quality control and work safety supervision regarding the building services projects of the Group.

Mr. Lau has over 15 years of experience in the building services industry. He obtained a higher diploma in building services engineering, a bachelor's degree of engineering in building services engineering and a master of science in fire and safety engineering from the Hong Kong Polytechnic University in November 2000, October 2013 and September 2016, respectively. Mr. Lau has been a member of the Society of Operations Engineers since March 2016.

COMPANY SECRETARY

Mr. CHAN Chun Sing (陳振聲), aged 39, is the chief financial officer and company secretary of the Group. He is primarily responsible for the financial reporting, financial planning, treasury, financial control matters and company secretarial matters of the Group. He has been an independent non-executive director of Lai Si Enterprise Holding Limited (stock code: 2266) and Winson Holdings Hong Kong Limited (stock code: 8421) since 18 January 2017 and 21 February 2017, respectively.

Mr. Chan has over 17 years of experience in the fields of accounting, auditing and compliance matters of listed companies in Hong Kong. He obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University in 2001. Mr. Chan further obtained an Executive Master of Business Administration from the Chinese University of Hong Kong in November 2015. Mr. Chan has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since April 2006. He is also an associate member of the Hong Kong Institute of Directors since March 2013.

Mr. Chan worked for Deloitte Touche Tohmatsu from September 2001 to July 2011 and his last position held was senior manager in the audit department. Mr. Chan also served as an independent non-executive director of Zhonghua Gas Holdings Limited (formerly known as Noble House (China) Holdings Limited) from December 2011 to October 2013 (stock code: 8246). He joined a private company as chief financial officer from July 2013 to February 2014 and was appointed as executive director from March 2014 to April 2015. He was designated as non-executive director since May 2015.

The Board is pleased to present the corporate governance report of the Company for the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

The Directors and the management of the Group recognise the importance of sound corporate governance to the long-term success and continuing development of the Group. Therefore, the Board is committed to upholding good corporate standards and procedures, so as to improve the accountability system and transparency of the Group, protect the interests and create value for shareholders of the Company.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Listing Rules. During the year ended 31 December 2018, to the best knowledge of the Board, the Company has complied with the applicable code provisions of the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Wong Kang Kwong is the chairman of the Board. The post of chief executive of the Company was not appointed during the Year.

BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and supervision of management performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "**Board Committees**"). Further details of the Board Committees are set out below in this annual report.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties as set out in paragraph D.3.1 of the CG Code, which include the following:

1. to develop and review the policies and practices on corporate governance of the Group and make recommendations;

2. to review and monitor the training and continuous professional development of the Directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and

5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company.

Composition of the Board

Up to the date of this annual report, the Board comprises six Directors, including three executive Directors and three independent non-executive Directors (the "**INED**"). The composition of the Board is set out as follow:

Executive Directors

Mr. Wong Kang Kwong
Ms. So Nui Ho
Mr. Tang Chun Man Joseph

Independent non-executive Directors

Mr. Chung Yuk Ming, Christopher
Mr. Fok Ka Chi
Mr. Tam Chun Chung

In compliance with rules 3.10(1) and 3.10(2) of the Listing Rules, the Board consisted of three INEDs during the Year, with at least one independent non-executive Director, namely Mr. Tam Chun Chung, possessing appropriate professional qualifications or accounting or related financial management expertise. During the Year and as of the date of this report, the number of INEDs represents more than one-third of the Board as required under rule 3.10A of the Listing Rules. As such, there is a strong independent element in the Board to provide independent judgement.

In accordance with code provision A.4.1 of the CG Code, the Company has entered into a letter of appointment with each of the INEDs under which each INED is appointed for a specific term. Each of the letter of appointment is for a fixed term of one year initially commencing from the Listing Date and renewable automatically for successive term of one year unless terminated by either party in accordance with the terms thereof.

Pursuant to Article 84 of the articles of association of the Company (the "**Articles**"), one-third of the Directors shall retire from office by rotation at each annual general meeting and every Director shall be subject to retirement by rotation at least once every 3 years. However, a retiring Director shall be eligible for re-election.

Specific enquiry has been made by the Company of each of the INEDs to confirm their independence pursuant to rule 3.13 of the Listing Rules. In this connection, the Company has received confirmations from all of the three INEDs that he was independent and there has been no circumstances which would render them not to be independent as contemplated under the Listing Rules. Based on the confirmations received, the Company considers all the INEDs to be independent under the Listing Rules.

Saved as disclosed below and in the section "Biographical Details of Directors and Senior Management" in this annual report, there is no financial, business, family or other material or relevant relationship among members of the Board and senior management.

Board and General Meetings

During the Year, four Board meetings were held. The annual general meeting of the Company for the year ended 31 December 2017 was held on 28 May 2018 (the "**2018 AGM**").

The attendance record of each Director at the Board meeting and the 2018 AGM is set out in the table below:

	Number of Attendance/ number of Board meetings	Attendance of the 2018 AGM
Executive Directors		
Mr. Wong Kang Kwong	4/4	✓
Ms. So Nui Ho	4/4	✓
Mr. Wong Chi Kei (resigned on 25 August 2018)	3/3	✓
Mr. Tang Chun Man Joseph (appointed on 1 November 2018)	1/1	–*
Independent non-executive Directors		
Mr. Chung Yuk Ming, Christopher	4/4	–
Mr. Fok Ka Chi	4/4	✓
Mr. Tam Chun Chung	4/4	–

* no meeting was held after his appointment

RELATIONSHIPS BETWEEN THE BOARD

Mr. Wong Kang Kwong and Ms. So Nui Ho are spouses. They are the executive Directors and the controlling shareholders with the meaning ascribed thereto under the Listing Rules. The biographical details of each of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, the Directors confirmed that they have complied with the required standards as set out in the Model Code and the Company were not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the year ended 31 December 2018.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

The Group acknowledges the importance of continuing professional development for the Directors for a sound and effective internal control system and corporate governance. In this regard, the Group has always encouraged our Directors to attend relevant training courses to receive the latest news and knowledge regarding corporate governance.

During the Year, the Company has, among other things, provided and all Directors have attended at least one training course on the updates of the Listing Rules concerning good corporate governance practices. The Company will, if necessary, provide timely and regular trainings to the Directors to ensure that they keep abreast with the current requirements under the Listing Rules.

The individual training record of each Director during the Year is summarised below:

Name of Director	Attending training course(s) relevant to corporate governance	Reading materials relevant to corporate governance
Executive Directors		
Mr. Wong Kang Kwong	✓	✓
Ms. So Nui Ho	✓	✓
Mr. Wong Chi Kei (resigned on 25 August 2018)	✓	✓
Mr. Tang Chun Man Joseph (appointed on 1 November 2018)	✓	✓
Independent non-executive Directors		
Mr. Chung Yuk Ming, Christopher	✓	✓
Mr. Fok Ka Chi	✓	✓
Mr. Tam Chun Chung	✓	✓

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the approach of which our Board could achieve a higher level of diversity. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitiveness and believes that greater diversity of directors is good for corporate governance and is committed:

(i) to attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talents;

(ii) to maintain a Board with diversity perspectives at all levels, in particular, those are aligning with the Company's strategy and objectives;

(iii) to assess regularly the diversity profile of the Board and, where applicable, senior management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any;

(iv) to ensure that the selection and nomination of Board positions are appropriately structured so that a diverse range of candidates can be considered;

(v) to set up appropriate procedures for development of a broader and more diverse pool of skilled and experienced senior management that would be prepared for Board positions; and

(vi) to ensure that changes to the Board's composition can be managed without undue disruption.

While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. A balanced composition of skill, experience and expertise offered by different Directors enables the Board to discharge its duties effectively and support the sustainable growth of the Company in the long run.

As at the date of this report, the Board comprises six Directors. One of them is a woman, three of the Directors are independent non-executive Directors who are independent of management, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, professional background and skills, including professional accountant, lawyer and chartered surveyor.

BOARD COMMITTEES

The Board has established a number of functional committees in compliance with the relevant Listing Rules and to assist the Board to discharge its duties. Currently, three committees have been established. An audit committee (the "**Audit Committee**") has been established on 10 September 2015 with its terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code; a remuneration committee (the "**Remuneration Committee**") has been established on 10 September 2015 with its terms of reference in compliance with paragraph B1.2 of the CG Code; and a nomination committee (the "**Nomination Committee**") has been established on 10 September 2015 with its terms of reference in compliance with paragraph A5.2 of the CG Code. The functions and responsibilities of these committees have been set out in the relevant terms of reference which are of no less stringent than that stated in the CG Code. The relevant terms of reference of each of the three committees can be found on the Group's website (www.lapkeieng.com) and the website of the Stock Exchange.

All committees have been provided with sufficient resources and support from the Group to discharge their duties.

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 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, who has appropriate professional qualifications and experience in accounting matters. The members of the Audit Committee shall comprise non-executive Directors and shall be appointed or removed by the Board. If any member of the Audit Committee ceases to be a Director, he/she will cease to be a member of the Audit Committee automatically.

The Audit Committee must comprise a minimum of three members, at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.21 of the Listing Rules. In addition, the majority of the Audit Committee shall be INEDs.

With reference to the terms of reference, the primary responsibilities of the Audit Committee are, among others, the following (for the complete terms of reference, please refer to the Group's website at www.lapkeieng.com or the website of the Stock Exchange):

1. to make recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approve the remuneration and terms of engagement of the Company's external auditor;

2. to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

3. to develop and implement policy on engaging the Company's external auditor to supply non-audit services, if any;

4. to monitor integrity of the Company's financial statements, annual report and accounts and half-year report and review significant financial reporting judgments contained in them;

5. to discuss with the Company's external auditors questions and doubts arising in the audit of annual accounts;

6. to review the statement about the Company's internal control system as included in the Company's annual report prior to submission for the Board's approval;

7. to review the Company's financial reporting, financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Company's risk management and internal control systems;

8. to discuss the risk management and internal control systems with the Company's management to ensure that management has performed its duty to have effective systems;

9. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

10. to review the financial and accounting policies and practices of the Group;

11. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

13. to report to the Board on that matters pursuant to the terms of reference of the Audit Committee and consider other topics as defined by the Board; and

14. to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Board is of the view that the Audit Committee has properly discharged its duties and responsibilities during the Year and up to the date of this report.

The members of the Audit Committee should meet at least twice a year. During the Year, four Audit Committee meetings were held.

The attendance records of the members of the Audit Committee are summarised below:

	Number of attendance/ number of meetings
Mr. Tam Chun Chung *(Chairman)*	4/4
Mr. Chung Yuk Ming, Christopher	4/4
Mr. Fok Ka Chi	4/4

The following is a summary of the works performed by the Audit Committee during the Year:

(a) reviewed the Group's consolidated financial result for the year ended 31 December 2017, and the six months ended 30 June 2018 before submission to the Board, with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting of the Audit Committee;

(b) discussed the effectiveness of the internal controls system throughout the Group, including financial, operational and compliance controls, and risk management;

(c) reviewed the accounting principles and practices adopted by the Group and other financial reporting matters; and

(d) oversaw the independence and qualifications of the external auditor and objectivity and the effectiveness of the audit process in accordance with applicable standards.

There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditor. The Audit Committee has reviewed with the management and the Company's auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements for the Year.

On 31 December 2018, the Board adopted a revised terms of reference of the Audit Committee for updating the terms of reference in line with the update of the CG Code that the cooling off period for appointing a former partner of the Company's auditor as a member of the Audit Committee member would be extended from one year to two years.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely Mr. Fok Ka Chi (Chairman), Mr. Chung Yuk Ming, Christopher and Mr. Tam Chun Chung, all being independent non-executive Directors of the Company.

With reference to the terms of reference of the Remuneration Committee, the primary responsibilities of the Remuneration Committee include, among other things, the following (for the complete terms of references, please refer to the Group's website at www.lapkeieng.com or the website of the Stock Exchange):

1. to consult the chairman of the Board and/of chief executive about their remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

9. to ensure that no Directors or any of his associates is involved in deciding his own remuneration.

The members of the Remuneration Committee should meet at least once a year. During the Year, a meeting of the Remuneration Committee was held and has, inter alia, reviewed the remuneration packages for individual executive Directors and senior management and making recommendations to the Board.

The attendance records of the members of the Remuneration Committee are summarised below:

	Number of attendance/ number of meetings
Mr. Fok Ka Chi *(Chairman)*	1/1
Mr. Chung Yuk Ming, Christopher	1/1
Mr. Tam Chun Chung	1/1

The emolument payable to the Directors depends on their respective contractual terms under the service contracts or the appointment letters (as the case may be), and as recommended by the Remuneration Committee. Details of the Directors' emoluments are set out in note 10 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely Mr. Chung Yuk Ming, Christopher (Chairman), Mr. Fok Ka Chi and Mr. Tam Chun Chung, all being independent non-executive Directors of the Company.

With reference to the terms of reference of the Nomination Committee, the primary responsibilities of the Nomination Committee include, among other things, the following (for the complete terms of reference please refer to the Group's website at www.lapkeieng.com or the website of the Stock Exchange):

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on proposed changes, if any, to the Board to complement the Company's corporate strategy;

2. to review the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;

3. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. to assess the independence of INEDs; and

5. to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive.

The members of the Nomination Committee should meet at least once a year. During the Year, a meeting of the Nomination Meeting was held and has, inter alia, reviewed the structure, size and composition of the Board, assessed the independence of the INEDs and considered the Directors to retire and re-election at the 2018 AGM.

The attendance records of the members of the Nomination Committee are summarised below:

	Number of attendance/ number of meetings
Mr. Chung Yuk Ming, Christopher *(Chairman)*	1/1
Mr. Fok Ka Chi	1/1
Mr. Tam Chun Chung	1/1

Nomination criteria

Pursuant to the amended disclosure requirements effective in 2019, the Company should disclose its policy for nomination of directors in the summary of work performed by the Nomination Committee in its corporate governance report. The board had adopted a nomination policy for nomination of directors. In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

(i) character and integrity;

(ii) qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;

(iii) any measurable objectives adopted for achieving diversity on the Board;

(iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;

(v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

(vi) willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

(vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

(i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

(ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

(i) Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

(ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the Company Secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

AUDITORS' REMUNERATION

The amount of fees charged by the external auditor generally depends on the scope and volume of the external auditor's work performed.

For the year ended 31 December 2018, the remuneration paid or payable to the external auditor of the Company in respect of the statutory audit services and non-audit services for the Group are as follows:

	Fees paid/payable for the services rendered	
	2018	2017
	HK$'000	HK$'000
Statutory audit services	**855**	1,030
Non-audit services	**20**	400

COMPANY SECRETARY

Mr. Chan Chun Sing was appointed as the company secretary of the Company on 2 January 2018. Please refer to the section "Biographical details of Directors and Senior Management" for his biographical information.

During the Year, Mr. Chan has undertaken not less than 15 hours of relevant professional training.

COMPLIANCE OFFICER

Ms. So Nui Ho, an executive Director of the Board, is the compliance officer of the Group. Please refer to the section "Biographical details of Directors and Senior Management" for her biographical information.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholder investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The Group recognises that good risk management is essential for the long-term development on the Group's business. Management is responsible for establishing, implementing, reviewing and evaluating the sound and effective internal control system underpinning the risk management framework. The management has formulated the risk management and control framework. All employees are committed to implement the risk management framework into the daily operation.

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness.

OBJECTIVES OF RISK MANAGEMENT AND INTERNAL CONTROL

The Group has adopted a three-tier risk management approach to identify, assess, mitigate and handle risks. At the first line of defence, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal. The management, as the second line of defence, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defence is effective. As the final line of defence, the audit committee of the Company, with the professional advices and opinions from the external professional company by whom internal audit work of the Group was conducted on annual basis, ensures that the first and second lines of defence are effective through constant inspection and monitoring.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. As at 31 December 2018, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The statements by the external auditor, Deloitte Touche Tohmatsu, about their reporting responsibility on the financial statements of the Group are set out in the independent auditor's report on pages 41 to 47 of this annual report.

DIVIDEND POLICY

Pursuant to the amended CG Code, the Company should have a dividend policy and disclose such policy in its annual report. The Company has adopted a divided policy (the "**Dividend Policy**"), and the summary of which is set out below:

(i) In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:

a. the general financial condition of the Group;

b. capital and debt level of the Group;

c. future cash requirements and availability for business operations, business strategies and future development needs;

d. any restrictions on payment of dividends that may be imposed by the Group's lenders;

e. the general market conditions; and

f. any other factors that the Board considers appropriate.

(ii) The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Articles of Association of the Company. Any final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may from time to time pay to the Shareholders such interim and/or special dividends as it considers to be justified by the profits of the Group.

(iii) The Board endeavours to strike a balance between the Shareholders' interests and prudent capital management with a sustainable Dividend Policy. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the policy at any time as it deems fit and necessary.

GENERAL MEETINGS WITH SHAREHOLDERS

The annual general meeting ("**AGM**") is a forum in which the Board and the shareholders communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments, etc.

At the AGM, the Directors (including INEDs) are available to attend to questions raised by the shareholders. The external auditor of the Company is also invited to be present at the AGM to address the queries of the shareholders concerning the audit procedures and the auditor's report.

The forthcoming AGM of the Company (the "**2019 AGM**") will be held on Thursday, 30 May 2019 the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the Listing Rules and other applicable laws and regulations.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at a shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the website of the Stock Exchange and the Company's website after the relevant shareholders' meeting.

PROCEDURES FOR SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETING

The following procedures for shareholders to convene an extraordinary general meeting ("**EGM**") are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the Listing Rules (as amended from time to time):

(a) any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company (the "**Eligible Shareholder(s)**") carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "**Company Secretary**"), to require an EGM to be called by the Board for the transaction of any business specified in such requisition;

(b) Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Room 6, 6/F, Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong, or Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for the attention of the Board and/or the Company Secretary;

(c) the Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned;

(d) the Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM;

(e) if within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

There are no provisions allowing shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, shareholders who wish to move a resolution may by means of Requisition to convene an EGM following the procedures set out above.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE FOR NOMINATION OF A DIRECTOR

Shareholders may propose to nominate a person for election as a director of the Company. The procedures are set out in the document entitled "Procedures for Nomination of Directors by Shareholders" which is available at the Company's website at www.lapkeieng.com.

PROCEDURES FOR RAISING ENQUIRIES

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

Should there be any enquiries and concerns from shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Room 6, 6/F, Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

INVESTORS RELATIONS

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website and meetings with investors and shareholders. News update of the Group's business development and operation are also available on the Company's website.

CONSTITUTIONAL DOCUMENT

During the year ended 31 December 2018, there had been no change in the Company's Memorandum and Articles of Association.

REPORT OF DIRECTORS

The Directors hereby present their report and the audited consolidated financial statements for the Year.

CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 April 2015.

In preparing for the Listing, the Company became the holding company of the companies comprising the Group underwent the corporate reorganisation (the "**Reorganisation**") upon the completion of the Reorganisation on 18 May 2015.

Details of the Reorganisation are set out in note 1 of the Accountants' Report of the Company included in Appendix I to the Company's prospectus dated 18 September 2015. The shares of the Company were listed on GEM of the Stock Exchange with effect from 25 September 2015 and have been transferred to the Main Board of the Stock Exchange since 12 February 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the provision of engineering services for building services systems in Hong Kong. The principal activity of the Company is investment holding. The names and principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "**Companies Ordinance**"), including a discussion of the principal risks and uncertainties facing the Group, key performance indicators, environmental policies of the Group, compliance with laws and regulations by the Group, its relationship with customers, suppliers, subcontractors and employees and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 12 of this annual report. This discussion forms part of this directors' report.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 are set out in note 34 of the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the Year by operating segment is set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 48 of this annual report.

The Board did not recommend the payment of any dividend in respect of the year ended 31 December 2018.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 110 of this annual report.

PLANT AND EQUIPMENT

Details of the movements during the Year in the plant and equipment of the Group are set out in note 13 to the consolidated financial statements of this annual report.

INVESTMENT PROPERTIES

As at 31 December 2019, the Company had no investment properties which are required to be disclosed.

SHARE CAPITAL

There was no change in the number of the issued share and the issued share capital during the Year. Details of the movements during the Year in the share capital of the Company are set out in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to the shareholders, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK$11.3 million comprising accumulated losses of approximately HK$19.6 million and the share premium amounting to approximately HK$30.9 million.

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.

A summary of the particulars of the Scheme as required by Listing Rules are set out in note 25 to the consolidated financial statements.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 31 December 2018.

DISCLOSURE OF INTERESTS

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

As at 31 December 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 meanings 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 Position in the Shares of the Company

Name of Director	Capacity/Nature	Number of the Shares held/ interested in	Percentage of shareholding
Mr. Wong Kang Kwong ("**Mr. Wong**") (Note 1)	Interest in controlled corporation	653,000,000	51.02%
	Beneficial owner	9,550,000	0.74%
Ms. So Nui Ho ("**Ms. So**") (Note 2)	Interest of spouse	662,550,000	51.76%
Mr. Tang Chun Man Joseph	Beneficial owner	160,000	0.01%

Notes:

1. Mr. Wong beneficially owns 99% of the issued share capital of Golden Luck Limited ("**Golden Luck**"). Golden Luck was the beneficial owner of 653,000,000 shares and Mr. Wong is deemed to be interested in the same number of the Shares held by Golden Luck for the purposes of the SFO. In addition, Mr. Wong was the beneficial owner of 9,550,000 Shares. Mr. Wong is an executive Director and one of the controlling shareholders of the Company, the sole director of Golden Luck, and the spouse of Ms. So.

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	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 31 December 2018, none of the Directors nor chief executive of the Company has registered an interests and short positions 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 or 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 Shares, Underlying Shares and Debentures

As at 31 December 2018, the interest and short positions of the person (other than the Directors or chief executive of the Company) or company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

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 31 December 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.

REPORT OF DIRECTORS

MAJOR CUSTOMERS

During the Year, the Group's five largest customers accounted for approximately 70.2% (2017: 55.9%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 39.5% (2017: 21.0%) of the total revenue.

To the best of the knowledge of the Directors, none of the Directors or any of their respective close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers.

MAJOR SUPPLIERS

During the Year, the Group's five largest suppliers accounted for approximately 36.8% (2017: 46.1%) of the total purchases of the Group and the largest supplier of the Group accounted for approximately 8.2% (2017: 15.8%) of the total purchases.

To the best of the knowledge of the Directors, none of the Directors or any of their respective close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers.

DIRECTORS

The Directors during the Year and up to the date of this annual report were:

Executive Directors

Mr. Wong Kang Kwong *(Chairman)*
Ms. So Nui Ho
Mr. Tang Chun Man Joseph (appointed on 1 November 2018)
Mr. Wong Chi Kei (resigned on 25 August 2018)

Independent non-executive Directors

Mr. Chung Yuk Ming, Christopher
Mr. Fok Ka Chi
Mr. Tam Chun Chung

Information regarding directors' emoluments is set out in note 10 to the consolidated financial statements.

An annual confirmation of independence pursuant to the requirements under Rule 3.13 of the Listing Rules has been received from each of the INEDs.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out on pages from 13 to 16 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors (other than Mr. Tang Chun Man Joseph) has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and renewable automatically for successive terms of one year until terminated by the Director or the Company in accordance with the terms of the agreement. Mr. Tang Chun Man Joseph has entered into a service agreement with the Company for an initial term of three year commencing from 1 November 2018, which is renewable automatically for successive terms of one year each commencing from the day immediately after the expiry of the then current term of his appointment, unless terminated by either party in accordance with the terms of the service agreement. Each independent non-executive Directors was appointed under a letter of appointment for a fixed term of one year initially commencing from the Listing Date and renewable automatically for successive term of one year unless terminated by either party in accordance with the terms thereof.

Save as disclosed above, none of the Directors proposed for election at the forthcoming AGM has or is proposed to have a service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation, other than the statutory compensation.

DIRECTORS' RETIREMENT AND RE-ELECTION

Pursuant to Article 84 of the Articles, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation every year shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed by the Board pursuant to Article 83(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Pursuant to Article 83(3) of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. As such, Mr. Tang Chun Man Joseph shall hold office until the next AGM and will be subject to re-election at the forthcoming AGM.

In accordance with Articles 83(3) and 84 of the Articles, Mr. Tang Chun Man Joseph, Mr. Chung Yuk Ming, Christopher and Mr. Tam Chun Chung will retire at the forthcoming AGM and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Prospectus and elsewhere in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which the Director or an entity connected the Director had a material interest, whether directly or indirectly, subsisted at any time during the Year.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed in this annual report, there were no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in notes 10 and 11, respectively, to the consolidated financial statements in this annual report.

EMOLUMENT POLICY

The Remuneration Committee will review and determine the remuneration and compensation packages of the Directors and senior management with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Scheme.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective close associates (as defined in the Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2018.

DEED OF NON-COMPETITION

The deed of non-competition dated 17 September 2015 has been entered into by Mr. Wong Kang Kwong, Ms. So Nui Ho and Golden Luck Limited, being the controlling shareholders of the Company within the meaning of the Listing Rules (collectively the "**Controlling Shareholders**") in favour of the Company regarding certain non-competition undertakings given by the Controlling Shareholders in favour of the Company. The details of the deed of non-competition have been disclosed in the section headed "Relationship with the Controlling Shareholders" of the Prospectus.

The Company has received an annual declaration from each of the Controlling Shareholders confirming that he/she/it has complied with the non-competition undertakings provided to the Company under the said deed of non-competition during the Year. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-competition undertakings and confirmed that all the undertakings thereunder have been complied for the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

PERMITTED INDEMNITY PROVISIONS

At no time during the Year was there any permitted indemnity provisions (whether made by the Company or otherwise) being in force for the benefit of any Directors of the Company, or of its associated company.

RELATED PARTY TRANSACTIONS/CONTINUING CONNECTED TRANSACTIONS

The related party transactions entered into by the Group with LKW Company Limited ("**LKW Co**") during the Year as set out in note 32 to the consolidated financial statements are continuing connected transactions which are exempted from the reporting, announcement, annual review and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. Further details of these continuing connected transactions are set out in the section headed "Connected Transactions" in the Prospectus.

The related party transactions in relation to the key management personnel remuneration as disclosed in note 32 to the audited consolidated financial statements are connected transactions exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements pursuant to the Listing Rules.

Save as disclosed above, the Directors consider that those related party transactions disclosed in note 32 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information that is publicly available to the Company, at least 25% of the Company's issued share capital were held by the public as required under the Listing Rules during the year ended 31 December 2018 and up to the date of this report.

AUDITOR

The consolidated financial statements for the Year have been audited by Deloitte Touche Tohmatsu ("**DTT**"). DTT shall retire in the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of DTT as auditor of the Company will be proposed at the 2019 AGM. The Company has not changed its external auditor during the year ended 31 December 2018 and up to the date of this annual report.

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the section headed "Corporate Governance Report" on pages 17 to 31 of this report.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

CHARITABLE DONATIONS

Charitable and other donations made by the Group during the Year amounted to HK$33,400 (2017: HK$28,800).

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has been taken place subsequent to 31 December 2018 and up to the date of this annual report.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019, both dates inclusive, during which period no transfer of the shares of the Company will be registered. Shareholder of the Company are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019.

REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Group for the year have been received by the Audit Committee. The Audit Committee is of the opinion that the audited consolidated financial statements of the Group for the year comply with the applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

On behalf of the Board
Lap Kei Engineering (Holdings) Limited
Wong Kang Kwong
Chairman and Executive Director

Hong Kong, 26 April 2019

Deloitte. 德勤

TO THE MEMBERS OF LAP KEI ENGINEERING (HOLDINGS) LIMITED
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Lap Kei Engineering (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 48 to 109, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Contract revenue of building services engineering contract	
We identified the contract revenue of building services engineering contract, as a key audit matter due to significant judgments involved in the management's assessment process. The contract revenue of building services engineering contracts amounting to approximately HK$294,631,000 was recorded in note 5 to the consolidated financial statements. The Group recognised contract revenue of building services engineering contracts according to the management's estimation of the progress and outcome of the project. As disclosed in note 4 to the consolidated financial statements, the management estimated revenue in accordance with the terms set out in the relevant contracts or, in case of variation orders, based on contract terms or other forms of agreements.	Our procedures in relation to the contract revenue of building services engineering contracts included: • Discussing with the project managers to understand the status of completion of the relevant building services engineering projects during the year, on a sample basis; • Evaluating the reasonableness of contract revenue recognised by: — Checking the latest certificates issued by the external surveyors, customer's correspondences or other documents issued before year end date to evaluate the value of work already performed during the year, on a sample basis; — Checking to the Group's internal progress report as well as other supporting documents including the certificates issued by the surveyors, customer's correspondences or other documents issued subsequent to year end date to evaluate subsequent progress of respective projects, on a sample basis. — Assessing the reasonableness of the gross margin during the year by comparing with the budgeted profit of the whole building services engineering project, on a sample basis.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables and contract assets	
We identified Impairment assessment of trade receivables and contract assets as a key audit matter due to the significance of trade receivables and contract assets to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables and contract assets at the end of the reporting period. As at 31 December 2018, as set out in notes 16 and 17 to the consolidated financial statements, the Group's net trade receivables and contract assets amounting to approximately HK$41,240,000 and HK$130,725,000, respectively, which represented approximately 18.4% and 58.4% of total assets of the Group, respectively and out of these trade receivables of approximately HK$30,874,000 were past due. As explained in note 2.2.1 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9) and recognised an additional credit loss allowance of HK$639,000 and HK$462,000, respectively in respect of trade receivables and contract assets as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9.	Our procedures in relation to the Impairment assessment of trade receivables and contract assets included: • Understanding key controls on how the management estimates the credit loss allowance for trade receivables and contract assets; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables and contract assets as at 1 January 2018 and 31 December 2018, including their identification of credit impaired trade receivables and contract assets, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information); • Testing the integrity of information used by management to develop the provision matrix by checking relevant websites and other supporting information for the nature and industry of the debtors, on a sample basis;

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables and contract assets	
As disclosed in note 4 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar credit risk characteristics based on nature and industry of debtors. Internal credit rating has been given to each category of debtors after considering aging, historical observed default rates, repayment history and past due status of respective trade receivables. Estimated loss rates are based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The credit loss allowance amount of the credit impaired trade receivables and contract assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 27b to the consolidated financial statements, the Group recognised an additional amounts of HK$96,000 and HK$1,910,000 of credit loss allowance of trade receivables and contract assets, respectively for the year and the Group's lifetime ECL on trade receivables and contract assets as at 31 December 2018 amounted to approximately HK$2,005,000 and HK$2,372,000, respectively.	• Testing the reasonableness of internal credit rating given to each category of debtors by checking trade receivables aging analysis as at 1 January 2018 and 31 December 2018, historical observed default rates, repayment history and past due status of respective trade receivables by comparing individual items in the analyses with the relevant invoices, bank receipts and other supporting information, on a sample basis; • Testing the estimated loss rates by checking the external credit report for probability of default and loss given default, on a sample basis; • Evaluating the disclosures regarding the impairment assessment of trade receivables and contract assets in notes 2, 4 and 27b to the consolidated financial statements.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lam Sau Fung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018 HK$'000**	2017 HK$'000
Revenue	5	**308,506**	282,651
Cost of sales		**(266,040)**	(231,307)
Gross profit		**42,466**	51,344
Other income and other gains		**491**	95
Administrative expenses		**(19,468)**	(15,082)
Other expenses		**–**	(1,440)
Impairment loss		**(2,006)**	(1,270)
Finance costs	6	**(272)**	(275)
Profit before taxation		**21,211**	33,372
Income tax expense	7	**(3,394)**	(6,098)
Profit and total comprehensive income for the year	8	**17,817**	27,274
Earnings per share			
Basic (HK cents)	12	**1.39**	2.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Plant and equipment	13	**1,218**	465
Deposit paid for a life insurance policy	14	**1,145**	1,132
		2,363	1,597
Current assets			
Contract assets	17	**130,725**	–
Amounts due from customers for contract work	15	**–**	62,812
Trade and other receivables	16	**46,183**	84,556
Amount due from a related party	18	**8**	–
Tax recoverable		**2,666**	–
Pledged bank deposits	19	**13,473**	15,804
Bank balances and cash	19	**28,269**	32,443
		221,324	195,615
Current liabilities			
Contract liabilities	21	**2,165**	–
Amounts due to customers for contract work	15	**–**	1,363
Trade, bills and other payables	20	**73,079**	61,274
Amount due to a related party	18	**–**	45
Tax payable		**–**	1,033
Bank borrowings	22	**10,151**	2,136
		85,395	65,851
Net current assets		**135,929**	129,764
Total assets less current liabilities		**138,292**	131,361
Non-current liability			
Deferred tax liabilities	23	**199**	–
Net assets		**138,093**	131,361
Capital and reserves			
Share capital	24	**12,800**	12,800
Reserves		**125,293**	118,561
		138,093	131,361

The consolidated financial statements on pages 48 to 109 were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

Wong Kang Kwong	**So Nui Ho**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 (Note)	Accumulated profits HK$'000	Total HK$'000
At 1 January 2017	12,800	30,855	610	65,198	109,463
Profit and total comprehensive income for the year	–	–	–	27,274	27,274
Dividend recognised as distribution (note 9)	–	–	–	(5,376)	(5,376)
At 31 December 2017	12,800	30,855	610	87,096	131,361
Adjustments (note 2)	–	–	–	(1,101)	(1,101)
At 1 January 2018 (restated)	12,800	30,855	610	85,995	130,260
Profit and total comprehensive income for the year	–	–	–	17,817	17,817
Dividend recognised as distribution (note 9)	–	–	–	(9,984)	(9,984)
At 31 December 2018	12,800	30,855	610	93,828	138,093

Note: Merger reserve represented the difference between the issued share capital of LKW Enterprise Limited ("LKW Enterprise") and the aggregated share capital of the relevant subsidiaries which were transferred from Mr. Wong Kang Kwong ("Mr. Wong"), shareholder of the Group's ultimate holding company, and Ms. So Nui Ho ("Ms. So"), his spouse, to LKW Enterprise Limited pursuant to corporate reorganisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**21,211**	33,372
Adjustments for:		
Depreciation of plant and equipment	**486**	570
Interest expenses	**272**	275
Interest income	**(46)**	(58)
Write-down of inventories	**–**	29
Impairment loss	**2,006**	1,270
Gain on disposal of plant and equipment	**(445)**	–
Operating cash flows before movements in working capital	**23,484**	35,458
Increase in contract assets	**(40,613)**	–
Increase in amounts due from customers for contract work	**–**	(37,893)
Decrease in trade and other receivables	**7,966**	24,782
Increase in amount due from a related party	**(8)**	–
Increase in contract liabilities	**246**	–
Decrease in amounts due to customers for contract work	**–**	(1,019)
Increase in trade, bills and other payables	**12,361**	5,815
(Decrease) increase in amount due to a related party	**(45)**	43
Cash generated from operations	**3,391**	27,186
Hong Kong Profits Tax paid	**(6,894)**	(8,985)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(3,503)**	18,201
INVESTING ACTIVITIES		
Release of pledged bank deposits	**3,495**	18,438
Proceeds from disposal of plant and equipment	**1,185**	–
Interest received	**33**	46
Purchase of plant and equipment	**(1,979)**	–
Placement of pledged bank deposits	**(1,164)**	(7,786)
NET CASH FROM INVESTING ACTIVITIES	**1,570**	10,698
FINANCING ACTIVITIES		
New bank borrowings raised	**43,735**	52,735
Repayment of bank borrowings	**(35,720)**	(50,599)
Dividend paid	**(9,984)**	(5,376)
Interest paid	**(272)**	(275)
NET CASH USED IN FINANCING ACTIVITIES	**(2,241)**	(3,515)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(4,174)**	25,384
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**32,443**	7,059
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**28,269**	32,443

1. GENERAL AND BASIS OF PRESENTATION

Lap Kei Engineering (Holdings) Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 29 April 2015 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 September 2015 (the "Listing"). The Company transferred the listing of its shares from GEM to the Main Board of the Stock Exchange with effective from 12 February 2018. Its immediate and ultimate holding company is Golden Luck Limited ("Golden Luck"), which is a limited company incorporated in the British Virgin Islands. The address of the registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is Room 6, 6/F, Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs, Hong Kong Accounting Standard ("HKAS") and Hong Kong (International Financial Reporting Interpretation Committee) Interpretations ("HK(IFRIC)-Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, i.e. 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Building services engineering work
- Maintenance, repair and other services

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 15 "Revenue from Contracts with Customers" (Continued)

2.1.1 Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000
Current assets				
Contract assets	(a) & (b)	–	92,484	92,484
Amounts due from customers for contract work	(a)	62,812	(62,812)	–
Trade and other receivables	(b)	84,556	(29,672)	54,884
Current liabilities				
Contract liabilities	(c)	–	1,919	1,919
Amounts due to customers for contract work	(c)	1,363	(1,363)	–
Trade, bills and other payables	(c)	61,274	(556)	60,718

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

(a) At the date of initial application, unbilled revenue of HK$62,812,000 arising from the building services engineering work are conditional on the satisfaction by the customers on the building services engineering work completed by the Group and the work was pending for the certification by the customers or external surveyors, and such balance was reclassified from amount due from customers from contract work to contract assets.

(b) At the date of initial application, retention receivables of HK$29,672,000 arising from the building services engineering contracts are conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, and such balance was reclassified from trade and other receivables to contract assets.

(c) As at 1 January 2018, amounts due to customers for contract work of HK$1,363,000 and advances from customers of HK$556,000 previously included in trade, bills and other payables were reclassified to contract liabilities.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 15 "Revenue from Contracts with Customers" (Continued)

2.1.1 Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position at 31 December 2018

	As reported HK$'000	Adjustments HK$'000	Amount without application of HKFRS 15 HK$'000
Current assets			
Contract assets	130,725	(130,725)	–
Amounts due from customers for contract work	–	97,684	97,684
Trade and other receivables	46,183	33,041	79,224
Current liabilities			
Contract liabilities	2,165	(2,165)	–
Trade, bills and other payables	73,079	2,165	75,244

Impact on the consolidated statement of cash flows for the year ended 31 December 2018

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Operating activities			
Increase in amounts due from customers for contract work	–	(37,244)	(37,244)
Increase in contract assets	(40,613)	40,613	–
Decrease in trade and other receivables	7,966	(3,369)	4,597
Increase in contract liabilities	246	(246)	–
Decrease in amounts due to customers for contract work	–	(1,363)	(1,363)
Increase in trade, bills and other payables	12,361	1,609	13,970

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 HKFRS 15 "Revenue from Contracts with Customers" (Continued)

2.1.1 Summary of effects arising from initial application of HKFRS 15 (Continued)

The explanations of the above changes affected in the current year by the application of HKFRS 15 as compared to HKAS 11, HKAS 18 and the related interpretations are set out in notes (a) to (c) above for describing the adjustments made to the consolidated statement of financial position at 1 January 2018 upon adoption of HKFRS 15.

2.2 HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses ("ECL") for financial assets and other items (for example, contract assets); and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.2 HKFRS 9 "Financial Instruments" and the related amendments (Continued)

2.2.1 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	Trade and other receivables HK$'000	Amount due from customers for contract work HK$'000	Contract assets HK$'000	Accumulated profits HK$'000
Closing balance at 31 December 2017					
— HKAS 39		84,556	62,812	–	87,096
Effect arising from initial application of HKFRS 15		(29,672)	(62,812)	92,484	–
Effects arising from initial application of HKFRS 9:					
Remeasurement					
Impairment under ECL model	(a)	(639)	–	(462)	(1,101)
Opening balance at 1 January 2018		54,245	–	92,022	85,995

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.2 HKFRS 9 "Financial Instruments" and the related amendments (Continued)

2.2.1 Summary of effects arising from initial application of HKFRS 9 (Continued)

Note:

(a) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables based on provision matrix. Except for those which had been determined as credit impaired under HKAS 39, contract assets and trade receivables have been grouped based on the nature and industry of debtors and internal credit rating has been given to each category of debtors. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances, amount due from a related party are assessed on 12-month ECL as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$1,101,000 has been recognised against accumulated profits. The additional credit loss allowance is charged against the respective asset.

All credit loss allowances, including contract assets and trade receivables as at 31 December 2017 reconciled to the opening credit loss allowances as at 1 January 2018 are as follows:

	Contract assets HK$'000	Trade and other receivables HK$'000
At 31 December 2017 — HKAS 39	–	1,270
Amounts remeasured through opening accumulated profits	462	639
At 1 January 2018	462	1,909

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new HKFRSs

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 HK$'000 (Audited)	**HKFRS 15** HK$'000	**HKFRS 9** HK$'000	**1 January 2018** HK$'000 (Restated)
Current assets				
Contract assets	–	92,484	(462)	92,022
Amounts due from customers for contract work	62,812	(62,812)	–	–
Trade and other receivables	84,556	(29,672)	(639)	54,245
Current liabilities				
Contract liabilities	–	1,919	–	1,919
Amounts due to customers for contract work	1,363	(1,363)	–	–
Trade, bills and other payables	61,274	(556)	–	60,718
Capital and reserves				
Reserves	118,561	–	(1,101)	117,460

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 16 "Leases" (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$1,229,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits receivables of HK$119,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements will result changes in measurement, presentation and disclosure as indicated above.

The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of the reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group’s activities, as described below.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Maintenance, repair and other service income

Maintenance and repair service income is recognised on a straight-line basis over the terms of the relevant contract.

Other service income including that from replacement of parts in electrical and maintenance system is recognised when services are provided.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (prior to 1 January 2018) (Continued)

Building services engineering contracts

When the outcome of a building services engineering contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured by the proportion that the value of work carried out during the year. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a building services engineering contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (Continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Deposit paid for a life insurance policy

Deposit paid for a life insurance policy is measured at amortised costs using the effective interest method, less any impairment loss.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application HKFRS 9)

The Group recognises a credit loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amount due from a related party, pledged bank deposits and bank balances) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings. In addition, trade receivables and contract assets with credit impaired are assessed for ECL individually.

For all other instruments, the Group measures the credit loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group also considers that default has occurred when a financial asset is more than 180 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9) (Continued)

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and contract assets are each assessed on a separate group. Amount due from a related party, pledged bank deposits and bank balances are assessed for ECL on an individual basis);

- Nature and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract asset where the corresponding adjustment is recognised through a credit loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related party, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities, including trade, bills and other payables, amount due to a related party and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated outcome of building services engineering contracts and contract assets

The Group recognises contract revenue of a building services engineering work according to the management's estimation of the progress and outcome of the project. Estimated revenue is determined in accordance with the terms set out in the relevant contracts or, in case of variation orders, based on contract terms or other forms of agreements. The management's estimate of revenue and the completion status of contract works requires significant judgement and has a significant impact on the amount and timing of revenue recognised. The building services engineering works performed by the Group would also be certified by the independent quantity surveyors periodically according to the construction contracts. The Group regularly reviews and revises the estimation of contract revenue prepared for each contract as the contract progresses based on the internal contract progress reports.

Impairment assessment of trade receivables and contract assets

The management of the Group estimates the amount of lifetime ECL of trade receivables and contract assets based on provision matrix through grouping of various debtors that have similar credit risk characteristics based on nature and industry of debtors. Internal credit rating has been given to each category of debtors after considering aging, historical observed default rates, repayment history and past due status of respective trade receivables. Estimated loss rates are based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information that is reasonable and supportable available without undue costs or effort. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The credit loss allowance amount of the credit impaired trade receivables and contract assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in notes 16 and 17, respectively.

5. REVENUE AND SEGMENT INFORMATION

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

(i) Disaggregation of revenue from contracts with customers

	2018 HK$'000	2017 HK$'000
Type of services		
Building services engineering work	**294,631**	269,148
Maintenance, repair and other services	**13,875**	13,503
	308,506	282,651

(ii) Performance obligations for contracts with customers

The Group provides building engineering services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these construction services based on the stage of completion of the contract using output method. Contracts with the Group's customers are agreed in fixed-price.

Revenue relating to the maintenance services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released on a straight line basis over the period of service.

(iii) Transaction price allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) for contracts with customers that remain outstanding as at reporting date and the expected timing at recognising revenue is set out below:

	2018 HK$'000
Provision of building services engineering work	
— Within one year	**169,000**
— More than one year but not more than two years	**32,917**
	201,917

All provision of maintenance, repair and other services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), being the executive directors of the Company, in order for CODM to allocate resources and to assess performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

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

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

(ii) Maintenance, repair and other services — provision of maintenance and repair services for building services system and replacement of parts

The Group's CODM makes decisions according to the operating results of each segment. No analysis of segment asset and segment liability is presented as the Group's CODM does not regularly review such information for the purpose of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Segment revenue and results

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

For the year ended 31 December 2018

	Building services engineering work HK$'000	Maintenance, repair and other services HK$'000	Total HK$'000
Segment revenue			
External sales	**294,631**	**13,875**	**308,506**
Segment results	**37,924**	**4,542**	**42,466**
Other income and other gains			**491**
Administrative expenses			**(19,468)**
Impairment loss			**(2,006)**
Finance costs			**(272)**
Profit before taxation			**21,211**

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the year ended 31 December 2017

	Building services engineering work HK$'000	Maintenance, repair and other services HK$'000	Total HK$'000
Segment revenue			
External sales	269,148	13,503	282,651
Segment results	45,160	6,184	51,344
Other income and other gains			95
Administrative expenses			(15,082)
Other expenses			(1,440)
Impairment loss			(1,270)
Finance costs			(275)
Profit before taxation			33,372

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results mainly represented gross profit earned by each segment.

Geographical information

The Group's revenue is solely generated from, and non-current assets are located in, Hong Kong, based on the location of the relevant entities' operation.

Information about major customers

Revenue from customers in respect of building services engineering work during the years ended 31 December 2018 and 2017 individually contributing over 10% of the Group's revenue is as follows:

	2018 HK$'000	2017 HK$'000
Customer A	**N/A[1]**	59,464
Customer B	**N/A[1]**	42,338
Customer C	**122,000**	N/A[1]
Customer D	**37,639**	N/A[1]

[1] Revenue from the customer is less than 10% of the total revenue of the Group for the respective year.

No single customer in respect of maintenance, repair and other services contributed 10% or more to the Group's revenue for each of the years ended 31 December 2018 and 2017.

6. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	**272**	275

7. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Hong Kong Profits Tax		
— Current year	**3,230**	6,122
Overprovision in prior years:		
— Hong Kong	**(35)**	(24)
Deferred tax	**199**	–
	3,394	6,098

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

7. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year ended 31 December 2018 can be reconciled to profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 HK$'000	2017 HK$'000
Profit before taxation	**21,211**	33,372
Tax at Hong Kong Profits Tax rate of 16.5%	**3,500**	5,507
Overprovision in prior years	**(35)**	(24)
Tax effect of income not taxable for tax purpose	**(81)**	(5)
Tax effect of expenses not deductible for tax purpose	**599**	567
Tax effect of deductible temporary differences not recognised	**(56)**	–
Utilisation of tax losses previously not recognised	**(348)**	–
Tax effect of tax losses not recognised	**–**	53
Tax at concessionary rate	**(20)**	–
Tax concession under on two-tiered tax rate regime	**(165)**	–
Income tax expense for the year	**3,394**	6,098

Note: At the end of the reporting period, the Group has unused tax losses of approximately HK$2,579,000 (2017: HK$4,689,000) available for an offset against future profits. No deferred tax asset has been recognised in respect of the entire amount of tax losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

8. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration	**3,591**	3,224
Other staff costs:		
Salaries and other allowances	**36,180**	30,781
Retirement benefits scheme contributions	**1,261**	1,377
Total staff costs	**41,032**	35,382
Auditor's remuneration	**855**	1,030
Depreciation of plant and equipment	**486**	570
Impairment loss on contract assets	**1,910**	–
Impairment loss on trade receivables	**96**	1,270
Write-down of inventories	**–**	29
Bank interest income	**(33)**	(46)
Gain on disposal of plant and equipment	**(445)**	–
Interest income on a deposit paid for a life insurance policy	**(13)**	(12)

Note: Legal and professional fee amounted to approximately HK$1,440,000 was incurred in the transfer of the Company's shares from listing on GEM to Main Board during the year ended 31 December 2017 and was included in the "other expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

9. DIVIDEND

During the year ended 31 December 2018, a 2017 final dividend for ordinary shareholders of the Company of HK$9,984,000 (approximately of HK0.78 cents per share) (2017: a 2016 final dividend of HK$5,376,000 (approximately HK0.42 cents per share)) was recognised as distribution.

Subsequent to the end of the reporting period, the directors of the Company do not recommend the payment of any final dividend in respect of the year ended 31 December 2018 (2017: a final dividend in respect of the year ended 31 December 2017 of HK0.78 cents per ordinary share, in an aggregate amount of HK$9,984,000).

10. DIRECTORS' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Director's fees HK$'000	Salaries and other allowances HK$'000	Performance related bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2018					
Executive directors:					
Mr. Wong	–	2,070	–	18	2,088
Mr. Wong Chi Kei	–	263	–	12	275
Ms. So	–	690	–	18	708
Mr. Tang Chun Man, Joseph	–	104	–	2	106
Independent non-executive directors:					
Mr. Chung Yuk Ming, Christopher ("Mr. Chung")	138	–	–	–	138
Mr. Fok Ka Chi ("Mr. Fok")	138	–	–	–	138
Mr. Tam Chun Chung ("Mr. Tam")	138	–	–	–	138
	414	3,127	–	50	3,591

	Director's fees HK$'000	Salaries and other allowances HK$'000	Performance related bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Year ended 31 December 2017					
Executive directors:					
Mr. Wong	–	1,850	–	18	1,868
Mr. Wong Chi Kei	–	360	–	18	378
Ms. So	–	600	–	18	618
Independent non-executive directors:					
Mr. Chung Yuk Ming, Christopher ("Mr. Chung")	120	–	–	–	120
Mr. Fok Ka Chi ("Mr. Fok")	120	–	–	–	120
Mr. Tam Chun Chung ("Mr. Tam")	120	–	–	–	120
	360	2,810	–	54	3,224

10. DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of executive directors shown above were for their services in connection with the management of the affairs of the Company and the Group. Performance related incentive payments were determined with reference to the Group's operating results and individual performance. Mr. Wong Chi Kei was appointed as the executive director of the Company on 7 June 2017. The emoluments of independent non-executive directors shown above were for their services as directors of the Company. During both years, directors' fees and salaries and other allowances of all directors were paid by a major operating subsidiary of the Group.

None of the director waived or agreed to waive any emolument during the years ended 31 December 2018 and 2017. The Company did not have chief executive during the years ended 31 December 2018 and 2017.

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year ended 31 December 2018 included 1 (2017: 2) directors, details of whose emoluments are set out in note 10 above. Details of the emoluments of the remaining 4 (2017: 3) individuals during the year ended 31 December 2018 were as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and other benefits	**2,739**	1,994
Discretionary bonus	**2,704**	198
Retirement benefit scheme contributions	**72**	54
	5,515	2,246

The emoluments were within the following band:

	2018 **No. of** **employees**	2017 No. of employees
Not exceeding HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**4**	–
	4	3

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2018 is based on the profit for the year of approximately HK$17,817,000 (2017: HK$27,274,000) and the number of ordinary shares in issue during the year ended 31 December 2018 of approximately 1,280,000,000 (2017: 1,280,000,000). No diluted earnings per share is presented for both years as there was no potential ordinary share outstanding.

13. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST			
At 1 January 2017, and 31 December 2017	448	2,671	3,119
Additions	–	1,979	1,979
Disposals	–	(2,237)	(2,237)
At 31 December 2018	448	2,413	2,861
DEPRECIATION			
At 1 January 2017	448	1,636	2,084
Provided for the year	–	570	570
At 31 December 2017	448	2,206	2,654
Provided for the year	–	486	486
Eliminated on disposal	–	(1,497)	(1,497)
At 31 December 2018	448	1,195	1,643
CARRYING VALUES			
At 31 December 2018	–	1,218	1,218
At 31 December 2017	–	465	465

The above items of plant and equipment are depreciated over their estimated useful lives, using straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	20%–33$^1/_3$%
Motor vehicles	20%–33$^1/_3$%

14. DEPOSIT PAID FOR A LIFE INSURANCE POLICY

In 2012, Lap Kei Engineering Company Limited ("Lap Kei") entered into a life insurance policy with an insurance company on Mr. Wong. Under the policy, the beneficiary and policy holder is Lap Kei. Lap Kei is required to pay an upfront payment for the policy. Lap Kei may request a partial surrender or full surrender of the policy at any time and receive cash back based on the value of the policy at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus policy expense and insurance premium charged (the "Cash Value"). If such withdrawal is made at any time during the first to the fifteen policy year, as appropriate, a pre-determined specified surrender charge would be imposed. The policy premium expense and insurance charges are recognised in profit or loss over the expected life of the life insurance policy and the deposit placed is carried at amortised cost using the effective interest method. The deposit placed for the life insurance policy carries guaranteed interests at interest rates ranging from 2.15% to 4.15% plus a premium determined by the insurance company during the tenures of the policy.

Particulars of the policy are as follows:

		Guaranteed interest rates	
Insured sum	**Upfront payment**	**First year**	**Second year and onwards**
US$500,000 (equivalent to HK$3,890,000)	US$138,000 (equivalent to HK$1,074,000)	4.15% per annum	2.15% per annum

The carrying amounts of deposit placed for the life insurance policy at the end of the reporting period are set out as below:

	2018 HK$'000	2017 HK$'000
Deposit placed for a life insurance policy	**1,145**	1,132

The carrying amounts of the deposit paid for a life insurance policy as at 31 December 2018 and 2017 approximate the Cash Value of the insurance policy and the expected life of the policy remained unchanged from the initial recognition. The entire balance of the life insurance policy is denominated in US$.

15. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 HK$'000
Contracts in progress at the end of the reporting period:	
Contract costs incurred to date	414,266
Add: Recognised profits less recognised losses	135,773
	550,039
Less: Progress billings	(488,590)
	61,449
Analysed for reporting purposes as:	
Amounts due from customers for contract work	62,812
Amounts due to customers for contract work	(1,363)
	61,449

As at 31 December 2017, retention receivables held by customers for contract work amounted to HK$29,672,000 as set out in note 16.

16. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables (inclusive of factored debts amounting to HK$3,000,000, as at 31 December 2018 (2017: HK$2,136,000))	**43,245**	48,411
Less: allowance for credit loss	**(2,005)**	(1,270)
	41,240	47,141
Retention receivables (Note)	**–**	29,672
Other receivables, deposits and prepayments	**4,943**	7,743
Total trade and other receivables	**46,183**	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 as at 31 December 2017.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2018 and 1 January 2018, trade receivables from contracts amounted to HK$41,240,000 and HK$46,502,000 respectively.

The retention receivables are to be settled, based on the expiry of the defect liability period, at the end of the reporting period:

	2017 HK$'000
On demand or within one year	18,206
After one year	11,466
	29,672

Upon application of HKFRS 15, the retention receivables were reclassified to contract assets.

The Group allows a credit period of 30 days (2017: 30 days) to its customers for its trade receivables.

The following is an aging analysis of trade receivables net of allowance for credit loss presented based on invoice dates at the end of the reporting period:

	2018 **HK$'000**	2017 HK$'000
0–30 days	**10,310**	14,290
31–60 days	**24,545**	2,196
61–90 days	**1,300**	13,560
> 90 days	**5,085**	17,095
	41,240	47,141

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$30,874,000, which are past due as at the reporting date. Out of the past due balances, HK$3,761,000 has been past due 90 days or more and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK$32,851,000, which were past due as at the reporting date for which the Group has not provided for impairment loss because management is of the opinion that the fundamental credit quality of these customers has not deteriorated considering credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of these trade receivables. The Group does not hold any collateral over these balances.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Aging of trade receivables which were past due but not impaired

	2017 HK$'000
31–60 days	2,196
61–90 days	13,560
> 90 days	17,095
	32,851

The Group's retention receivables balances with aggregate carrying amount of HK$29,672,000 as at 31 December 2017 were not yet due. The Group did not hold any collateral over these balances.

The Group's trade receivables that are neither past due nor impaired related to customers for whom there was no recent history of default.

Movement in the allowance for doubtful debts

	2017 HK$'000
1 January	–
Impairment losses recognised on trade receivables	1,270
31 December	1,270

As at 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$1,270,000.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are out in note 27.

During the year ended 31 December 2018, the Group discounted trade receivables in aggregate amounts of HK$3,000,000 (2017: HK$2,136,000) to a bank for short term financing. In the opinion of the directors of the Company, the receipts from the trade discounting are in substance the receipt from trade customers and therefore, was presented as financing cash flow in the consolidated statement of cash flows.

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Transfers of financial assets

The following were the Group's trade receivables as at 31 December 2018 and 2017 that were transferred to banks by discounting those trade receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the trade receivables and has recognised the cash received on the transfer as a secured borrowing (see note 22). These trade receivables are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2018 and 2017

Trade receivable discounted to a bank with full recourse

	2018 HK$'000	2017 HK$'000
Carrying amount of transferred assets	**3,000**	2,136
Carrying amount of associated liabilities	**(3,000)**	(2,136)
Net position	**–**	–

17. CONTRACT ASSETS

	At 31 December 2018 HK$'000	At 1 January 2018* HK$'000
Analysed as current:		
Unbilled revenue of building services engineering contracts (note a)	**97,684**	62,498
Retention receivables of building services engineering contracts (note b)	**33,041**	29,524
	130,725	92,022
The retention receivables are to be settled, based on the expiry of the defect liability period, at the end of the reporting period:		
Retention receivable of building services engineering contracts		
On demand or within one year	**18,028**	18,115
After one year	**15,013**	11,409
	33,041	29,524

* The amounts in this column are after the adjustments from the application of HKFRS 9 and 15.

17. CONTRACT ASSETS (CONTINUED)

Notes:

(a) Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the contract work completed by the Group and the work is pending for the certification by the customers or external surveyors. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed contract work from the customers or external surveyors.

(b) Retention receivables included in contract assets represents amounts not yet billed to customers which is conditional until the expiry of defect liability period in respect of building services engineering contracts. The retention receivables are transferred to the trade receivables when the rights become unconditional.

Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 1 to 2 years from the date of the completion of the respective project. The Group does not hold any collateral over these balances.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

The movement in the allowance for impairment in respect of contract assets during the year was as follows:

	HK$'000
31 December 2017	–
Initial application of HKFRS 9 (Note 2 above)	462
1 January 2018 (restated)	462
Impairment losses recognised on contract assets	1,910
31 December 2018	2,372

Details of the impairment assessment are set out in note 27.

18. AMOUNT DUE FROM (TO) A RELATED PARTY

	2018 HK$'000	2017 HK$'000
Amount due from (to) a related party (Note)	**8**	(45)

Note: The amount represents amount due from (to) Kin Kwan Decoration, Co. ("Kin Kwan"), the sole beneficial owner of which is a brother of Mr. Wong. The amount is trade-related, unsecured, interest-free and with a credit period of 30 days. The amount is aged within 30 days based on invoice dates at the end of the reporting period.

19. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash on hand and bank balances. Bank balances carry interest at prevailing market interest rate which was 0.01% (2017: 0.01%) per annum.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities and bank borrowings granted to the Group. The pledged bank deposits carry fixed interest rate at 0.30% (2017: 0.30%) per annum.

20. TRADE, BILLS AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**49,514**	44,540
Bills payable	**–**	6,303
Accruals	**23,565**	9,875
Receipt in advance	**–**	556
Total trade, bills and other payables	**73,079**	61,274

The credit period on trade and bills payables range from 30 days to 60 days (2017: 30 days to 52 days).

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

	2018 HK$'000	2017 HK$'000
0–30 days	**17,149**	24,815
31–60 days	**17,459**	21,175
61–90 days	**3,790**	523
> 90 days	**11,116**	4,330
	49,514	50,843

21. CONTRACT LIABILITIES

	At 31 December 2018 HK$'000	At 1 January 2018* HK$'000
Advances from customers of building services engineering contracts, current	2,165	1,919

* The amount is after the adjustment from the application of HKFRS 15.

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

Revenue from building services engineering contracts recognised during the year ended 31 December 2018 that was included in the contract liabilities at the beginning of the year was amounted to HK$1,919,000.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Building services engineering contracts

When the Group receives upfront payment or cash advances before the construction activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the cash advance.

22. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Advance drawn on bills receivables discounted with recourse	**3,000**	2,136
Corporate tax loan	**7,151**	–
	10,151	2,136
The carrying amounts of the above borrowings are repayable within one year — secured and variable rate	**10,151**	2,136

The Group's advance drawn on bills receivables discounted with recourse as at 31 December 2018 and 2017 were denominated in HK$ and carried interest at Hong Kong Prime Rate minus 2%. The advance were secured by trade receivables in connection with invoice discounting bank loan arrangements at 31 December 2018 and 2017.

22. BANK BORROWINGS (CONTINUED)

The Group's corporate tax loan as at 31 December 2018 was denominated in HK$ and carried interest at Hong Kong Prime Rate minus 2%. The corporate tax loan was secured by pledged bank deposit at 31 December 2018.

At 31 December 2018, the Group had obtained bank facilities of HK$96,687,000 (2017: HK$96,038,000) which are secured by fixed deposits amounting to HK$13,473,000 (2017: HK$15,804,000) held by the Group as disclosed in note 19.

23. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities recognised and the movements thereon:

	Accelerated tax depreciation HK$'000
At 1 January 2017, 31 December 2017 and 1 January 2018	–
Charged to profit or loss for the year	(199)
At 31 December 2018	(199)

The deferred tax liabilities resulted from temporary taxable differences arising from accelerated depreciation in relation to capital allowance claims on qualified assets in accordance with prevailing tax laws in Hong Kong.

The Group has no other significant unrecognised deferred tax assets for deductible temporary differences at 31 December 2018 and 2017.

24. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		**Share capital**	
	2018 **HK$'000**	2017 HK$'000	**2018**	2017
Authorised				
At beginning and at end of year	**4,000,000,000**	4,000,000,000	**40,000**	40,000
Issued and fully paid				
At beginning and at end of year	**1,280,000,000**	1,280,000,000	**12,800**	12,800

25. SHARE OPTION SCHEME

On 10 September 2015, the Company conditionally adopted a share option scheme (the "Scheme") pursuant to a resolution passed by its shareholders on 10 September 2016, for the primary purpose of providing incentives or rewards to eligible employees (including the executive, non-execute and independent non-executive directors of the Company) and other selected participants. The adoption of the Scheme became unconditional upon the listing of the Company on 25 September 2015.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other share option scheme of the Group) to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the total number of shares in issue on the date of listing on the Stock Exchange, without prior approval from the Company's shareholders. The Company may, subject to the issue of a circular, the shareholders' approval in general meeting and/or such other requirements prescribed under the Rules Governing the Listing of the Securities on the Stock Exchange, refresh this limit at any time to 10% of the total number of shares in issue as at the date of the shareholders' approval. The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of their respective associates as defined under the Scheme which would result in the shares issued and to be issued upon exercise of all options under the Scheme already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant represent in aggregate in excess of 0.1% of the Company's issued share capital and with an aggregate value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of the offer grant. A nominal consideration of HK$1.00 is payable on acceptance of the grant of an option.

Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the directors of the Company but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company, but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share.

The Scheme will remain valid and effective following the transfer of listing and will be implemented in full compliance with the requirements of Chapter 17 of the Main Board Listing Rules. The listing of shares to be issued pursuant to the Scheme will also be transferred to the Main Board of the Stock Exchange pursuant to Rule 9A.10 of the Main Board Listing Rules.

No share option has been granted since the adoption of the Scheme. The scheme will remain in force for a period of 10 years commencing on the date on which the scheme is adopted.

26. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of bank borrowings disclosed in note 22, net of cash and cash equivalent, and equity attributable to owners of the Group, comprising issued share capital and accumulated profits.

The directors of the Company reviews the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendation of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends or new share issues as well as the issue of new debts and redemption of existing debts.

27. FINANCIAL INSTRUMENTS

27a. Categories of financial instruments

	2018 **HK$'000**	2017 HK$'000
Financial assets		
Financial assets at amortised cost	**82,990**	–
Loans and receivables (including cash and cash equivalents)	**–**	126,704
Financial liabilities		
Amortised cost	**59,665**	53,024

27b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a related party, pledged bank deposits, bank balances and cash, trade, bills and other payables, amount due to a related party and bank borrowings.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The director of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

27. FINANCIAL INSTRUMENTS (CONTINUED)

27b. Financial risk management objectives and policies (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits. The Group currently does not have an interest rate hedging policy.

The Group is also exposed to cash flow interest rate risk mainly in relation to bank balances and variable rate bank borrowings (see note 22 for details of these borrowings), which are arranged at floating rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on Hong Kong Prime Rate arising from the Group's bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the amount of bank balances and bank borrowings outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2017: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

As at 31 December 2018, if interest rates on variable rate bank borrowings and bank balances had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would be increased/decreased by approximately HK$76,000 (2017: HK$127,000).

Credit risk and impairment assessment

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix through grouping of various debtors that have similar credit risk characteristics based on nature and industry of debtors. Internal credit rating has been given to each category of debtors after considering aging, historical observed default rates, repayment history and past due status of respective trade receivables. Estimated loss rates are based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information that is reasonable and supportable available without undue costs or effort and trade balances with credit impaired were assessment individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

27. FINANCIAL INSTRUMENTS (CONTINUED)

27b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Amount due from a related party

The Group assessed the impairment for its amount due from a related party individually based on internal credit rating of this debtor which, in the opinion of the directors of the Company, has no significant increase in credit risk since initial recognition. Estimated loss rate is based on probability of default and loss given default with reference to an external credit report and is adjusted for forward-looking information that is available without undue cost or effort. No allowance was made for amounts from related parties as at 1 January 2018 and 31 December 2018.

Pledged bank deposits/bank balances and cash

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group is exposed to concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

The Group is exposed to concentration of credit risk as at 31 December 2018 on trade receivables from the Group's 5 major customers amounting to HK$28,369,000 (2017: HK$17,107,000) and accounted for 68.8% (2017: 36.3%) of the Group's total trade receivables. The major customers of the Group are certain reputable organisations. The directors of the Company consider that the credit risk is limited in this regard.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/ other items
Low risk	The counterparty has a low risk of default and may have past due amounts but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

27. FINANCIAL INSTRUMENTS (CONTINUED)

27b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised cost					
Trade receivables	16	N/A	Low risk (Note 1)	Lifetime ECL (provision matrix)	41,975
			Loss (Note 1)	Lifetime ECL Credit-impaired	1,270
Contract assets	17	N/A	Low risk (Note 1)	Lifetime ECL (provision matrix)	133,097
Amount due from a related party	18	N/A	Low risk (Note 2)	12-month ECL	8
Pledged bank deposits	19	A2	N/A	12-month ECL	13,473
Bank balances	19	A2	N/A	12-month ECL	28,269

Notes:

1. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the credit loss allowance at lifetime ECL. Except for debtors with credit-impaired were assessed individually, the Group determines the expected credit losses on these items by using a provision matrix.

2. For the purposes of internal credit risk management, the Group uses the past-due information of amount due from a related party to assess whether credit risk has increased significantly since initial recognition. The balances of amount due from a related company has been past due and is not considered as in default as there has not been a significant change in credit quality and the amounts are still considered recoverable.

For the assessment of lifetime ECL by management, the estimated loss rates are based on probability of default and loss given default with reference to an external credit report and are adjusted for forward-looking information that is available without undue cost or effort.

The Group's credit risk on pledged bank deposits and bank balances is limited because the counterparties are banks with high credit ratings and good reputation established in the Hong Kong.

27. FINANCIAL INSTRUMENTS (CONTINUED)

27b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The credit risk of trade receivables, contract assets and amount due from a related party is managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. The Group reviews the recoverable amount of these receivables at the end of the reporting period.

During the year ended 31 December 2018, the Group provided HK$96,000 and HK$1,910,000 impairment allowance on trade receivables and contract assets based on the provision matrix. No trade receivables and contract assets is considered to be credit-impaired and no credit loss allowance was made during the year ended 31 December 2018.

The following table shows the movement in lifetime ECL that has been recognised for, trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
At 31 December 2017			
— HKAS 39	–	1,270	1,270
Adjustment upon application of HKFRS 9	639	–	639
At 1 January 2018	**639**	**1,270**	**1,909**
Changes due to financial instruments			
Recognised as at 1 January:			
— Impairment loss recognised	**96**	**–**	**96**
As at 31 December 2018	**735**	**1,270**	**2,005**

The Group writes off a trade receivable when there is information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Gross carrying amount

	Average loss rate %	Trade receivables HK$'000	Contract assets HK$'000
Internal credit rating			
Low risk	1.78	41,975	133,097

27. FINANCIAL INSTRUMENTS (CONTINUED)

27b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Gross carrying amount (Continued)

The following tables show reconciliation of credit loss allowances that has been recognised for contract assets.

	Lifetime ECL (not credit-impaired) HK$'000
At 31 December 2017 — HKAS 39	–
Adjustment upon application of HKFRS 9	462
At 1 January 2018 (restated)	**462**
Changes due to financial instruments	
Recognised as at 1 January:	
— Impairment loss recognised	**1,910**
As at 31 December 2018	**2,372**

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. The directors of the Group believes that the Group will have sufficient working capital for its future operational requirement.

The Group has available unutilised banking facilities of approximately HK$96,687,000 as at 31 December 2018 (2017: HK$96,038,000), in which HK$21,380,000 (2017: HK$24,180,000) can only be utilised by issuance of performance bond by the banks in relation to building services engineering projects.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

27. FINANCIAL INSTRUMENTS (CONTINUED)

27b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk table

	Weighted average interest rate %	On demand or less than 1 month HK$'000	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2018 HK$'000
31 December 2018							
Non-derivative financial liabilities							
Trade, bills and other payables	–	17,149	32,365	–	–	49,514	49,514
Variable rate bank borrowings	3.12	10,151	–	–	–	10,151	10,151
		27,300	32,365	–	–	59,665	59,665

	Weighted average interest rate %	On demand or less than 1 month HK$'000	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2017 HK$'000
31 December 2017							
Non-derivative financial liabilities							
Trade, bills and other payables	–	45,763	5,080	–	–	50,843	50,843
Amount due to a related party	–	45	–	–	–	45	45
Variable rate bank borrowings	3.00	2,136	–	–	–	2,136	2,136
		47,944	5,080	–	–	53,024	53,024

27. FINANCIAL INSTRUMENTS (CONTINUED)

27b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk table (Continued)

Bank borrowings with a repayment on demand clause were included in the 'On demand or less than 1 month' time band in the above maturity analysis. The directors of the Company believed that such bank borrowings would be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows (estimated based on the interest rate at the end of the reporting period) were set out below.

	Weighted average interest rate	On demand or less than 1 month	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2018								
Variable rate bank borrowings	3.12	7,170	3,023	–	–	–	10,193	10,151
31 December 2017								
Variable rate bank borrowings	3.00	–	2,200	–	–	–	2,200	2,136

The amounts included above for variable interest rate instruments for non-derivative financial liabilities were subject to change if changes in variable interest rates differ to those estimates of interest rates determined based on the interest rate as at the end of each reporting period.

27c. Fair values measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of all financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

28. OPERATING LEASE COMMITMENTS

The Group as lessee has made minimum lease payments of HK$1,121,000 (2017: HK$1,066,000) under operating leases during the year ended 31 December 2018 in respect of warehouses and office premises.

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, and Mr. Wong and Ms. So, in respect of warehouses and office premises (as detailed in note 32(i)) which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	158	1,062
In the second to fifth year inclusive	1,071	980
	1,229	2,042

Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

29. RETIREMENT BENEFITS SCHEME

The Group participates the MPF Scheme for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK$1,500 per month or 5% of the relevant payroll costs to the MPF Scheme.

The total cost charged to profit or loss of approximately HK$1,311,000 (2017: HK$1,431,000) represents contributions paid or payable to the MPF Scheme by the Group. As at 31 December 2018, contribution of approximately HK$107,000 (2017: HK$118,000) due in respect of the corresponding reporting periods had not been paid over to the MPF Scheme.

At the end of each reporting period, there were no forfeited contributions which arose upon employees leaving the MPF Scheme prior to their interests in the Group's contribution becoming fully vested and which are available to reduce the contributions payable by the Group in future years.

30. PLEDGE OF ASSETS

At the end of the reporting period, the carrying amounts of the assets pledged by the Group to banks in order to secure banking facilities granted by these banks to the Group are as follows:

	2018 HK$'000	2017 HK$'000
Pledged bank deposits	13,473	15,804

31. PERFORMANCE BONDS

As at 31 December 2018, the Group has issued performance bonds in respect of building services engineering contracts through banks amounting to HK$11,650,000 (2017: HK$21,158,000) respectively. The bonds are secured by pledged bank deposits as disclosed in note 19.

32. RELATED PARTY DISCLOSURES

(i) Transactions

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

Related parties	Nature of transactions	2018 HK$'000	2017 HK$'000
Kin Kwan	Sub-contracting expense from building services engineering contracts	**110**	164
LKWC	Rental expense	**488**	465
Mr. Wong and Ms. So	Rental expense	**491**	468

(ii) Balance

Details of the balance with a related party is set out in the consolidated statement of financial position and note 18.

(iii) Compensation of key management personnel

	2018 HK$'000	2017 HK$'000
Salaries and other allowances	**3,541**	2,810
Performance related bonus	**–**	–
Retirement benefits scheme contributions	**50**	54
	3,591	2,864

The remuneration of key management personnel is determined with regard to the performance of the individuals and market trends.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings HK$'000	Interest payable HK$'000	Dividend payable HK$'000
At 1 January 2017	–	–	–
Financing cash flows (note)	2,136	(275)	(5,376)
Finance costs incurred	–	275	–
Dividend declared	–	–	5,376
At 31 December 2017	2,136	–	–
Financing cash flows (note)	8,015	(272)	(9,984)
Finance costs incurred	–	272	–
Dividend declared	–	–	9,984
At 31 December 2018	10,151	–	–

Note: The cash flows from bank borrowings, interest payable and dividends payable make up the net amount of additions and repayments from bank borrowings, interest paid and dividend paid in the consolidated statement of cash flows.

34. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2018 and 2017 were as follows:

Name of subsidiary	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Company as at 31 December 2018	2017	Principal activities
LKW Enterprise*	British Virgin Island 19 March 2016	United States dollars 100	**100%**	100%	Investment holding
Lap Kei	Hong Kong 22 December 1997	HK$600,000	**100%**	100%	Building services engineering
Wealth E & M Limited	Hong Kong 30 April 2004	HK$10,000	**100%**	100%	Building services engineering

* Directly held by the Company

Each of the Company and its subsidiaries has adopted 31 December as its financial year end date.

None of the subsidiaries had any debt securities outstanding at the end of the reporting period or at any time during both years.

35. FINANCIAL INFORMATION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**48,969**	48,969
Amount due from a subsidiary	**18,869**	29,188
	67,838	78,157
CURRENT ASSET		
Prepayment	**198**	150
CURRENT LIABILITY		
Accrual	**(553)**	(553)
NET CURRENT LIABILITY	**(355)**	(403)
TOTAL ASSETS LESS CURRENT LIABILITY	**67,483**	77,754
CAPITAL AND RESERVES		
Share capital	**12,800**	12,800
Reserves (Note)	**54,683**	64,954
TOTAL EQUITY	**67,483**	77,754

35. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Note: Reserves

	Share premium HK$'000	Merger reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	30,855	43,433	(9,253)	65,035
Profit and total comprehensive income for the year	–	–	5,295	5,295
Dividend recognised as distribution	–	–	(5,376)	(5,376)
At 31 December 2017	30,855	43,433	(9,334)	64,954
Loss and total comprehensive expense for the year	–	–	(287)	(287)
Dividend recognised as distribution	–	–	(9,984)	(9,984)
At 31 December 2018	30,855	43,433	(19,605)	54,683

Note: Merger reserve represented the difference between the issued share capital of LKW Enterprise and the aggregated share capital of the relevant subsidiaries which were transferred from Mr. Wong and Ms. So to LKW Enterprise pursuant to the corporate reorganisation.

FINANCIAL SUMMARY

For the five years ended 31 December 2014, 2015, 2016, 2017 and 2018

RESULTS

	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	135,493	187,794	235,487	282,651	**308,506**
Profit before taxation	29,040	18,883	32,254	33,372	**21,211**
Income tax expense	(4,787)	(4,369)	(5,290)	(6,098)	**(3,394)**
Profit and total comprehensive income for the year	24,253	14,514	26,964	27,274	**17,817**

ASSETS AND LIABILITIES

	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Total assets	118,672	140,939	171,226	197,212	**223,687**
Total liabilities	(61,346)	(58,440)	(61,763)	(65,851)	**(85,594)**
Net assets	57,326	82,499	109,463	131,361	**138,093**