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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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Lap Kei Engineering (Holdings) Limited (the “**Company**”) is pleased to announce the audited consolidated financial information of the Company and its subsidiaries (collectively, the “**Group**”, “**we**” or “**us**”) for the year ended 31 December 2023 (the “**Year**”) together with the comparative figures for the corresponding year ended 31 December 2022. The financial information set out below has been approved by the Board.

SUMMARY

	For the year ended 31 December		
	2023	2022	Change %
	HK\$'000	HK\$'000 (restated)	
Revenue	323,307	401,922	(19.6)%
Gross profit	26,586	25,717	3.4%
Profit attributable to owners of the Company	7,383	10,906	(32.3)%
Profit per share (<i>HK cents</i>)	0.49	0.71	

- The Group’s revenue amounted to approximately HK\$323.3 million for the year ended 31 December 2023, representing an decrease of approximately HK\$78.6 million or approximately 19.6% as compared with the year ended 31 December 2022.
- The profit attributable to owners of the Company is approximately HK\$7.4 million for the year ended 31 December 2023, representing a drop of approximately 32.3% from the profit attributed to owners of the Company at approximately HK\$10.9 million for the year ended 31 December 2022.
- The Directors resolved not to recommend the payment of any final dividend in respect of the year ended 31 December 2023 (2022: nil).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2023

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i> (restated)
Revenue	2	323,307	401,922
Cost of revenue		<u>(296,721)</u>	<u>(376,205)</u>
Gross profit		26,586	25,717
Other income and other gains or losses		1,198	3,091
Administrative expenses		(18,939)	(20,072)
Impairment loss recognised under expected credit loss (“ECL”) model, net of reversal		280	296
Finance costs		<u>(56)</u>	<u>(370)</u>
Profit before income tax	3	9,069	8,662
Income tax (expense)/credit	4	<u>(1,645)</u>	<u>2,244</u>
Profit for the year		<u>7,424</u>	<u>10,906</u>
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurements of provision for long service payments		<u>(41)</u>	<u>–</u>
Other comprehensive income for the year		<u>(41)</u>	<u>–</u>
Total comprehensive income for the year		<u>7,383</u>	<u>10,906</u>
Earnings per share		HK cents	HK cents
— Basic and diluted	6	<u>0.49</u>	<u>0.71</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		10,504	10,154
Deposit paid for a life insurance policy		–	1,209
Intangible assets		113	171
Deferred tax assets		2,017	3,662
		<u>12,634</u>	<u>15,196</u>
Current assets			
Trade and other receivables	7	121,948	140,515
Contract assets	8	111,458	116,379
Pledged bank deposits		5,145	5,398
Bank balances		45,756	17,471
		<u>284,307</u>	<u>279,763</u>
Current liabilities			
Trade and other payables	9	143,588	137,526
Contract liabilities	10	–	1,160
Bank borrowings		–	10,000
		<u>143,588</u>	<u>148,686</u>
Net current assets		<u>140,719</u>	<u>131,077</u>
Total assets less current liabilities		<u>153,353</u>	<u>146,273</u>
Non-current liabilities			
Provision for long service payments		<u>889</u>	<u>710</u>
Net assets		<u>152,464</u>	<u>145,563</u>
EQUITY			
Share capital		15,228	15,300
Reserves		137,236	130,263
Total equity		<u>152,464</u>	<u>145,563</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. CHANGE IN ACCOUNTING POLICIES

(a) New standards, interpretations and amendments — first effective on 1 January 2023

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for the current accounting period of the Group:

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform— Pillar Two Model Rules

Apart from the below, none of these new and amendments to 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 amendments to HKFRSs that is not yet effective for the current accounting period.

Disclosure of Accounting Policies — Amendments to HKAS 1 and HKFRS Practice Statement 2
The amendments to HKAS 1 and HKFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group’s financial statements.

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022 the Hong Kong SAR Government (the “**Government**”) gazette the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “**Amendment Ordinance**”), which will come into effect from 1 May 2025 (the “**Transition Date**”). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“**MPF**”) scheme to reduce the long service payment (“**LSP**”) in respect of an employee’s service from the Transition Date (the abolition of the “**offsetting mechanism**”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date. In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its LSP liability and has applied the above HKICPA guidance retrospectively. The cessation of applying the practical expedient in paragraph 93(b) of HKAS 19 in conjunction with the enactment of the Amendment Ordinance resulted in a catch-up profit or loss adjustment in June 2022 for the service cost up to that date and consequential impacts on current service cost, interest expense and remeasurement effects from changes in actuarial assumptions for the rest of 2022, with the corresponding adjustment to the comparative carrying amount of the LSP liability. This change in accounting policy did not have any material impact on the opening balance of equity at 1 January 2022. It also did not have a material impact on the company-level statement of financial position as at 31 December 2022 and 31 December 2023.

The following table summarises the impacts of the adoption of the HKICPA guidance on the comparatives presented in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 and the consolidated statement of financial position as at that date:

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022:	As previously reported <i>HK\$'000</i>	Effect of adoption of the HKICPA guidance <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Cost of revenue	(375,621)	(584)	(376,205)
Gross profit	26,301	(584)	25,717
Administrative expenses	(19,946)	(126)	(20,072)
Profit before income tax	9,372	(710)	8,662
Income tax credit	2,126	118	2,244
Profit for the year	11,498	(592)	10,906
Earnings per share			
— Basic and diluted	0.75	(0.04)	0.71
Consolidated statement of financial position as at 31 December 2022:			
Deferred tax asset	3,544	118	3,662
Total non-current assets	15,078	118	15,196
Total assets less current liabilities	146,155	118	146,273
Provision for long service payments	—	710	710
Total non-current liabilities	—	710	710
Net assets	146,155	(592)	145,563
Reserves	130,855	(592)	130,263
Total equity	146,155	(592)	145,563
Reconciliation of profit before income tax to net cash used in operating activities for the year ended 31 December 2022:			
Profit before income tax	9,372	(710)	8,662
Increase in provision for long service payments	—	710	710

The following table illustrates the amounts that would have been in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023 and the consolidated statement of financial position as at that date, if the Group had not changed its accounting policy as noted above and had continued to apply the practical expedient in paragraph 93(b) of HKAS 19.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023:	As reported HK\$'000	Backing out effect of adoption of the HKICPA guidance HK\$'000	If accounting policy had not been changed HK\$'000
Cost of revenue	(296,721)	118	(296,603)
Gross profit	26,586	118	26,704
Administrative expenses	(18,939)	20	(18,919)
Profit before income tax	9,069	138	9,207
Income tax expense	(1,645)	(29)	(1,674)
Profit for the year	7,424	109	7,533
Earnings per share			
— Basic and diluted	<u>0.49</u>	<u>—</u>	<u>0.49</u>

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023:

Remeasurement of provision for long service payments	(41)	41	—
Other comprehensive income for the year	(41)	41	—
Total comprehensive income for the year	<u>7,383</u>	<u>41</u>	<u>7,424</u>

Consolidated statement of financial position as at 31 December 2023:

Deferred tax asset	2,017	(147)	1,870
Total non-current assets	12,634	(147)	12,487
Total assets less current liabilities	153,353	(147)	153,206
Provision for long service payments	889	(889)	—
Total non-current liabilities	889	(889)	—
Net assets	152,464	742	153,206
Reserves	137,236	742	137,978
Total equity	<u>152,464</u>	<u>742</u>	<u>153,206</u>

Reconciliation of profit before income tax to net cash generated from operating activities for the year ended 31 December 2023:

Profit before income tax	9,069	138	9,207
Increase in provision for long service payments	<u>138</u>	<u>(138)</u>	<u>—</u>

(c) **New standards, interpretations and amendments that have been issued but are not yet effective**

The following amendments to HKFRSs 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 HKAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to HKAS 1	Non-current liabilities with Covenants ("2022 Amendments") ¹
HK Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKAS 21	Lack of Exchangeability ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

³ No mandatory effective date yet determined but available for adoption.

The Group is currently assessing the impact of the amendments. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

2. REVENUE AND SEGMENT INFORMATION

Revenue represents the consideration expected to be entitled by the Group from provision of building services engineering work and maintenance, repair and other services.

(i) **Disaggregation of revenue from contracts with customers**

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Type of services		
Building services engineering work	309,008	384,538
Maintenance, repair and other services	14,299	17,384
	<u>323,307</u>	<u>401,922</u>

Timing of revenue recognition on all services are transferred over time. All revenue from contracts with customers are arising from Hong Kong during the year and prior year.

- (ii) 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 of recognising revenue is set out below:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of building services engineering work		
— Within one year	273,422	325,477
— More than one year but not more than two years	56,225	57,254
	<u>329,647</u>	<u>382,731</u>

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 the remaining performance obligations under those 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.

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

For the year ended 31 December 2023

	Building services engineering work HK\$'000	Maintenance, repair and other services HK\$'000	Total HK\$'000
Segment revenue			
External sales	<u>309,008</u>	<u>14,299</u>	<u>323,307</u>
Segment results	<u>22,654</u>	<u>3,932</u>	<u>26,586</u>
Other income and other gains or losses			1,198
Administrative expenses			(18,939)
Impairment loss recognised under ECL model, net of reversal			280
Finance costs			<u>(56)</u>
Profit before income tax			<u><u>9,069</u></u>

For the year ended 31 December 2022

	Building services engineering work HK\$'000 (restated)	Maintenance, repair and other services HK\$'000 (restated)	Total HK\$'000 (restated)
Segment revenue			
External sales	<u>384,538</u>	<u>17,384</u>	<u>401,922</u>
Segment results	<u>21,428</u>	<u>4,289</u>	<u>25,717</u>
Other income and other gains or losses			3,091
Administrative expenses			(20,072)
Impairment loss recognised under ECL model, net of reversal			296
Finance costs			<u>(370)</u>
Profits before income tax			<u><u>8,662</u></u>

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 2023 and 2022 individually contributing over 10% of the Group's revenue is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Customer A	102,324	106,434
Customer B	51,974	72,552
Customer C	39,581	40,574

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 2023 and 2022.

3. PROFIT BEFORE INCOME TAX

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i> (restated)
Directors' emoluments (including provision for long service payments)	8,712	7,848
Other staff costs:		
— Salaries and other allowances	52,349	47,862
— Retirement benefits scheme contributions	1,938	1,933
— Provision for long service payments	132	641
Total staff costs	63,131	58,284
Auditor's remuneration	950	900
Amortisation on intangible assets	58	58
Depreciation of property, plant and equipment	2,430	1,743
Write-off of trade receivables	100	–
Impairment loss (reversed)/recognised on trade receivables	(706)	362
Impairment loss recognised/(reversed) on contract assets	426	(658)
	(280)	(296)
Bank interest income	(1,170)	(2)
Interest income on a deposit paid for a life insurance policy	(14)	(18)
Loss on surrender of a life insurance policy	111	–
Rental expense on short-term leases in respect of warehouse, office premises and car parks (<i>note (a)</i>)	1,896	1,834
Government subsidies (<i>note (b)</i>)	–	(2,860)

Note (a): The Group regularly entered into short-term leases for warehouse, office premises and car parks.

Note (b): Government subsidies related to cash subsidies from government in respect of COVID-19 relief measures.

4. INCOME TAX EXPENSE/(CREDIT)

	2023 HK\$'000	2022 HK\$'000 (restated)
Hong Kong Profits Tax		
— Current year	—	—
Deferred tax	<u>1,645</u>	<u>(2,244)</u>
	<u>1,645</u>	<u>(2,244)</u>

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

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

	2023 HK\$'000	2022 HK\$'000 (restated)
Profit before income tax	<u>9,069</u>	<u>8,662</u>
Tax at Hong Kong Profits Tax rate of 16.5% (2022: 16.5%)	1,496	1,429
Tax effect of income not taxable for tax purpose	(171)	(475)
Tax effect of expenses not deductible for tax purpose	320	377
Utilisation of tax losses previously not recognised	—	(1,294)
Recognition of previously unrecognised temporary differences	—	(1,087)
Recognition of tax losses previously not recognised	—	(1,145)
Others	<u>—</u>	<u>(49)</u>
Income tax expense/(credit)	<u>1,645</u>	<u>(2,244)</u>

At the end of the reporting period, the Group has unused tax losses of HK\$13,543,000 (2022: HK\$19,080,000) available to offset against the future taxable profit. A deferred tax asset of HK\$2,234,000 (2022: HK\$3,148,000) has been recognised in respect of tax losses of approximately HK\$13,543,000 (2022: HK\$19,080,000). Under current tax legislation, tax losses can be carried forward indefinitely.

5. 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 2023 (2022: Nil).

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31 December 2023 is based on the profit for the year of HK\$7,424,000 (2022(restated): HK\$10,906,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2023 of 1,527,667,945 (2022: 1,530,000,000).

The Group has no dilutive potential ordinary shares in issue during the years ended 31 December 2023 and 2022.

7. TRADE AND OTHER RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	56,052	98,129
Less: allowance for credit loss	<u>(649)</u>	<u>(4,881)</u>
	55,403	93,248
Other receivables, deposits and prepayments	<u>66,545</u>	<u>47,267</u>
Total trade and other receivables	<u><u>121,948</u></u>	<u><u>140,515</u></u>

The Group allows a credit period ranging from 0 to 30 days (2022: 0 to 30 days) to its customers for 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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0–30 days	18,300	67,343
31–60 days	21,991	13,076
61–90 days	10,437	7,863
> 90 days	4,675	4,966
	<u>55,403</u>	<u>93,248</u>

As at 31 December 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$37,103,000 (2022: HK\$25,905,000), which are past due as at the end of the reporting period. Out of the past due balances, aggregate carrying amount of HK\$1,994,000 (2022: HK\$4,195,000) 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.

8. CONTRACT ASSETS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Contract assets	113,542	118,037
Less: allowance for credit loss	<u>(2,084)</u>	<u>(1,658)</u>
	<u>111,458</u>	<u>116,379</u>

Analysed as current:

Unbilled revenue of building services engineering contracts	67,148	74,172
Retention receivables of building services engineering contracts	<u>44,310</u>	<u>42,207</u>
	<u>111,458</u>	<u>116,379</u>

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		
Within one year	24,547	19,411
After one year	<u>19,763</u>	<u>22,796</u>
	<u>44,310</u>	<u>42,207</u>

Changes in contract assets during the year ended 31 December 2023 were mainly due to: (1) the decrease in the size and number of contracts in respect of building engineering services that the

relevant services were completed but yet billed to customers or certified by the external surveyors or customers at the end of reporting period, offsetting by (2) the increase in the amount of retention receivables in accordance with the number of ongoing and completed contracts under the defect liability period.

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.

9. TRADE AND OTHER PAYABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables (<i>note a</i>)	45,190	58,833
Retention payables (<i>note b</i>)	8,419	6,046
Accrued sub-contracting and material costs	76,531	61,786
Accrued staff costs	11,993	9,508
Other payables and accruals	<u>1,455</u>	<u>1,353</u>
Total trade and other payables	<u><u>143,588</u></u>	<u><u>137,526</u></u>

Notes:

- (a) The credit period on trade payables range from 30 to 60 days (2022: 30 to 60 days).

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0–30 days	23,785	30,299
31–60 days	1,782	9,240
61–90 days	2,419	2,949
> 90 days	<u>17,204</u>	<u>16,345</u>
	<u><u>45,190</u></u>	<u><u>58,833</u></u>

- (b) Based on the terms and conditions agreed in relation to the release of retention monies to subcontractors and taking into account the status of rectification work, the retention payables as at the end of the reporting period are to be settled as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
On demand or within one year	5,420	2,778
After one year	<u>2,999</u>	<u>3,268</u>
	<u><u>8,419</u></u>	<u><u>6,046</u></u>

10. CONTRACT LIABILITIES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Advances from customers of building services engineering contracts, current	<u>–</u>	<u>1,160</u>

The Group classifies contract liabilities as current because the Group expects to settle them in its normal operating cycle.

Revenue from building services engineering contracts recognised during the year ended 31 December 2023 that was included in the contract liabilities at the beginning of the year was amounted to HK\$1,160,000 (2022: Nil).

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.

11. PLEDGE OF ASSETS

At the end of the reporting period, the Group has obtained banking facilities of HK\$73,700,000 (2022: HK\$73,700,000) which are secured by the properties owned by Mr. Wong, assignment of trade receivables and by the Group's pledged assets. The carrying amounts of the assets pledged by the Group to banks are as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Property, plant and equipment	5,084	5,310
Pledged bank deposits	<u>5,145</u>	<u>5,398</u>
	<u><u>10,229</u></u>	<u><u>10,708</u></u>

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 buildings and new buildings (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 being faced by 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 2023, the Group had 22 projects on hand (including projects in progress and projects that are about to commence) with total outstanding contract value of approximately HK\$329.6 million.

FINANCIAL REVIEW

Revenue

Our revenue decreased from approximately HK\$401.9 million for the year ended 31 December 2022 to approximately HK\$323.3 million for the Year, representing a drop of approximately 19.6%. Such decrease was mainly due to a decrease in the number of projects undertaken by the Group during the Year and a decrease in the average contract amount of projects undertaken by the Group as compared with that for the year ended 31 December 2022.

Cost of Sales

Our cost of sales decreased from approximately HK\$376.2 million for the year ended 31 December 2022 to approximately HK\$296.7 million for the Year, representing a decrease of approximately 21.1%. Such decrease was mainly attributable to the decrease in our subcontracting charges and material costs due to the drop in the number and contract size of projects undertaken by the Group during the Year, which is in line with the decreased in revenue of the Group during the Year.

Gross Profit

Gross profit of the Group was approximately HK\$26.6 million for the Year, while gross profit of the Group was approximately HK\$25.7 million for the year ended 31 December 2022. The increase in gross profit was mainly driven by the decrease in cost of sales for the Year, which outweighed the decrease in revenue.

The gross profit margin was approximately 8.2% for the Year, while gross profit margin of the Group was approximately 6.4% for the year ended 31 December 2022, as the extent of decrease in cost of sales is higher than that in revenue for the Year. During the Year, the Group experienced lower equipment and material costs from the Group's suppliers and achieved better cost control. Therefore, it drove down the Group's costs of sales, which resulted in higher gross profit margin compared with that of prior year.

Administrative Expenses

Administrative expenses of the Group decreased by approximately 5.6% from approximately HK\$20.1 million for the year ended 31 December 2022 to approximately HK\$18.9 million for the Year. Administrative expenses primarily consist of rental expenses and staff costs. The decrease was mainly attributable to a decrease in staff salary and discretionary bonus by approximately HK\$1.7 million during the Year.

Other income and other gains or losses

Other income and other gains or losses decreased significantly by approximately HK\$1.9 million, or 61.2%, from approximately HK\$3.1 million for the year ended 31 December 2022 to approximately HK\$1.2 million for the Year. The decrease in other income and other gains or losses was mainly due to the absence of one-off subsidy under the employment support scheme of the Hong Kong SAR Government received in the year ended 31 December 2022.

Income Tax (Expense)/Credit

Income tax expense of the Group was approximately HK\$1.6 million for the Year while income tax credit of the Group was approximately HK\$2.2 million for the year ended 31 December 2022. The change was mainly due to the decrease in deferred tax assets arising from the utilisation of tax losses and the decrease in temporary differences of allowance for expected credit loss during the Year.

Profit for the Year

As a result of the foregoing, profit for the Year decreased by approximately 32.3% from approximately HK\$10.9 million for the year ended 31 December 2022 to approximately HK\$7.4 million for the Year. Such decrease was primarily attributable to the effect of the decrease in revenue and other income outweighing the decrease in cost of sales and administrative expenses for the Year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the Group had total assets of approximately HK\$296.9 million (2022: HK\$295.0 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$144.5 million (2022: HK\$149.4 million) and approximately HK\$152.4 million (2022: HK\$145.6 million), respectively.

The total interest-bearing loans and borrowings of the Group as at 31 December 2023 were nil (2022: HK\$10.0 million), and current ratio as at 31 December 2023 was approximately 2.0 times (2022: 1.9 times).

GEARING RATIO

The gearing ratio of the Group as at 31 December 2023 was Nil (2022: 6.9%).

The gearing ratio is calculated based on the total loans and borrowings divided by total equity as at 31 December 2022 and 2023, respectively.

TREASURY POLICY

The Group has adopted a prudent financial management approach with an aim of preserving the value of the assets of the Group towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. No financial investment other than cash and bank deposits was held by the Group as at 31 December 2023. 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 2023, the Group pledged its bank deposits of approximately HK\$5.1 million (2022: HK\$5.4 million) and charge on property of approximately HK\$5.1 million (2022: HK\$5.3 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.

Save for the above disclosed, the Group did not have any other changes on its assets as at 31 December 2023.

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 enter into any transactions or 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.

As at 31 December 2023, the Company’s issued share capital was HK\$15,227,700 (2022: HK\$15,300,000) and the number of its issued Shares was 1,522,770,000 of HK\$0.01 each (2022: 1,530,000,000). During the Year, the Group repurchased its own ordinary shares, totally 7,230,000 shares and were subsequently cancelled in October 2023.

COMMITMENTS

The Group had no operating lease commitments as at 31 December 2023 (2022: nil).

SEGMENTAL INFORMATION

Segmental information is presented by the Group as disclosed on note 2 to the consolidated financial statements of this announcement.

CAPITAL COMMITMENTS

As at 31 December 2023, the Group did not have any material capital commitments (2022: 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 2023, the Group did not have any material contingent liabilities (2022: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group employed a total of 132 employees (2022: 132 employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$63.1 million for the Year (2022: HK\$58.3 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. The Group also offered induction trainings as well as on the job continuous trainings to staff members regularly.

SIGNIFICANT INVESTMENTS HELD

Save the investment in its subsidiaries by the Company, the Group did not hold any significant investments during the year ended 31 December 2023.

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, hence inability to retain its staff may adversely affect the Group's business operations;
- (iii) Loss of authorised signatory and technical director for the Group's registrations maintained with the Buildings Department could materially and adversely affect the Group's business;
- (iv) Failure to accurately estimate and control the costs of the Group's projects may adversely affect the Group's financial performance;
- (v) The Group may not be able to maintain or increase its success rate of attaining engagement of projects tendered and quoted;
- (vi) Any delays in the Group's projects may affect the Group's cash flows and may have adverse impact on the Group's business and reputation;
- (vii) Failure to renew the Group's current registrations and licences may adversely affect the Group's business operations; and
- (viii) The Group is exposed to environmental liability.

For other risks and uncertainties being faced by 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 environmental 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 adopt 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 that contained in the 2023 annual report of the Company, which will be issued in April 2024 according to the Listing Rules.

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 margin = 8.2% (2022: 6.4%)
	Return on equity = 4.8% (2022: 7.5%)
Improve the Group’s liquidity	Net cash generated from/(used in) operating activities = HK\$39.2 million (2022: HK\$(36.5) million)
	Current ratio = 2.0 times (2022: 1.9 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.

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.

There was no forfeited contribution under the Mandatory Provident Fund Scheme and/or other retirement benefit scheme which may be used by the Group to reduce the contribution payable in the future years.

There was no forfeited contributions (2022: nil) utilised during the Year and there was no sum available as at 31 December 2023 to reduce future contributions.

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.

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 C1 (formerly 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.

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 C3 (formerly Appendix 10) to the Listing Rules. Following the 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 under the Model Code during the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, the Company purchased a total of 7,230,000 ordinary shares in the Company on the Stock Exchange with an aggregate consideration (before transaction costs) of approximately HK\$468,000. The transaction costs, including brokerages, stamp duties and transaction levies, etc, involved in the repurchase amounted to approximately HK\$14,000. All repurchased shares were subsequently cancelled. Details of shares repurchased during the Year are set out as follows:

Month of repurchase	Number of shares repurchased from the Stock Exchange	Price paid per share		Aggregate consideration paid (before transaction costs) HK\$
		Highest (HK\$)	Lowest (HK\$)	
July	280,000	0.06	0.06	17,000
September	6,950,000	0.065	0.061	451,000
Total	7,230,000			468,000

After the share repurchase completed as shown in the table above, the total number of issued shares of the Company was reduced to 1,522,770,000 shares.

Save and except disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

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

AUDITOR

The consolidated financial statements for the Year have been audited by Messrs. BDO Limited (“BDO”). BDO shall retire in the forthcoming annual general meeting (“AGM”) and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO as auditors of the Company will be proposed at the 2024 AGM. The Company has not changed its external auditor during the Year and up to the date of this announcement.

REVIEW BY 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 D.3.3 and D.3.7 of the CG Code. The Audit Committee consists of three members, namely Mr. Chung Yuk Ming Christopher, Mr. Lau Kwok Lok Geoffrey and Mr. Tam Chun Chung, all being independent non-executive Directors (“**INED(s)**”). 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. The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2023.

ANNUAL GENERAL MEETING

The 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 “**2024 AGM**”) will be held on Tuesday, 14 May 2024 the notice of which shall be issued in accordance with the articles of association, the Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the 2024 AGM, the register of members of the Company will be closed from Wednesday, 8 May 2024 to Tuesday, 14 May 2024, both dates inclusive, the period during which no transfer of the shares of the Company will be registered. In order to be eligible to attend and vote at the 2024 AGM, shareholders 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 7 May 2024.

SCOPE OF WORK OF BDO ON THIS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by BDO, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements and consequently no assurance has been expressed by BDO on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Company's website at www.lapkeieng.com and the website of the Stock Exchange at www.hkex.com.hk. The 2023 annual report of the Company will be issued and made available on the above websites according to the Listing Rules in April 2024.

APPRECIATION

The Board would like to extend its sincere thanks to our shareholders, business partners and customers for their utmost support to the Group. We would also like to take this opportunity to thank all management members and staff members for their hard work and dedication throughout the Year.

For and on behalf of the Board
Lap Kei Engineering (Holdings) Limited
Chan Chun Sing
Company Secretary

Hong Kong, 25 March 2024

As at the date of this announcement, the executive Directors are Mr. Wong Kang Kwong, Ms. So Nui Ho and Mr. Tang Chun Man Joseph; and the independent non-executive Directors are Mr. Chung Yuk Ming Christopher, Mr. Lau Kwok Lok Geoffrey and Mr. Tam Chun Chung.

This announcement will remain on the website of the Stock Exchange at www.hkex.com.hk on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.lapkeieng.com.