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## **Lapco Holdings Limited**

### **立高控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8472)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

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

## RESULTS

The board (the “**Board**”) of directors (“**Directors**”) of Lapco Holdings Limited (the “**Company**”) presents the audited consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2017, together with the comparative audited figures of the year ended 31 December 2016.

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

*For the year ended 31 December 2017*

		Year ended 31 December	
		2017	2016
	Notes	HK\$'000	HK\$'000
Revenue	3	448,021	404,124
Cost of services		<u>(418,842)</u>	<u>(363,930)</u>
Gross profit		29,179	40,194
Other income	4	953	645
Other gains and losses	4	440	(285)
Administrative expenses		(24,142)	(17,667)
Listing expenses		(9,749)	(6,880)
Finance costs	5	<u>(5,128)</u>	<u>(3,555)</u>
(Loss) profit before taxation	6	(8,447)	12,452
Income tax credit (expense)	7	<u>208</u>	<u>(3,663)</u>
(Loss) profit and total comprehensive (expense) income for the year attributable to the owners of the Company		<u>(8,239)</u>	<u>8,789</u>
(Loss) earnings per share			
– Basic ( <i>HK cents</i> )	9	<u>(2.31)</u>	<u>2.75</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

		As at 31 December	
		2017	2016
	Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Plant and equipment		97,156	44,843
Deposits and prepayments		19,112	8,901
Deposits for acquisition of plant and equipment		495	–
		<u>116,763</u>	<u>53,744</u>
<b>Current assets</b>			
Trade receivables	10	119,889	72,545
Other receivables, deposits and prepayments		24,148	9,461
Amount due from a controlling shareholder		–	2,361
Tax recoverable		2,132	–
Pledged bank balances		9,080	9,080
Bank balances and cash		21,470	4,624
		<u>176,719</u>	<u>98,071</u>
<b>Current liabilities</b>			
Trade payables	11	5,816	3,148
Other payables and accrued charges		40,680	24,027
Provisions		4,190	3,456
Tax payable		–	1,826
Amount due to a related party		13	11
Bank borrowings		98,788	48,783
Obligations under finance leases		23,511	11,258
		<u>172,998</u>	<u>92,509</u>
Net current assets		<u>3,721</u>	<u>5,562</u>
Total assets less current liabilities		<u>120,484</u>	<u>59,306</u>
<b>Non-current liabilities</b>			
Provisions		2,020	1,748
Deferred tax liabilities		2,960	3,590
Obligations under finance leases		53,318	18,905
		<u>58,298</u>	<u>24,243</u>
Net assets		<u>62,186</u>	<u>35,063</u>
<b>Capital and reserves</b>			
Issued share capital	12	4,000	8
Reserves		58,186	35,055
Equity attributable to owners of the Company		<u>62,186</u>	<u>35,063</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Issued share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note 1)	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2016	10,200	–	–	16,074	26,274
Profit and total comprehensive income for the year	–	–	–	8,789	8,789
Effect of reorganisation	(10,192)	–	10,192	–	–
At 31 December 2016	8	–	10,192	24,863	35,063
Loss and total comprehensive expense for the year	–	–	–	(8,239)	(8,239)
Effect of reorganisation	(8)	–	8	–	–
Issue of new shares	800	39,200	–	–	40,000
Capitalisation issue (note 2)	3,200	(3,200)	–	–	–
Transaction costs attributable to issue of new shares	–	(4,638)	–	–	(4,638)
<b>At 31 December 2017</b>	<b>4,000</b>	<b>31,362</b>	<b>10,200</b>	<b>16,624</b>	<b>62,186</b>

Notes:

- (1) Other reserve represented the difference between the share capital of Lapco Service Limited, Shiny Glory Services Limited and Shiny Hope Limited and that of Sharp Idea Global Limited (“**Sharp Idea**”) issued pursuant to a group reorganisation.
- (2) Pursuant to the written resolution passed by the shareholders on 24 June 2017, a sum of approximately HK\$3,200,000 standing to the credit of the share premium account of the Company was capitalised by paying up in full at par at total of 319,999,680 shares of the Company for allotment and issue to the persons whose name appeared on register of members of the Company at the close of business on 24 June 2017.

## Notes:

### 1. GENERAL

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

The Company is an investment holding company and its principal subsidiaries are engaged in provision of environmental hygiene services, including (a) cleaning services; (b) pest management services; (c) waste management and recycling services; and (d) landscaping services.

The functional currency of the Company is Hong Kong dollar (“**HK\$**”), which is the same as the presentation currency of the consolidated financial statements.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

#### **Amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRS 2014 – 2016 cycle

## New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from contracts with customers and the related amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance contracts <sup>4</sup>
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over income tax treatments <sup>2</sup>
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts <sup>1</sup>
Amendments to HKFRS 9	Prepayment features with negative consideration <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle <sup>1</sup>
Amendments to HKAS 28	Long-term interests in associates and joint ventures <sup>2</sup>
Amendments to HKAS 40	Transfer of investment property <sup>1</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle <sup>2</sup>

- 1 Effective for annual periods beginning on or after 1 January 2018
- 2 Effective for annual periods beginning on or after 1 January 2019
- 3 Effective for annual periods beginning on or after a date to be determined
- 4 Effective for annual periods beginning on or after 1 January 2021

### 3. REVENUE AND SEGMENT 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 for both years.

Information reported to Mr. Lam, being the chairman of the Company and the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The Group's operating and reportable segments are therefore as follows:

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

#### 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>
<b>For the year ended 31 December 2017</b>					
Segment revenue – external customers	<u>327,807</u>	<u>43,353</u>	<u>75,924</u>	<u>937</u>	<u>448,021</u>
Segment results	<u>17,703</u>	<u>3,684</u>	<u>7,783</u>	<u>9</u>	<u>29,179</u>
Other income					953
Other gains and losses					440
Administrative expenses					(24,142)
Listing expenses					(9,749)
Finance costs					<u>(5,128)</u>
Loss before taxation					<u>(8,447)</u>
<b>For the year ended 31 December 2016</b>					
Segment revenue – external customers	<u>343,982</u>	<u>31,552</u>	<u>27,870</u>	<u>720</u>	<u>404,124</u>
Segment results	<u>31,555</u>	<u>3,365</u>	<u>5,256</u>	<u>18</u>	<u>40,194</u>
Other income					645
Other gains and losses					(285)
Administrative expenses					(17,667)
Listing expenses					(6,880)
Finance costs					<u>(3,555)</u>
Profit before taxation					<u>12,452</u>

There was no inter-segment revenue for both years.

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

### Geographical information

No geographical segment information is presented as the Group's revenue are all derived from Hong Kong based on the location of services delivered and the Group's plant and equipment amounting to HK\$97,156,000 (2016: HK\$44,843,000) as at 31 December 2017 are all located in Hong Kong by physical location of assets.

### Information about major customers

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

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Customer A <sup>1</sup>	341,132	315,681
Customer B <sup>2</sup>	60,054	59,400

<sup>1</sup> Revenue from cleaning services, waste management and recycling services and landscaping services.

<sup>2</sup> Revenue from cleaning services and waste management and recycling services.

## 4. OTHER INCOME/OTHER GAINS AND LOSSES

### Other income

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Bank interest income	98	210
Interest income from deposits in life insurance policies	520	248
Sundry income	335	187
	<b>953</b>	<b>645</b>

### Other gains and losses

	Year ended 31 December	
	2017 HK\$'000	2016 HK\$'000
Gain on disposal/written off of plant and equipment, net	263	286
Net foreign exchange gains (losses)	177	(571)
	<b>440</b>	<b>(285)</b>



## 5. FINANCE COSTS

	Year ended 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests on:		
Bank borrowings	3,152	2,316
Obligations under finance leases	1,976	1,239
	<u>5,128</u>	<u>3,555</u>

## 6. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,200	584
Depreciation of plant and equipment	23,488	13,703
Directors' remuneration	3,232	1,911
Other staff costs		
Salaries, bonuses and other benefits	328,952	309,559
Retirement benefits scheme contributions	10,509	8,037
Total staff costs	342,693	319,507
Lease payments under operating leases in respect of land and buildings entered into:		
by the Group for minimum lease payments	1,306	1,126
by a related party on behalf of the Group for minimum lease payments	–	720
	<u>–</u>	<u>720</u>

## 7. INCOME TAX CREDIT (EXPENSE)

	Year ended 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax:		
– Current tax	(206)	(2,934)
– Underprovision in previous years	(216)	–
Deferred tax credit (charge)	630	(729)
	<u>208</u>	<u>(3,663)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The income tax credit (expense) can be reconciled to the (loss) profit before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

	<b>Year ended 31 December</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
(Loss) profit before taxation	<b>(8,447)</b>	12,452
Tax at Hong Kong Profits Tax rate of 16.5%	<b>1,394</b>	(2,055)
Tax effect of income not taxable for tax purpose	<b>45</b>	75
Tax effect of expenses not deductible for tax purpose	<b>(1,868)</b>	(1,343)
Underprovision in previous years	<b>(216)</b>	–
Tax effect of tax losses not recognised	<b>–</b>	(330)
Utilisation of tax losses previously not recognised	<b>799</b>	–
Others	<b>54</b>	(10)
Income tax credit (expense) for the year	<b>208</b>	(3,663)

## 8. DIVIDEND

No dividends were paid, declared and proposed by the Company during the year ended 31 December 2017 (2016: nil).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

## 9. (LOSS) EARNINGS PER SHARE

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

	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
<b>(Loss) earnings</b>		
(Loss) earnings for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	<b>(8,239)</b>	8,789
	<b>2017</b>	2016
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b>356,602,740</b>	320,000,000

The weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share has been determined on the assumption that the reorganisation and the capitalisation issue (details as disclosed in note 12) had been effective on 1 January 2016.

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

## 10. TRADE RECEIVABLES

The Group grants credit terms of 60–90 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 the reporting period.

	As at 31 December	
	2017	2016
	HK\$'000	HK\$'000
0–30 days	50,677	27,412
31–60 days	49,910	25,674
61–90 days	14,856	10,122
91–180 days	3,820	8,400
Over 180 days	626	937
	<u>119,889</u>	<u>72,545</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality. Approximately 96% (2016: 87%) of trade receivables as at 31 December 2017 that are neither past due nor impaired have good credit quality. These customers have no default of payment in the past and have good credit quality.

The Group has a policy for allowance of bad and doubtful debts which is based on the evaluation of collectibility and ageing analysis of accounts and on management's judgement including the creditworthiness and the past collection history of each customer.

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK\$4,446,000 (2016: HK\$9,337,000) which are past due at 31 December 2017 for which the Group has not provided for impairment loss as there has not been a significant change in credit quality of the trade receivables and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 163 days (2016: 143 days) as at 31 December 2017.

Ageing analysis of trade receivables which are past due but not impaired:

	As at 31 December	
	2017	2016
	HK\$'000	HK\$'000
91–180 days	3,820	8,400
Over 180 days	626	937
	<u>4,446</u>	<u>9,337</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The trade receivables past due but not provided for as at the end of the reporting period were either subsequently settled or no historical default of payments was noted by the respective customers and the management of the Group believe that no impairment is required.

## 11. TRADE PAYABLES

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

	As at 31 December	
	2017 HK\$'000	2016 HK\$'000
0–30 days	2,782	1,340
31–60 days	1,398	1,029
61–90 days	1,520	234
Over 90 days	116	545
	<u>5,816</u>	<u>3,148</u>

## 12. ISSUED SHARE CAPITAL

The issued share capital as at 31 December 2016 represented the combined share capital of the Company and Sharp Idea.

The issued share capital as at 31 December 2017 represented the share capital of the Company.

On 12 August 2016, the Company was incorporated in the Cayman Islands with an authorised capital of HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each. Upon its incorporation, 1 new share of HK\$0.01 was allotted and issued to the subscriber and was transferred to Gold Cavaliers at nominal value on the same day.

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

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 12 August 2016 (date of incorporation), 31 December 2016 and 2017	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 12 August 2016 (date of incorporation) and 31 December 2016	1	–
Issue of shares on 14 June 2017 ( <i>note i</i> )	319	–
Issue of shares on 18 July 2017 ( <i>note ii</i> )	80,000,000	800
Capitalisation issue ( <i>note iii</i> )	<u>319,999,680</u>	<u>3,200</u>
At 31 December 2017	<u>400,000,000</u>	<u>4,000</u>

Notes:

- (i) On 14 June 2017, pursuant to the share swap agreement entered into amongst Champion Success Development Limited (“**Champion Success**”), Magic Pioneer Limited (“**Pre-IPO investor**”) and the Company, Champion Success and Pre-IPO Investor transferred their entire equity interests in Sharp Idea to the Company in exchange of 299 and 20 shares of the Company of HK\$0.01 each were issued at par to Gold Cavaliers and Profound Wellness Holdings Limited, respectively, at the direction of Champion Success and Pre-IPO Investor.
- (ii) The shares of the Company have been listed on GEM of the Stock Exchange by way of placing on 18 July 2017. 80,000,000 shares of the Company of HK\$0.01 each were issued at a placing price of HK\$0.5 per share.
- (iii) On 18 July 2017, 319,999,680 shares of the Company were issued through capitalisation of approximately HK\$3,200,000 standing to the credit of share premium account of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND OUTLOOK

We are an established and one-stop environmental service provider based in Hong Kong. Our environmental hygiene services cover four types, namely (a) cleaning services; (b) pest management services; (c) waste management and recycling services; and (d) landscaping services. We provide our environmental hygiene services to a wide range of venues including streets, cultural, leisure and recreational premises, residential premises, commercial buildings, markets, restaurants and academic institutions etc. Our major customers during the year ended 31 December 2017 (the “**Reporting Period**”) include various departments of the HK Government, property management companies and other corporations in the private sector.

The successful listing of the Company’s shares on GEM of the Stock Exchange on 18 July 2017 was a milestone for the Group in improving capital strength and corporate governance as well as enhancing its competitive edge.

As at 31 December 2017, we had ten contracts in hand for street cleaning services with a total contract sum of approximately HK\$631,915,000. During the Reporting Period, we were awarded seven new contracts for street cleaning services with a total contracts sum of approximately HK\$466,931,000 extending across two years service contracts with the government department of Hong Kong responsible for public hygiene.

During the Reporting Period, we provided tender and quotations for our street cleaning solutions. As at the date of this announcement, we had submitted four subsisting tenders for our street cleaning solutions. We are confident about the outlook of the Group and the prospects of the environmental cleaning service industry, and thereby have been investing heavily on purchase of additional motor vehicles, cleaning machinery and equipment so as to expand our business and enhance our ability to undertake more projects.

Furthermore, we intend to build on our track record and capitalize on our customer relationship to secure additional opportunities to offer our services. We believe that our long-standing relationship with some of our key customers does provide us with significant advantages to continue to increase 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 government departments of Hong Kong 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, which generally require cleaning services providers with substantial resources, such as our Group, to undertake their medium-size and large scale projects.

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.

## **Results**

Revenue of the Group increased by 10.9% from approximately HK\$404.1 million for the year ended 31 December 2016 to approximately HK\$448.0 million for the Reporting Period. The Group, however, significantly increased the cost of service by 15.1% to approximately HK\$418.8 million (2016: approximately HK\$363.9 million) and recorded a significant decrease of 27.4% in gross profit to approximately HK\$29.2 million (2016: approximately HK\$40.2 million). Gross profit margin also decreased by 3.4% to 6.5% (2016: 9.9%). Such decrease was mainly attributable to the significant revenue contribution contracts which have lower gross profit margins compared to other contracts. Coupled with the increase in administrative expenses and finance costs, the Company recorded a loss attributable to equity shareholders of the Company (the “**Shareholders**”) for the year ended 31 December 2017 which amounted to approximately HK\$8.2 million as compared to the profit attributable to the Shareholders for the year ended 31 December 2016 of approximately HK\$8.8 million.

## **HUMAN RESOURCES**

As at 31 December 2017, the Group employed 3,815 employees, including both full time and part time (31 December 2016: 2,263). Remuneration packages are generally structured by reference to market terms, individual qualifications and experience.

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

## **FINANCIAL REVIEW**

### **Revenue**

The Group’s revenue for the years ended 31 December 2017 and 2016 were approximately HK\$448.0 million and HK\$404.1 million, respectively, representing an increase of approximately 10.9%. The increase was mainly driven by the new contracts awarded during the Reporting Period in our service segments of cleaning, landscaping and pest management.

More details of the Group’s performance for the Reporting Period by business segments are set out in note 3 to this announcement.

## **Cost of Services**

For the years ended 31 December 2017 and 2016, the cost of services of the Group amounted to approximately HK\$418.8 million and HK\$363.9 million respectively, representing approximately 93.5% and 90.1% of the Group's revenue for the corresponding years. Our cost of services mainly consists of direct labour costs, vehicle expenses, consumables, and direct overheads. The cost of services in proportion to the Group's revenue increased as during the Reporting Period the Group was awarded several significant revenue contribution contracts which have lower gross profit margins as compared to other contracts.

## **Gross Profit**

The Group's gross profit for the year ended 31 December 2017 was approximately HK\$29.2 million, representing a decrease of approximately 27.4% from approximately HK\$40.2 million for the year ended 31 December 2016. The decrease was mainly due to the increase in cost of services of the Group.

## **Gross Profit Margin**

The gross profit margins of the Group for the years ended 31 December 2017 and 2016 were approximately 6.5% and 9.9% respectively. As mentioned above, the decrease in gross profit margin was mainly attributable to several significant revenues contribution contracts with lower gross profit margin which were awarded to the Group during the Reporting Period.

## **Administrative Expenses**

The administrative expenses incurred by the Group for the years ended 31 December 2017 and 2016 were approximately HK\$24.1 million and HK\$17.7 million respectively, representing an increase of approximately 36.7%, and approximately 5.4% and 4.4% of the respective year's total revenue. The increase was mainly attributable to the post-listing professional expenses and higher staff costs resulting from the additional headcounts of the Reporting Period. The Group continues to implement its budgeted cost control measures for administrative expenses.

## **Finance Costs**

The finance costs of the Group amounted to approximately HK\$5.1 million and HK\$3.6 million for the years ended 31 December 2017 and 2016 respectively, representing approximately 1.1% and approximately 0.9% of the Group's revenue in the respective years.

## **Loss for the Year Attributable to Equity Shareholders of The Company**

As a result of the foregoing, the loss attributable to the Shareholders for the year ended 31 December 2017 amounted to approximately HK\$8.2 million, which included the non-recurring listing expenses of approximately HK\$9.7 million for the year ended 31 December 2017 (2016: approximately HK\$6.9 million), comparing with the profit attributable to the Shareholders of approximately HK\$8.8 million for the year ended 31 December 2016.

## **FOREIGN CURRENCY EXPOSURE**

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

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31 December 2017, total borrowings of the Group amounted to approximately HK\$98.8 million (2016: approximately HK\$48.8 million) which represented the secured bank overdraft, secured term loans and secured loans from factoring of trade receivables with full resource. As at 31 December 2017, the cash and cash equivalents and pledged bank balances of the Group amounted to approximately HK\$30.6 million (2016: approximately HK\$13.7 million). As at 31 December 2017, debt to equity ratio of the Group was 233.3% (2016: 186.1%). Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank borrowings, bank overdrafts and obligations under finance leases net of pledged bank balances and bank balances and cash, by total equity at the end of the respective years. Current ratio as at 31 December 2017 was approximately 1.0 times (2016: approximately 1.1 times).

The Group maintained sufficient working capital as at 31 December 2017 with bank balances and cash of approximately HK\$21.5 million (2016: approximately HK\$4.6 million). The Board of Directors will continue to follow a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business.

As at 31 December 2017, the Group's net current assets amounted to approximately HK\$3.7 million (2016: approximately HK\$5.6 million). The Group's operations are financed principally by operating cashflow generated from its business operation, available cash and bank balances, bank borrowings and obligations under finance lease.

## **CONTINGENT LIABILITIES**

As at 31 December 2017, performance guarantee of approximately HK\$71,544,000 (2016: HK\$50,730,000) and HK\$18,178,000 (2016: nil) 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.



## USE OF PROCEEDS

The net proceeds from the issue of new shares of the Company through the Public Offer of an aggregate of 10,000,000 Public Offer Shares and the placing of 90,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company at the price of HK\$0.50 per share, after deducting the underwriting commission and estimated listing expenses borne by our Group and excluding the net proceeds of the Sale Shares, were approximately HK\$18.7 million (“**Actual Proceeds**”), as compared to the estimated net proceeds of approximately HK\$20.8 million as disclosed in the Prospectus, there were shortage of approximately HK\$2.1 million mainly due to the additional listing expenses at final payment. Accordingly, the Group has adjusted the use of proceeds on a pro-rata basis. The utilization of net proceeds as at 31 December 2017 is set out below:

### Summary of use of proceeds

	<b>Total planned amount to be used</b>	<b>Planned use of proceed up to 31 December 2017</b>	<b>Actual amount utilized up to 31 December 2017</b>	<b>Actual balance as at 31 December 2017</b>
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
<b>Use of net proceeds</b>				
Procure additional vehicles	9.0	2.00	2.00	7.0
Procure additional equipment	0.9	0.33	0.33	0.57
Hire additional staff	1.4	0.40	0.40	1.0
Enhance information technology application system to enhance operational efficiency	2.7	–	–	2.7
Repay a bank loan	2.9	3.20	1.90	1.0
General working capital	1.8	0.40	0.40	1.4
	<u>18.7</u>	<u>6.33</u>	<u>5.03</u>	<u>13.67</u>
<b>Total</b>	<b>18.7</b>	<b>6.33</b>	<b>5.03</b>	<b>13.67</b>

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

## CHARGES ON THE GROUP’S ASSETS

As at 31 December 2017, the amounts payable under finance leases within one year was approximately HK\$23.5 million (31 December 2016: HK\$11.3 million), and after one year but within five years was approximately HK\$53.3 million (31 December 2016: HK\$18.9 million).

As at 31 December 2017, we had approximately HK\$95.3 million (31 December 2016: HK\$44.8 million) of secured bank borrowings (excluding secured bank overdrafts). Such loans were primarily used in financing the working capital requirement of our operations.

The amount of term loans reduced to approximately HK\$12.4 million as at 31 December 2017 (31 December 2016: HK\$14.2 million).

In addition, we have (i) pledged bank balances of approximately HK\$9.1 million as at 31 December 2017 (31 December 2016: HK\$9.1 million) and (ii) pledge of the Group's trade receivables of approximately HK\$107.3 million as at 31 December 2017 (31 December 2016: HK\$65.4 million).

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

## **ACQUISITION, DISPOSAL AND SIGNIFICANT INVESTMENT HELD**

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

## **CORPORATE GOVERNANCE PRACTICES**

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

During the year ended 31 December 2017, the Company has complied with all the applicable code provisions of the Code, except for the deviation from code provision A.2.1 as described below.

Mr. Lam 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 ended 31 December 2017.

## **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Group has adopted the required standard of dealing, as set out in Rules 5.48 to 5.67 of the GEM Listing Rules, as the code of conduct for securities transactions by the Directors in respect of the shares of the Company. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard of dealing and the code of conduct for securities transactions by directors during the year ended 31 December 2017.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2017, 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 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> )	300,000,000	75%

*Note:* All the 300,000,000 Shares are beneficially owned by Gold Cavaliers. Gold Cavaliers is held as to approximately 78.67% (7,867 shares) 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	7,867	78.67%

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

Save as disclosed above, as at 31 December 2017, 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.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **EVENTS AFTER THE REPORTING PERIOD**

The Group does not have material events after the end of the Reporting Period.

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

## **ANNUAL GENERAL MEETING (“AGM”)**

The forthcoming AGM will be held on Friday, 27 April 2018. A notice convening the AGM will be published in due course.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 24 April 2018 to Friday, 27 April 2018, both days inclusive, during which period no transfer of Shares will be registered. For determining the entitlement of members of the Company to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Monday, 23 April 2018.

## **AUDIT COMMITTEE**

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

From the date of the Listing to the date of this announcement, the Audit Committee had reviewed the interim results (and interim report) of the Group for the six months ended 30 June 2017 and the third quarterly results (and related quarterly report) of the Group for the nine months ended 30 September 2017. The Group's final results for the year ended 31 December 2017 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee is of the view that the annual results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

#### **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By order of the Board of  
**Lapco Holdings Limited**  
**Lam Pak Ling**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 22 March 2018

*As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Lam Pak Ling, Mr. Cai Weiming and Mr. Wong Tsz Chun, Jacky; one non-executive Director, namely Mr. Choi Chung Yin; and three independent non-executive Directors, namely Mr. Mak Kwok Kei, Ms. Lam Kit Yan and Mr. Ho Kin Wai.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 matters the omission of which would make any statement in this announcement misleading.*

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