

Lapco Holdings Limited

立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8472)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors (the “Directors”) of Lapco Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

The board (the “**Board**”) of directors of Lapco Holdings Limited (the “**Company**”) presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the three months and six months ended 30 June 2020, together with the comparative unaudited figures of the corresponding period in 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Three months ended 30 June		Six months ended 30 June	
		2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Revenue	4	160,049	134,160	330,513	274,032
Cost of services		(151,199)	(130,002)	(312,054)	(264,030)
Gross profit		8,850	4,158	18,459	10,002
Other income		3,332	340	3,418	410
Other losses and gains		(2)	557	(2)	557
Administrative expenses		(7,164)	(7,614)	(14,168)	(14,878)
Finance costs		(2,104)	(1,718)	(3,896)	(3,377)
Profit (loss) before taxation	5	2,912	(4,277)	3,811	(7,286)
Income tax expense	6	(481)	–	(629)	–
Profit (loss) and other comprehensive income (expense) attributable to owners of the Company for the period		2,431	(4,277)	3,182	(7,286)
Earnings (loss) per share	8				
Basic (HK cents)		0.61	(1.07)	0.80	(1.82)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Non-current assets			
Plant and equipment	9	9,378	8,457
Right-of-use assets		48,154	62,551
Deposits and prepayments		5,908	5,909
Deposits for acquisition of plant and equipment		1,038	952
		64,478	77,869
Current assets			
Trade receivables	10	89,774	138,331
Other receivables, deposits and prepayments		16,969	17,603
Pledged bank balances		21,790	21,790
Bank balances and cash		27,072	21,032
		155,605	198,756
Current liabilities			
Trade payables	11	5,892	9,622
Other payables and accrued charges	12	44,098	44,037
Provisions		6,767	3,367
Bank and other borrowings	13	66,003	112,499
Lease liabilities		24,648	25,370
Tax payables		294	723
		147,702	195,618
Net current assets		7,903	3,138
Total assets less current liabilities		72,381	81,007
Non-current liabilities			
Provisions		14,963	8,100
Deferred tax liabilities		154	154
Lease liabilities		18,847	30,814
Other borrowings	13	–	6,704
		33,964	45,772
Net assets		38,417	35,235
Capital and reserves			
Issued share capital	14	4,000	4,000
Reserves		34,417	31,235
Equity attributable to owners of the Company		38,417	35,235

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020

	Attributable to owners of the Company				Total HK\$'000
	Issued share capital HK\$'000	Share Premium HK\$'000	Other reserve HK\$'000 (note)	Accumulated profits (losses) HK\$'000	
At 1 January 2019 (Audited)	4,000	31,362	10,200	4,937	50,499
Loss and total comprehensive expense for the period (Unaudited)	—	—	—	(7,286)	(7,286)
At 30 June 2019 (Unaudited)	<u>4,000</u>	<u>31,362</u>	<u>10,200</u>	<u>(2,349)</u>	<u>43,213</u>
At 1 January 2020 (Audited)	4,000	31,362	11,051	(11,178)	35,235
Profit and total comprehensive income for the period (Unaudited)	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,182</u>	<u>3,182</u>
At 30 June 2020 (Unaudited)	<u>4,000</u>	<u>31,362</u>	<u>11,051</u>	<u>(7,996)</u>	<u>38,417</u>

Note: Other reserve represented the difference between the share capital of Lapco Service Limited, Shiny Glory Services Limited and Shiny Hope Limited and that of Sharp Idea Global Limited issued pursuant to a group reorganisation completed in 2017 and fair value adjustment on the non-current shareholder loans using the effective interest rate of 7.5% per annum.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	35,008	17,197
INVESTING ACTIVITIES		
Interest received	102	104
Purchases of plant and equipment	(745)	(247)
Proceeds from disposal of plant and equipment	–	1,730
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(643)	1,587
FINANCING ACTIVITIES		
Interest paid	(3,896)	(3,317)
Repayment of lease liabilities	(13,200)	(14,292)
New bank and other borrowings raised	–	21,500
Repayment of bank and other borrowings	(11,229)	(11,953)
NET CASH USED IN FINANCING ACTIVITIES	(28,325)	(8,062)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,040	10,722
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF THE PERIOD	21,032	11,458
CASH AND CASH EQUIVALENTS		
AT END OF THE PERIOD		
represented by bank balances and cash	27,072	25,676

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2016. The shares of the Company were listed on GEM of the Stock Exchange on 18 July 2017. Its parent is Gold Cavaliers International Limited (“**Gold Cavaliers**”) (incorporated in the British Virgin Islands (“**BVI**”). Its ultimate controlling parties are Mr. Lam Pak Ling (“**Mr. Lam**”), an executive director of the Company, and Ms. Wong Siu Fan, Beatrice (“**Ms. Wong**”), the common law spouse of Mr. Lam.

The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and principal place of business of the Company is Unit 301A, 3rd Floor, Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. The Company is an investment holding company. The principal activities of its subsidiaries are engaged in provision of environmental hygiene services, including (a) cleaning services; (b) pest management services; (c) waste management and recycling services; and (d) landscaping services.

The unaudited condensed consolidated financial statements are presented in Hong Kong Dollar (“**HK\$**”) which is also the functional currency of the Group.

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the consolidated financial statements for the year ended 31 December 2019.

The Group has not early applied new and revised standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will apply with the conditions attaching to them and the grants will be received.

Government grants relate to income that are receivable as compensation for expenses or less already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

4. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the fair value of amounts received and receivable by the Group to external customers. The Group’s operations is solely derived from services provided in Hong Kong during the period.

Information reported to the executive directors of the Company, being the chief operating decision maker (“**CODM**”), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

The Group’s operating and reportable segments are therefore as follows:

- Cleaning services
- Pest management services
- Waste management and recycling services
- Landscaping services

Segment revenue and results

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

	Cleaning services <i>HK\$'000</i>	Pest management services <i>HK\$'000</i>	Waste management and recycling services <i>HK\$'000</i>	Landscaping services <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>For the six months ended</i>					
<i>30 June 2020 (Unaudited)</i>					
Segment revenue	<u>263,630</u>	<u>22,478</u>	<u>44,288</u>	<u>117</u>	<u>330,513</u>
Segment results	<u>16,419</u>	<u>827</u>	<u>1,209</u>	<u>4</u>	<u>18,459</u>
Other income					3,418
Other gains and losses					(2)
Administrative expenses					(14,168)
Finance costs					<u>(3,896)</u>
Profit before taxation					<u>3,811</u>
	Cleaning services <i>HK\$'000</i>	Pest management services <i>HK\$'000</i>	Waste management and recycling services <i>HK\$'000</i>	Landscaping services <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>For the six months ended</i>					
<i>30 June 2019 (Unaudited)</i>					
Segment revenue	<u>192,517</u>	<u>37,097</u>	<u>44,138</u>	<u>280</u>	<u>274,032</u>
Segment results	<u>6,856</u>	<u>1,206</u>	<u>1,931</u>	<u>9</u>	<u>10,002</u>
Other income					410
Other gains and losses					557
Administrative expenses					(14,878)
Finance costs					<u>(3,377)</u>
Loss before taxation					<u>(7,286)</u>

There were no inter-segment revenue for the relevant periods.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment results represents the results from each segment without allocation of administrative expenses, other income, other gains and losses, finance costs, listing expenses and income tax expense. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

The segment assets and liabilities at the end of each reporting period by operating and reportable segments are as follows:

	Cleaning services HK\$'000	Pest management services HK\$'000	Waste management and recycling services HK\$'000	Landscaping services HK\$'000	Total HK\$'000
<i>As at 30 June 2020</i>					
<i>(Unaudited)</i>					
Segment assets	83,029	5,874	58,277	164	147,344
Certain plant and equipment					278
Certain right-of-use assets					722
Certain other receivables, deposits and prepayments					22,877
Pledged bank balances					21,790
Bank balances and cash					27,072
Total assets					220,083
Segment liabilities	51,463	4,388	8,646	23	64,520
Certain other payables and accrued charges					5,304
Certain provisions					1,896
Bank and other borrowings					66,003
Lease liabilities					43,495
Tax payables					294
Deferred tax liabilities					154
Total liabilities					181,666
<i>As at 31 December 2019</i>					
<i>(Audited)</i>					
Segment assets	144,644	15,767	47,807	140	208,358
Certain plant and equipment					394
Certain right-of-use assets					1,539
Certain other receivables, deposits and prepayments					23,512
Pledged bank balances					21,790
Bank balances and cash					21,032
Total assets					276,625
Segment liabilities	43,869	6,623	9,071	59	59,622
Certain other payables and accrued charges					3,608
Certain provisions					1,896
Bank and other borrowings					119,203
Lease liabilities					56,184
Tax payable					723
Deferred tax liabilities					154
Total liabilities					241,390

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than certain plant and equipment, certain right-of-use assets, certain other receivables, deposits and prepayments, pledged bank balances and bank balances and cash.
- all liabilities are allocated to operating and reportable segments other than certain other payables and accrued charges, certain provisions, tax payable, bank and other borrowings, lease liabilities and deferred tax liabilities.

5. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Auditor's remuneration	303	309	612	618
Directors' remuneration	1,577	1,498	2,820	2,553
Other staff costs				
– Salaries, bonuses and other benefits	122,325	102,494	251,143	209,898
– Retirement benefit scheme contributions	3,321	2,968	6,880	5,638
	<u>127,223</u>	<u>106,960</u>	<u>260,843</u>	<u>218,089</u>
Total staff costs				
Depreciation of right-of-use assets, plant and equipment	7,341	7,076	14,725	14,475

6. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Hong Kong Profits Tax				
– Current tax	481	–	629	–

Note: Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for current periods.

No provision of Hong Kong Profits Tax was made as there was no assessable profits for prior periods.

7. DIVIDEND

No dividends were paid, declared or proposed during the current and prior interim periods. The Directors of the Company do not recommend payment of interim dividend for the current interim period.

8. EARNINGS (LOSS) PER SHARE

The calculation of the earnings (loss) per share attributable to owners of the Company is based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Earnings (loss) for the period attributable to owners of the Company for the purpose of basic earnings (loss) per share	<u>2,431</u>	<u>(4,277)</u>	<u>3,182</u>	<u>(7,286)</u>
	Three months ended 30 June		Six months ended 30 June	
	2020 '000 (Unaudited)	2019 '000 (Unaudited)	2020 '000 (Unaudited)	2019 '000 (Unaudited)
Number of shares				
Number of ordinary shares for the purpose of basic earnings (loss) per share	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>

No diluted earnings (loss) per share for the periods was presented as there were no ordinary shares issued during the periods.

9. MOVEMENTS IN PLANT AND EQUIPMENT

During the current interim period, the Group acquired plant and equipment of approximately HK\$745,000 (six months ended 30 June 2019: approximately HK\$1,147,000).

10. TRADE RECEIVABLES

The Group grants credit terms of 90 days to its customers. An ageing analysis of the trade receivables presented based on the invoice date which approximated the respective dates on which revenue was recognised at the end of each reporting period.

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
0 – 30 days	55,192	56,163
31 – 60 days	32,333	54,689
61 – 90 days	1,167	22,136
91 – 180 days	1,012	4,553
Over 180 days	<u>70</u>	<u>790</u>
	<u>89,774</u>	<u>138,331</u>

11. TRADE PAYABLES

The credit period is 30 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 – 30 days	1,731	5,029
31 – 60 days	2,335	2,368
61 – 90 days	1,509	600
Over 90 days	317	1,625
	<u>5,892</u>	<u>9,622</u>

12. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Salaries payables	36,596	40,428
Other payables and accrued charges	7,502	3,609
	<u>44,098</u>	<u>44,037</u>

13. BANK AND OTHER BORROWINGS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Secured and guaranteed bank borrowings:		
Revolving loan	3,200	3,200
Loans from factoring of trade receivables with full recourse	54,387	96,358
Unsecured and unguaranteed other borrowings	8,416	12,718
Unsecured and unguaranteed shareholder loans	–	6,704
	<u>66,003</u>	<u>119,203</u>

The bank borrowings are at floating rates which carry interest in Hong Kong Dollar Prime Rate plus a spread.

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's bank and other borrowings are as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Effective interest rate per annum:		
Floating-rate borrowings	<u>2.35%–5.25%</u>	<u>4.01%–5.38%</u>

The other borrowings are at fixed rate which carry interest rate from 6.5% to 7.5%.

The shareholder loans were interest-free and were required to repay on 1 July 2021 and the balance was therefore shown as non-current liabilities. The non-current shareholder loans were carried at amortised cost using effective interest rate of 7.5% per annum. The shareholder loans were fully repaid during the current period.

14. SHARE CAPITAL

Details of the share capital of the Company are disclosed as follows:

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	<u>400,000,000</u>	<u>4,000</u>

15. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated financial statements, the Group had the following transactions with its related parties during the relevant period:

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Total building management fee, rent and rates paid or payable to:				
CCT Limited (<i>note i</i>)	9	81	17	162
Source Mega Inc. Limited (<i>note i</i>)	8	68	16	137
LES Limited (<i>note ii</i>)	9	67	17	134
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Interest on lease liabilities paid or payable to:				
CCT Limited (<i>note i</i>)	4	–	9	–
Source Mega Inc. Limited (<i>note i</i>)	3	–	7	–
LES Limited (<i>note ii</i>)	3	–	7	–
Imputed interest expense on shareholder loans	669	–	796	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes:

- (i) CCT Limited and Source Mega Inc. Limited are 100% owned by Ms. Wong.
- (ii) LES Limited is 100% owned by Mr. Lam.

The Group has lease liabilities with related parties as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
CCT Limited	243	385
Source Mega Inc. Limited	204	323
LES Limited	<u>200</u>	<u>316</u>

Compensation of the directors and key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Short-term benefits	2,173	2,053	3,811	3,544
Post-employment benefits	<u>23</u>	<u>22</u>	<u>45</u>	<u>45</u>
	<u>2,196</u>	<u>2,075</u>	<u>3,856</u>	<u>3,589</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue increased by approximately 20.6% from approximately HK\$274.0 million for the six months ended 30 June 2019 to approximately HK\$330.5 million for the six months ended 30 June 2020, primarily attributable to the commencement of certain new street cleaning service contracts, pest control and waste collection contracts. During the six months ended 30 June 2020, the Group's gross profit increased by approximately 84.6% from approximately HK\$10.0 million for the six months ended 30 June 2019 to approximately HK\$18.5 million for the six months ended 30 June 2020. The Group's cost of services mainly comprises direct labour costs, vehicle expenses, consumables and direct overheads. The gross profit margins for the six months ended 30 June 2019 and 2020 were approximately 3.6% and approximately 5.6%, respectively. The increase in the gross profit margins was mainly caused by the better margins from the new tender contracts awarded and our strategies of enhancing our operational efficiencies.

Other income increased significantly by approximately 733.7% from approximately HK\$410,000 for the six months ended 30 June 2019 to approximately HK\$3.4 million for the six months ended 30 June 2020. The increase was mainly due to the anti-epidemic fund subsidy of commercial vehicles of approximately HK\$2.5 million and administration fee on anti-epidemic fund for cleansing workers of approximately HK\$800,000 for the six months ended 30 June 2020.

Administrative expenses decreased slightly by approximately 4.8% from approximately HK\$14.9 million for the six months ended 30 June 2019 to approximately HK\$14.2 million for the six months ended 30 June 2020, mainly due to postponement of annual dinner and other team building activities due to the outbreak of novel coronavirus infections in Hong Kong during the six months ended 30 June 2020.

The Group's finance costs increased by approximately 15.4% from approximately HK\$3.4 million for the six months ended 30 June 2019 to approximately HK\$3.9 million for the six months ended 30 June 2020, primarily attributable to the increase in interest expenses on lease liabilities for vehicles purchased, increase in interest expenses on factoring of trade receivables and imputed interest expense on shareholder loans.

The Group recorded a net profit after taxation for the six months 30 June 2020 of approximately HK\$3.2 million, as compared to a net loss of approximately HK\$7.3 million for the corresponding period in 2019. It was mainly attributed to 1) better margins from the new tender contracts awarded and our strategies of enhancing our operational efficiencies; and 2) other income relating to the anti-epidemic fund subsidy of commercial vehicles and administration fee on anti-epidemic fund for cleansing workers.

BUSINESS REVIEW AND OUTLOOK

We are an established and one-stop environmental service provider based in Hong Kong. Our environmental hygiene services cover four types, namely (a) cleaning services; (b) pest management services; (c) waste management and recycling services; and (d) landscaping services. We provide our environmental hygiene services to a wide range of venues including streets, cultural, leisure and recreational premises, residential premises, commercial buildings, markets, restaurants and academic institutions etc. Our major customers during the period ended 30 June 2020 include various departments of the HK Government, property management companies and other corporations in the private sector.

The outbreak of novel coronavirus infections in Hong Kong in the first half of 2020 had a significant impact on the works of the cleaning service contractors. In response to the threat of infectious diseases and ensure the safety of cleaning workers, we strive to provide employees with adequate protective gear/equipment, disinfection tools and supplies for routine cleaning and disinfection notwithstanding the tight supply, and strengthen the promotion on epidemic prevention and work guidelines.

The profit margin of the street cleaning contracts, which account for the largest proportion of the Group's business, has been improved. We will continue to invest resources to secure more profitable and promising business from both private and public sectors to broaden the customer base.

During the Reporting Period, we provided tenders and quotations for our street cleaning solutions. We are optimistic about the prospects of the environmental cleaning service industry, and thereby have been investing heavily on purchase of additional motor vehicles, cleaning machinery and equipment so as to expand our business and enhance our ability to undertake more projects.

Furthermore, we intend to build on our track record and capitalize on our customer relationship to secure additional opportunities to offer our services. We believe that our long-standing relationship with some of our key customers does provide us with significant advantages to strengthen our market share. As many of our customers, such as government departments of Hong Kong and property management companies, have multiple projects in Hong Kong, we will continue to foster their confidence in our service delivery with a view to identifying and acquiring new opportunities to serve them.

Undoubtedly, we intend to secure more tender contracts with both government departments of Hong Kong and private sectors that have not previously engaged our service. With our considerable resources, including our stable and sizeable labour force and growing fleet of specialized vehicles, we believe that we are particularly well-equipped to undertake new projects from government departments of Hong Kong and private sectors, which generally require cleaning services providers with substantial resources, such as our Group, to undertake their medium to large scale projects.

By bolstering our sales and marketing manpower to promote our brand in the coming years, we will endeavour to become more competitive and be able to compete for more sizeable and profitable projects.

Looking ahead, it is believed that the global economy will be hit by the outbreak of novel coronavirus infections tremendously. However, the awareness of environmental protection and the importance of public health and hygiene will only increase amid the global epidemic outbreak, which will be conducive to the prospect of related industries.

Memorandum of Understanding (“MOU”)

On 22 July 2020, the Company and Zhongfeng International Investment Holdings Group Co., Limited (“**Strategic Partner**”) entered into the MOU, pursuant to which the Strategic Partner expressed its intention to subscribe or procure subscription (the “**Subscription**”) for convertible bonds to be issued by the Company (the “**Convertible Bonds**”). Pursuant to the MOU, it is intended the principal amount of the Convertible Bonds shall be HK\$20,000,000 and the initial conversion price per share shall be HK\$0.6. The Company considers that the potential Subscription represents a real opportunity to strengthen its financial position and in particular, improve the liquidity of the Group, and raise additional funds for general working capital and any potential development and investment of the Group. Further, if the conversion rights attached to the Convertible Bonds are exercised, the shareholder base of the Company will be broadened, and synergistic effects may be brought to the businesses of the Group. At present, the two parties have yet to enter into a legally binding agreement on the proposed Subscription. Whether it can be materialized or not, the Company will make necessary announcement in accordance with the GEM Listing Rules.

Liquidity, Financial and Capital Resources

As at 30 June 2020, total borrowings of the Group amounted to approximately HK\$66.0 million (31 December 2019: approximately HK\$119.2 million) which represented the secured and guaranteed bank borrowings including revolving loans and loans from factoring of trade receivables with full recourse and other borrowings. As at 30 June 2020, the bank balances and cash and pledged bank balances of the Group amounted to approximately HK\$48.9 million (31 December 2019: approximately HK\$42.8 million). As at 30 June 2020, debt to equity ratio of the Group was 157.8% (31 December 2019: 376.2%). Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank and other borrowings and lease liabilities net of pledged bank balances and bank balances and cash, by total equity at the end of the respective periods. Current ratio as at 30 June 2020 was approximately 1.1 times (31 December 2019: approximately 1.0 times).

The Group maintained sufficient working capital as at 30 June 2020 with bank balances and cash of approximately HK\$27.1 million (31 December 2019: approximately HK\$21.0 million). The Board of Directors will continue to follow a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business.

As at 30 June 2020, the Group's net current assets amounted to approximately HK\$7.9 million (31 December 2019: approximately HK\$3.1 million). The Group's operations are financed principally by operating cashflow generated from its business operation, available cash and bank balances, bank and other borrowings and lease liabilities.

Capital Structure

As at 30 June 2020, the share capital and equity attributable to owners of the Company amounted to approximately HK\$4,000,000 and approximately HK\$38,417,000, respectively (31 December 2019: approximately HK\$4,000,000 and approximately HK\$35,235,000, respectively).

Pledge of Assets

As at 30 June 2020, trade receivables, life insurance policies, bank deposits and motor vehicles of the Group were pledged to secure the Group's borrowings.

As at 31 December 2019, trade receivables, life insurance policies, bank deposits and motor vehicles of the Group were pledged to secure the Group's borrowings.

Exchange Rate Exposure

Most of transactions of the Group are denominated in Hong Kong dollars and the Group is not exposed to significant foreign exchange exposure.

Contingent Liabilities

As at 30 June 2020, performance guarantee of approximately HK\$92,047,000 (31 December 2019: HK\$111,759,000) were given by banks and an insurance company respectively in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers. If the Group fails to provide satisfactory performance to its customers to whom performance guarantee have been given, such customers may demand the banks and the insurance company to pay to them the sum or sum stipulated in such demand. The Group will become liable to compensate such banks and the insurance company accordingly. The performance guarantee will be released upon completion of the service contracts.

As at 30 June 2019 and 2020, the Directors do not consider that a claim will be made against the Group.

Significant Investments held, Material Acquisition or Disposal of Subsidiaries and Affiliated Companies

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2019 and 2020.

Capital Commitment

As at 30 June 2020, the Group had no material capital commitment (31 December 2019: nil).

Employee and Emolument Policies

As at 30 June 2020, the Group had approximately 3,433 employees (31 December 2019: approximately 3,564 employees). Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee. Discretionary bonuses, based on each individual's performance, are paid to employees as recognition and in reward for their contributions. Other fringe benefits such as medical insurance, retirement benefits and other allowances are offered to all the full time employees.

Use of Proceeds

The net proceeds from the issue of new shares of the Company through the Public Offer of an aggregate of 10,000,000 Public Offer Shares and the placing of 90,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company at the price of HK\$0.50 per share, after deducting the underwriting commission and estimated listing expenses borne by our Group and excluding the net proceeds of the Sale Shares, were approximately HK\$18.7 million (“**Actual Proceeds**”), as compared to the estimated net proceeds of approximately HK\$20.8 million as disclosed in the prospectus dated 30 June 2017 of the Company (the “**Prospectus**”), there were shortage of approximately HK\$2.1 million mainly due to the additional listing expenses at final payment. Accordingly, the Group has adjusted the use of proceeds on a pro-rata basis. The utilization of net proceeds as at 30 June 2020 is set out below:

Summary of use of proceeds

Use of net proceeds	Total planned amount to be used <i>HK\$' million</i>	Planned use of proceed up to 30 June 2020 <i>HK\$' million</i>	Actual amount utilized up to 30 June 2020 <i>HK\$' million</i>	Actual amount unutilized as at 30 June 2020 <i>HK\$' million</i>
Procure additional vehicles	9.0	9.0	9.0	–
Procure additional equipment	0.9	0.9	0.9	–
Hire additional staff	1.4	1.4	1.4	–
Enhance information technology application system to enhance operational efficiency	2.7	2.7	0.3	2.4
Repay a bank loan	2.9	2.9	2.9	–
General working capital	1.8	1.8	1.8	–
Total	18.7	18.7	16.3	2.4

The Directors will constantly evaluate the Group’s business objectives and will change or modify the plans against the changing market condition to suit the business growth of the Group.

Corporate Governance Code

After the Listing Date, the Company has complied with the Corporate Governance Code in Appendix 15 to the GEM Listing Rules (the “CG Code”), except for the deviation from CG Code provision A.2.1 as set out in Appendix 15 to the GEM Listing Rules. Mr. Lam is the chairman of the Board and the chief executive officer of the Company and has been managing the Group’s business and supervising the overall operations and management of the Group since 1990. The Directors consider that vesting the roles of the chairman of our Board and the chief executive officer of the Company in Mr. Lam is beneficial to the management and business development of the Group and will provide a strong and consistent leadership to the Group. The Board will continue to review and consider splitting the roles of the chairman of the Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole. The Directors will review the corporate governance policies and compliance with the CG Code each financial period and comply with the “comply or explain” principle in the corporate governance report which will be included in the annual report for the year ending 31 December 2020.

Competing Business

For the six months ended 30 June 2020, none of the Directors, controlling shareholders or substantial shareholders of the Company or any of their respective close associates (as defined under the GEM Listing Rules) is engaged in any business that competes or may complete, directly or indirectly, with the business of the Group or has any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such persons has or may have with the Group.

Purchase, Sale or Redemption of the Company’s Listed Securities

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2020, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), Chapter 571), 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 they are taken or deemed to have under such provisions 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Company

Name of Director	Capacity/nature of interest	Number of ordinary shares	Approximate shareholding
Mr. Lam	Beneficiary of a discretionary trust (<i>Note</i>)	236,010,000	59%

Note: All the 236,010,000 Shares are beneficially owned by Gold Cavaliers. Gold Cavaliers is wholly held by Max Super Holdings Limited (“Max Super”) acting as the trustee of the Lam Family Trust. The Lam Family Trust was established by Mr. Lam and Ms. Wong as the settlors on 8 August 2016 as a discretionary trust for the benefit of themselves. Mr. Lam is one of the Controlling Shareholders, an executive Director and chief executive officer of the Company. By virtue of the SFO, Mr. Lam is thus deemed to be interested in the shares in which Gold Cavaliers is interested.

Interests in associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/nature of interest	Number of ordinary shares	Approximate shareholding
Mr. Lam	Gold Cavaliers	Beneficiary of a discretionary trust	10,000	100%

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 they were taken or deemed to have under such provisions 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2020, the following persons had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of ordinary shares	Approximate shareholding
Mr. Lam	Beneficiary of a discretionary trust	236,010,000	59%
Ms. Wong	Beneficiary of a discretionary trust	236,010,000	59%
Max Super	Interest in a controlled corporation and trustee of a discretionary trust	236,010,000	59%
Gold Cavaliers	Beneficial interest	236,010,000	59%

Notes:

1. Gold Cavaliers is wholly-owned by Max Super acting as the trustee of the Lam Family Trust. The Lam Family Trust was established by Mr. Lam and Ms. Wong as the settlors on 8 August 2016 as a discretionary trust for the benefit of themselves.

Each member of Gold Cavaliers, Max Super, Mr. Lam, Ms. Wong, or together as a group, is considered as a group of Controlling Shareholders under the GEM Listing Rules.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed above, as at the date of this announcement, the Directors are not aware of any interests and short positions owned by any parties (other than a Director and chief executive) in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also made specific enquiry with all Directors, and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors from the date of Listing Date and up to the date of this announcement.

AUDIT COMMITTEE

The Company established the audit committee on 24 June 2017 with written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises the three independent non-executive Directors, namely Mr. Mak Kwok Kei, Ms. Lam Kit Yan and Mr. Ho Kin Wai. Ms. Lam Kit Yan currently serves as the chairman of the audit committee. The duties of the audit committee include reviewing, in draft form, the annual report and accounts, half-year report and quarterly reports and providing advice and comments to the Board. In this regard, members of the audit committee will liaise with the Board, the senior management and auditors. The audit committee will also consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by the accounting staff, compliance officer or auditors. Members of the audit committee are also responsible for reviewing our Group's financial reporting process and internal control system.

Up to the date of approval of the Group's unaudited results for the six months ended 30 June 2020, the audit committee had held meeting and had reviewed the draft interim report and unaudited condensed consolidated financial statements for the six months ended 30 June 2020 prior to recommending such report and unaudited condensed consolidated financial statements to the Board for approval.

REMUNERATION COMMITTEE

The Company established the remuneration committee on 24 June 2017 which comprises one executive Director and two independent non-executive Directors, namely Mr. Lam, Mr. Mak Kwok Kei and Mr. Ho Kin Wai. Mr. Ho Kin Wai currently serves as the chairman of the remuneration committee. The remuneration committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy.

NOMINATION COMMITTEE

The Company established the nomination committee on 24 June 2017 which comprises one executive Director and two independent non-executive Directors, namely Mr. Lam, Mr. Mak Kwok Kei and Mr. Ho Kin Wai. Mr. Lam currently serves as the chairman of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on appointment of the Directors and succession planning for the Directors.

By order of the Board
Lapco Holdings Limited
Lam Pak Ling
*Chairman, chief executive officer
and executive Director*

Hong Kong, 10 August 2020

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Lam Pak Ling, Mr. Cai Weiming, Mr. Wong Tsz Chun, Jacky and Mr. Tam Yiu Shing, Billy; one non-executive Director, namely Mr. Gao Ran; and three independent non-executive Directors, namely Mr. Mak Kwok Kei, Ms. Lam Kit Yan and Mr. Ho Kin Wai.

This announcement will remain on the GEM website at www.hkgem.com 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.lapco.com.hk.

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.