

Lap Kei Engineering (Holdings) Limited 立基工程 (控股) 有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1690



ANNUAL REPORT **2020**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

BDO Limited
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 54
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**", "**we**" or "**us**"), I am delighted to present the consolidated financial results of the Group for the year ended 31 December 2020.

FINANCIAL RESULTS

The total revenue of the Group decreased by approximately HK\$21.2 million or 13.8% from approximately 153.5 million for the year ended 31 December 2019 to approximately HK\$132.3 million for the year ended 31 December 2020 (the "**Year**"). The Group recorded a reduction in net loss and total comprehensive income of HK\$29.9 million or 94.4% from approximately HK\$31.7 million for the year ended 31 December 2019 to approximately HK\$1.8 million for the Year.

BUSINESS REVIEW AND PROSPECT

COVID-19 pandemic has continued to impact the community and business globally including Hong Kong. During the year, Hong Kong continued to be subject to social distancing measures and occasional lockdown at construction sites. Construction market in Hong Kong continued to experience adjustment under weakened market sentiment. Market competition is still very keen, which further drives down our revenue.

We expect COVID-19 pandemic and Sino-US trade relations will continue to affect our business. We hold conservative outlook for 2021. The Group will continue to focus on our core business of building services engineering works and maintenance works. We are confident that efforts we are making will position us strongly for the next phase of our journey and maximising long term returns for our shareholders.

A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my gratitude to our shareholders, clients, business partners, and suppliers who trust and remain faithful to the Group. I would also like to express our sincere thanks to the management and staff for their commitment and contributions throughout the years.

Lap Kei Engineering (Holdings) Limited

Wong Kang Kwong

Chairman and Executive Director

Hong Kong, 23 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

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

Looking forward, the Directors consider that the future opportunities and challenges facing the Group will continue to be affected by the development of the property market in Hong Kong as well as factors affecting labour costs and material costs. The Directors are of the view that the number of properties to be built and maintained in Hong Kong remains to be the key driver for the growth of the Hong Kong building services industry.

As at 31 December 2020, the Group had 15 projects on hand (including projects in progress and projects that are about to commence) with total outstanding contract value of approximately HK\$511.9 million.

FINANCIAL REVIEW

Revenue

Our revenue decreased from approximately HK\$153.5 million for the year ended 31 December 2019 to approximately HK\$132.3 million for the Year, representing a decline of approximately 13.8%. Such decrease was mainly due to decrease in the number of projects undergoing during the Year and the Group’s average contract amount decreased as compared to that for the year ended 31 December 2019.

Cost of Sales

Our cost of sales decreased from approximately HK\$169.3 million for the year ended 31 December 2019 to approximately 124.1 million for the Year, representing a decrease of approximately 26.7%. Such decrease was mainly attributable to the decrease in our subcontracting charges and material costs due to the drop in the number of projects undergoing and plummet in our contract size during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit/(Loss)

Gross profit of the Group was approximately HK\$8.2 million for the Year while gross loss of the Group was approximately HK\$15.9 million for the year ended 31 December 2019. The change was mainly driven by the decrease in costs for the Year which outweighed the decrease in revenue.

The overall gross profit margin was approximately 6.2% for the for the Year while gross loss margin of the Group was approximately 10.3% for the year ended 31 December 2019 as the extent of decrease in revenue is lesser than that of decrease in subcontracting charges and direct labour costs for the Year. During the year, the Group has employed more on-site workers instead of subcontracting to subcontractors, which helped to reduce our costs. Also, less prolongation of projects further drove up our gross profit margin during the Year.

Administrative Expenses

Administrative expenses of the Group increased by approximately 3.1% from approximately HK\$14.9 million for the year ended 31 December 2019 to approximately HK\$15.3 million for the Year. Administrative expenses primarily consist of rental expenses and staff costs. The increase was mainly attributable to a increase in staff salary and discretionary bonus by approximately HK\$0.8 million.

Other income

Other income increased significantly by approximately HK\$4.7 million, or 3,368.5%, from approximately HK\$140,000 for the year ended 31 December 2019 to approximately HK\$4.9 million for the year. The increase in other income was mainly due to a one-off subsidy under the employment support scheme of the Hong Kong SAR Government.

Income Tax Credit

The Group recorded a income tax credit of approximately HK\$14,000 (2019: nil) due to accelerated tax depreciation.

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

Loss and total comprehensive income reduced by approximately HK\$29.9 million or 94.4%, from approximately HK\$31.7 million for the year ended 31 December 2019 to approximately HK\$1.8 million for the year ended 31 December 2020. Such change was primarily attributable to the decrease in costs outweighing the decrease in revenue, which is partially offset by the increase in administrative expenses for the Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had total assets of approximately HK\$157.3 million (2019: HK\$191.0 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$45.2 million (2019: HK\$77.2 million) and approximately HK\$112.1 million (2019: HK\$113.8 million), respectively.

The total interest-bearing loans and borrowings (interest-bearing bank borrowings and bank overdrafts) of the Group as at 31 December 2020 were nil (2019: nil), and current ratio as at 31 December 2020 was approximately 3.3 times (2019: 2.4 times).

MANAGEMENT DISCUSSION AND ANALYSIS

GEARING RATIO

The gearing ratio of the Group as at 31 December 2020 was nil (2019: nil).

The gearing ratio is calculated based on the total loans and borrowings (interest-bearing bank borrowings and bank overdrafts) divided by total equity as at 31 December 2019 and 2020, respectively.

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. No financial investment other than cash was held by the Group as at 31 December 2020. 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 2020, the Group pledged its bank deposits of approximately HK\$7.2 million (2019: HK\$7.9 million) and the Investment Property of approximately HK\$5.3 million (2019: HK\$6.1 million) located at workshop No. B9 on 6/F of Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong to banks as collateral to secure bank facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

All of the revenue-generating operations and borrowings of the Group were transacted in Hong Kong dollars which is the presentation currency of the Group. For the Year, there was no significant exposure to foreign exchange rate fluctuations and the Group has not maintained any hedging policy against foreign currency risk. The management will consider hedging significant currency exposure should the need arise. During the year, the Group did not entered into any financial instruments for hedging purposes.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 25 September 2015 and transferred to the Main Board of the Stock Exchange on 12 February 2018. On 20 May 2019, 50,000,000 shares of HK\$0.01 each of the Company were issued at a price of HK\$0.155 by way of placing under general mandate (the "**Placing**"). The share capital of the Group only comprises ordinary shares.

As at 31 December 2020, the Company's issued share capital was HK\$13,300,000 (31 December 2019: HK\$13,300,000) and the number of its issued ordinary shares was 1,330,000,000 of HK\$0.01 each (31 December 2019: 1,330,000,000). There has been no change in the issued share capital during the Year.

COMMITMENTS

As at 31 December 2019, the operating lease commitments of the Group were primarily related to the leases of its office premises and the warehouses. The Group had no operating lease commitments as at 31 December 2020 (2019: HK\$306,000).

SEGMENTAL INFORMATION

Segmental information is presented for the Group as disclosed on note 6 to the consolidated financial statements of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 31 December 2020, the Group did not have any material capital commitments (2019: nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any material contingent liabilities (2019: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 115 employees (2019: 87 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$38.5 million for the Year (2019: HK\$39.8 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

In May 2019, the Group completed an acquisition of an investment property at workshop B9, 6/F., Block B, Tonic Industrial Centre, 19 Lam Hing Street, Kowloon Bay, Hong Kong (the "Investment Property") from an independent third party at the consideration of approximately HK\$6.2 million as a long-term investment of the Group with a view to generate stable income stream and capital appreciation in the future. The Investment Property was open to let for rental purpose as at the date of this report.

Save as disclosed above and the investment in its subsidiaries by the Company, the Group did not hold any significant investments during the Year.

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;

MANAGEMENT DISCUSSION AND ANALYSIS

- (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 of the company dated 18 September 2015 (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 environmentally friendly machines in order to minimise overall exhaust emission.

During the Year, the Group did not record any material 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 on page 32–38.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY PERFORMANCE INDICATORS (“KPIs”) WITH THE STRATEGY OF THE GROUP

The KPIs of the Group for the Year are set out below:

Strategy	KPIs
Maximise value for the Shareholders	Gross profit/(loss) margin = 6.2% (2019: (10.3)%)
	Return on equity = (1.6)% (2019: (27.9)%)
Improve the Group’s liquidity	Net cash (used in)/generated from operating activities = HK\$(6.8) million (2019: HK\$40.6 million)
	Current ratio = 3.3 times (2019: 2.4 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020 is set out below:

Business objectives

Actual business progress up to 31 December 2020

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\$32.1 million was required and has been paid up to 31 December 2020 (which was financed as to approximately HK\$16.5 million by the proceeds from the listing on GEM (the "Listing") on 25 September 2015 and as to the remaining approximately HK\$15.6 million by the Group's internal resources).

Further expansion of service scope

The Group has used approximately HK\$2.6 million for recruiting staff with relevant experiences.

During 2019 and 2020, 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), electrical installation (Group III) and plumbing installation (Group II) of the Specialist List have 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.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

Use of proceeds from the Listing

The net proceeds from the Listing, after deducting listing-related expenses, were approximately HK\$31.6 million. After the Listing, a part of these proceeds have been applied for the purposes in accordance with the 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 2020 is set out below:

	Planned use of net proceeds as stated in the Prospectus up to 31 December 2020 HK\$'000	Actual use of net proceeds up to 31 December 2020 HK\$'000	Unutilised balance as at 31 December 2020 HK\$'000	Expected timeline for the intended use
Further development of the Group's building services engineering business	16,500	16,500	–	
Further expansion of service scope	8,500	6,700	1,800	31 December 2021
Further strengthening the Group's engineering department	6,600	6,600	–	
Total	31,600	29,800	1,800	

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 2020, the unused net proceeds from the Listing of approximately HK\$1.8 million was placed in an interest bearing account with bank in accordance with the disclosure in the Prospectus. There was a delay in the use of proceeds as to expansion of service scope and the unutilised portion of the net proceeds represent the salaries and payments payable to the additional staff members recruited for expansion of service scope. The Company expects the unutilised portion of the net proceeds will be utilised by 2021. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Kang Kwong (黃鏡光), aged 55, 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 30 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 50, 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 23 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 46, 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 22 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, delisted from the Stock Exchange in December 2019) 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHUNG Yuk Ming, Christopher (鍾育明), aged 47, 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 22 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 member of the Hong Kong Institute of Surveyors since July 2017 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 39, 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 48, 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 26 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following are the senior management team of our Group:

Mr. LEE Man Kei (李文基), aged 43, 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. He is also the authorised signatory in the category of ventilations works with the Building Department of the Group.

Mr. Lee has over 16 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. He has been a chartered engineer of the Engineering Council (UK) since December 2017. 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 45, 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 23 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 42, 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. He is also the authorised signatory in the category of ventilation works, and the category of minor works contractors Type E (Classes I, II, III) with the Buildings Department of the Group.

Mr. Lau has over 16 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, a member of the Chartered Institute of Plumbing and Heating Engineering since February 2017, a chartered engineer of the Engineering Council (UK) since July 2018, a member of the Chartered Institution of Building Services Engineers and has been a Fellow of the Chartered Institute of Plumbing and Heating Engineering Since September 2020. Mr. Lau first joined the Group as an engineer and was subsequently promoted to the position as a senior engineer, assistant project manager and his current position as a project manager.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. CHAN Chun Sing (陳振聲), aged 41, is the 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 was the chief financial officer of the Group from February 2015 to December 2020 and has been the company secretary of the Group since 2 January 2018. 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. He has been a Company secretary of Janco Holdings Limited (stock code: 8035) since October 2019. Mr. Chan has been a director of McMillan Woods (Hong Kong) CPA Limited since November 2019.

Mr. Chan has over 19 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). Mr. Chan has been an executive director of Janco Holdings Limited (stock code: 8035) from October 2019 to December 2020. 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 from May 2015 to March 2017.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the Year.

CORPORATE GOVERNANCE CODE

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

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

CHAIRMAN AND CHIEF EXECUTIVE

Pursuant to the code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established.

During the Year and up to the date of this report, Mr. Wong Kang Kwong has been both the chairman of the Company and the chief executive of the Company. The Board considers that this structure could enhance efficiency in formulation and implementation of the Company's strategies, which is beneficial to the Group and shareholders as a whole. The Board will review the need of appointing suitable candidate to assume the role of chief executive when necessary.

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.

CORPORATE GOVERNANCE REPORT

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 “**INEDs**”). 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 INED, namely Mr. Tam Chun Chung, possesses 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, upon the recommendation of the nomination committee, 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.

CORPORATE GOVERNANCE REPORT

Board and General Meetings

During the Year, six Board meetings were held. The annual general meeting of the Company for the year ended 31 December 2019 was held on 29 May 2020 (the “2020 AGM”).

The attendance record of each Director at the Board meeting and the 2020 AGM is set out in the table below:

	Number of Attendance/ number of Board meetings	Attendance of the 2020 AGM
Executive Directors		
Mr. Wong Kang Kwong	6/6	✓
Ms. So Nui Ho	6/6	✓
Mr. Tang Chun Man Joseph	6/6	✓
Independent non-executive Directors		
Mr. Chung Yuk Ming, Christopher	6/6	✓
Mr. Fok Ka Chi	6/6	✓
Mr. Tam Chun Chung	6/6	✓

RELATIONSHIPS BETWEEN THE BOARD

Mr. Wong Kang Kwong and Ms. So Nui Ho are spouses. 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. Save as disclosed in this report, there is no other family, business or other material relationship among the Directors.

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 made by the Company, the Directors confirmed that they have complied with the required standards as set out in the Model Code and the Company were not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the Year.

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.

CORPORATE GOVERNANCE REPORT

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

Name of Director	Attending training course(s) relevant to updates of the Listing Rules and corporate governance	Reading materials relevant to corporate governance
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	✓	✓

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.

CORPORATE GOVERNANCE REPORT

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 skills, 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 INEDs 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 INEDs. 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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE 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 (<i>Chairman</i>)	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 2019, and the six months ended 30 June 2020 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.

CORPORATE GOVERNANCE REPORT

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 INEDs 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/or 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.

CORPORATE GOVERNANCE REPORT

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

	Number of attendance/ number of meetings
Mr. Fok Ka Chi (<i>Chairman</i>)	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.

REMUNERATION OF SENIOR MANAGEMENT

Pursuant to code provision B.1.5 of the CG Code, the remuneration paid to the members of the senior management (excluding Directors) by band during the Year is set out below:

Remuneration band (HK\$)	Number of person(s)
Nil to 1,000,000	3
1,000,001 to 1,500,000	–

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 INEDs 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.

CORPORATE GOVERNANCE REPORT

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 2020 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 (<i>Chairman</i>)	1/1
Mr. Fok Ka Chi	1/1
Mr. Tam Chun Chung	1/1

Nomination criteria

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) the candidate's character and integrity;
- (ii) the candidate's 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 INEDs, 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 of the candidate 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.

CORPORATE GOVERNANCE REPORT

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, 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	
	2020 HK\$'000	2019 HK\$'000
Statutory audit services	800	1,200
Non-audit services	–	–

CORPORATE GOVERNANCE REPORT

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.

All Directors have access to the advice and services of the company secretary. The company secretary reports to the Chairman of the Board and are responsible for ensuring that board procedures are followed, and for facilitating communications among Directors as well as with shareholders of the Company and management.

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 an annual review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions for the Year. 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 Board, together with the Audit Committee, would conduct annual review on the internal control and risk management system of the Group on an annual basis.

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, 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 2020, 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 about their reporting responsibility on the financial statements of the Group are set out in the independent auditor's report on pages 48 to 53 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 dividend policy (the "**Dividend Policy**"), 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.

CORPORATE GOVERNANCE REPORT

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 “**2021 AGM**”) will be held on 11 May 2021 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 54, 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;

CORPORATE GOVERNANCE REPORT

- (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, there had been no change in the Company's Memorandum of Association and the Articles.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GENERAL

This report covers certain environmental and social responsibility aspects underlying the Group's business operations in Hong Kong during the Year and is prepared with reference to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules (the "ESG Reporting Guide").

The Company has complied with the "comply or explain" provisions set out in the ESG Reporting Guide during the Year.

STAKEHOLDERS ENGAGEMENT

The Group focuses on developing the long-term value for its stakeholders, who comprise of the Group's employees, customers, investors, suppliers and contractors, and the community. The Company interacts with stakeholders through various channels to understand the views of various stakeholders and collect their feedback, in order to better satisfy their demands and expectations. Our communication channels with our stakeholders include company website, annual general meeting, annual reports and interim reports, staff meetings, customers and suppliers meetings, etc.

GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION

Emissions

Our Group engages in the construction industry which may generate some hazardous waste due to the business nature. The Group takes all reasonable steps to closely monitor and manage the environmental effect of the operations. The Group targets to minimise the impact on the environment and always seeks less harmful ways to the environment in the operations. The Group has adopted the emission control measures, included but not limited to: (i) recycle refrigeration to the cylinder and reuse it at replacement works project; (ii) encourage our staff to promote high coefficient of performance ("COP") equipment to the client; and (iii) open burning is prohibited in all sites. During the Year, the Group did not identify any material non-compliance related to emissions.

The Group did not engage in business which would come significant discharges of sewage or generation of hazardous and non-hazardous waste. However, the Group has adopted a policy to require our staff to comply with the law in relation to disposal of construction waste. During the Year, the Group has complied with all laws in relation to disposal of construction waste in Hong Kong.

	2020	2019
Air Emission		
Types of air emissions and respective emission data		
NO _x (kg)	1.53	1.98
SO _x (kg)	0.06	0.07
PM (kg)	0.11	0.15
Carbon dioxide equivalent (CO₂e) Emissions		
Direct Emission (Scope 1) (tonnes)	18.1	12.6
Indirect Emission (Scope 2) (tonnes)	66.6	46.2
Indirect Emission (Scope 3) (tonnes)	15.3	11.2
Total Emission (tonnes)	100.0	70.0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Use of Resources

The Group is committed to have an environmentally friendly working environment. The Group advocates reduction of consumption of fuel, electricity, water and improving the resource efficiency by way of, inter alia, the following measures: (i) the Group encourages its employees to switch off the lights and electronic appliances before they leave the office; (ii) the Group encourages its employees to set the temperature of the office's air conditioner to 25.5 Degree Celsius; (iii) the Group encourages its employees to use double-sided printing instead of single-sided printing; (iv) the Group arranges the surplus materials on the construction site to be re-used in other construction sites instead of dumping; (v) the Group encourages its employees to save water and reduce domestic sewage and water-saving notices are placed in office area; and (vi) the Group ensures the water supply is at its optimal working condition, and promptly repairs the water supply in the event of leakage.

In 2020, there is no water fetching problem in our daily business and our business does not involve the use of packaging material in production.

Use of Resources

	2020	2019
Electricity Intensity		
Total Electricity consumption (kWh)	60,584	74,687
Electricity Intensity (kWh/Staff/Day)	1.71	2.11
Water Intensity		
Total Water consumption (m ³)	48	51
Water Consumption Intensity (m ³ /Staff/Day)	0.001	0.001

The Environment and Natural Resources

The business of the Group does not involve a significant use of natural resources. However, the Group is fully aware of the environmental impacts that may arise during our business process. The Group regularly provides internal trainings and briefings to share practical tips and information about the environmentally friendly action to its management and employees in order to minimise the impact of the business on the environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT

The Group regards people as its greatest asset. To underline this fact, the Group has established clear policies and guidelines to attract and retain talent. The Group places a significant emphasis on developing human capital and provides competitive remuneration and welfare packages. Promotion opportunities and salary adjustments are benchmarked against individual performance. The Group delivers a fair and safe working environment for employees to support their career advancement and also fosters their personal development. The Group strictly abides by all relevant employment law, including the Employment Ordinance, Employments' Compensation Ordinance, Minimum Wage Ordinance, Construction Workers Registration Ordinance and Mandatory Provident Fund Schemes Ordinance. During the Year, to the best of Directors' knowledge, the Group was not aware of any material non-compliance case in this regard.

Summary of employment performance indicators:

	2020		2019	
Number of Employees		115		87
By Gender				
Female	9	7.8%	9	10%
Male	106	92.2%	78	90%
By Age				
18 or below		0		0
19 to 40		49		42
41 to 60		58		39
Over 60		8		6

Diversity

Number of Employees by Employee Category	2020				
	Gender		Age Group		
	Female	Male	19 to 40	41 to 60	Over 60
Management	1	13	0	11	3
Technical/Supervisor	2	28	20	8	2
General staff	6	65	29	39	3

Number of Employees by Employee Category	2019				
	Gender		Age Group		
	Female	Male	19 to 40	41 to 60	Over 60
Management	1	13	2	10	2
Technical/Supervisor	2	29	21	8	2
General staff	6	36	19	21	2

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Turnover Rate

	2020	2019
Number and Rate (%) of Employee Turnover	30/115 (26%)	26/87 (30%)
By Gender		
Female	1/9 (11%)	5/9 (56%)
Male	29/106 (27%)	21/78 (27%)

HEALTH AND SAFETY

Summary of Health and Safety Performance Indicators

	2020	2019
Work-related fatalities (Case)	–	–
Lost days due to work injury (Day)	28	91

The Group places the highest priority on securing occupational safety and health of all the employees. More than complying with relevant occupational safety and health legislations of Hong Kong, we endeavour to protect the employees from work-related accidents/injuries. All work-related injury cases were handled and filed according to our internal accident handling procedures and reports were made to the relevant authority in compliance with the law. We would also conduct internal review when necessary to prevent re-occurrence of similar accident.

The Group had issued health and safety policy to all staff members for providing a safe working environment for its employees and to ensure that site operations are carried out in a safe and efficient manner. The Group believe a safe and pleasant working environment will not only ensure the safety and well being of our staffs and workforce but will also enhance productivity. The Group therefore emphasises strongly on safety as a matter of policy and all employees and subcontractors are expected to maintain our workplace safely and to carry out our site operations in a safe and efficient manner. Safety training and risk assessment should be carried out before works commence to identify the risk to our staff to minimise accident. The Group also conducts safety audit and reviews its health and safety audit from time to time.

During the Year, the Group has not identified any material non-compliance cases relating to providing a safe working environment and protecting employees from occupational hazards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DEVELOPMENT AND TRAINING

The Group believes that people development plays the most pivotal role in laying a solid ground for business growth. The Group encourages long-term growth and career development by allocating sufficient resources to people development. Besides on-the-job training, employees are encouraged to participate in internal and external training to strengthen their capacity, work skills, knowledge and professionalism.

Summary of Development and Training Performance Indicators

By Employee Category and Gender	2020			
	Total Training Hours		Total Percentage	
	Female	Male	Female	Male
Management	2	24	100%	15%
Technical/Supervisor	0	166	0	39%
General staff	0	350	0	31%

By Employee Category and Gender	2019			
	Total Training Hours		Total Percentage	
	Female	Male	Female	Male
Management	2	64	100%	20%
Technical/Supervisor	0	172	0	23%
General staff	0	765	0	5%

LABOUR STANDARDS

The Group strictly complies with the Employment Ordinance (Cap. 57 of the laws of Hong Kong) and fully understands that employing child labour and forced labour is prohibited. The Group reviews the job applicant's identity information during the recruitment process and the applicant is also required to provide document proofs of academic qualifications and working experience for verifications. The employment policies of the Group also protect the right of free choice of employment by any person and ensure that all the employment relationship is established on a voluntary basis. During the Year, the Group has not identified any non-compliance cases involving child labour and forced labour and complied with all relevant laws and regulations relating to employment and labour practices.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUPPLY CHAIN MANAGEMENT

Sustainable Procurement

To ensure the Group's service quality, our policy in relation to the subcontractors and suppliers is to select only those subcontractors and suppliers on an approved list who have passed the Group's quality control tests and have a satisfactory record of quality and on-time delivery. The Group aims to maintain the partnership with suppliers and to work together in order to promote sustainable development of the industry. The Group performs the evaluation of a supplier on an annual basis to make sure that the performance of the subcontractors and suppliers are up to the standard. The assessment mainly includes, but not limited to, the professional qualification, services/products quality, operation in good integrity, social responsibility, etc. If the evaluation result of the suppliers or subcontractors are not satisfactory, the respective suppliers or subcontractors may be removed from the approval list.

	2020	2019
Number of key suppliers/subcontractors	193	350
By region		
Hong Kong	193	350

PRODUCTS RESPONSIBILITY

The Group recognises the importance of the quality of the services provided by our Group. The Group has established relevant policies which cover service quality and safety in order to ensure relevant measures for complying with the applicable laws and regulations.

The Group communicates and confirms the work plan with customers before the commencement of the project and actively monitors processes and coordinates with the customers. The Group highly values the feedback or advice given by the customers and we have adopted a policy that if a complaint arises, the Group will immediately assess the complaint and conduct an internal investigation into the matter to identify the source of the issue. If the complaint is valid, the Group will immediately provide the relevant solution to solve the issues as soon as practicable.

The Group also recognises the importance of the intellectual property right. The management and relevant department review the contracts entered into with customers and suppliers to ensure the intellectual property rights are properly accounted for. The Group also complies with relevant law and regulation of data privacy. All confidential data of customers can only be assessed by the staff who are responsible for the projects for relevant clients.

For the Year, the Group has not identified material non-compliance cases relating to product responsibility, including health and safety to customers, advertising and privacy matters.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANTI-CORRUPTION

The Group realises the importance of staff integrity. The Group strictly forbids any bribery, extortion, fraud and money-laundering activities. We have established the Code of Conduct (“**CoC**”) for all employees. With reference to the Prevention of Bribery Ordinance (Cap. 201 of the laws of Hong Kong), advice from the Independent Commission Against Corruption, industry practice and internal consideration, CoC is made for the purpose of providing employees with the guidance for allowable acceptance of gifts or entertainment, conflict of interest, handling of confidential information, and whistle-blowing procedures.

Employees are also required to comply strictly with applicable laws relating to the above acts. The Group has adopted and circulated internally clear guidelines for employees. During the Year, the Group has not received any complaint or notification from governmental authorities regarding non-compliance of the Group or its employees with laws in relation to bribery, extortion, fraud and money laundering.

COMMUNITY INVESTMENT

Supporting Education

The Group firmly believes that investing in youth education is crucial for the long-term sustainability of the Group and the industry. Thus, we provided internship programme for undergraduate students through practical working experience to support talent development.

Caring for the Society

Corporate social responsibility via staff volunteerism, philanthropy and community service are the core values of the Group. We have actively participated in charitable donations, caring for people in need, as well as supporting and sponsoring educational and environmental protection activities.

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 2020 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 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 54 of this annual report.

DIVIDEND

The Board resolved not to recommend payment of any final dividend for the Year.

REPORT OF DIRECTORS

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 114 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 14 to the consolidated financial statements of this annual report.

INVESTMENT PROPERTY

In May 2019, the Group completed an acquisition of the Investment Property from an independent third party at the consideration of approximately HK\$6.2 million. On 23 May, 2019, the Group entered into a two-year term tenancy agreement with an independent third party with monthly rental at market rate.

SHARE CAPITAL

On 20 May 2019, 50,000,000 shares of HK\$0.01 each of the Company were issued at a price of HK\$0.155 by way of placing under general mandate. As at 31 December 2020, the total issued share capital of the Company was HK\$13,300,000 divided into 1,330,000,000 shares of HK\$0.01 each. 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. There has been no change in the issued share capital of the Company during the Year.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2020, 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\$17.8 million comprising accumulated losses of approximately HK\$20.0 million and the share premium amounting to approximately HK\$37.8 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 2020.

DISCLOSURE OF INTERESTS

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

As at 31 December 2020, 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 (long position)	Percentage of shareholding
Mr. Wong Kang Kwong ("Mr. Wong") (Note 1)	Interest in controlled corporation	653,000,000	49.10%
	Beneficial owner	140,100,000	10.53%
	Interest of spouse	8,000,000	0.60%
Ms. So Nui Ho ("Ms. So") (Note 2)	Interest of spouse	793,100,000	59.63%
	Beneficial owner	8,000,000	0.60%
Mr. Tang Chun Man Joseph	Beneficial owner	160,000	0.01%

Notes:

- 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 140,100,000 Shares. Mr. Wong is an executive Director and one of the controlling shareholders of the Company, the sole director of Golden Luck. Mr. Wong is the spouse of Ms. So. Under the SFO, Mr. Wong is therefore deemed to be interested in the same number of Shares held by Ms. So.
- 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.

REPORT OF DIRECTORS

(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 (long position)	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 2020, 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 2020, 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	49.10%

Save as disclosed above, as at 31 December 2020, 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, 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.

MAJOR CUSTOMERS

During the Year, the Group's five largest customers accounted for approximately 61.7% (2019: 63.1%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 25.2% (2019: 20.8%) 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 28.9% (2019: 30.4%) of the total purchases of the Group and the largest supplier of the Group accounted for approximately 7.2% (2019: 7.2%) 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

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 11 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.

REPORT OF DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out on pages from 13–14 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 years 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 INED 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 contract 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 AGM 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 AGM of the Company and shall then be eligible for re-election.

In accordance with Articles 83(3) and 84 of the Articles, Ms. So 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 to 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 11 and 12, 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.

DEED OF NON-COMPETITION

The deed of non-competition dated 17 September 2015 has been entered into by Mr. Wong, Ms. So 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 INEDs 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.

REPORT OF DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

The related party transactions entered into by the Group with Mr. Wong, Ms. So and LKW Company Limited ("**LKW Co**") during the Year as set out in note 32 to the consolidated financial statements.

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.

CONNECTED TRANSACTIONS

During the Year, the Group did not enter into any non-exempted connected transaction or continuing connected transactions under Chapter 14A of the Listing Rules which require reporting, announcement, annual review and independent shareholders' approval.

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 and up to the date of this report.

AUDITOR

Messrs. BDO Limited ("**BDO**") was appointed as the auditors of the Company in place of Messrs. Deloitte Touche Tohmatsu ("**Deloitte**") immediately following the resignation of Deloitte as auditors of the Company on 24 September 2020 and to hold office until the conclusion of the 2021 AGM. The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by BDO, who will retire and, being eligible, offer themselves for reappointment at the 2021 AGM. A resolution for their re- appointment as auditors of the Company will be proposed at the 2021 AGM.

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\$20,000 (2019: HK\$21,400).

EFFECT OF COVID-19

After the outbreak of Novel Coronavirus (“**COVID-19**”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. Construction industry in Hong Kong has been affected as a consequence of COVID-19, which are directly and indirectly affecting the operations of the engineering projects.

During the year ended 31 December 2020 and up to the date of these financial statements, COVID-19 has resulted in impacts on the financial performance of the Group and might be adversely affected to the subsequent construction and operation of the engineering projects of the Group (such as delays in construction and increased costs), which will depend on the new development concerning the global severity of and actions taken to contain the COVID-19 outbreak that are highly uncertain. The Group will continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the consolidated financial statements and operation results.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Thursday, 6 May 2021 to Tuesday, 11 May 2021, both dates inclusive, the period during which 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 5 May 2021.

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, 23 March 2021

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF LAP KEI ENGINEERING (HOLDINGS) LIMITED

(incorporated in the 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 the “**Group**”) set out on pages 54 to 113, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (the “**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)

Contract Revenue of Building Services Engineering Contracts

Refer to summary of significant accounting policies in note 4.7, accounting estimates and judgements in note 5(a) and disclosure of revenue in note 6 to the consolidated financial statements.

For the year ended 31 December 2020, the Group recognised contract revenue of building services engineering contracts amounting to HK\$114,028,000. The contract revenue is recognised according to the management's estimation of the progress and outcome of the project. As disclosed in note 5(a) 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.

We identified recognition of the contract revenue of building services engineering contracts, as a key audit matter due to significant judgments involved in the management's assessment process.

Our response:

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; and
- 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Allowance for Expected Credit Loss ("ECL") Assessment of Trade Receivables and Contract Assets

Refer to summary of significant accounting policies in note 4.6, accounting estimates and judgements in note 5(b) and disclosure of trade receivables and contract assets in notes 17 and 18 to the consolidated financial statements.

As at 31 December 2020, the Group had net trade receivables and contract assets amounting to HK\$40,044,000 and HK\$27,694,000, respectively. During the year ended 31 December 2020, credit loss allowance of HK\$258,000 and a reversal of credit loss allowance of HK\$784,000 have been recognised in respect of trade receivables and contract assets, respectively.

As disclosed in note 5(b) to the consolidated financial statements, in determining the credit loss allowance for trade receivables and contract assets, the management of the Group estimates the amount of lifetime ECL 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.

We have identified allowance for expected credit loss assessment of trade receivables and contract assets as a key audit matter due to considerable amount of judgment and estimates being used by the Group in assessing the ECL as mentioned in the forgoing paragraph.

KEY AUDIT MATTERS (CONTINUED)

Allowance for Expected Credit Loss ("ECL") Assessment of Trade Receivables and Contract Assets (Continued)

Our response:

Our procedures in relation to the allowance for ECL 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 31 December 2020, 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;
- Testing the reasonableness of internal credit rating given to each category of debtors by checking trade receivables aging analysis as at 31 December 2020, 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; and
- Testing the estimated loss rates of each category in the provision matrix by checking the external credit report for probability of default and loss given default, on a sample basis.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2020.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

INDEPENDENT AUDITOR'S REPORT

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our 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.

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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- 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 the Audit Committee 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.

We also provide the Audit Committee 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, actions taken to eliminate threats or safeguards applied.

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.

BDO Limited

Certified Public Accountants

Pak Tak Lun
Practising Certificate number: P06170
Hong Kong, 23 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Revenue	6	132,272	153,475
Cost of revenue		(124,111)	(169,338)
Gross profit/(loss)		8,161	(15,863)
Other income and other gains or losses		4,856	140
Administrative expenses		(15,319)	(14,861)
Impairment loss reversed/(recognised) under expected credit loss ("ECL") model, net of reversal		526	(1,005)
Finance costs	7	(2)	(119)
Loss before income tax	8	(1,778)	(31,708)
Income tax credit	9	14	–
Loss and total comprehensive income for the year		(1,764)	(31,708)
Loss per share		HK cents	HK cents
— Basic (HK cents)	13	(0.13)	(2.42)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	1,070	1,636
Investment property	15	5,300	6,100
Deposit paid for a life insurance policy	16	1,175	1,159
		7,545	8,895
Current assets			
Trade and other receivables	17	53,464	34,252
Contract assets	18	27,694	72,924
Amount due from a related party	19	–	8
Tax recoverable		3,028	2,666
Pledged bank deposits	20	7,241	7,903
Bank balances	20	58,286	64,380
		149,713	182,133
Current liabilities			
Trade and other payables	21	44,662	75,006
Contract liabilities	22	349	1,997
		45,011	77,003
Net current assets		104,702	105,130
Total assets less current liabilities		112,247	114,025
Non-current liabilities			
Deferred tax liabilities	23	185	199
Net assets		112,062	113,826
EQUITY			
Share capital	24	13,300	13,300
Reserves		98,762	100,526
Total equity		112,062	113,826

These financial statements on pages 54 to 113 were approved and authorised for issue by the board of directors on 23 March 2021 and signed on its behalf by:

Wong Kang Kwong
Director

So Nui Ho
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2020

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balance at 1 January 2019	12,800	30,855	610	93,828	138,093
Loss and total other comprehensive income for the year	–	–	–	(31,708)	(31,708)
Issue of shares (note 24)	500	7,250	–	–	7,750
Transaction costs directly attributable to the issue of shares	–	(309)	–	–	(309)
Balance at 31 December 2019 and 1 January 2020	13,300	37,796	610	62,120	113,826
Loss and other comprehensive income for the year	–	–	–	(1,764)	(1,764)
Balance at 31 December 2020	13,300	37,796	610	60,356	112,062

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**”), a shareholder of the Company’s ultimate holding company, and Ms. So Nui Ho (“**Ms. So**”), his spouse, to LKW Enterprise pursuant to corporate reorganisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Cash flows from operating activities			
Loss for the year		(1,778)	(31,708)
Adjustments for:			
Depreciation of plant and equipment		566	546
Interest expenses		2	119
Interest income		(49)	(57)
Impairment loss under ECL model, net of reversal		(526)	1,005
Decrease in fair value of investment property		800	159
Operating cash flows before movements in working capital		(985)	(29,936)
(Increase)/decrease in trade and other receivables		(19,470)	9,861
Decrease in contract assets		46,014	58,866
Decrease in amount due from a related party		8	–
(Decrease)/increase in trade and other payables		(30,344)	1,927
Decrease in contract liabilities		(1,648)	(168)
Cash (used in)/generated from operations		(6,425)	40,550
Hong Kong Profits Tax paid		(362)	–
Net cash (used in)/generated from operating activities		(6,787)	40,550
Investing activities			
Release of pledged bank deposits		662	5,570
Interest received		33	43
Purchase of an investment property		–	(6,259)
Purchase of plant and equipment		–	(964)
Net cash generated from/(used in) investing activities		695	(1,610)
Financing activities			
Net proceeds from issue of shares		–	7,441
New bank borrowings raised	33	305	–
Repayment of bank borrowings	33	(305)	(10,151)
Interest paid	33	(2)	(119)
Net cash used in financing activities		(2)	(2,829)
Net (decrease)/increase in cash and cash equivalents		(6,094)	36,111
Cash and cash equivalents at the beginning of the year		64,380	28,269
Cash and cash equivalents at the end of the year		58,286	64,380
Represented by bank balances			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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 are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). 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 Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, 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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSS**”)

(a) Adoption of new or amended HKFRSS — first effective on 1 January 2020

The Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) has issued a number of new or amended HKFRSS that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

None of these new or amended HKFRSS has a material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements. The Group has not early applied any new or amended HKFRSS that is not yet effective for the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

(b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 16	COVID-19-Related Rent Concessions ¹
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendment to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41	Annual Improvements to HKFRSs 2018–2020 ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁴
HKFRS 17	Insurance contracts ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

¹ Effective for annual periods beginning on or after 1 June 2020.

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective for annual periods beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after 1 January 2023.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKFRS 16 — COVID-19-Related Rent Concessions

The amendments provide lessees with an exemption from the requirement to determine whether a COVID-19-related rent concession is a lease modification and require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications. The criteria must be satisfied for a rent concession to qualify for the practical expedient.

The directors of the Company do not anticipate that the application of this amendment in the future will have an impact on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16, Interest Rate Benchmark Reform — Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “**Reform**”). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

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

HKFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a ‘General Model’, which is modified for insurance contracts with direct participation features, described as the ‘Variable Fee Approach’. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Company do not anticipate that the application of this standard in the future will have an impact on the financial statements.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group’s consolidated financial statements.

Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group’s consolidated financial statements.

Annual Improvements to HKFRSs 2018–2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to HKFRSs.
- HKFRS 9, Financial Instruments, which clarify the fees included in the ‘10 per cent’ test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other’s behalf are included.
- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

(b) New or amended HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

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

3. BASIS OF PREPARATION

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with all HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**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**”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for investment property that is measured at fair values 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.

(c) Functional and presentation currency

The financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Group

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries (collectively the “Group”). 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes.

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.

4.3 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

4.4 Impairment of plant and equipment

At the end of each reporting period, the Group reviews the carrying amounts of its plant and equipment 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 plant and equipment are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Impairment of plant and equipment (Continued)

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.5 Deposit paid for a life insurance policy

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

4.6 Financial instruments

Financial assets and financial liabilities are recognised when a group entity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Financial instruments (Continued)

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 “Revenue from Contracts with Customers” (“**HKFRS 15**”). 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

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.

All of the Company’s financial assets are subsequently measured at amortised cost.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under ECL model on financial assets (including trade and other receivables, amount due from a related party, pledged bank deposits and bank balances) and contract assets, which are subject to impairment under HKFRS 9. 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 (“**12m 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 12m 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.

(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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

- 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 30 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 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

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, other receivables, 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, contract asset where the corresponding adjustment is recognised through a credit loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Financial instruments (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

Financial liabilities, including trade and other payables 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Revenue from contracts with customers

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.

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 or 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 “Financial Instruments” (“**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.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group’s performance completed to date. The Group recognises revenue in the amount to which the Group has the right to invoice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Revenue from contracts with customers (Continued)

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

4.8 Foreign currency

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 arising on the settlement of monetary items and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4.9 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.

4.10 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.

4.11 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 HKFRSs require or permit the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of warehouses and office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- Fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- The lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Leases (Continued)

The Group as a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income is included in other income and other gains or losses.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from leases.

Lease modifications

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 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/(loss) before tax' because 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.

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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted.

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 to the same taxable entity by the same taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Taxation (Continued)

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

4.14 Related parties

A party is considered to be related to the Group if:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the directors are required to make judgements, 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 differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

(a) Estimated outcome of building services engineering contracts and contract assets

During the year ended 31 December 2020, the Group recognises contract revenue of a building services engineering work of HK\$114,028,000 (2019: HK\$136,136,000) 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 customers or external 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) 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 cost 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.

During the year ended 31 December 2020, a credit loss allowance of HK\$258,000 (2019: HK\$2,070,000) and a reversal of credit loss allowance of HK\$784,000 (2019: HK\$1,065,000) are recognised and credited to profit or loss in respect of trade receivables and contract assets, respectively.

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 17, 18 and 27(b), respectively.

(c) Fair value measurements

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 accounted for in accordance with HKFRS 16 or HKAS 17 (before application of HKFRS 16), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Significant judgement in determining the lease term of contracts

The Group has several short-term lease contracts with related parties that are silent on extension and termination options. These short-term lease contracts had been continued after expiry in the past two years. In the opinion of the Directors, these leases are not non-cancellable leases, and either the related parties or the Group might give notice to terminate the lease contracts at any time, with no financial penalty to be incurred upon termination. The Group applies judgement in evaluating whether the continuous period as part of the lease terms for leases. In the opinion of the Directors, these leases are, in substance, short-term cancellable leases. The Group did not include the continuous period as part of the lease terms.

6. 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

	2020 HK\$'000	2019 HK\$'000
Type of services		
Building services engineering work	114,028	136,136
Maintenance, repair and other services	18,244	17,339
	132,272	153,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(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. In certain circumstances, the amount of payment received is in excess of the certified revenue to date. Such difference will be recorded as contract liabilities.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which ranges from one to two years from the date of the practical completion of the contracts. The relevant amount of contract assets is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the services performed comply with agreed-upon specifications and such assurance cannot be purchased separately.

Revenue relating to the maintenance, repair and other services is recognised over time. The transaction price 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. Contract liabilities represent the portion of fees that the Group received from the customers in relation to maintenance, repair and other services that have not been performed.

The Group allows a credit of 30 days (2019: 30 days) to its customers from building services engineering work. The Group does not grant any credit period to its customers of maintenance, repair and other services.

All revenue from contracts with customers are arising from Hong Kong during the year and prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

	2020 HK\$'000	2019 HK\$'000
Provision of building services engineering work		
— Within one year	272,805	107,777
— More than one year but not more than two years	239,115	17,249
	511,920	125,026

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

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

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

- | | | | |
|------|--|---|--|
| (i) | Building services engineering work | — | Provision of building services engineering work including mechanical ventilation and air-conditioning system, electrical system, plumbing and drainage system, fire system and other related works |
| (ii) | Maintenance, repair and other services | — | Provision of maintenance and repair services for building services system and replacement of parts |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

For the year ended 31 December 2020

	Building services engineering work HK\$'000	Maintenance, repair and other services HK\$'000	Total HK\$'000
Segment revenue			
External sales	114,028	18,244	132,272
Segment results	2,740	5,421	8,161
Other income and other gains or losses			4,856
Administrative expenses			(15,319)
Impairment loss reversed under ECL model, net of reversal			526
Finance costs			(2)
Loss before income tax			(1,778)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2019

	Building services engineering work HK\$'000	Maintenance, repair and other services HK\$'000	Total HK\$'000
Segment revenue			
External sales	136,136	17,339	153,475
Segment results	(20,618)	4,755	(15,863)
Other income and other gains or losses			140
Administrative expenses			(14,861)
Impairment loss recognised under ECL model, net of reversal			(1,005)
Finance costs			(119)
Loss before income tax			(31,708)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results mainly represented gross profit earned by each segment.

Geographic information

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

Information about major customers

Revenue from customers in respect of building services engineering work during the years ended 31 December 2020 and 2019 individually contributing over 10% of the Group's revenue is as follows:

	2020 HK\$'000	2019 HK\$'000
Customer A	N/A ¹	31,890
Customer B	N/A ¹	22,647
Customer C	N/A ¹	21,977
Customer D	33,180	N/A ¹
Customer E	28,259	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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank borrowings	2	119

8. LOSS BEFORE INCOME TAX

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

	2020 HK\$'000	2019 HK\$'000
Directors' remuneration (note 11)	5,026	4,023
Other staff costs:		
— Salaries and other allowances	32,291	34,824
— Retirement benefits scheme contributions	1,210	931
Total staff costs	38,527	39,778
Auditor's remuneration	800	1,200
Depreciation of plant and equipment	566	546
Impairment loss recognised on trade receivables	258	2,070
Impairment loss reversed on contract assets	(784)	(1,065)
Bank interest income	(33)	(43)
Interest income on a deposit paid for a life insurance policy	(16)	(14)
Rental expense on short-term leases in respect of warehouse, office premises and car parks (note (a))	1,776	1,133
Decrease in fair value of an investment property	800	159
Government subsidiaries (note (b))	(4,536)	–
Gross fixed rental income from an investment property	(153)	(131)
Less: direct operating expenses incurred for an investment property that generated rental income	23	21
	(130)	(110)

Note (a): The Group regularly entered into short-term leases for warehouse, office premises and car parks. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense.

Note (b): Government subsidies related to cash subsidies from government in respect of COVID-19 relief measures which are grants with conditions having been satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. INCOME TAX CREDIT

	2020 HK\$'000	2019 HK\$'000
Hong Kong Profits Tax		
— Current year	—	—
— Overprovision in prior years:	—	—
Deferred tax (note 23)	14	—
	14	—

The Group is subject to Hong Kong Profit Tax. No Hong Kong Profit Tax was provided for the Company's subsidiaries in Hong Kong for the current year and prior year as they either did not derive any assessable profits or had estimated tax losses brought forward to offset against the estimated assessable profits.

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

	2020 HK\$'000	2019 HK\$'000
Loss before income tax	(1,778)	(31,708)
Tax at Hong Kong Profits Tax rate of 16.5% (2019: 16.5%)	(293)	(5,232)
Tax effect of income not taxable for tax purpose	(8)	(9)
Tax effect of expenses not deductible for tax purpose	194	220
Utilisation of tax losses previously not recognised	(21)	(426)
Tax effect of tax losses not recognised	142	5,453
Tax at concessionary rate	—	(6)
Income tax credit for the year	14	—

At the end of the reporting period, the Group has unused tax losses of HK\$33,780,000 (2019: HK\$33,047,000) 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 under the current tax legislation. Tax losses can be carried forward indefinitely.

10. DIVIDEND

Subsequent to the end of the reporting period, the directors of the Company resolved not to recommend the payment of any final dividend in respect of the year ended 31 December 2020 (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. 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	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Year ended 31 December 2020				
Executive directors:				
Mr. Wong	–	2,720	18	2,738
Ms. So	–	1,020	18	1,038
Mr. Tang Chun Man, Joseph	–	800	18	818
Independent non-executive directors:				
Mr. Chung Yuk Ming, Christopher	144	–	–	144
Mr. Fok Ka Chi	144	–	–	144
Mr. Tam Chun Chung	144	–	–	144
	432	4,540	54	5,026

	Director's fees HK\$'000	Salaries and other allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Year ended 31 December 2019				
Executive directors:				
Mr. Wong	–	2,160	18	2,178
Ms. So	–	657	18	675
Mr. Tang Chun Man, Joseph	–	720	18	738
Independent non-executive directors:				
Mr. Chung Yuk Ming, Christopher	144	–	–	144
Mr. Fok Ka Chi	144	–	–	144
Mr. Tam Chun Chung	144	–	–	144
	432	3,537	54	4,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. 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. The emoluments of independent non-executive directors shown above were paid 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 2020 and 2019.

During the years ended 31 December 2020 and 2019, 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.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year ended 31 December 2020 included two (2019: one) directors, details of whose emoluments are set out in note 11 above. Details of the emoluments of the remaining three (2019: four) individuals during the year were as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	2,088	2,547
Discretionary bonus	727	2,118
Retirement benefits scheme contributions	54	65
	2,869	4,730

The emoluments were within the following bands:

	2020 No. of employees	2019 No. of employees
Nil to HK\$1,000,000	3	–
HK\$1,000,001 to HK\$1,500,000	–	4

During the years ended 31 December 2020 and 2019, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

13. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31 December 2020 is based on the loss for the year of HK\$1,764,000 (2019: loss of HK\$31,708,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2020 of 1,330,000,000 (2019: 1,310,958,904).

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the placing of new shares on 20 May 2019 as disclosed in note 24. No diluted loss per share is presented for both years as there was no potential ordinary share outstanding.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost			
At 1 January 2019	448	2,413	2,861
Additions	–	964	964
At 31 December 2019	448	3,377	3,825
Written-off	–	(1,114)	(1,114)
At 31 December 2020	448	2,263	2,711
Accumulated depreciation			
At 1 January 2019	448	1,195	1,643
Depreciation	–	546	546
At 31 December 2019	448	1,741	2,189
Depreciation	–	566	566
Written-off	–	(1,114)	(1,114)
At 31 December 2020	448	1,193	1,641
Net book value			
At 31 December 2020	–	1,070	1,070
At 31 December 2019	–	1,636	1,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The items of property, plant and equipment are depreciated over their estimated useful lives, using straight-line method:

Furniture, fixtures and equipment	3–5 years
Motor vehicles	3–5 years

15. INVESTMENT PROPERTY

The Group leases out a warehouse under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 2 years, with unilateral rights to extend the lease beyond initial period held by lessees only. The Group is not exposed to foreign currency risk as a result of the lease arrangement, as the lease is denominated in the respective functional currency of the group entity. The lease contract does not contain residual value guarantee and/or lessee's option to purchase the property at the end of the lease term.

	HK\$'000
Fair value	
At 1 January 2019	–
Additions	6,259
Decrease in fair value during the year	(159)
<hr/>	
At 31 December 2019	6,100
<hr/>	
Additions	–
Decrease in fair value during the year	(800)
<hr/>	
At 31 December 2020	5,300
<hr/>	
Unrealised loss on property revaluation included in profit or loss (included in other income and other gains or losses)	800
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The fair value of the Group's investment property as at 31 December 2020 and 2019 has been arrived at on the basis of a valuation carried out on the respective dates by independent qualified professional valuers not connected with the Group.

In determining the fair value of the relevant property, the board of directors are responsible for determining the appropriate valuation techniques and inputs for fair value measurements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

15. INVESTMENT PROPERTY (CONTINUED)

The valuation conforms to the Hong Kong institute of surveyors Valuation standards (2020 edition) published by the Hong Kong institute of surveyors. The fair value is determined based on the direct comparison approach. Unobservable inputs includes location and conditions of the property. The fair value measurement of the investment property is categorised in Level 3 of fair value hierarchy.

Investment property is pledged to a bank to secure a mortgage loan and general banking facilities granted to the Group (note 30).

There were no transfer into or out of level 3 during the year.

In estimating the fair value of the property, the highest and best use of the property is their current use.

The key inputs used in the valuation of the investment property as at 31 December 2020 and 2019 are as follow:

Category	Fair value hierarchy	Fair value as at		Valuation techniques	Key unobservable inputs	Relationship of unobservable inputs to fair value
		2020 HK\$'000	2019 HK\$'000			
Completed investment properties						
Warehouse in Hong Kong	Level 3 (recurring)	5,300	6,100	Direct comparison approach	Market unit rate, taking into account the recent transaction prices for similar properties adjusted for location and conditions of the property which is HK\$5,702 per square feet (2019: HK\$6,563 per square feet).	A significant increase in the market unit rate used would result in a significant increase in fair value, or vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. 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:

Insured sum	Upfront payment	Guaranteed interest rates	
		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:

	2020 HK\$'000	2019 HK\$'000
Deposit placed for a life insurance policy	1,175	1,159

The carrying amounts of the deposit paid for a life insurance policy as at 31 December 2020 and 2019 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 United States dollar (“**US\$**”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	44,377	33,474
Less: allowance for credit loss	(4,333)	(4,075)
	40,044	29,399
Other receivables, deposits and prepayments	13,420	4,853
Total trade and other receivables	53,464	34,252

The Group allows a credit period of 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:

	2020 HK\$'000	2019 HK\$'000
0-30 days	15,186	18,416
31-60 days	8,827	2,443
61-90 days	8,148	5,433
> 90 days	7,883	3,107
	40,044	29,399

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$24,858,000 (2019: HK\$10,983,000), which are past due as at the end of the reporting period. Out of the past due balances, aggregate carrying amount of HK\$5,762,000 (2019: HK\$2,327,000) 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.

Details of impairment assessment of trade and other receivables are set out in note 27(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. CONTRACT ASSETS

	2020 HK\$'000	2019 HK\$'000
Contract assets	28,217	74,231
Less: allowance for credit loss	(523)	(1,307)
	27,694	72,924
Analysed as current:		
Unbilled revenue of building services engineering contracts (note a)	4,673	47,990
Retention receivables of building services engineering contracts (note b)	23,021	24,934
	27,694	72,924
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	11,564	4,296
After one year	11,457	20,638
	23,021	24,934

Changes of contract assets during the year ended 31 December 2020 were mainly due to decrease in: (1) the amount of retention receivables in accordance with the number of ongoing and completed contracts under the defect liability period; and (2) the size and number of contracts in respect of building engineering services that the relevant services were completed but yet certified by customers or external surveyors at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

18. 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 represent amounts not yet billed to customers which are conditional until the expiry of defect liability period in respect of building services engineering contracts. The retention receivables are transferred to the trade receivables when the rights become unconditional.

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

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

Details of the impairment assessment of contract assets are set out in note 27(b).

19. AMOUNT DUE FROM A RELATED PARTY

	2020 HK\$'000	2019 HK\$'000
Amount due from a related party (Note)	–	8

Note: It represented amount due from Kin Kwan Decoration, Co. ("Kin Kwan"), the sole beneficial owner of which is a brother of Mr. Wong. The amount was trade-related, unsecured, interest-free and with a credit period of 30 days. The amount has been settled during the year.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES

Bank balances and cash comprise cash on hand and bank balances. Bank balances carry interest at prevailing market interest rate which was 0.01% (2019: 0.01%) per annum.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities and bank borrowings granted to the Group (note 30). The pledged bank deposits carry fixed interest rate which ranged from 0.01% to 0.5% (2019: 0.35% to 0.5%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	32,183	47,223
Retention payable (Note)	–	500
Accrued sub-contracting and material costs	4,460	20,644
Accrued staff costs	6,541	4,308
Other payables and accruals	1,478	2,331
Total trade and other payables	44,662	75,006

Note: Retention payable is expected to be settled within twelve months from the end of reporting period.

The credit period on trade payables range from 30 days to 60 days (2019: 30 days to 60 days).

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

	2020 HK\$'000	2019 HK\$'000
0–30 days	5,742	14,808
31–60 days	6,748	8,275
61–90 days	998	4,634
> 90 days	18,695	19,506
	32,183	47,223

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For the year ended 31 December 2020

22. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Advances from customers of building services engineering contracts, current	–	1,000
Advance from customers of maintenance, repair and other services, current	349	997
	349	1,997

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 2020 that was included in the contract liabilities at the beginning of the year was amounted to HK\$1,997,000 (2019: HK\$2,165,000).

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

Building services engineering contracts and maintenance, repair and other services

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

23. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK\$'000
1 January 2019 and 31 December 2019	(199)
Credited to profit or loss for the year	14
	(185)
At 31 December 2020	(185)

The deferred tax liabilities resulted from the temporary taxable differences arising from accelerated depreciation in relation to capital allowance claims on the 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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each		Share capital	
	2020	2019	2020 HK\$'000	2019 HK\$'000
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 1 January	1,330,000,000	1,280,000,000	13,300	12,800
Issue of shares (note)	–	50,000,000	–	500
At 31 December	1,330,000,000	1,330,000,000	13,300	13,300

Note: On 20 May 2019, 50,000,000 ordinary shares of HK\$0.01 each of the Company were issued at a price of HK\$0.155 per share by way of placing. The proceeds of HK\$500,000 representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK\$7,250,000, before issuing expenses, were credited to share premium account. The new shares rank pari passu with the existing shares in all respects.

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-executive 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25. SHARE OPTION SCHEME (CONTINUED)

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 Listing Rules, 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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 cash and cash equivalents, and equity attributable to owners of the Group, comprising issued share capital, share premium, merger reserve 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

(a) Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Amortised cost	105,570	101,690
Financial liabilities		
Amortised cost	44,662	75,006

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, contract assets and pledged bank deposits, bank balances and cash, trade and other payables.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. FINANCIAL INSTRUMENTS (CONTINUED)

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

Currency risk

The Group's exposure in exchange rate risk mainly arises from fluctuations in US\$ exchange rate. Exchange rate fluctuations and market trends have always been the concern of the Group. The Group did not enter into any derivative contracts aimed at minimising the exchange rate risks during the year. However, the management monitors foreign currency exposure and will also consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Assets	
	2020 HK\$'000	2019 HK\$'000
US\$	1,175	1,159

Sensitivity analysis

The directors consider that the Group's exposure to US\$ exchange rate fluctuation is insignificant on the ground that HK\$ is pegged to US\$.

Interest rate risk

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

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 outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2019: 50 basis points) increase/decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from possible change in interest rates.

For variable-rate bank balances, 50 basis points increase/decrease (2019: 50 basis points increase/decrease) are used.

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower for variable bank balances and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2020 would increase/decrease by HK\$291,000 (2019: increased/decreased by HK\$322,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk and impairment assessment

The credit risk of trade receivables, contract assets and other receivables is managed through an internal process. 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 credit risks. The Group reviews the recoverable amount of these receivables at the end of the reporting period.

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 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 cost 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.

Other receivables

For other receivables, the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2020 and 2019, the Group assessed that the ECL for other receivables were insignificant and thus no loss allowance was recognised.

Pledged bank deposits/bank balances

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 2020 on trade receivables from the Group's 5 major customers amounting to HK\$22,144,000 (2019: HK\$20,187,000) and accounted for 55.3% (2019: 68.7%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

27. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk and impairment assessment (Continued)

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	12m 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

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27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) 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:

	Notes	External credit rating	Internal credit rating	Lifetime ECL	Gross carrying amount	
					2020 HK\$'000	2019 HK\$'000
Financial assets at amortised cost						
Trade receivables	1	N/A	Low risk	Lifetime ECL (provision matrix)	40,851	29,948
			Loss	Lifetime ECL Credit-impaired	3,526	3,526
Contract assets	1	N/A	Low risk	Lifetime ECL (provision matrix)	28,217	74,231
Other receivables	3	N/A	Low risk	12m ECL	919	91
Amount due from a related party	2	N/A	Low risk	12m ECL	–	8
Pledged bank deposits		A2	N/A	12m ECL	7,241	7,903
Bank balances		A2	N/A	12m ECL	58,286	64,380

Notes:

- 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 ECL on these items by using a provision matrix.
- For the purposes of internal credit risk management, the Group used the past-due information of amount due from a related party to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2019, the balances of amount due from a related company has been past due and was not considered as in default as there has not been a significant change in credit quality and the amounts was still considered recoverable.
- For other receivables, the Group measures the loss allowance equal to 12m ECL. The Group applies internal credit risk management to assess whether credit risk has increased significantly since initial recognition, in which case the Group recognises lifetime ECL. The credit risk on other receivables are limited because the counterparties have no historical default record and the ECL on this item is considered insignificant.

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27. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk and impairment assessment (Continued)

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.

During the year ended 31 December 2020, the Group recognised impairment loss of HK\$258,000 and reversed impairment loss of HK\$784,000 (2019: reversed impairment loss of HK\$186,000 and HK\$1,065,000) on trade receivables and contract assets based on the provision matrix, respectively. No trade receivable was considered to be credit-impaired and no credit loss allowance was made during the year ended 31 December 2020 (2019: HK\$2,256,000). No contract asset was considered to be credit-impaired and no credit loss allowance was made during the years ended 31 December 2020 and 2019.

Gross carrying amount

	Average loss rate		Trade receivables		Contract assets	
	%		HK\$'000		HK\$'000	
	2020	2019	2020	2019	2020	2019
Internal credit rating						
Low risk	1.95	1.78	40,851	29,948	28,217	74,231

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)	Lifetime ECL (credit- impaired)	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	735	1,270	2,005
Impairment loss (reversed)/recognised	(186)	2,256	2,070
As at 31 December 2019	549	3,526	4,075
Impairment loss recognised	258	–	258
As at 31 December 2020	807	3,526	4,333

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For the year ended 31 December 2020

27. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk and impairment assessment (Continued)

Gross carrying amount (Continued)

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).

The following table shows movement in lifetime ECL that has been recognised for contract assets:

	Lifetime ECL (not credit-impaired) HK\$'000
At 1 January 2019	2,372
Impairment loss reversed	(1,065)
As at 31 December 2019	1,307
Impairment loss reversed	(784)
As at 31 December 2020	523

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 HK\$20,745,000 as at 31 December 2020 (2019: HK\$38,274,000), in which HK\$12,045,000 (2019: HK\$14,374,000) 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 variable-rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

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27. FINANCIAL INSTRUMENTS (CONTINUED)

(b) 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	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2020 HK\$'000
31 December 2020						
Non-derivative financial liabilities						
Trade and other payables	–	38,920	5,742	–	44,662	44,662

	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	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2019 HK\$'000
31 December 2019						
Non-derivative financial liabilities						
Trade and other payables	–	59,698	14,808	500	75,006	75,006

(c) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. OPERATING LEASE

The Group as lessor

Property rental income earned during the year was HK\$153,000 (2019: HK\$131,000). The properties which are leased out as at 31 December 2020 have rental yield of approximately 3.34% (2019: 3.34%) and with committed tenants with the longest tenure for two years.

At the end of the reporting period, minimum lease payments receivable on lease are as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	–	204
In the second year	–	102
	–	306

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 HK\$1,264,000 (2019: HK\$985,000) represents contributions paid or payable to the MPF Scheme by the Group. As at 31 December 2020, contribution of approximately HK\$116,000 (2019: HK\$99,000) 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.

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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 to the extent of HK\$38,700,000 (2019: HK\$53,900,000) granted by these banks to the Group are as follows:

	2020 HK\$'000	2019 HK\$'000
Pledged bank deposits (note 20)	7,241	7,903
Investment property (note 15)	5,300	6,100
	12,541	14,003

31. PERFORMANCE BONDS

As at 31 December 2020, the Group has issued performance bonds in respect of building services engineering contracts through banks amounting to HK\$17,955,000 (2019: HK\$15,626,000). The bonds are secured by investment property and pledged bank deposits as disclosed in notes 15 and 20, respectively.

32. RELATED PARTY DISCLOSURES

(i) Transactions

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

Related parties	Nature of transactions	2020 HK\$'000	2019 HK\$'000
Kin Kwan	Sub-contracting expense from building services engineering contracts	358	–
LKW Company Limited	Rental expense on short-term leases in respect of warehouses	530	488
Mr. Wong and Ms. So	Rental expense on short-term leases in respect of office premises and car parks	998	491

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For the year ended 31 December 2020

32. RELATED PARTY DISCLOSURES (CONTINUED)

(ii) Balance

Details of the balance with a related party is set out in the consolidated statement of financial position and note 19.

(iii) Compensation of key management personnel

	2020 HK\$'000	2019 HK\$'000
Salaries and other allowances	4,972	3,969
Retirement benefits scheme contributions	54	54
	5,026	4,023

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

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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
At 1 January 2019	10,151	–
Financing cash flows (note)	(10,151)	(119)
Finance costs incurred	–	119
As at 31 December 2019	–	–
New bank borrowings raised	305	–
Financing cash flows (note)	(305)	(2)
Finance costs incurred	–	2
As at 31 December 2020	–	–

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

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34. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2020 and 2019 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		Principal activities
			2020	2019	
LKW Enterprise*	British Virgin Islands 19 March 2016	US\$100	100%	100%	Investment holding
Lap Kei	Hong Kong 22 December 1997	HK\$4,700,000	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. FINANCIAL INFORMATION OF THE COMPANY

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Investment in a subsidiary	48,969	48,969
Amount due from a subsidiary	25,914	26,112
	74,883	75,081
Current asset		
Other receivables	198	198
Current liability		
Accrual	(553)	(553)
Net current liability	(355)	(355)
Net assets	74,528	74,726
Capital and reserves		
Share capital	13,300	13,300
Reserves (note)	61,228	61,426
Total equity	74,528	74,726

Wong Kang Kwong
Director

So Nui Ho
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2019	30,855	43,433	(19,605)	54,683
Loss and total comprehensive expenses for the year	–	–	(198)	(198)
Issue of shares	7,250	–	–	7,250
Transaction costs directly attributable to the issue of shares	(309)	–	–	(309)
At 31 December 2019	37,796	43,433	(19,803)	61,426
Loss and total comprehensive expenses for the year	–	–	(198)	(198)
At 31 December 2020	37,796	43,433	(20,001)	61,228

Note: Merger reserve represented the difference between the net asset value of LKW Enterprise of HK\$43,434,000 acquired by the Company and the nominal value of the Company's shares of HK\$1,000 issued for the acquisition pursuant to the corporate reorganisation.

36. EFFECT OF COVID-19

After the outbreak of Novel Coronavirus ("COVID-19") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. Construction industry in Hong Kong has been affected as a consequence of COVID-19, which are directly and indirectly affecting the operations of the engineering projects.

During the year ended 31 December 2020 and up to the date of these financial statements, COVID-19 has resulted in impacts on the financial performance of the Group and might be adversely affected to the subsequent construction and operation of the engineering projects of the Group (such as delays in construction and increased costs), which will depend on the new development concerning the global severity of and actions taken to contain the COVID-19 outbreak that are highly uncertain. The Group will continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the consolidated financial statements and operation results.

FINANCIAL SUMMARY

For the five years ended 31 December 2016, 2017, 2018, 2019 and 2020

RESULTS

	2016	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	235,487	282,651	308,506	153,475	132,272
Profit/(loss) before tax	32,254	33,372	21,211	(31,708)	(1,778)
Income tax (expense)/credit	(5,290)	(6,098)	(3,394)	–	14
Profit/(loss) and total comprehensive income for the year	26,964	27,274	17,817	(31,708)	(1,764)

ASSETS AND LIABILITIES

	2016	2017	2018	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	171,226	197,212	223,687	191,028	157,258
Total liabilities	(61,763)	(65,851)	(85,594)	(77,202)	(45,196)
Net assets	109,463	131,361	138,093	113,826	112,062