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Lapco Holdings Limited

立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8472)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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.

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

For the year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Revenue	3	765,921	665,765
Cost of services		<u>(721,336)</u>	<u>(624,450)</u>
Gross profit		44,585	41,315
Other income	4	516	16,148
Other gains and losses, net	4	1,526	854
Administrative expenses		(35,795)	(31,129)
Other expenses		–	(1,700)
Finance costs	5	<u>(4,431)</u>	<u>(6,277)</u>
Profit before taxation	6	6,401	19,211
Income tax expense	7	<u>(1,040)</u>	<u>(824)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>5,361</u>	<u>18,387</u>
Earnings per share			
– Basic (HK cents)	9	<u>1.34</u>	<u>4.60</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Plant and equipment		18,720	8,562
Right-of-use assets		32,686	38,733
Deposits and prepayments		–	6,289
Deposits for acquisition of plant and equipment		3,873	700
		<u>55,279</u>	<u>54,284</u>
Current assets			
Trade receivables	<i>10</i>	119,815	105,626
Other receivables, deposits and prepayments		12,181	14,811
Tax recoverable		1,355	627
Pledged bank balances		21,700	43,490
Bank balances and cash		40,483	35,583
		<u>195,534</u>	<u>200,137</u>
Current liabilities			
Trade payables	<i>11</i>	5,683	4,926
Other payables		43,817	47,685
Provisions		15,503	30,340
Bank and other borrowings		91,904	81,666
Lease liabilities		14,874	22,774
Tax payable		–	587
		<u>171,781</u>	<u>187,978</u>
Net current assets		<u>23,753</u>	<u>12,159</u>
Total assets less current liabilities		<u>79,032</u>	<u>66,443</u>
Non-current liabilities			
Provisions		6,611	3,976
Deferred tax liabilities		718	88
Lease liabilities		12,720	8,757
		<u>20,049</u>	<u>12,821</u>
Net assets		<u>58,983</u>	<u>53,622</u>
Capital and reserves			
Issued share capital	<i>12</i>	4,000	4,000
Reserves		54,983	49,622
Equity attributable to owners of the Company		<u>58,983</u>	<u>53,622</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i> <i>(note)</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	4,000	31,362	11,051	(11,178)	35,235
Profit and total comprehensive income for the year	—	—	—	18,387	18,387
At 31 December 2020	4,000	31,362	11,051	7,209	53,622
Profit and total comprehensive income for the year	—	—	—	5,361	5,361
At 31 December 2021	4,000	31,362	11,051	12,570	58,983

Note: Other reserve represented (i) 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 amounted to HK\$10,200,000; and (ii) the fair value adjustment on the non-current shareholder loans using the effective interest rate of 7.5% per annum in 2019 amounted to HK\$851,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Lapco Holdings Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 12 August 2016. The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 18 July 2017. The addresses of the Company’s registered office and the principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit No. 301A, 3/F., Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong respectively.

The Company is an investment holding company and its principal 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 functional currency of the Company is Hong Kong dollar (“**HK\$**”), which is the same as the presentation currency of the consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (collectively the “**Group**”) has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current year has had no 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.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 “Making Materiality Judgements” (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

Amendments to HKAS 8 “Definition of Accounting Estimates”

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgments or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 “Income Taxes” (“**HKAS 12**”) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK\$32,686,000 and HK\$27,594,000, respectively. The Group is in still the process of assessing the full impact of the application of the amendments.

3. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable by the Group to external customers. The Group's operations are solely derived from services provided in Hong Kong for both years.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<i>Types of services</i>		
Cleaning services	600,104	533,448
Pest management services	64,608	43,848
Waste management and recycling services	100,484	88,060
Landscaping services	725	409
	765,921	665,765
<i>Types of customers</i>		
Government	682,709	622,014
Non-government	83,212	43,751
	765,921	665,765
<i>Timing of revenue recognition</i>		
Over time	765,921	665,765

(ii) *Performance obligations for contracts with customers*

The performance obligation is the promise to provide cleaning services, pest management services, waste management and recycling services and landscaping services over the contract period. These services considered to be distinct as they are both regularly supplied by the Group to other customers on a stand-alone basis and are available for customers from other providers in the market. Under the terms of these contracts, performance obligation satisfied over time as the customers of the Group simultaneously receive and consume the benefits provided by the Group's performance as the Group performs (i.e. cleaning services, pest management services, waste management and recycling services and landscaping services rendered by the Group under contracts with the customers with fixed consideration) and thus these income are recognised over time.

(iii) *Transaction price allocated to the remaining performance obligation for contracts with customers*

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at 31 December 2021 and the expected timing of recognising revenue are as follows:

	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>
Within one year	454,104	35,941	105,763	830
More than one year but not more than two years	303,744	2,448	92,437	830
More than two years	201,394	–	247,693	138
	<u>959,242</u>	<u>38,389</u>	<u>445,893</u>	<u>1,798</u>

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at 31 December 2020 and the expected timing of recognising revenue are as follows:

	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>
Within one year	436,987	38,226	82,329	101
More than one year but not more than two years	83,019	34,598	33,578	–
More than two years	52,639	2,448	15,936	–
	<u>572,645</u>	<u>75,272</u>	<u>131,843</u>	<u>101</u>

Segment information

Information reported to the chief operating decision maker (the “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

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>
For the year ended 31 December 2021					
Segment revenue – external customers	<u>600,104</u>	<u>64,608</u>	<u>100,484</u>	<u>725</u>	<u>765,921</u>
Segment results	<u>40,381</u>	<u>3,117</u>	<u>1,055</u>	<u>32</u>	<u>44,585</u>
Other income					516
Other gains and losses, net					1,526
Administrative expenses					(35,795)
Finance costs					<u>(4,431)</u>
Profit before taxation					<u>6,401</u>
For the year ended 31 December 2020					
Segment revenue – external customers	<u>533,448</u>	<u>43,848</u>	<u>88,060</u>	<u>409</u>	<u>665,765</u>
Segment results	<u>35,749</u>	<u>3,658</u>	<u>1,898</u>	<u>10</u>	41,315
Other income					16,148
Other gains and losses, net					854
Administrative expenses					(31,129)
Other expenses					(1,700)
Finance costs					<u>(6,277)</u>
Profit before taxation					<u>19,211</u>

There was no inter-segment revenue for both years.

The accounting policies of the operating and reportable segments are the same as the Group’s accounting policies. Segment results represent the results from each segment without allocation of other income, other gains and losses, net, administrative expenses, other expenses and finance costs. 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 the reporting period by operating and reportable segments are as follows:

	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>
At 31 December 2021					
Segment assets	110,099	15,098	48,661	222	174,080
Certain plant and equipment					208
Certain right-of-use assets					1,994
Certain other receivables, deposits and prepayments					10,993
Tax recoverable					1,355
Pledged bank balances					21,700
Bank balances and cash					40,483
Total assets					<u>250,813</u>
Segment liabilities	48,929	7,943	7,797	57	64,726
Certain other payables					5,592
Certain provisions					1,296
Bank and other borrowings					91,904
Lease liabilities					27,594
Deferred tax liabilities					718
Total liabilities					<u>191,830</u>
At 31 December 2020					
Segment assets	108,365	9,781	32,458	87	150,691
Certain plant and equipment					256
Certain right-of-use assets					2,674
Certain other receivables, deposits and prepayments					21,100
Tax recoverable					627
Pledged bank balances					43,490
Bank balances and cash					35,583
Total assets					<u>254,421</u>
Segment liabilities	64,013	5,262	10,567	49	79,891
Certain other payables					4,740
Certain provisions					2,296
Bank and other borrowings					81,666
Lease liabilities					31,531
Tax payable					587
Deferred tax liabilities					88
Total liabilities					<u>200,799</u>

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, tax recoverable, pledged bank balances and bank balances and cash.
- all liabilities are allocated to operating and reportable segments other than certain other payables, certain provisions, bank and other borrowings, lease liabilities, tax payable and deferred tax liabilities.

Other segment information

	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>	Segment total <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2021							
Deposits paid for acquisition of plant and equipment	-	-	3,873	-	3,873	-	3,873
Additions to plant and equipment	1,040	-	10,477	-	11,517	21	11,538
Additions to right-of-use assets	6,215	-	13,081	-	19,296	2,204	21,500
Depreciation of plant and equipment	2,322	199	1,651	-	4,172	69	4,241
Depreciation of right-of-use assets	8,788	1,699	12,308	-	22,795	1,170	23,965
Gain on disposal of plant and equipment, net	1,887	453	-	-	2,340	11	2,351
For the year ended 31 December 2020							
Deposits paid for acquisition of plant and equipment	700	-	-	-	700	-	700
Additions to plant and equipment	4,917	-	-	-	4,917	-	4,917
Additions to right-of-use assets	863	-	-	-	863	-	863
Depreciation of plant and equipment	3,031	1,267	1,564	-	5,862	138	6,000
Depreciation of right-of-use assets	8,393	12,000	1,651	-	22,044	1,301	23,345
Gain on disposal of plant and equipment, net	753	98	-	-	851	-	851

Geographical information

No geographical segment information is presented as the Group's revenue are all derived from Hong Kong based on the location of services provided and the Group's plant and equipment amounting to HK\$18,720,000 (2020: HK\$8,562,000), right-of-use assets amounting to HK\$32,686,000 (2020: HK\$38,733,000) and other non-current assets excluded financial instruments amounting to HK\$3,873,000 (2020: HK\$895,000) at 31 December 2021 are all located in Hong Kong by physical location of assets.

Information about major customer

Revenue attributed from a customer that accounted for 10% or more of the Group's total revenue is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer A ¹	646,589	586,825

¹ Revenue from cleaning services, waste management and recycling services and pest management services.

4. OTHER INCOME/OTHER GAINS AND LOSSES, NET

Other income

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank interest income	18	189
Interest income from payment for life insurance policies	33	225
Sundry income	293	970
Government grants (<i>note</i>)	172	14,764
	<u>516</u>	<u>16,148</u>

Note: During the year ended 31 December 2021, the Group recognised government grants of HK\$172,000 (2020: HK\$14,764,000), of which nil (2020: HK\$10,540,000) related to Employment Support Scheme provided by the Hong Kong government, HK\$172,000 (2020: HK\$2,550,000) related to one-off subsidy to the registered owners of commercial vehicles and nil (2020: HK\$1,674,000) related to an administration fee on anti-epidemic fund for cleaning workers.

Other gains and losses, net

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Gain on disposal of plant and equipment, net	2,351	851
Net foreign exchange (losses) gains	(33)	3
Loss on early termination of life insurance policies	(792)	–
	<u>1,526</u>	<u>854</u>

5. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interests on:		
Bank and other borrowings	2,788	3,498
Lease liabilities	1,643	1,983
Imputed interest expense on shareholder loans	–	796
	<u>4,431</u>	<u>6,277</u>

6. PROFIT BEFORE TAXATION

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	950	1,100
Depreciation of plant and equipment	4,241	6,000
Depreciation of right-of-use assets	23,965	23,345
Provision on litigation claims (included in other expenses)	–	1,700
Directors' remuneration	7,370	5,445
Other staff costs		
Salaries, bonuses and other benefits	601,973	505,696
Retirement benefits scheme contributions	17,058	14,057
Total staff costs	<u>626,401</u>	<u>525,198</u>

7. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong Profits Tax:		
– Current tax	313	732
– Underprovision in previous years	97	158
Deferred tax charge (credit)	630	(66)
	<u>1,040</u>	<u>824</u>

During the year, the Group agreed the income tax expense, penalties and interests of approximately HK\$1,582,000, approximately HK\$1,385,000 and approximately HK\$195,000, respectively, on certain Hong Kong subsidiaries of the Company for the previous years of assessment from 2011/2012 onwards with Inland Revenue Department (the “**IRD**”) that they were included in underprovision in previous years of Hong Kong Profits Tax, other expenses and finance costs, respectively, for the year. Income tax expense, penalties and interests of approximately HK\$1,311,000, approximately HK\$1,385,000 and approximately HK\$195,000, respectively, have been offset by the compensation from a retired director (who was also an ex-major shareholder) of the Company for the settlement of the same amounts to the IRD directly.

8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the year ended 31 December 2021 (2020: Nil).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

9. EARNINGS PER SHARE

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	<u>5,361</u>	<u>18,387</u>
	2021	2020
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>400,000,000</u>	<u>400,000,000</u>

No diluted earnings per share for both years was presented as there were no potential ordinary shares in issue during both years.

10. TRADE RECEIVABLES

At 1 January 2020, trade receivables from contracts with customers amounted to HK\$138,331,000.

The following is an analysis of the trade receivables by types of customers.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Government customers	95,915	93,821
Non-government customers	<u>23,900</u>	<u>11,805</u>
	<u>119,815</u>	<u>105,626</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	49,326	59,826
31–60 days	48,469	42,730
61–90 days	12,697	2,212
91–180 days	9,115	837
Over 180 days	<u>208</u>	<u>21</u>
	<u>119,815</u>	<u>105,626</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 the reporting period:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0–30 days	2,415	2,733
31–60 days	3,218	2,025
61–90 days	45	166
Over 90 days	5	2
	<u>5,683</u>	<u>4,926</u>

12. ISSUED SHARE CAPITAL

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

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2020, 31 December 2020 and 2021	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2020, 31 December 2020 and 2021	<u>400,000,000</u>	<u>4,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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 year ended 31 December 2021 include various departments of the Hong Kong Government, property management companies and other corporations in the private sector.

During the Reporting Period, the competition in the environmental hygiene service industry remained keen. Shortage of labour and high operating costs, particularly the insurance expenses, labour costs, vehicle expenses, legal and professional expenses continued to be the challenges of the business.

During the Reporting Period, we provided tenders and quotations for our street cleaning solutions. As at the date of this announcement, we had submitted seven subsisting tenders for our street cleaning solutions. We are optimistic about the prospects of the environmental cleaning service industry, and thereby have been investing 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 of 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-size and large scale projects.

We have been cautious when bidding tenders, and will continue to invest resources to secure more promising business with higher gross profit from both public and private sectors to strengthen the business foundation. During the Reporting Period, this strategy was successful, and the profit margins of street cleaning contracts, which account for the largest proportion of the Group's business, were greatly improved since 2020.

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

Looking ahead, the global and local economies are expected to continue to fluctuate due to COVID-19 epidemic. The Group will remain vigilant and actively respond to the impact of the epidemic on the Group's operation and financial position, and will fully support the anti-epidemic work in Hong Kong on an on-going basis and to contribute to the society by the Group's professional services. Although the environment in the future is still full of challenges and uncertainties, with the increasing public awareness of environmental hygiene and health as well as the escalating demand for services in response to the long-term anti-epidemic efforts, we are optimistic and confident about the future of the environmental hygiene service industry.

Financial Results

Revenue of the Group increased by approximately 15.0% from approximately HK\$665.8 million for the year ended 31 December 2020 to approximately HK\$765.9 million for the Reporting Period. The Group, recorded an increase in the cost of services by approximately 15.5% to approximately HK\$721.3 million (2020: approximately HK\$624.5 million) and an increase of approximately 7.9% in gross profit to approximately HK\$44.6 million (2020: approximately HK\$41.3 million). Gross profit margin also decreased by approximately 0.4% to 5.8% (2020: increased approximately 2.2% to 6.2%). Due to the receipt of the Employment Support Scheme, the anti-epidemic fund subsidy of commercial vehicles and other income from administration fee received for processing the anti-epidemic fund for cleaning workers for the year ended 31 December 2020, as well as the increase in administrative expenses, the Group only recorded a profit attributable to equity shareholders of the Company (the "Shareholders") for the year ended 31 December 2021 which amounted to approximately HK\$5.4 million (as compared to a profit of approximately HK\$18.4 million for the corresponding period in 2020).

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

HUMAN RESOURCES

As at 31 December 2021, the Group employed 2,231 employees, including both full time and part time (31 December 2020: 3,177). Remuneration packages are generally structured by reference to market terms, individual qualifications and experience.

During the Reporting Period, various training activities, such as training on operational safety, administrative and management skills, were conducted to improve the quality of front-end services, office support and management. In addition, employees are also encouraged, subsidised and sponsored to attend job-related seminars and courses organised by professional and/or educational institution to ensure the smooth and effective management of the Group's business.

FINANCIAL REVIEW

Revenue

The Group's revenue for the years ended 31 December 2021 and 2020 were approximately HK\$765.9 million and HK\$665.8 million, respectively, representing an increase of approximately 15.0%. The increase was mainly driven by the new contracts commenced during the Reporting Period in our service segment of cleaning services.

The following table sets forth our revenue by business segments during the years ended 31 December 2021 and 2020:

	For the year ended 31 December			
	2021		2020	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Cleaning services	600,104	78.4	533,448	80.1
Pest management services	64,608	8.4	43,848	6.6
Waste management and recycling services	100,484	13.1	88,060	13.2
Landscaping services	725	0.1	409	0.1
Total	765,921	100.0	665,765	100.0

The revenue from cleaning services increased by approximately 12.5% for the year ended 31 December 2021 as comparing with that of the previous year as certain cleaning services contracts were awarded during the year. The revenue from pest management services increased significantly by approximately 47.3% for the year ended 31 December 2021 as compared to the previous year as certain pest management services contracts were awarded during the year. The revenue from waste management and recycling services increased by approximately 14.1% for the year ended 31 December 2021 as compared to the previous year as certain waste management and recycling services contracts were awarded during the year.

More details of the Group's performance for the Reporting Period by business segments are set out in note 3 to the consolidated financial statements.

Cost of Services

For the years ended 31 December 2021 and 2020, the cost of services of the Group amounted to approximately HK\$721.3 million and HK\$624.5 million respectively, representing approximately 94.2% and 93.8% of the Group's revenue for the corresponding years. Our cost of services mainly consists of direct labour costs, vehicle expenses, consumables, and direct overheads. The increase in cost of services was mainly caused by the increase in direct labour costs, petrol expenses and motor vehicles expenses attributable to the new tender contracts awarded.

Gross Profit

The Group's gross profit for the year ended 31 December 2021 was approximately HK\$44.6 million, representing an increase of approximately 7.9% from approximately HK\$41.3 million for the year ended 31 December 2020. The increase was mainly caused by the increase of revenue.

Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2021 and 2020 were approximately 5.8% and 6.2% respectively.

Other income

The Group's other income for the years ended 31 December 2021 and 2020 were approximately HK\$0.5 million and HK\$16.1 million respectively. The significant decrease was mainly due to the Group recognised government grants of HK\$14.7 million in respect of COVID-19-related subsidies for the year ended 31 December 2020, out of which HK\$10.5 million relates to the Employment Support Scheme provided by the Hong Kong government and HK\$1.7 million relates to an administration fee on anti-epidemic fund for cleaning workers in 2020 and no such income in 2021, HK\$2.6 million relates to the one-off subsidy to the registered owners of commercial vehicles reduced to HK\$0.2 million for the year ended 31 December 2021.

Administrative Expenses

The administrative expenses incurred by the Group for the years ended 31 December 2021 and 2020 were approximately HK\$35.8 million and HK\$31.1 million respectively, representing an increase of approximately 15.0%, and approximately 4.7% and 4.7% of the respective year's total revenue. The increase was mainly due to the increase in salaries and welfare of approximately HK\$3.7 million for the year ended 31 December 2021.

Finance Costs

The finance costs of the Group amounted to approximately HK\$4.4 million and HK\$6.3 million for the years ended 31 December 2021 and 2020 respectively, representing approximately 0.6% and approximately 0.9% of the Group's revenue in the respective years.

Profit Attributable to Owners of The Company

As a result of the foregoing, the profit attributable to the Shareholders for the year ended 31 December 2021 amounted to approximately HK\$5.4 million as compared to the approximately HK\$18.4 million for the year ended 31 December 2020.

FOREIGN CURRENCY EXPOSURE

The Group's foreign currency exposure is limited as most of its transactions, assets and liabilities are denominated in Hong Kong dollars.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, total bank and other borrowings of the Group amounted to approximately HK\$91.9 million (2020: approximately HK\$81.7 million) which represented the secured and guaranteed bank overdrafts, secured and guaranteed bank borrowings including revolving loans, term loans, and loans from factoring of trade receivables with full recourse, unsecured and unguaranteed other borrowings and unsecured and unguaranteed shareholder loans. As at 31 December 2021, the cash and cash equivalents and pledged bank balances of the Group amounted to approximately HK\$62.2 million (2020: approximately HK\$79.1 million). As at 31 December 2021, debt to equity ratio of the Group was approximately 97.2% (2020: approximately 63.6%). 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 years. Current ratio as at 31 December 2021 was approximately 1.1 time (2020: approximately 1.1 time).

The Group maintained sufficient working capital as at 31 December 2021 with bank balances and cash of approximately HK\$40.5 million (2020: approximately HK\$35.6 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 31 December 2021, the Group's net current assets amounted to approximately HK\$23.8 million (2020: approximately HK\$12.2 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.

CONTINGENT LIABILITIES

As at 31 December 2021, performance guarantee of approximately HK\$160,542,000 (2020: HK\$102,978,000) was given by banks 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 to pay the sum stipulated in such demand. The Group will become liable to compensate such banks accordingly. The performance guarantee will be released upon completion of the service contracts.

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 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 was a 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 31 December 2021 is set out below:

Summary of use of proceeds

Use of net proceeds	Total planned amount to be used <i>HK\$' million</i>	Actual amount utilized up to 31 December 2020 <i>HK\$' million</i>	Actual amount utilized during the year ended 31 December 2021 <i>HK\$' million</i>	Actual amount utilized up to 31 December 2021 <i>HK\$' million</i>	Unutilized balance as at 31 December 2021 <i>HK\$' million</i>	Expected timeline for utilising the remaining
						Net Proceeds as at 31 December 2021
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	0.4	0.4	0.8	1.9	On or before 31 December 2022
Repay a bank loan	2.9	2.9	–	2.9	–	
General working capital	1.8	1.8	–	1.8	–	
Total	18.7	16.4	0.4	16.8	1.9	

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.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2021, the amount of lease liabilities within one year was approximately HK\$14.9 million (31 December 2020: HK\$22.8 million), and after one year but within five years was approximately HK\$12.7 million (31 December 2020: HK\$8.8 million).

As at 31 December 2021, we had approximately HK\$91.7 million (31 December 2020: HK\$67.6 million) of secured bank borrowings (excluding secured bank overdrafts). Such loans were primarily used in financing the working capital requirement of our operations.

In addition, we have (i) pledged bank balances of approximately HK\$21.7 million as at 31 December 2021 (31 December 2020: HK\$43.5 million), (ii) pledged the Group's trade receivables of approximately HK\$119.8 million as at 31 December 2021 (31 December 2020: HK\$105.6 million) and (iii) pledged the Group's motor vehicles of approximately HK\$30.7 million (31 December 2020: HK\$37.8 million).

Save as mentioned above in this section, we did not have any outstanding mortgages or charges, borrowings or indebtedness including bank overdrafts, loans or debentures, loan capital, debt securities or other similar indebtedness, finance lease or hire purchase.

ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD

During the Reporting Period, the Group did not make any material acquisition, disposal nor significant investment.

CORPORATE GOVERNANCE PRACTICES

The corporate governance practices of the Group are based on the principles and the code provisions in the Corporate Governance Code (the “Code”) as set out in Appendix 15 to the Rules GEM Listing Rules.

During the year ended 31 December 2021, the Company has complied with all the applicable code provisions of the Code, except for the deviation from code provision A.2.1 as described below.

Mr. Lam Pak Ling (“**Mr. Lam**”) was the chairman of the Board and the chief executive officer of the Company until 31 December 2021 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 has 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 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 ended 31 December 2021.

APPOINTMENT, RE-ELECTION AND RETIREMENT OF THE DIRECTORS

In accordance with article 84 of the Articles, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years.

Pursuant to article 84 of the Articles, Mr. Cai Weiming, Mr. Wong Tsz Chun, Jacky and Mr. Mak Kwok Kei will retire from office as Directors at the forthcoming AGM, and being eligible, will offer themselves for re-election.

Each of Mr. Cai Weiming and Mr. Wong Tsz Chun, Jacky, being all executive Directors, has entered into a service agreement with the Company for an initial term of three years commencing from the 24 June 2017 and continuing thereafter until terminated by either party by giving not less than one month's prior written notice.

Mr. Tam Yiu Shing, Billy, being an executive Director has entered into a service agreement with the Company for an initial term of three years commencing from the 25 January 2019 and continuing thereafter until terminated by either party by giving not less than one month's prior written notice to the other.

Each of Mr. Mak Kwok Kei, Ms. Lam Kit Yan and Mr. Ho Kin Wai, being all independent non-executive Directors, has entered into a service agreement with the Company for a term of three years commencing from 24 June 2017 which has been renewed for a further term of three years and may be terminated by either party by giving not less than one month's prior written notice.

No Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the required standard of dealing, as set out in Rules 5.48 to 5.67 of the GEM Listing Rules, as the code of conduct for securities transactions by the Directors in respect of the shares of the Company. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard of dealing and the code of conduct for securities transactions by directors during the year ended 31 December 2021.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this announcement, none of the Directors of the Company and directors of the Company's subsidiaries, or their respective associates had interests in business, which compete or are likely to compete either directly or indirectly, with the business of the Company and its subsidiaries as required to be disclosed pursuant to the GEM Listing Rules.

PERMITTED INDEMNITY PROVISION AND INSURANCE

Pursuant to the Articles and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force throughout the Reporting Period. The Company has arranged for appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2021, none of the Directors and chief executive of the Company had any 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 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.

Save as disclosed above, as at 31 December 2021, 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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

ANNUAL GENERAL MEETING (“AGM”)

The forthcoming AGM will be held on Friday, 6 May 2022. A notice convening the AGM will be published in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 3 May 2022 to Friday, 6 May 2022, both days inclusive, during which period no transfer of Shares will be registered. For determining the entitlement of members of the Company to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Friday, 29 April 2022.

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 officers or auditors. Members of the Audit Committee are also responsible for reviewing our Group’s financial reporting process and internal control and risk management systems.

During the year ended 31 December 2021 and to the date of this announcement, the Audit Committee had reviewed the final results of the Group for the year ended 31 December 2020, the first quarterly results (and related quarterly report) of the Group for the three months ended 31 March 2021, the interim results (and interim report) of the Group for the six months ended 30 June 2021 and the third quarterly results (and related quarterly report) of the Group for the nine months ended 30 September 2021. The Group’s final results for the year ended 31 December 2021 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee is of the view that the annual results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By order of the Board of
Lapco Holdings Limited
Tam Yiu Shing, Billy
Executive Director and Company Secretary

Hong Kong, 28 March 2022

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited 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 matters the omission of which would make any statement in this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the Company's website at www.lapco.com.hk.

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