

Lapco Holdings Limited

立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8472)

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2022

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

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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 nine months ended 30 September 2022, together with the comparative unaudited figures of the corresponding period in 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4	259,973	218,973	710,664	608,265
Cost of services		(247,563)	(205,150)	(674,776)	(570,686)
Gross profit		12,410	13,823	35,888	37,579
Other income		2,280	101	7,234	243
Other gains		2,090	710	2,403	1,097
Administrative expenses		(8,979)	(8,098)	(24,848)	(25,873)
Finance costs		(1,092)	(1,131)	(3,347)	(3,367)
Profit before taxation	5	6,709	5,405	17,330	9,679
Income tax expense	6	(930)	(892)	(2,069)	(1,597)
Profit and other comprehensive income attributable to the owners of the Company for the period		5,779	4,513	15,261	8,082
Earnings per share	8				
Basic (HK cents)		1.44	1.13	3.82	2.02

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2022

	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 2021 (Audited)	4,000	31,362	11,051	7,209	53,622
Profit and total comprehensive income for the period (Unaudited)	–	–	–	8,082	8,082
At 30 September 2021 (Unaudited)	<u>4,000</u>	<u>31,362</u>	<u>11,051</u>	<u>15,291</u>	<u>61,704</u>
At 1 January 2022 (Audited)	4,000	31,362	11,051	12,570	58,983
Profit and total comprehensive income for the period (Unaudited)	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,261</u>	<u>15,261</u>
At 30 September 2022 (Unaudited)	<u>4,000</u>	<u>31,362</u>	<u>11,051</u>	<u>27,831</u>	<u>74,244</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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2022

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.

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 No. 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 nine months ended 30 September 2022 are the same as those followed in the preparation of the consolidated financial statements for the year ended 31 December 2021.

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 nine months ended 30 September</i>					
<i>2022 (Unaudited)</i>					
Segment revenue	<u>570,442</u>	<u>49,358</u>	<u>90,266</u>	<u>598</u>	<u>710,664</u>
Segment results	<u>35,072</u>	<u>1,695</u>	<u>(924)</u>	<u>45</u>	<u>35,888</u>
Other income					7,234
Other gains					2,403
Administrative expenses					(24,848)
Finance costs					<u>(3,347)</u>
Profit before taxation					<u>17,330</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 nine months ended 30 September</i>					
<i>2021 (Unaudited)</i>					
Segment revenue	<u>486,319</u>	<u>47,581</u>	<u>73,923</u>	<u>442</u>	<u>608,265</u>
Segment results	<u>33,881</u>	<u>1,275</u>	<u>2,417</u>	<u>6</u>	<u>37,579</u>
Other income					243
Other gains					1,097
Administrative expenses					(25,873)
Finance costs					<u>(3,367)</u>
Profit before taxation					<u>9,679</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 finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	(Unaudited)		(Unaudited)	
	Three months		Nine months	
	ended 30 September		ended 30 September	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration	300	300	900	900
Directors' remuneration	863	1,470	2,770	5,542
Other staff costs				
– Salaries, bonuses and other benefits	203,158	161,932	544,567	459,629
– Retirement benefit scheme contributions	6,094	4,876	16,401	13,306
Total staff costs	210,115	168,278	563,738	478,477
Depreciation of right-of-use assets, plant and equipment	6,176	7,106	19,837	21,141

6. INCOME TAX EXPENSE

	(Unaudited)		(Unaudited)	
	Three months		Nine months	
	ended 30 September		ended 30 September	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax				
– Current tax	930	892	2,069	1,597

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

7. DIVIDEND

No dividends were paid, declared or proposed during the nine months ended 30 September 2022 and 2021. The Directors of the Company do not recommend payment of interim dividend for the nine months ended 30 September 2022 (for the nine months ended 30 September 2021: Nil).

8. EARNINGS PER SHARE

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

	(Unaudited)		(Unaudited)	
	Three months		Nine months	
	ended 30 September		ended 30 September	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings for the period attributable to owners of the Company for the purpose of basic earnings per share	5,779	4,513	15,261	8,082
	400,000	400,000	400,000	400,000

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue increased by approximately 16.8% from approximately HK\$608.3 million for the nine months ended 30 September 2021 to approximately HK\$710.7 million for the nine months ended 30 September 2022, primarily attributable to the commencement of certain new cleaning service contracts. During the nine months ended 30 September 2022, the Group's gross profit decreased by approximately 4.5% from approximately HK\$37.6 million for the nine months ended 30 September 2021 to approximately HK\$35.9 million for the nine months ended 30 September 2022. The Group's costs of services mainly comprise direct labour costs, vehicle expenses, consumables and direct overheads. The gross profit margins for the nine months ended 30 September 2021 and 2022 were approximately 6.2% and approximately 5.0%, respectively. The decrease in the gross profit margins was mainly caused by the significant increase in gasoline expenses.

Other income increased significantly by approximately 2,877.0% from approximately HK\$243,000 for the nine months ended 30 September 2021 to approximately HK\$7.2 million for the nine months ended 30 September 2022. The increase was mainly due to the contribution from the Employment Support Scheme provided by the government of approximately HK\$3.2 million, government subsidy of phasing out diesel commercial vehicles of approximately HK\$1.6 million and administration fee on anti-epidemic fund for cleansing workers of approximately HK\$2.0 million recorded in the nine months ended 30 September 2022.

The Group recorded other net gains of approximately HK\$2.4 million for the nine months ended 30 September 2022 as compared to other net gains of approximately HK\$1.1 million for the corresponding period in 2021 mainly due to the gain on disposal of motor vehicles of approximately HK\$2.4 million for the nine months ended 30 September 2022.

Administrative expenses decreased by approximately 4.0% from approximately HK\$25.9 million for the nine months ended 30 September 2021 to approximately HK\$24.8 million for the nine months ended 30 September 2022, mainly due to the decrease in salaries and welfares of approximately HK\$1.1 million resulting from the decrease of salaries and bonus payment.

The Group's finance costs decreased by approximately 0.6% from approximately HK\$3.4 million for the nine months ended 30 September 2021 to approximately HK\$3.3 million for the nine months ended 30 September 2022. It mainly comprises interest expenses on lease liabilities for vehicles purchased and interest expenses on factoring of trade receivables.

The Group's net profit after taxation for the nine months 30 September 2022 increased by approximately 88.8% to approximately HK\$15.3 million, as compared to approximately HK\$8.1 million for the corresponding period in 2021. It was mainly attributed to 1) other income from Employment Support Scheme, government subsidy of phasing out diesel commercial and administration fee on anti-epidemic fund for cleansing workers of approximately HK\$6.8 million; and 2) decrease of administrative expense of approximately HK\$1.1 million in the Reporting Period.

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 September 2022 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. 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.

Compliance with the Corporate Governance Code

The Company is committed to achieve high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance its corporate value. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 15 to the GEM Listing Rules (the "CG Code"). During the nine months ended 30 September 2022, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code.

Competing Business

For the nine months ended 30 September 2022, 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 nine months ended 30 September 2022, 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 September 2022, none of the Directors and chief executive of the Company had any interests or short positions 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 September 2022, 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. Cheung Chun Man, Anthony	Interest in controlled corporation	119,600,000	29.9%
Ravarock Financial Group Limited	Beneficial interest	119,600,000	29.9%

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

Save as disclosed herein, the Company has not been notified of any other person (other than a Director or a chief executive of the Company) who had an interest or a short position 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 as at 30 September 2022.

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 5.46 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 nine months ended 30 September 2022, the audit committee had held meeting and had reviewed the draft third quarterly report and unaudited consolidated financial statements for the nine months ended 30 September 2022 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. Tam Yiu Shing, Billy, 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. Tam Yiu Shing, Billy, Mr. Mak Kwok Kei and Mr. Ho Kin Wai. Mr. Tam Yiu Shing, Billy 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
Tam Yiu Shing, Billy
Executive Director
and Company Secretary

Hong Kong, 11 November 2022

As at the date of this announcement, the Board comprises one executive Director, namely 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 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.