

Lapco Holdings Limited

立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8472)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

The board (the “**Board**”) of Directors of Lapco Holdings Limited (the “**Company**”) presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “**Group**”) for the three months and six months ended 30 June 2023, together with the comparative unaudited figures of the corresponding period in 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Three months ended 30 June		Six months ended 30 June	
		2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
Revenue	4	234,955	253,430	485,442	450,691
Cost of services		(221,636)	(240,043)	(458,659)	(427,213)
Gross profit		13,319	13,387	26,783	23,478
Other income		745	3,137	2,146	4,954
Other (losses) and gains		(40)	312	(29)	313
Administrative expenses		(8,834)	(8,545)	(17,707)	(15,869)
Finance costs		(1,200)	(1,312)	(2,177)	(2,255)
Profit before taxation	5	3,990	6,979	9,016	10,621
Income tax expense	6	(676)	(538)	(1,301)	(1,139)
Profit and other comprehensive income attributable to owners of the Company for the period		3,314	6,441	7,715	9,482
Earnings per share	8				
Basic (HK cents)		0.78	1.61	1.87	2.37

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2023 <i>HK\$'000</i> (Unaudited)	As at 31 December 2022 <i>HK\$'000</i> (Audited)
Non-current assets			
Plant and equipment	9	32,317	36,649
Right-of-use assets		39,738	41,498
Deposits and prepayments		12,694	12,556
Deposits for acquisition of plant and equipment		2,214	2,677
		86,963	93,380
Current assets			
Trade receivables	10	141,339	163,806
Other receivables, deposits and prepayments		15,456	14,011
Pledged bank balances		29,700	29,700
Bank balances and cash		44,726	21,084
		231,221	228,601
Current liabilities			
Trade payables	11	9,840	14,187
Other payables and accrued charges	12	67,667	73,178
Provisions		19,190	20,973
Bank and other borrowings	13	45,661	58,508
Loan from a director of Company's subsidiaries		–	20,000
Exchangeable bond	14	20,000	–
Lease liabilities		12,380	12,118
Tax payables		2,121	1,759
		176,859	200,723
Net current assets		54,362	27,878
Total assets less current liabilities		141,325	121,258
Non-current liabilities			
Provisions		26,556	18,966
Deferred tax liabilities		718	718
Lease liabilities		19,116	22,265
		46,390	41,949
Net assets		94,435	79,309
Capital and reserves			
Issued share capital	15	4,800	4,000
Reserves		90,135	75,309
Equity attributable to owners of the Company		94,935	79,309

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company				Total HK\$'000
	Issued share capital HK\$'000	Share Premium HK\$'000	Other reserve HK\$'000 (note 1)	Accumulated profits HK\$'000	
At 1 January 2022 (Audited)	4,000	31,362	11,051	12,570	58,983
Profit and total comprehensive income for the period (Unaudited)	–	–	–	9,482	9,482
At 30 June 2022 (Unaudited)	4,000	31,362	11,051	22,052	68,465
At 1 January 2023 (Audited)	4,000	31,362	11,051	32,896	79,309
Placing of new shares (Note 2)	800	7,111	–	–	7,911
Profit and total comprehensive income for the period (Unaudited)	–	–	–	7,715	7,715
At 30 June 2023 (Unaudited)	4,800	38,473	11,051	40,611	94,935

Note 1: Other reserve represented the difference between the share capital of Lapco Service Limited, Shiny Glory Services Limited (“**Shiny Glory**”) 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.

Note 2: On 4 May 2023, the Company and a placing agent entered into a placing agreement (the “**Placing Agreement**”) pursuant to which the Company has conditionally agreed to place a maximum of 80,000,000 placing shares to independent investors at a price of HK\$0.1 per share (the “**Placing Price**”). The Placing Price represented (i) a premium of approximately 4.1% over the closing price of HK\$0.096 per share as quoted on the Stock Exchange on 4 May 2023, being the date of the Placing Agreement; and (ii) a premium of approximately 6.4% over the average closing price of HK\$0.0936 per share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Placing Agreement. The placing was completed on 5 June 2023 pursuant to which the Company has allotted and issued 80,000,000 placing shares. The net proceeds derived from the placing amounted to approximately HK\$7,910,000 and resulted in the increase in share capital of approximately HK\$800,000 and share premium of approximately HK\$7,110,000, net of transaction costs of approximately HK\$90,000. For further details of the placing, please refer to the announcements of the Company dated 4 May 2023 and 31 May 2023, respectively.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	28,899	(14,011)
INVESTING ACTIVITIES		
Interest received	340	3
Purchases of plant and equipment	(1,620)	(17,343)
Proceeds from disposal of plant and equipment	62	345
Deposit paid for acquisition of plant and equipment	(794)	–
Contract deposit paid to the customer	–	(12,020)
NET CASH USED IN INVESTING ACTIVITIES	(2,012)	(29,015)
FINANCING ACTIVITIES		
Interest paid	(2,177)	(2,255)
Repayment of lease liabilities	(6,635)	(10,216)
New bank and other borrowings raised	–	33,661
Repayment of bank and other borrowings	(2,344)	(1,811)
Proceed from issuance of shares	7,911	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(3,245)	19,379
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,642	(23,647)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	21,084	40,483
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
represented by bank balances and cash	44,726	16,836

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 301A, 3rd Floor, Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong. The Company is an investment holding company. The principal activities of its subsidiaries are engaged in provision of environmental hygiene services, including (a) cleaning services; (b) pest management services; (c) waste management and recycling services; and (d) landscaping services.

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

2. BASIS OF PREPARATION AND PRESENTATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the consolidated financial statements for the year ended 31 December 2022.

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

Accounting policies newly applied by the Group

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

Government grants

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

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

4. REVENUE AND SEGMENTAL INFORMATION

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

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

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

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

Segment revenue and results

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

	Cleaning services <i>HK\$'000</i>	Pest management services <i>HK\$'000</i>	Waste management and recycling services <i>HK\$'000</i>	Landscaping services <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>For the six months ended</i>					
<i>30 June 2023 (Unaudited)</i>					
Segment revenue	<u>416,270</u>	<u>13,262</u>	<u>55,645</u>	<u>265</u>	<u>485,442</u>
Segment results	<u>25,639</u>	<u>125</u>	<u>1,012</u>	<u>7</u>	<u>26,783</u>
Other income					2,146
Other (losses) and gains					(29)
Administrative expenses					(17,707)
Finance costs					(2,177)
Profit before taxation					<u>9,016</u>
	Cleaning services <i>HK\$'000</i>	Pest management services <i>HK\$'000</i>	Waste management and recycling services <i>HK\$'000</i>	Landscaping services <i>HK\$'000</i>	Total <i>HK\$'000</i>
<i>For the six months ended</i>					
<i>30 June 2022 (Unaudited)</i>					
Segment revenue	<u>354,148</u>	<u>33,249</u>	<u>63,045</u>	<u>249</u>	<u>450,691</u>
Segment results	<u>25,259</u>	<u>404</u>	<u>(2,191)</u>	<u>6</u>	<u>23,478</u>
Other income					4,954
Other gains and losses					313
Administrative expenses					(15,869)
Finance costs					(2,255)
Profit before taxation					<u>10,621</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 losses and gains, finance costs and income tax expense. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	Cleaning services <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>As at 30 June 2023</i>					
<i>(Unaudited)</i>					
Segment assets	150,308	5,649	71,332	110	227,399
Certain plant and equipment					291
Certain right-of-use assets					612
Certain other receivables, deposits and prepayments					15,456
Pledged bank balances					29,700
Bank balances and cash					44,726
Total assets					<u>318,184</u>
Segment liabilities	98,427	3,136	13,157	63	114,783
Certain other payables and accrued charges					8,468
Bank and other borrowings					45,661
Exchangeable bond					20,000
Lease liabilities					31,496
Tax payables					2,121
Deferred tax liabilities					718
Total liabilities					<u>223,247</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>As at 31 December 2022</i>					
Segment assets	172,937	7,982	74,422	208	255,549
Certain plant and equipment					291
Certain right-of-use assets					1,347
Certain other receivables, deposits and prepayments					14,010
Pledged bank balances					29,700
Bank balances and cash					21,084
Total assets					<u>321,981</u>
Segment liabilities	95,730	7,590	15,738	100	119,158
Certain other payables and accrued charges					8,146
Loan from a director of the Company's subsidiaries					20,000
Bank and other borrowings					58,508
Tax payables					1,759
Lease liabilities					34,383
Deferred tax liabilities					718
Total liabilities					<u>242,672</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, pledged bank balances and bank balances and cash.
- all liabilities are allocated to operating and reportable segments other than certain other payables and accrued charges, tax payables, loan from a director of the Company's subsidiaries, exchangeable bond, bank and other borrowings, lease liabilities and deferred tax liabilities.

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
Auditor's remuneration	200	300	500	600
Directors' remuneration	650	1,080	1,024	1,907
Other staff costs				
– Salaries, bonuses and other benefits	183,172	194,677	380,390	341,409
– Retirement benefit scheme contributions	5,518	6,520	11,500	10,307
Total staff costs	189,340	202,277	392,914	353,623
Depreciation of right-of-use assets, plant and equipment	5,775	6,616	11,784	13,661

6. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
Hong Kong Profits Tax				
– Current tax	676	538	1,301	1,139

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

7. DIVIDEND

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

8. EARNINGS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Earnings for the period attributable to owners of the Company for the purpose of basic earnings per share	<u>3,314</u>	<u>6,441</u>	<u>7,715</u>	<u>9,482</u>
	Three months ended 30 June		Six months ended 30 June	
	2023 '000 (Unaudited)	2022 '000 (Unaudited)	2023 '000 (Unaudited)	2022 '000 (Unaudited)
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>422,857</u>	<u>400,000</u>	<u>411,492</u>	<u>400,000</u>

For the three months ended 30 June 2023 and six months ended 30 June 2023, the weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the share placing in June 2023.

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

9. MOVEMENTS IN PLANT AND EQUIPMENT

During the current interim period, the Group acquired plant and equipment of approximately HK\$1,620,000 (six months ended 30 June 2022: approximately HK\$17,343,000).

10. TRADE RECEIVABLES

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0 – 30 days	77,890	83,661
31 – 60 days	53,664	68,959
61 – 90 days	7,434	7,019
91 – 180 days	2,140	3,837
Over 180 days	<u>211</u>	<u>330</u>
	<u>141,339</u>	<u>163,806</u>

11. TRADE PAYABLES

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

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
0 – 30 days	6,342	7,687
31 – 60 days	1,777	4,509
61 – 90 days	1,559	1,507
Over 90 days	162	484
	<u>9,840</u>	<u>14,187</u>

12. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Salaries payables	54,979	63,107
Other payables and accrued charges	12,688	10,071
	<u>67,667</u>	<u>73,178</u>

13. BANK AND OTHER BORROWINGS

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Secured and guaranteed bank borrowings:		
Loans from factoring of trade receivables with full recourse	26,893	37,396
Other bank loans	18,768	21,112
	<u>45,661</u>	<u>58,508</u>

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

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

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Effective interest rate per annum:		
Floating-rate borrowings	<u>4.13% -4.45%</u>	<u>4.13%-6.38%</u>

14. EXCHANGEABLE BOND

The exchangeable bond (the “**Exchangeable Bond**”) in the principal amount of HK\$20,000,000 was issued by the Company, as an issuer to Mr. Tam Wai Tong, as a subscriber on 17 February 2023.

The Exchangeable Bond shall not bear any interest and shall mature on 31 December 2024 (the “**Maturity Date**”). It has an initial exchange price of HK\$400 per ordinary share of Shiny Glory (the “**Exchange Share**”), subject to adjustments. The initial exchange price is determined after arms-length negotiation among the parties to the Subscription Agreement and with reference to the outstanding amount of the Existing Loans of HK\$20,000,000 and the net assets value of Shiny Glory of approximately HK\$17,639,000 as at 30 June 2022 (the “**June NAV**”). The initial exchange price of HK\$400 per Exchange Share represents a premium of 13.4% over the June NAV per Shiny Glory shares (the “**SG Shares**”).

The initial exchange price shall from time to time be subject to adjustment upon occurrence of certain events: (i) consolidation, reclassification or subdivision of the SG Shares; (ii) capitalisation of profits or reserves; and (iii) issue of SG Shares by way of a scrip dividend at a price which exceeds the relevant cash dividends declared by Shiny Glory.

If the net asset value of Shiny Glory as at the preceding calendar month end date at the time the holder of the Exchangeable Bond (the “**Bondholder**”) elects to exercise the Exchange Right is higher than 110% of the outstanding principal amount of the Exchangeable Bond, the Bondholder shall reimburse the Company the difference between such net asset value and 110% of the outstanding principal amount of the Exchangeable Bond in cash.

The Bondholder has right to exchange all the outstanding principal amount of the Exchangeable Bond into 100% of the issued share capital of Shiny Glory, at any time following the first day of the fourth month from the date of issue of the Exchangeable Bond (the “**Issue Date**”) up to and including the day immediately prior to the Maturity Date (the “**Exchange Right**”).

The Company may elect to redeem the Exchangeable Bond (in whole) then outstanding by paying to the Bondholder a redemption price equal to an aggregate of 100% of the outstanding principal amount of the Exchangeable Bond at any time from the Issue Date and up to the Maturity Date (the “**Redemption Right**”).

The Exchangeable Bond does not confer the Bondholder any voting right at any meetings of Shiny Glory nor any dividends, distribution and capital returns.

Should the Exchangeable Bond be exchanged by the Subscriber during the Exchange Period pursuant to the terms of the Exchangeable Bond, assuming there will not be any other change in the issued share capital of Shiny Glory, the Exchangeable Bond will cease to be the Group’s liability and the Company will cease to hold any shareholding interest in Shiny Glory and its accounts will no longer be consolidated into the consolidated financial statements of the Group.

15. SHARE CAPITAL

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

	Number of shares		Share capital	
	30 June 2023 (Unaudited)	31 December 2022 (Audited)	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Authorised ordinary shares at HK\$0.01 per share: At the beginning and end of the period/year	<u>10,000,000,000</u>	<u>10,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid shares at HK\$0.01 per share: At the beginning of the period/year	<u>400,000,000</u>	<u>400,000,000</u>	<u>4,000</u>	<u>4,000</u>
Placement of new shares (<i>Note</i>)	<u>80,000,000</u>	<u>–</u>	<u>800</u>	<u>–</u>
At the end of the period/year	<u>480,000,000</u>	<u>400,000,000</u>	<u>4,800</u>	<u>4,000</u>

Note: On 4 May 2023, the Company and a placing agent entered into a placing agreement (the “**Placing Agreement**”) pursuant to which the Company has conditionally agreed to place a maximum of 80,000,000 placing shares to independent investors at a price of HK\$0.1 per share (the “**Placing Price**”). The Placing Price represented (i) a premium of approximately 4.1% over the closing price of HK\$0.096 per share as quoted on the Stock Exchange on 4 May 2023, being the date of the Placing Agreement; and (ii) a premium of approximately 6.4% over the average closing price of HK\$0.0936 per share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Placing Agreement. The placing was completed on 5 June 2023 pursuant to which the Company has allotted and issued 80,000,000 placing shares. The net proceeds derived from the placing amounted to approximately HK\$7,910,000 and resulted in the increase in share capital of approximately HK\$800,000 and share premium of approximately HK\$7,110,000, net of transaction costs of approximately HK\$90,000. For further details of the placing, please refer to the announcements of the Company dated 4 May 2023 and 31 May 2023, respectively.

16. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions and balances with its related parties during the period:

	30 June 2023 HK\$'000 (Unaudited)	31 December 2022 HK\$'000 (Audited)
Exchangeable Bond (<i>note 14</i>)	<u>20,000</u>	<u>–</u>
Loan from a director of the Company’s subsidiaries (<i>note i</i>)	<u>–</u>	<u>20,000</u>

Note:

- (i) Loan from a director of the Company’s subsidiaries is unsecured, interest-free and repayable on demand.

Compensation of the directors and key management personnel

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

	Three months ended 30 June		Six months ended 30 June	
	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
Short-term benefits	1,454	1,066	2,273	1,880
Post-employment benefits	11	14	20	27
	<u>1,465</u>	<u>1,080</u>	<u>2,293</u>	<u>1,907</u>

17. EVENT AFTER THE REPORTING PERIOD

On 23 June 2023, the board of directors of the Company proposed to implement the share consolidation on the basis that every twenty (20) issued and unissued existing shares of HK\$0.01 each in the share capital of the Company be consolidated into one consolidated share of HK\$0.2 each (the “**Share Consolidation**”). Further details of the Share Consolidation are disclosed in the Company’s announcement dated 23 June 2023. The Share Consolidation was approved by shareholders of the Company at an extraordinary general meeting of the Company held on 28 July 2023. The Share Consolidation was effective on 1 August 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue increased by approximately 7.7% from approximately HK\$450.7 million for the six months ended 30 June 2022 to approximately HK\$485.4 million for the six months ended 30 June 2023, primarily attributable to the commencement of certain new cleaning service contracts. During the six months ended 30 June 2023 (the "**Reporting Period**"), the Group's gross profit increased by approximately 14.1% from approximately HK\$23.5 million for the six months ended 30 June 2022 to approximately HK\$26.8 million for the Reporting Period. The Group's cost of services mainly comprises direct labour costs, vehicle expenses, consumables and direct overheads. The gross profit margins for the six months ended 30 June 2022 and 2023 were approximately 5.2% and approximately 5.5%, respectively. The increase in the gross profit margins was mainly caused by the expiration of non-profitable contracts.

Other income decreased significantly by approximately 56.7% from approximately HK\$5.0 million for the six months ended 30 June 2022 to approximately HK\$2.1 million for the Reporting Period. The decrease was mainly due to the contribution from the government subsidy decreased from approximately HK\$4.9 million for the six months ended 30 June 2022 to approximately HK\$1.1 million for the Reporting Period.

Administrative expenses increased by approximately 11.6% from approximately HK\$15.9 million for the six months ended 30 June 2022 to approximately HK\$17.7 million for the Reporting Period, mainly due to the increase in professional fee of approximately HK\$1.5 million, which mainly due to the one-off professional fee on the issuance of exchangeable bond and issuance of new shares.

The Group's finance costs decreased by approximately 3.5% from approximately HK\$2.3 million for the six months ended 30 June 2022 to approximately HK\$2.2 million for the Reporting Period. 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 Reporting Period decreased by approximately 18.6% to approximately HK\$7.7 million, as compared to approximately HK\$9.5 million for the corresponding period in 2022. It was mainly attributed to (1) other income from government subsidy decreased from approximately HK\$4.9 million for the six months ended 30 June 2022 to approximately HK\$1.1 million for the Reporting Period; and (2) increase of administrative expense by approximately HK\$1.8 million for 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 Reporting Period 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 capitalise 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.

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 recover after 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.

Liquidity, Financial and Capital Resources

As at 30 June 2023, the Group's bank balances and cash amounted to approximately HK\$44.7 million (31 December 2022: approximately HK\$21.1 million). Total borrowings of the Group amounted to approximately HK\$65.7 million (31 December 2022: approximately HK\$78.5 million) which represented the secured and guaranteed bank borrowings and loans from factoring of trade receivables with full recourse, other bank loans, unsecured and unguaranteed loan from a director of Company's subsidiaries and the Exchangeable Bond. As at 30 June 2023, the bank balances and cash and pledged bank balances of the Group amounted to approximately HK\$74.4 million (31 December 2022: approximately HK\$50.8 million). As at 30 June 2023, debt to equity ratio of the Group was 23.9% (31 December 2022: 76.5%). Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank and other borrowings and lease liabilities net of pledged bank balances and bank balances and cash, by total equity at the end of the respective periods. Current ratio as at 30 June 2023 was approximately 1.3 times (31 December 2022: approximately 1.1 times).

As at 30 June 2023, the Group's net current assets amounted to approximately HK\$54.4 million (31 December 2022: approximately HK\$27.9 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 and proceeds from the Company's equity from raising exercise. The funding mix will be adjusted depending on the costs of funding and the actual needs of the Group.

Capital Structure

As at 30 June 2023, the share capital and equity attributable to owners of the Company amounted to approximately HK\$4.8 million and approximately HK\$90.1 million, respectively (31 December 2022: approximately HK\$4.0 million and approximately HK\$75.3 million, respectively).

On 23 June 2023, the board of directors of the Company proposed to implement the share consolidation on the basis that every twenty (20) issued and unissued existing shares of HK\$0.01 each in the share capital of the Company be consolidated into one consolidated share of HK\$0.2 each (the "**Share Consolidation**"). Further details of the Share Consolidation are disclosed in the Company's announcement dated 23 June 2023. The Share Consolidation was approved by shareholders of the Company at an extraordinary general meeting of the Company held on 28 July 2023. The Share Consolidation was effective on 1 August 2023.

Pledge of Assets

As at 30 June 2023, trade receivables, bank deposits and motor vehicles of the Group were pledged to secure the Group's borrowings.

As at 31 December 2022, trade receivables, life insurance policies, bank deposits and motor vehicles of the Group were pledged to secure the Group's borrowings.

Exchange Rate Exposure

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

Contingent Liabilities

As at 30 June 2023, performance guarantee of approximately HK\$159,006,000 (31 December 2022: HK\$165,153,000) and HK\$3,549,000 (31 December 2022: HK\$3,362,000) were given by banks and an insurance company respectively in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers. If the Group fails to provide satisfactory performance to its customers to whom performance guarantee have been given, such customers may demand the banks and the insurance company to pay to them the sum or sum stipulated in such demand. The Group will become liable to compensate such banks and the insurance company accordingly. The performance guarantee will be released upon completion of the service contracts.

As at 30 June 2022 and 2023, the Directors do not consider that a claim will be made against the Group.

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

Save as disclosed below, there were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2022 and 2023.

Issue of Exchangeable Bond and possible disposal of Shiny Glory

On 19 January 2023, the Company, Shiny Glory, an indirect wholly-owned subsidiary of the Company, and Mr. Tam Wai Tong, (the "**Subscriber**"), who was a director of certain subsidiaries (including Shiny Glory) of the Company as at the date of the Subscription Agreement, entered into the subscription agreement (the "**Subscription Agreement**"), pursuant to which, the Subscriber conditionally agreed to subscribe for and the Company conditionally agreed to issue an exchangeable bond (the "**Exchangeable Bond**") at a principal amount of HK\$20,000,000, payable by automatically and immediately setting off in its entirety against the Company's obligation to repay the loans in an aggregate principal amount of HK\$20,000,000 due from the Company to the Subscriber (the "**Existing Loans**") to the Subscriber upon completion of the Subscription.

In addition, the issue of the Exchangeable Bond to the Subscriber will grant an exchange right (the "**Exchange Right**") to the Subscriber to exchange the Exchangeable Bond into 50,000 ordinary shares of Shiny Glory (the "**Exchange Share(s)**"), representing 100% of the existing issued share capital of Shiny Glory, at an initial exchange price of HK\$400 per Exchange Share (subject to the adjustments, if any) during the period from the first day of the fourth month from the issue date of the Exchangeable Bond and up to the day immediately prior to 31 December 2024 (the "**Exchange Period**"), which will be deemed to be a disposal (the "**Disposal**") of interest in Shiny Glory to the Subscriber under the GEM Listing Rules.

Pursuant to the terms of the Exchangeable Bond, if the net asset value of Shiny Glory as at the preceding calendar month end date at the time the holder of the Exchangeable Bond (the “**Bondholder**”) elects to exercise the Exchange Right is higher than 110% of the outstanding principal amount of the Exchangeable Bond, the Bondholder shall reimburse the Company the difference between such net asset value and 110% of the outstanding principal amount of the Exchangeable Bond in cash.

The Company may elect to redeem the Exchangeable Bond (in whole) then outstanding by paying to the Bondholder a redemption price equal to an aggregate of 100% of the outstanding principal amount of the Exchangeable Bond at any time from the Issue Date and up to the Maturity Date.

Completion of the Subscription took place on 17 February 2023 (“**Completion**”). Following Completion, the Company’s obligation to repay the Existing Loans to the Subscriber has been automatically and immediately set off in its entirety against the consideration for the issue of the Exchangeable Bond and Shiny Glory will remain as an indirect wholly-owned subsidiary of the Company, and its accounts will continue to be consolidated into the consolidated financial statements of the Group.

Should the Exchangeable Bond be exchanged by the Bondholder during the Exchange Period pursuant to the terms of the Exchangeable Bond, assuming there will not be any other change in the issued share capital of Shiny Glory, the Exchangeable Bond will cease to be the Group’s liability and the Company will cease to hold any shareholding interest in Shiny Glory and its accounts will no longer be consolidated into the consolidated financial statements of the Group.

The Subscriber is a connected person of the Company at the subsidiary level of the Company under Chapter 20 of the GEM Listing Rules and the Subscription constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. In addition, the Disposal constituted a major and connected transaction under Chapter 19 and Chapter 20 of the GEM Listing Rules. For details of the Subscription, the terms of the Exchangeable Bond and the Disposal, please refer to the Company’s announcements dated 19 January 2023 and 17 February 2023, respectively and the circular of the Company dated 20 January 2023.

Capital Commitment

As at 30 June 2023, the Group had capital commitments of HK\$1.6 million for acquisition of additional motor vehicles to expand our fleet of specialised vehicles (31 December 2022: HK\$5.3 million).

Employee and Emolument Policies

As at 30 June 2023, the Group had approximately 3,118 employees (31 December 2022: approximately 3,853 employees). Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee. Discretionary bonuses, based on each individual’s performance, are paid to employees as recognition and in reward for their contributions. Other fringe benefits such as medical insurance, retirement benefits and other allowances are offered to all the full time employees.

Use of IPO Proceeds

The net proceeds from the issue of new shares of the Company through the Public Offer of an aggregate of 10,000,000 Public Offer Shares and the placing of 90,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company at the price of HK\$0.50 per share, after deducting the underwriting commission and estimated listing expenses borne by our Group and excluding the net proceeds of the Sale Shares, were approximately HK\$18.7 million (“**Actual Proceeds**”), as compared to the estimated net proceeds of approximately HK\$20.8 million as disclosed in the prospectus dated 30 June 2017 of the Company (the “**Prospectus**”), there were shortage of approximately HK\$2.1 million mainly due to the additional listing expenses at final payment. Accordingly, the Group has adjusted the use of proceeds on a pro-rata basis. The utilisation of net proceeds as at 30 June 2023 is set out below:

Summary of Use of IPO Proceeds

Use of net proceeds	Total planned amount to be used	Actual amount utilised up to 31 December 2022	Actual amount utilised during the period ended 30 June 2023	Actual amount utilised up to 30 June 2023	Unutilised balance as at 30 June 2023	Expected timeline for utilising the remaining Net Proceeds
						as at 30 June 2023
	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	
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	1.5	0.3	1.8	0.9	On or before 31 December 2023
Repay a bank loan	2.9	2.9	–	2.9	–	
General working capital	1.8	1.8	–	1.8	–	
Total	18.7	17.5	0.3	17.8	0.9	

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.

Use of Proceeds from Placing

On 4 May 2023, the Company and a placing agent entered into a Placing Agreement pursuant to which the Company has conditionally agreed to place a maximum of 80,000,000 placing shares to independent investors at a price of HK\$0.1 per share. The Placing Price represented (i) a premium of approximately 4.1% over the closing price of HK\$0.096 per share as quoted on the Stock Exchange on 4 May 2023, being the date of the Placing Agreement; and (ii) a premium of approximately 6.4% over the average closing price of HK\$0.0936 per share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Placing Agreement. The placing was completed on 5 June 2023 pursuant to which the Company has allotted and issued 80,000,000 placing shares. The net proceeds derived from the placing amounted to approximately HK\$7,910,000 and resulted in the increase in share capital of approximately HK\$800,000 and share premium of approximately HK\$7,110,000, net of transaction costs of approximately HK\$90,000. The utilisation of the placing net proceeds as at 30 June 2023 is set out below:

Use of placing net proceeds	Amount of placing net proceeds <i>HK\$ million</i>	Placing net proceeds utilised during the period ended 30 June 2023 <i>HK\$ million</i>	Unutilised placing net proceeds as at 30 June 2023 <i>HK\$ million</i>	Expected timeline for utilising the remaining placing net proceeds
Acquisition of additional vehicles	5.54	–	5.54	31 December 2023
General working capital for business operation and general administrative and operating expenses	2.37	–	2.37	31 December 2023
Total	7.91	–	7.91	

Competing Business

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2023, 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 June 2023, 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. Tam Wai Tong	Beneficial interest	119,600,000	24.92%

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 June 2023.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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 Reporting Period and up to the date of this announcement, the Company has complied with all the applicable code provisions of the Code.

CHANGE OF DIRECTOR'S AND SUPERVISOR'S INFORMATION

Mr. Ho Kin Wai tendered his resignation as an independent non-executive Director, the chairman of the remuneration committee of the Company (the “**Remuneration Committee**”), and a member of each of the audit committee of the Company (the “**Audit Committee**”) and the nomination committee of the Company (the “**Nomination Committee**”) on 12 May 2023.

Mr. Au Pak Lun Patrick (“**Mr. Au**”) and Mr. Wang Rong (“**Mr. Wang**”) were as executive Directors; and (ii) Ms. Wan Hoi Shan (“**Ms. Wan**”) was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee with effect from 12 May 2023.

Mr. Mak Kwok Kei (“**Mr. Mak**”) tendered his resignation as an authorised representative of the Company (“**Authorised Representative**”) on 12 May 2023 and Mr. Wang was appointed as an Authorised Representative. Mr. Wang, as an executive Director, is qualified to act as an Authorised Representative as required under Rule 5.24 of the GEM Listing Rules.

Mr. Au was appointed as the joint company secretary of the Company with effect from 12 May 2023. Mr. Au is qualified to act as the joint company secretary of the Company as required under Rule 5.14 of the GEM Listing Rules.

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, Ms. Lam Kit Yan (“**Ms. Lam**”) and Ms. Wan. Ms. Lam 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 Reporting Period, the Audit Committee had held meeting and had reviewed the draft interim report and unaudited condensed consolidated financial statements for the Reporting Period 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 and Ms. Wan. Ms. Wan 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 and Ms. Wan. 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
Joint Company Secretary*

Hong Kong, 11 August 2023

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Tam Yiu Shing, Billy, Mr. Au Pak Lun Patrick and Mr. Wang Rong; and three independent non-executive Directors, namely Mr. Mak Kwok Kei, Ms. Lam Kit Yan and Ms. Wan Hoi Shan.

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.