

LAPCO HOLDINGS LIMITED

立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 8472



Third Quarterly Report
2019

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.

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 report, 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 report 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 report 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 2019, together with the comparative unaudited figures of the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue	4	146,490	128,974	420,522	398,052
Cost of services		(141,828)	(123,947)	(405,858)	(377,193)
Gross profit		4,662	5,027	14,664	20,859
Other income		77	302	487	716
Other gains and losses		188	–	745	2,021
Administrative expenses		(7,490)	(6,482)	(22,368)	(21,106)
Finance costs		(1,791)	(1,711)	(5,168)	(4,963)
Loss before taxation	5	(4,354)	(2,864)	(11,640)	(2,473)
Income tax credit/(expense)	6	–	436	–	234
Loss and other comprehensive expense attributable to the owners of the Company for the period		(4,354)	(2,428)	(11,640)	(2,239)
Loss per share	8				
Basic (HK cents)		(1.09)	(0.61)	(2.91)	(0.56)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2019

	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 2018 (Audited)	4,000	31,362	10,200	16,624	62,186
Loss and total comprehensive expense for the period	-	-	-	(2,239)	(2,239)
At 30 September 2018 (Unaudited)	4,000	31,362	10,200	14,385	59,947
At 1 January 2019 (Audited)	4,000	31,362	10,200	4,937	50,499
Loss and total comprehensive expense for the period	-	-	-	(11,640)	(11,640)
At 30 September 2019 (Unaudited)	4,000	31,362	10,200	(6,703)	38,859

Note: Other reserve represented the difference between the share capital of group entities and that of the Company issued pursuant to the group reorganisation underwent for the listing of the Company's Shares on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

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 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 those changes in accounting policies resulting from application of new and amendments to HKFRSs as disclosed below, the accounting policies adopted in the financial information for the nine months ended 30 September 2019 are consistent with those followed in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2018 included in the annual report of the Company dated 22 March 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

Application of new and amendments to HKFRSs

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of other new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 superseded HKAS 17 "Leases" and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the date of initial application of HKFRS 16. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use).

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

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

The lease payments include:

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

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

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

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK\$2,462,000 and right-of-use assets of approximately HK\$2,462,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

	As at 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	2,685
Lease liabilities discounted at relevant incremental borrowing rates as at 1 January	2,543
Less: Recognition exemption – short-term leases	(81)
Lease liabilities as at 1 January 2019	2,462
Analysed as:	
Current	1,149
Non-current	1,313
	2,462

The carrying amount of right-of-use assets as at 1 January 2019 comprises the followings:

	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	2,462
By Class:	
Properties	2,462

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

3.2 Significant changes in significant judgements and key sources of estimation uncertainty

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 as 1 January 2019 HK\$'000
Non-current Assets			
Right-of-use assets	–	2,462	2,462
Current Liabilities			
Lease liabilities	–	1,149	1,149
Non-current liabilities			
Lease liabilities	–	1,313	1,313

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, 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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

Segment revenue and results

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

	Cleaning services HK\$'000	Pest management services HK\$'000	Waste management and recycling services HK\$'000	Landscaping services HK\$'000	(Unaudited) Total HK\$'000
<i>For the nine months ended 30 September 2019</i>					
Segment revenue	301,275	52,569	66,269	409	420,522
Segment results	9,676	1,803	3,175	10	14,664
Other income					487
Other gains and losses					745
Administrative expenses					(22,368)
Finance costs					(5,168)
Loss before taxation					(11,640)

	Cleaning services HK\$'000	Pest management services HK\$'000	Waste management and recycling services HK\$'000	Landscaping services HK\$'000	(Unaudited) Total HK\$'000
<i>For the nine months ended 30 September 2018</i>					
Segment revenue	272,705	58,256	66,579	512	398,052
Segment results	11,879	4,303	4,673	4	20,859
Other income					716
Other gains and losses					2,021
Administrative expenses					(21,106)
Finance costs					(4,963)
Loss before taxation					(2,473)

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 and income tax expenses. This is the measure reported to the chief operating decision maker ("CODM") (i.e. the chief executive officer) for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

5. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration	309	11	927	32
Directors' remuneration	1,277	952	3,830	3,133
Other staff costs				
– Salaries, bonuses and other benefits	113,024	97,883	322,922	299,973
– Retirement benefit scheme contributions	2,955	2,837	8,593	8,914
Total staff costs	117,256	101,672	335,345	312,020
Depreciation of plant and equipment	6,811	7,455	20,694	22,736
Depreciation of right-of-use assets	295	–	887	–
Lease payment under operating leases in respect of land and buildings for minimum lease payments	66	346	149	1,023

6. INCOME TAX CREDIT/(EXPENSE)

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Hong Kong Profits Tax				
– Current tax credit	–	499	–	665
Deferred tax charge	–	(63)	–	(431)
	–	436	–	234

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 2019 and 2018. The Directors of the Company do not recommend payment of interim dividend for the nine months ended 30 September 2019 (for the nine months ended 30 September 2018: Nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

8. LOSS PER SHARE

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

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	4,354	2,428	11,640	2,239

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2019 '000	2018 '000	2019 '000	2018 '000
Number of shares				
Number of ordinary shares for the purpose of basic loss per share	400,000	400,000	400,000	400,000

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

FINANCIAL REVIEW

The Group's revenue increased by approximately 5.6% from approximately HK\$398.1 million for the nine months ended 30 September 2018 to approximately HK\$420.5 million for the nine months ended 30 September 2019, primarily attributable to the commencement of certain new cleaning service contracts. During the nine months ended 30 September 2019, the Group's gross profit decreased by approximately 29.7% from approximately HK\$20.9 million for the nine months ended 30 September 2018 to approximately HK\$14.7 million for the nine months ended 30 September 2019. 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 2018 and 2019 were approximately 5.2% and approximately 3.5%, respectively. The reduction in the gross profit margin was mainly caused by the higher direct labour costs and higher insurance expenses. The direct labour cost for the nine months ended 30 September 2019 increased by approximately 7.3% as compared to the same period of 2018 due to inflation of wages. During the nine months ended 30 September 2019, insurance expenses increased significantly by approximately HK\$6.5 million as compared to the corresponding period in 2018.

The Group recorded other net gains of approximately HK\$0.7 million for the nine months ended 30 September 2019 as compared to other net gains of approximately HK\$2.0 million for the corresponding period in 2018 mainly due to the gain on disposal of motor vehicles of approximately HK\$2.0 million for the nine months ended 30 September 2018.

Administrative expenses increased to approximately HK\$22.4 million for the nine months ended 30 September 2019 from approximately HK\$21.1 million for the nine months ended 30 September 2018, mainly due to the increase in salaries and welfares of approximately HK\$1.5 million resulting from the inflation of wages.

The Group's finance costs increased by approximately 4.1% from approximately HK\$5.0 million for the nine months ended 30 September 2018 to approximately HK\$5.2 million for the nine months ended 30 September 2019, primarily attributable to the increase in interest expenses on other borrowings and increase in interest expenses on factoring of trade receivables.

The Group recorded a net loss after taxation for the nine months ended 30 September 2019 of approximately HK\$11.6 million, as compared to a net loss of approximately HK\$2.2 million for the corresponding period in 2018.

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 nine months ended 30 September 2019 include various departments of the HK Government, property management companies and other corporations in the private sector.

During the nine months ended 30 September 2019, the intensified competition in the environmental hygiene service industry, shortage of labour and rising operating costs, especially soaring labour costs, and insurance charges, put undue pressure on our gross profit, net profit and profit margin. During the Reporting Period, although the revenue contributed by the public and private environmental hygiene services increased as a whole, the Group recorded a loss due to the increase in operating costs.

The profit margin of the street cleaning contracts, which account for the largest proportion of the Group's business, has been narrowed. Therefore, we have also invested resources to secure more profitable and promising business from both private and public sectors to broaden the customer base. Such efforts started to be reflected during the period under review.

During the nine months ended 30 September 2019, 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

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 2019.

Interest of the Compliance Adviser

As confirmed by the Company’s compliance adviser, Octal Capital Limited (the “**Compliance Adviser**”), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 13 November 2016, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Competing Business

For the nine months ended 30 September 2019, 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 compete, 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 2019, 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 2019, 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 September 2019, 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 September 2019, 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%
Magic Pioneer Limited ("Magic Pioneer")	Beneficial interest	63,990,000	16%

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.
2. Magic Pioneer is owned as to 34% by Earnmill Holdings Limited, as to 33% by Croydon Capital Advisors Limited and as to 33% by Xiong Jianrui.

Each member of Gold Cavaliers, Max Super, Mr. Lam, Ms. Wong, Magic Pioneer, Mr. Xiong Jianrui, Mr. Choi Chung Yin, Mr. Tam Wai Tong, Mr. Tam Wai Ho, Croydon Capital Advisors Limited, Earnmill Holdings Limited, TTNB Profit Limited, and Kiteway Assets Limited, 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 report, 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 10% 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 5.46 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 report.

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 2019, 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 2019 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, 12 November 2019

As at the date of this report, 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; and three independent non-executive Directors, namely Mr. Mak Kwok Kei, Ms. Lam Kit Yan and Mr. Ho Kin Wai.

This report 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 report shall prevail over the Chinese text.