LAPCO HOLDINGS LIMITED
立高控股有限公司

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

Annual Report 2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Pak Ling (林柏齡先生)
(Chairman and chief executive officer)
Mr. Cai Weiming (蔡偉明先生)
Mr. Wong Tsz Chun, Jacky (王子進先生)
Mr. Tam Yiu Shing, Billy (譚耀誠先生)
(appointed on 25 January 2019)

Independent non-executive Directors

Mr. Mak Kwok Kei (麥國基先生)
Mr. Ho Kin Wai (何建偉先生)
Ms. Lam Kit Yan (林潔恩女士)

AUDIT COMMITTEE

Ms. Lam Kit Yan (林潔恩女士) *(Chairman)*
Mr. Ho Kin Wai (何建偉先生)
Mr. Mak Kwok Kei (麥國基先生)

REMUNERATION COMMITTEE

Mr. Ho Kin Wai (何建偉先生) *(Chairman)*
Mr. Lam Pak Ling (林柏齡先生)
Mr. Mak Kwok Kei (麥國基先生)

NOMINATION COMMITTEE

Mr. Lam Pak Ling (林柏齡先生) *(Chairman)*
Mr. Mak Kwok Kei (麥國基先生)
Mr. Ho Kin Wai (何建偉先生)

COMPANY SECRETARY

Mr. Tam Yiu Shing Billy (譚耀誠先生)
Certified Public Accountant

COMPLIANCE OFFICER

Mr. Lam Pak Ling (林柏齡先生)

AUTHORISED REPRESENTATIVES

Mr. Lam Pak Ling (林柏齡先生)
Mr. Tam Yiu Shing Billy (譚耀誠先生)
Certified Public Accountant

COMPLIANCE ADVISER

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LEGAL ADVISER

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Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
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88 Queensway
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The Hongkong and Shanghai Banking Corporation Limited
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
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STOCK CODE

08472

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Lapco Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**" or "**Lapco**"), I am pleased to present the audited consolidated annual results of the Group for the year ended 31 December 2019 (the "**Reporting Period**").

During the Reporting Period, the competition in the environmental hygiene service industry remained keen. Shortage of labour and rising operating costs, especially soaring insurance expenses, labour costs, vehicle expenses, legal and professional expenses and financing costs, continued to have an adverse impact on our gross profit, net profit and profit margin. During the Reporting Period, the Group recorded a loss mainly due to the increase in operating costs.

The profit margin of the street cleaning contracts, which account for the largest proportion of the Group's business, has been narrowed due to rising costs. In order to mitigate the risk of intensified competition, we will be more 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.

The social movement that began in mid-2019 brought turbulences to Hong Kong generally, and posed new challenges to the environmental health service industry. Certain operating expenses including the tunnel toll fees increased due to the traffic problems during the period.

The outbreak of novel coronavirus infections in Hong Kong in the first quarter of 2020 had a significant impact on the works of the cleaning service contractors. In response to the threat of infectious diseases and ensure the safety of cleaning workers, we strive to provide employees with adequate protective equipment, disinfection tools and supplies for routine cleaning and disinfection notwithstanding the tight supply, and strengthen the promotion on epidemic prevention and work guidelines.

Outsourced contract cleaning service contractors encountered difficulties in purchasing medical masks. The Correctional Services Department has increased monthly production of masks and the first batch has been distributed to outsourced frontline cleaners through the Food and Environmental Hygiene Department and the Housing Department at priority.

On 14 February 2020, the Government announced the establishment of the Anti-epidemic Fund with more than $25 billion to strengthen the city's epidemic prevention, block and cut off the transmission chain, and raise the public's awareness on epidemic prevention. The Government will utilize the fund to provide a public epidemic prevention allowance of $26,000 to all residential property management companies from both public and private sectors in Hong Kong, including an additional monthly allowance of $1,000 for cleaners and security guards during the outbreak. Cleaners and security guards hired by government contract service contractors are also eligible for the allowance.

It is our objectives to achieve sustainable growth and raise our overall competitiveness. To this end, we will continue to enhance our operational efficiency and cost control, improve our internal control and financial position, and strengthen our information technology application system to deliver higher operational efficiency. Furthermore, we will consider acquiring more advanced cleaning machinery and equipment and special vehicles to further enhance service quality and efficiency and strengthen the Group's market position.

In respect of the recycling business, we are currently studying the recycling technology of renewable resources and new technology of waste treatment, so as to benefit from the Government's related policies to be rolled out successively.

Government policies have a profound impact on the operating environment in the industry. We are pleased for the fact that the Government has taken steps to increase the technical weighting in the marking schemes for tender evaluation and the weighting of wage level as a criterion for technical assessment for outsourcing service contracts, which we believed that non-skilled workers and contractors could enjoy more reasonable wages, benefits and profitability respectively. Since 1 April 2019, the Government has been improving the treatment for outsourced staff and added new terms to the service contracts with contractors, including provision of contract gratuity to those employed for at least one year, 1.5 times of compensation for those working during typhoon signal No.8 or above in effect, and statutory paid leaves upon one-month employment. The positive impact of the measure will kick in and is expected to improve the Group's profit margins from 2020.

We believe that the success of an enterprise must accept the value of social care and environmental protection. Hence, while enhancing the competitiveness of the Company, we also focus on the fulfillment of social responsibilities and care for our frontline staff. We are honored to be conferred with the "Caring Company" award for over ten consecutive years, which is a recognition of our work in this area.

To be in line with the national policy of developing the Greater Bay Area and the Belt and Road Initiative, we are also actively exploring relevant business opportunities, with an expectation to extend our business to potential areas in Mainland China and Southeast Asia. We have made an important first step for developing our environmental hygiene business in Mainland China by obtaining the Certificate of Hong Kong Service Supplier required by the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), which enables the Group to enter the relevant Mainland market at any time with preferential treatment, develop business of domestic environmental hygiene, horticultural greening and building cleaning. Looking ahead, it is believed that the global economy will be hit tremendously. However, the awareness of environmental protection and the importance of public health will only increase amid the global epidemic outbreak, which will be conducive to the prospect of related industries.

In addition to our focus on the environmental hygiene business, we are open to the investment in other projects with an expectation to inject fresh impetus to the Group and bring long-term benefits to our shareholders. On 28 January 2019, the Company entered into a memorandum of understanding with Noble Sovereignty Capital Group Limited in relation to the proposed formation of a joint venture company, details of which are set out in the announcement on the same day. The parties have not entered into a legally binding agreement subsequently and the MOU shall be deemed to be lapsed and terminated.

I would like to express my sincere gratitude to my fellow directors and all our staff in Lapco. Forging ahead on a solid foundation, Lapco relies on the concerted and unremitting efforts of all our staff.

Also, I would like to thank our shareholders and business partners that always support and trust the Group.

Lam Pak Ling
Chairman of the Board, Executive Director and Chief Executive Officer

25 March 2020

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 2019 include various departments of the HK 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 rising operating costs, especially soaring insurance expenses, labour costs, vehicle expenses, legal and professional expenses and financing costs, continued to have an adverse impact on our gross profit, net profit and profit margin. During the Reporting Period, although the newly launched large-scale contracts for public and private environmental hygiene services drove the growth in revenue, the Group recorded a loss due to the increase in operating costs.

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

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

Furthermore, we intend to build on our track record and capitalize on our customer relationship to secure additional opportunities to offer our services. We believe that our long-standing relationship with some of our key customers does provide us with significant advantages to strengthen our market share. As many of our customers, such as government departments of Hong Kong and property management companies, have multiple projects in Hong Kong, we will continue to foster their confidence in our service delivery with a view to identifying and acquiring new opportunities to serve them.

Undoubtedly, we intend to secure more tender contracts with both government departments of Hong Kong and private sectors that have not previously engaged our service. With our considerable resources, including our stable and sizeable labour force and growing fleet of specialized vehicles, we believe that we are particularly well-equipped to undertake new projects of government departments of Hong Kong and private sectors, which generally require cleaning services providers with substantial resources, such as our Group, to undertake their medium-size and large scale projects.

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, it is believed that the global economy will be hit by the outbreak of novel coronavirus infections tremendously. However, the awareness of environmental protection and the importance of public health will only increase amid the global epidemic outbreak, which will be conducive to the prospect of related industries.

In addition to our focus on the environmental hygiene business, we are open to the investment in other projects with an expectation to inject fresh impetus to the Group and bring long-term benefits to our shareholders. On 28 January 2019, the Company entered into a memorandum of understanding ("**MOU**") with Noble Sovereignty Capital Group Limited in relation to the proposed formation of a joint venture company, details of which are set out in the announcement on the same day. The parties have not entered into a legally binding agreement subsequently and the MOU shall be deemed to be lapsed and terminated.

Financial Results

Revenue of the Group increased by approximately 9.5% from approximately HK$529.8 million for the year ended 31 December 2018 to approximately HK$579.9 million for the Reporting Period. The Group, however, recorded an increase in the cost of services by approximately 10.3% to approximately HK$556.7 million (2018: approximately HK$504.6 million) and a decrease of approximately 7.9% in gross profit to approximately HK$23.2 million (2018: approximately HK$25.2 million). Gross profit margin also decreased by approximately 0.8% to 4.0% (2018: 4.8%). Such decrease was mainly attributable to the significant revenue contribution contracts which have lower gross profit margins as 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 2019 which amounted to approximately HK$16.1 million (2018: approximately HK$11.7 million).

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

HUMAN RESOURCES

As at 31 December 2019, the Group employed 3,564 employees, including both full time and part time (31 December 2018: 3,567). 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 2019 and 2018 were approximately HK$579.9 million and HK$529.8 million, respectively, representing an increase of approximately 9.5%. The increase was mainly driven by the new contracts commenced during the Reporting Period in our service segment of cleaning services.

The following table sets forth our revenue by business segments during the years ended 31 December 2019 and 2018:

	For the year ended 31 December			
	2019		2018	
	HK$'000	**%**	*HK$'000*	*%*
Cleaning services	**426,650**	**73.6**	360,767	68.1
Pest management services	**64,416**	**11.1**	79,923	15.1
Waste management and recycling services	**88,225**	**15.2**	88,543	16.7
Landscaping services	**573**	**0.1**	605	0.1
Total	**579,864**	**100.0**	529,838	100.0

The revenue from cleaning services increased by approximately 18.3% for the year ended 31 December 2019 as comparing with that of the previous year as certain cleaning services contracts were awarded during the year. The revenue from pest management services decreased significantly by approximately 19.4% for the year ended 31 December 2019 as compared to the previous year as certain pest management services contracts expired during the year. The revenue from waste management and recycling services decreased by approximately 0.4% for the year ended 31 December 2019 as compared to the previous year.

More details of the Group's performance for the Reporting Period by business segments is set out in note 5 to the consolidated financial statements.

Cost of Services

For the years ended 31 December 2019 and 2018, the cost of services of the Group amounted to approximately HK$556.7 million and HK$504.6 million respectively, representing approximately 96.0% and 95.2% 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 increased was mainly caused by the higher direct labour costs and higher insurance expenses. The direct labour cost for the year ended 31 December 2019 increased by approximately 10.3% as compared to the same period of 2018 due to inflation of wages. During the year ended 31 December 2019, insurance expenses increased significantly by approximately HK$8.2 million as compared to the corresponding period in 2018.

Gross Profit

The Group's gross profit for the year ended 31 December 2019 was approximately HK$23.2 million, representing a decrease of approximately 7.9% from approximately HK$25.2 million for the year ended 31 December 2018. 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 2019 and 2018 were approximately 4.0% and 4.8% respectively. As mentioned above, the decrease in gross profit margin was mainly attributable to several contracts with lower gross profit margin in the Reporting Period.

Administrative Expenses

The administrative expenses incurred by the Group for the years ended 31 December 2019 and 2018 were approximately HK$32.5 million and HK$32.2 million respectively, representing an increase of approximately 0.9%, and approximately 5.6% and 6.1% of the respective year's total revenue. The increase was mainly due to the increase in salaries and welfares of approximately HK$1.8 million resulting from the inflation of wages. 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$7.0 million and HK$6.9 million for the years ended 31 December 2019 and 2018 respectively, representing approximately 1.2% and approximately 1.3% of the Group's revenue in the respective years.

Loss Attributable to Owners of The Company

As a result of the foregoing, the loss attributable to the Shareholders for the year ended 31 December 2019 amounted to approximately HK$16.1 million as compared to the loss attributable to the Shareholders of approximately HK$11.7 million for the year ended 31 December 2018.

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 2019, total bank and other borrowings of the Group amounted to approximately HK$119.2 million (2018: approximately HK$110.2 million) which represented the secured and guaranteed bank overdrafts, secured and guaranteed bank borrowings including revolving loans, term loans, and loans from factoring of trade receivables with full recourse, unsecured and unguaranteed other borrowings and unsecured and unguaranteed shareholder loans. As at 31 December 2019, the cash and cash equivalents and pledged bank balances of the Group amounted to approximately HK$42.8 million (2018: approximately HK$33.2 million). As at 31 December 2019, debt to equity ratio of the Group was approximately 376.2% (2018: approximately 284.1%). Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank and other borrowings, lease liabilities 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 2019 was approximately 1.0 time (2018: approximately 1.0 time).

The Group maintained sufficient working capital as at 31 December 2019 with bank balances and cash of approximately HK$21.0 million (2018: approximately HK$11.5 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 2019, the Group's net current assets amounted to approximately HK$3.1 million (2018: approximately HK$6.6 million). The Group's operations are financed principally by operating cashflow generated from its business operation, available cash and bank balances, bank and other borrowings and lease liabilities.

CONTINGENT LIABILITIES

As at 31 December 2019, performance guarantee of approximately HK$111,759,000 (2018: HK$72,802,000) was given by banks respectively in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers. If the Group fails to provide satisfactory performance to its customers to whom performance guarantee have been given, such customers may demand the banks to pay the sum stipulated in such demand. The Group will become liable to compensate such banks accordingly. The performance guarantee will be released upon completion of the service contracts.

USE OF PROCEEDS

The net proceeds from the issue of new shares of the Company through the Public Offer of an aggregate of 10,000,000 Public Offer Shares and the placing of 90,000,000 ordinary shares of HK$0.01 each in the share capital of the Company at the price of HK$0.50 per share, after deducting the underwriting commission and listing expenses borne by our Group and excluding the net proceeds of the Sale Shares, were approximately HK$18.7 million ("**Actual Proceeds**"), as compared to the estimated net proceeds of approximately HK$20.8 million as disclosed in the prospectus dated 30 June 2017 of the Company (the "**Prospectus**"), there 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 2019 is set out below:

Summary of use of proceeds

Use of net proceeds	Total planned amount to be used HK$' million	Planned use of proceed up to 31 December 2019 HK$' million	Actual amount utilized up to 31 December 2019 HK$' million	Unutilized balance as at 31 December 2019 HK$' 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	2.7	0.1	2.6
Repay a bank loan	2.9	2.9	2.9	–
General working capital	1.8	1.8	1.8	–
Total	18.7	18.7	16.1	2.6

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 2019, the amount of lease liabilities within one year was approximately HK$25.4 million, and after one year but within five years was approximately HK$30.8 million.

As at 31 December 2018, the amounts payable under finance leases within one year was approximately HK$22.5 million, and after one year but within five years was approximately HK$44.0 million.

As at 31 December 2019, we had approximately HK$99.6 million (31 December 2018: HK$106.9 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 was Nil as at 31 December 2019 (31 December 2018: HK$10.5 million).

In addition, we have (i) pledged bank balances of approximately HK$21.8 million as at 31 December 2019 (31 December 2018: HK$21.8 million), (ii) pledged the Group's trade receivables of approximately HK$138.3 million as at 31 December 2019 (31 December 2018: HK$115.2 million) and (iii) pledged the Group's motor vehicles of approximately HK$61.3 million (31 December 2018: HK$73.6 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lam Pak Ling (林柏齡), aged 60, is our executive Director, our chairman, our chief executive officer and our compliance officer.

Mr. Lam is the founder of our Group and a member of our Group of Controlling Shareholders (as defined in paragraph 24 of the Report of the Directors contained in this annual report) and was appointed as our Director on 12 August 2016 and was re-designated as our executive Director on 7 November 2016. He is also the director of Sharp Idea Global Limited ("**Sharp Idea**"), Lapco Service Limited ("**Lapco Service**"), Shiny Glory Services Limited ("**Shiny Glory**") and Shiny Hope Limited ("**Shiny Hope**"). Founding Shiny Glory in 1990 and Lapco Service in 1999, Mr. Lam has over 28 years of experience in the environmental hygiene service industry and is primarily responsible for the overall management, strategic planning and business development of our Group. In addition to his experience in the field, Mr. Lam completed a certificate course on Pest Control Technology and Management conducted by Hong Kong Productivity Council in May 1995. He was further awarded certificate in Operations and Workflow Management issued by The Hong Kong Management Association in December 2000. Further, Mr. Lam completed the ISO 14001:1996 EMS Internal Auditor Training Course in February 2004, Integrated Management System Internal Auditor Training Course (ISO 9001:2000, ISO 14001:2004, OHSAS 18001:1999) in May 2006 and Integrated Management System Implementation Training Course (ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007) in June 2016.

Mr. Lam cohabits with Ms. Wong Siu Fan, Beatrice as spouse.

Mr. Cai Weiming (蔡偉明), aged 54, is our executive Director.

Mr. Cai was appointed as our Director on 31 October 2016 and was re-designated as executive Director on 7 November 2016. Mr. Cai moved to Hong Kong from the PRC after being granted a permit for residency in Hong Kong in 2006. Prior to his immigration to Hong Kong, Mr. Cai was a legal representative of 東莞市樟木頭樟聯印刷廠 ("**Zhanglian Printing**"), established in Dongguan City, the PRC. Zhanglian Printing, which was wholly owned by Mr. Cai, was principally engaged in printing business in the PRC and was dissolved on 26 July 2007. Mr. Cai joined our Group on 1 November 2006 as the operation manager of Lapco Service and was promoted to senior operation manager in May 2014. Mr. Cai is responsible for the supervision of our cleaning workers in our service locations, in charge of the operation based on our service contracts, planning and directing the operations of our cleaning contracts and allocating resources and frontline staff.

Mr. Cai completed a certificate course in Safety Supervisor (Environmental Hygiene) held by Lion Training Centre in December 2014 and was awarded a certificate in Supervisory Management by The Hong Kong Management Association in January 2015.

Mr. Wong Tsz Chun, Jacky (王子進), aged 29, is our executive Director. He was appointed as our Director on 12 August 2016 and was re-designated as our executive Director on 7 November 2016.

Mr. Wong joined our Group on 30 May 2012 as marketing executive of Shiny Glory and his current position is the senior marketing manager of our Group. He is responsible for the supervision of the marketing department, preparation of tenders and quotations of our Group.

During his services with Shiny Glory, Mr. Wong has brought in new ideas about business strategy and operation functions and maintained good business relationship with our clients. He was involved in a range of business and operational responsibilities in strengthening customer relationships and ensuring the successful continuance of business operations, which include handling invitation to tender and quotations from potential customers, developing pricing strategies with management for tender for services and setting up customer acceptance criteria, general customer assessment and credit provision guideline for Shiny Glory. He also supervised a marketing team in Shiny Glory, which is responsible for developing and implementing marketing strategies, such as advertisements and promotional leaflets.

Mr. Wong completed courses under Yi Jin Programme organised by the Federation for Continuing Education in Tertiary Institution, of which the City University of Hong Kong is a member institution, in August 2009.

Mr. Tam Yiu Shing, Billy (譚耀誠), aged 39, is our executive Director, financial controller and company secretary of the Group. He was appointed as our executive Director on 25 January 2019.

Mr. Tam joined our Group on 3 May 2016 as an assistant financial controller and is responsible for the overall financial administration. Prior to joining our Group, he served Eddingpharm (Hong Kong) Company Limited, a pharmaceutical company, as a finance and administrative manager from June 2012 to February 2016 and he was primarily responsible for the management of accounting and financial operations. From March 2007 to May 2012, he served PricewaterhouseCoopers Ltd., an international auditing firm, as a manager as his last position in the firm and was primarily responsible for auditing, accounting, financial due diligence, works associated with initial public offerings and mergers and acquisitions.

Mr. Tam graduated from the Hong Kong Polytechnic University with a bachelor degree in Accountancy in November 2004 and was admitted as a member of Hong Kong Institute of Certified Public Accountants in May 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mak Kwok Kei (麥國基), aged 34, was appointed as our independent non-executive Director on 24 June 2017.

Mr. Mak has over ten years of experience in securities sales and trading and capital markets advisory at various international investment banks, specialising in initial public offerings and capital fund raising for companies in Hong Kong and China. He worked as a trainee in Credit Agricole Corporate and Investment Bank (Hong Kong Branch), a financial services company, where he was mainly engaged in transacting various high grade corporate and government bonds with central banks in Asia, from September 2009 to November 2010. He also worked at Nomura International (Hong Kong) Limited, a financial services company, as associate where he was mainly engaged in both primary and secondary equity fund raising activities for listed companies and high-net-worth individuals in Asia, from November 2010 to August 2015. From October 2015 to June 2018, he served as a managing director and head of equity capital markets in Zhongtai International Capital Limited, a corporate finance advisory company. He is primarily responsible for providing capital markets advisory services to clients and operating and managing the equity capital markets franchise. Since January 2019, he has served as head of Investment Banking Division of China Investment Securities (Hong Kong) Financial Holdings Limited. He is in charge of the investment banking division, including IPO sponsoring, debt and equity fund raising and financial advisory.

Mr. Mak has been a limited partner in WI Harper Fund VIII LP, which is mainly engaged in venture capital investments in healthcare and technology sectors, since May 2016.

Mr. Mak is currently an independent non-executive director of China HKBridge Financial Holdings Limited (formerly known as China HK Bridge Holdings Limited) (stock code: 2323), whose shares are listed on the Main Board of the Stock Exchange.

Mr. Mak obtained a bachelor degree with first class honour in applied business management from Imperial College London, United Kingdom in August 2008 and subsequently obtained a master degree in philosophy from University of Cambridge, United Kingdom in October 2009.

Ms. Lam Kit Yan (林潔恩), aged 45, was appointed as our independent non-executive Director on 24 June 2017.

Ms. Lam has worked for international audit firms and various companies with extensive experience in financial reporting, auditing, mergers and acquisitions, compliance and initial public offerings. She had been the company secretary, chief financial officer and the authorised representative of Beijing Enterprises Clean Energy Group Limited (formerly known as Jin Cai Holdings Company Limited) (stock code: 01250), whose shares are listed on the Stock Exchange from June 2013 to May 2015. From January 2016 to February 2016, Ms. Lam served as an executive director and company secretary of Aurum Pacific (China) Group Limited (stock code: 08148) whose shares are listed on GEM of the Stock Exchange. In November 2016, Ms. Lam was appointed as the company secretary and chief financial officer of StarGlory Holdings Company Limited (formerly known as New Wisdom Holding Company Limited) (stock code: 08213) whose shares are listed on GEM of the Stock Exchange.

Ms. Lam obtained a degree of bachelor of business administration from The Chinese University of Hong Kong in December 1997. Ms. Lam is as a certified tax adviser and a fellow member of The Taxation Institute of Hong Kong. She is also a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ho Kin Wai (何建偉), aged 44, was appointed as our independent non-executive Director on 24 June 2017.

From December 2000 to December 2001, Mr. Ho was a programmer of The Chase Manhattan Bank, the principal business of which is providing banking service. From July 2003 to January 2009, he served as sales merchandiser of Betastar Trading Limited, the principal business of which is trading of footwear, responsible for sourcing footwear manufacturers, developing footwear, and handling and monitoring order process. He has acted as a director of Ever Smart International Enterprise Limited, a wholly-owned subsidiary of Jimu Group Limited ("**Jimu**") (stock code: 8187), the shares of which are listed on GEM of the Stock Exchange since January 2009. Mr. Ho is one of the founders of Jimu and he was appointed as a director of Jimu in February 2015. He was then redesignated as an executive director of Jimu and appointed as its chairman and chief executive officer in September 2015. He ceased to be the chairman of Jimu with effect from December 2017. He is responsible for the overall business development, sales, strategic planning and major decision-making of Jimu.

Mr. Ho is currently an independent non-executive director of Hang Tai Yue Group Holdings Limited (stock code: 8081) whose shares are listed on GEM of the Stock Exchange. He has also been a director and vice chairman of Fit Boxx Holdings Limited since May 2018.

Mr. Ho obtained a bachelor of science in management in August 1999 from Royal Holloway and Bedford New College, University of London in the UK (currently known as Royal Holloway, University of London) and a master of science in interactive multimedia in June 2001 from Middlesex University in the UK.

SENIOR MANAGEMENT

Ms. Wong Siu Fan, Beatrice (黃小芬), aged 53, is a director of Shiny Glory and Sharp Idea.

Ms. Wong is also a member of our Group of Controlling Shareholders and she cohabits with Mr. Lam as spouse. Ms. Wong joined our Group on 30 December 1991 as a director of Shiny Glory and resigned as a director of Shiny Glory on 7 July 1999. She was later re-appointed as a director of Shiny Glory on 15 July 2010. Ms. Wong has over 28 years of experience in the environmental hygiene service industry and is primarily responsible for overseeing and supervision of the financial and operation teams of our Group, in charge of implementation of policies and internal controls, provision of advice on financial planning and budgeting. Ms. Wong is also in charge of staff development and continuous improvement.

Ms. Wong was awarded a graduate diploma in sociology by Hong Kong Shue Yan College in July 1989. She completed the Certificate Course on B.V.I. Companies – Practical Application conducted by Sino Academic Research Centre in March 1999. Ms. Wong also completed ISO 9000:2000 Internal Quality Auditor Training Course in July 2002 and the Integrated Management System Internal Auditor Training Course (ISO 9001:2000, ISO 14001:2004, OHSAS 18001:1999) in May 2006 as well as attended the Awareness and Practical Training for ISO 9000:2000 and ISO 14001:1996 and Awareness Training for OHSAS 18001:1999 Standard, respectively, in March and May 2007.

COMPANY SECRETARY

Mr. Tam Yiu Shing, Billy (譚耀誠), our executive Director and financial controller, was appointed as our company secretary on 14 March 2017. Further details on the company secretary are set forth in the paragraphs headed "Executive Directors" in this section.

COMPLIANCE OFFICER

Mr. Lam Pak Ling (林柏齡), our executive Director, chief executive officer and chairman, was appointed as our compliance officer on 14 March 2017. Further details on the compliance officer are set forth in the paragraphs headed "Executive Directors" in this section.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

1. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its major subsidiaries are set out in note 35 to the consolidated financial statements. During the Year, there were no significant changes in the nature of the Group's principal activities.

2. BUSINESS REVIEW

A review of the Group's business during the Reporting Period is provided in the section headed "Management Discussion and Analysis" on pages 5 to 10 of this annual report. A description of the Group's corporate governance and the Group's risk management and internal control system is provided in the section headed "Corporate Governance Report" on pages 23 to 32 of this annual report. A discussion on the Group's environmental policies, relationships with its key stakeholders and the relevant laws and regulations that have a significant impact on the Group are provided in the section headed "Environmental, Social and Governance Report" on pages 33 to 48 of this annual report.

3. SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal operating activities and the Group's assets and liabilities by reportable segments of operations for the year ended 31 December 2019 is set out in note 5 to the consolidated financial statements. No geographical information is represented as all of the Group's businesses were carried out in Hong Kong during the Reporting Period and all of the Group's revenue from external customers was generated in Hong Kong during the Reporting Period.

4. RESULTS AND FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

5. RESERVES

Details of movements in the reserves of the Company and of the Group during the Reporting Period are set out in note 36 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

6. SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 26 to the consolidated financial statements.

7. DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company has distributable reserves of approximately HK$7,585,000 available for distribution to shareholders of the Company (2018: HK$10,329,000).

8. PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

9. BANK AND OTHER BORROWINGS

Particulars of the bank and other borrowings of the Group as at 31 December 2019 are set out in the note 22 to the consolidated financial statements.

10. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company (the "**Articles**") or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

11. 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.

12. FINANCIAL SUMMARY

A summary of the results for the year ended 31 December 2019 and of the assets and liabilities of the Group as at 31 December 2019 and for the previous four financial years are set out on page 120.

13. DIRECTORS

The Directors during the Year and up to the date of this report are as follows:

Executive Directors:
Mr. Lam Pak Ling
Mr. Cai Weiming
Mr. Wong Tsz Chun, Jacky
Mr. Tam Yiu Shing, Billy (appointed on 25 January 2019)

Independent Non-executive Directors:
Mr. Mak Kwok Kei
Ms. Lam Kit Yan
Mr. Ho Kin Wai

Pursuant to article 84 of the Articles, Mr. Lam Pak Ling, Mr. Cai Weiming, Mr. Wong Tsz Chun, Jacky and Mr. Mak Kwok Kei will retire from office as Directors at the forthcoming annual general meeting ("**AGM**") and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence pursuant to rule 5.09 of the GEM Listing Rules from each of the independent non-executive Directors and, as at the date of this report, still considers them to be independent.

14. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors as of the date of publication of this report are set out on pages 11 to 15.

15. DIRECTORS' SERVICE CONTRACTS

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

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

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

None of the Directors (including those proposed for re-election at the AGM) has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

16. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period except as disclosed under the section headed "Continuing Connected Transactions" in this annual report and note 32 to the consolidated financial statements.

17. DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

18. PERMITTED INDEMNITY PROVISION AND INSURANCE

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

19. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2019, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), Chapter 571), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to 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 *(Note)*	236,010,000	59%

Note: All the 236,010,000 Shares are beneficially owned by Gold Cavaliers International Limited ("**Gold Cavaliers**"). As at 31 December 2019, Gold Cavaliers was wholly owned 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 Siu Fan, Beatrice ("**Ms. Wong**") as the settlors on 8 August 2016 as a discretionary trust for the benefit of themselves. Mr. Lam is one of the Controlling Shareholders, an executive Director and chief executive officer of the Company. By virtue of the SFO, Mr. Lam is thus deemed to be interested in the shares in which Gold Cavaliers is interested.

Interests in associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/nature of interest	Number of ordinary shares	Approximate shareholding
Mr. Lam	Gold Cavaliers	Beneficiary of a discretionary trust	10,000	100%

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

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

20. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2019, the following persons had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of interest	Number of ordinary shares	Approximate shareholding
Mr. Lam	Beneficiary of a discretionary trust	236,010,000	59%
Ms. Wong	Beneficiary of a discretionary trust	236,010,000	59%
Max Super	Interest in a controlled corporation and trustee of a discretionary trust	236,010,000	59%
Gold Cavaliers	Beneficial interest *(Note)*	236,010,000	59%

Note: Gold Cavaliers was wholly owned by Max Super acting as the trustee of the Lam Family Trust. The Lam Family Trust was established by Mr. Lam and Ms. Wong as the settlors on 8 August 2016 as a discretionary trust for the benefit of themselves.

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 31 December 2019.

21. CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 32 to the consolidated financial statements for the Reporting Period constituted de minimis continuing connected transactions of the Company ("CCTs") and are fully exempt from the reporting, annual reviews, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

22. CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Continuing Connected Transactions" in this report of the Directors:

(i) No contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries during the Reporting Period or at the end of the Reporting Period; and

(ii) No contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries during the Reporting Period or at the end of the Reporting Period.

23. MAJOR CUSTOMERS AND MAJOR SUPPLIERS

The Group's five largest customers accounted for 94.3% (2018: 95.4%) of the total revenue for the Reporting Period and revenue contributed by the largest customer amounted to 84.3% (2018: 84.2%). The Group's five largest suppliers accounted for 33.5% (2018: 27.1%) of the total purchases for the Reporting Period and purchases from the largest supplier amounted to 12.0% (2018: 13.6%).

None of the Directors or any of their associates or any shareholders (which, to the best of the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

24. NON-COMPETITION UNDERTAKINGS

Upon Listing, each member of Gold Cavaliers, Max Super, Mr. Lam, Ms. Wong, Magic Pioneer, Mr. Xiong Jianrui, Mr. Choi Chung Yin, Mr. Tam Wai Tong, Mr. Tam Wai Ho, Croydon Capital Advisors Limited, Earnmill Holdings Limited, TTNB Profit Limited, and Kiteway Assets Limited, or together as a group, became our Group of Controlling Shareholders (the "**Controlling Shareholders**"), being the controlling shareholders (as defined under the GEM Listing Rules) of the Company, have given a non-competition undertaking in favour of the Company (the "**Non-Competition Undertaking**"). Each of the Controlling Shareholders has undertaken under the Non-Competition Undertaking that he or it shall provide to the Company from time to time with all information necessary for the annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-Competition Undertaking by the Controlling Shareholders and the enforcement of the Non-Competition Undertaking. Details of the Non-Competition Undertakings have been disclosed in the section headed "Relationship with Our Group of Controlling Shareholders" of the Prospectus.

Each of the Controlling Shareholders has confirmed his or its compliance with the terms of the Non-Competition Undertaking and the independent non-executive Directors were not aware of any non-compliance of the Non-Competition Undertaking given by the Controlling Shareholders during the year ended 31 December 2019 and up to the date of the annual report.

25. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the Reporting Period.

26. EMOLUMENT AND REMUNERATION POLICY

The Company has a remuneration committee for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

27. REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals (including the senior management of the Company) are set out in notes 8 and 9 to the consolidated financial statements.

No director has waived or has agreed to waive any emolument during the Reporting Period.

28. CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 23 to 32.

29. DIVIDEND POLICY

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall consider the following factors before declaring or recommending dividends:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and each of the members of the Group;

(c) the Group's working capital requirements, capital expenditure requirements and future expansion plans;

(d) the Group's liquidity position;

(e) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(f) other factors that the Board may consider relevant and appropriate.

Such declaration and payment of dividend by the Company is also subject to any restrictions under the Cayman Islands laws, any applicable laws, rules and regulations and the Company's articles of association.

30. INTEREST OF THE COMPLIANCE ADVISER

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

31. SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report.

32. AUDITORS

The consolidated financial statements for the year ended 31 December 2019 have been audited by Deloitte Touche Tohmatsu. A resolution will be proposed at the forthcoming AGM of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Mr. Lam Pak Ling
Chairman of the Board, Executive Director and Chief Executive Officer

Hong Kong, 25 March 2020

CORPORATE GOVERNANCE PRACTICES

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

During the year ended 31 December 2019, 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 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 2019.

APPOINTMENT, RE-ELECTION AND RETIREMENT OF THE DIRECTORS

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

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

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

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

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

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the required standard of dealing, as set out in Rules 5.48 to 5.67 of the GEM Listing Rules, as the code of conduct for securities transactions by the Directors in respect of the shares of the Company. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard of dealing and the code of conduct for securities transactions by directors during the year ended 31 December 2019.

BOARD OF DIRECTORS

The Directors who held office during the year ended 31 December 2019 and as at the date of this report are as follows:

Executive Directors:
Mr. Lam Pak Ling
Mr. Cai Weiming
Mr. Wong Tsz Chun, Jacky
Mr. Tam Yiu Shing, Billy (appointed on 25 January 2019)

Independent Non-executive Directors:
Mr. Mak Kwok Kei
Ms. Lam Kit Yan
Mr. Ho Kin Wai

The brief biographic details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 11 to 15 of the annual report.

The Company has complied with the requirements under Rule 5.05(1) and (2), and 5.05A of the GEM Listing Rules during the year ended 31 December 2019. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 5.09 of the GEM Listing Rules.

FUNCTIONS OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the Shareholders as a whole while taking into account the interests of other stakeholders. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board approves the Group's strategic plan, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks. Daily business operations and administrative functions of the Group are delegated to the management.

The Board is also delegated with the corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

BOARD MEETINGS AND PROCEDURES

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. In compliance with code provision A.1.3 of the Code, at least 14 days' notice has been given for a regular Board meeting to all Directors an opportunity to attend. Notice, agenda and board papers of regular Board meetings are sent to all Directors within reasonable time and at least 3 days prior to the meetings. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comments before the final version of which are endorsed in the subsequent Board meeting.

Details of the attendance of the Board meetings, audit committee (the "**Audit Committee**") meetings, remuneration committee (the "**Remuneration Committee**") meetings and nomination committee (the "**Nomination Committee**") meetings and general meetings of the Company held during the year ended 31 December 2019 are summarized as follows:

	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	Annual General meeting
Executive Directors					
Mr. Lam Pak Ling	7/7	*4/4	1/1	2/2	1/1
Mr. Cai Weiming	7/7	N/A	N/A	N/A	1/1
Mr. Wong Tsz Chun, Jacky	7/7	N/A	N/A	N/A	1/1
Mr. Tam Yiu Shing, Billy	7/7	*4/4	*1/1	*2/2	1/1
Independent Non-executive Directors					
Mr. Mak Kwok Kei	6/6	4/4	1/1	2/2	1/1
Ms. Lam Kit Yan	6/6	4/4	N/A	N/A	1/1
Mr. Ho Kin Wai	6/6	4/4	1/1	2/2	1/1

* Non-member of the committee at the relevant time but attended the meeting by invitation.

BOARD COMMITTEES

The Board has established specific committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

The written terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are posted on the respective websites of the Stock Exchange and the Company.

The table below sets out the membership information of these committees on which each Board member serves.

Director/Board Committee	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Lam Pak Ling		Member	Chairman
Mr. Cai Weiming			
Mr. Wong Tsz Chun, Jacky			
Mr. Tam Yiu Shing, Billy			
Mr. Mak Kwok Kei	Member	Member	Member
Mr. Ho Kin Wai	Member	Chairman	Member
Ms. Lam Kit Yan	Chairman		

AUDIT COMMITTEE

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

During the year ended 31 December 2019 and to the date of this report, the Audit Committee had reviewed the final results of the Group for the year ended 31 December 2018, the first quarterly results (and related quarterly report) of the Group for the three months ended 31 March 2019, the interim results (and interim report) of the Group for the six months ended 30 June 2019 and the third quarterly results (and related quarterly report) of the Group for the nine months ended 30 September 2019. The Group's final results for the year ended 31 December 2019 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.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 24 June 2017 which comprises one executive Director and two independent non-executive Directors, namely Mr. Lam, Mr. Mak Kwok Kei and Mr. Ho Kin Wai. Mr. Ho Kin Wai currently serves as the chairman of the Remuneration Committee. The Remuneration Committee is mainly responsible for making recommendations to the Board on appointment of the Directors and succession planning for the Directors.

The majority of the members of the Remuneration Committee are independent non-executive Directors. The remuneration of the Directors was determined with reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group. The Remuneration Committee makes recommendations to the Board on remuneration packages of individual executive Directors and the members of senior management.

The Remuneration Committee held one meeting during the year ended 31 December 2019 to review the remuneration packages and performance bonus of the Directors and the senior management.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 24 June 2017 which comprises one executive Director and two independent non-executive Directors, namely Mr. Lam, Mr. Mak Kwok Kei and Mr. Ho Kin Wai. Mr. Lam currently serves as the chairman of the Nomination Committee. The Nomination Committee is mainly responsible for making recommendations to the Board on appointment of the Directors and succession planning for the Directors. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors, review the qualifications of the Directors, the progress on the implementation of the board diversity policy and other related matters of the Company.

The majority of the members of the Nomination Committee are independent non-executive Directors.

The Nomination Committee held two meetings during the year ended 31 December 2019 to review the structure, size and composition of the Board, consider and recommend to the Board on the re-election of directors and assess the independence of the independent non-executive Directors.

DIVERSITY OF THE BOARD

The Group has adopted policy in relation to the diversity of the members of the Board and the summary of the policy is as follows:

(1) selection of Board members will be based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; and

(2) the Nomination Committee will monitor the implementation of the diversity policy from time to time to ensure the effectiveness of the diversity policy.

DIRECTORS' INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Each newly appointed Director receives a formal, comprehensive and tailored induction on the first occasion of his appointment to ensure that he has a proper understanding of the Company's operations and business and is fully aware of the director's responsibilities under the statues and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies. The Directors had attended training sessions on obligations, duties and responsibilities of directors conducted by the Company's then Hong Kong legal advisers.

The Company will from time to time provide briefings to all Directors to refresh their duties and responsibilities. All Directors are also encouraged to attend relevant training courses at the Company's expense and they have been requested to provide the Company with their training records. According to the training records maintained by the Company, the trainings received by each of the Directors (including directors' induction training) up to 31 December 2019 are summarised as follows:

Name of Director	Type of trainings
Mr. Lam Pak Ling	A, B
Mr. Cai Weiming	A, B
Mr. Wong Tsz Chun, Jacky	A, B
Mr. Tam Yiu Shing, Billy	A, B
Mr. Mak Kwok Kei	A, B
Ms. Lam Kit Yan	A, B
Mr. Ho Kin Wai	A, B

A: attending seminars/conferences/forums

B: reading newspapers, journals and updates relating to the economy, general business, corporate governance and directors' duties and responsibilities

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate insurance coverage on directors' and officers' liabilities of the Company and its subsidiaries in respect of any legal actions taken against the Directors and officers of the Company and its subsidiaries arising out of corporate activities.

COMPANY SECRETARY

Mr. Tam Yiu Shing, Billy, a member of the Hong Kong Institution of Certified Public Accountants, has been the company secretary of the Company since 14 March 2017.

All Directors have access to the advice and services of the company secretary. The company secretary reports to the Chairman on board governance matters, and is responsible for ensuring that board procedures are followed, and for facilitating communications among Directors as well as with shareholders of the Company (the "**Shareholders**") and management. During the year ended 31 December 2019, the company secretary has taken no less than 15 hours of relevant professional training.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements of the Group for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period in accordance with accounting principles generally accepted in Hong Kong. The statement by the auditor of the Company about its responsibilities for the financial statements is set out in the independent auditor's report contained in the annual report. The Directors adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Deloitte Touche Tohmatsu as its principal auditor for the year ended 31 December 2019. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the principal auditor. During the year ended 31 December 2019, the fee payable to Deloitte Touche Tohmatsu in respect of its statutory audit services provided to the Group was HK$1,200,000.

RISK MANAGEMENT AND INTERNAL CONTROL

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage it risks across business operations.

The Group has established a risk management framework, which consists of the Board of Directors, the Audit Committee and the Risk Management Taskforce ("RMTF"). The Board of Directors determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the RMTF identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board of Directors and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board of Directors on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board of Directors at least once a year. The Board of Directors had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board of Directors in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board of Directors considers the Group's risk management and internal control systems are effective.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Principal Risks

During the year ended 31 December 2019, the following principal risks of the Group were identified and classified into strategic risks, operational risks, financial risks and compliance risks.

Risk Areas	Principal Risks
Strategic Risks	No material risks identified
Operational Risks	No material risks identified
Financial Risks	No material risks identified
Compliance Risks	No material risks identified

PROCEDURE AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with requirements of Securities & Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

THE SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to article 58 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

In order to keep Shareholders well informed of the business activities and direction of the Group, information about the Group has been provided to the Shareholders through financial reports and announcements. The Company has established its own corporate website (www.lapco.com.hk) as a channel to facilitate effective communication with its Shareholders and the public. The Company will continue to enhance communications and relationships with its Shareholders and investors. A shareholders communication policy was adopted on 18 July 2017 to comply with code provision E.1.4 of the Code.

Shareholders, investors and interested parties can make enquiries directly to the Company through the following e-mail: info@lapco.com.hk.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Lapco Holdings Limited

Address:	Unit No. 301A, 3/F., Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong
Tel:	(852) 2758-8999
Fax:	(852) 2758-8666
E-mail:	info@lapco.com.hk

Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant committees of the Board, where appropriate, to answer the Shareholders' questions.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the office of the branch share registrar and transfer office of the Company in Hong Kong no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days. The procedures for Shareholders to propose a person for election as a Director is posted on the website of the Company.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Lapco Holdings Limited ("**Lapco**", the "**Company**", "**We**", or "**Our**") presents this Environmental, Social and Governance ("**ESG**") Report for the year ended 31 December 2019 (the "**Reporting Period**" or "**FY19**"). The report covers information on our approach, commitments and accomplishments on our sustainability efforts, with an aim to provide a comprehensive picture on our ESG performance over the period of 1 January 2019 to 31 December 2019.

REPORTING SCOPE

This report is prepared in compliance with the requirements set forth in Appendix 20 – Environmental, Social and Governance Reporting Guide ("**ESG Reporting Guide**") of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited ("**GEM Listing Rules**"). The report covers the Company's principal businesses in cleaning and pest management, waste management and recycling, and landscaping services in Hong Kong. Key ESG issues that are discussed in this report are identified by the Company's ESG working group through materiality assessment. The report is adhered to several principles, including:

Materiality: It covers important and relevant information to stakeholders. Materiality refers to the assessment engaged with stakeholders in determining the relative importance of ESG topics identified and disclosed in this report.

Data Quantification: It refers to the provision and discussion of quantitative information with comparative data, where appropriate, in order to enable objective assessment of the Company's ESG performance.

Consistency: It refer to the adoption of consistent methodologies in preparation of ESG data and comparison of data to past year results where appropriate.

It is with utmost importance for the Board to report and address the Company's ESG performance in a transparent manner. The Board has reviewed and approved the report in respect to the Company's material sustainability related issues and the associated risks and opportunities, with due diligence.

ESG STRATEGY AND GOVERNANCE

The Company acknowledges and pledges in fulfilling stakeholders' expectations on our ESG practices. We incorporate sustainable development visions in our corporate strategy, where we envision to integrate environmentally friendly practices into all dimensions of our business services in order to maintain sustainable development for our society. We are committed in upholding the quality of our services to clients, and establishing a solid and long-lasting relationship with stakeholders based on the core values of social, economic, and environmental responsibilities of our society which we play a part in.

In order to align with these goals, ESG development plans have been established, with sustainable development strategies focused on the following aspects:

Reduce Environmental Pollutions:
With ISO14001 as our basis, to work on avoiding, reducing and controlling environmental pollution in our daily operations

Continuous Improvement of Service Delivery:
To provide quality service to our customers through continuous improvement by achieving and setting higher goals

Strengthen Training:
Provide extra training on management systems to ensure staffs are aware of their responsibilities and are able to deal with potential environmental hazards

Promote Environmental Awareness:
Encourages suppliers and customers alike to be aware of environmental protection elements so as to work together to develop corporate social responsibility

Promote Occupational Health and Safety:
Improving occupational health and safety of staffs through vigilant care and compliance with the provision of safety machinery, work safety system guidelines, safety training and personal protection equipment to protect the health and safety of all employees

To streamline our ESG visions with our defined strategies, we have strengthened our governance structure for efficient and effective implementation:

The Board of Directors
- Overall responsibility for ESG strategy reporting
- Determines ESG risks and respective mitigating ESG strategies
- Oversights risk management and internal control systems

Management
- Executes ESG strategies
- Monitors ESG-related risks and internal control mechanisms in place
- Streamline ESG elements into daily business operations

Administrative and Functional Departments
- Facilitates ESG reporting process
- Data collection and information reporting
- Communication of day to day ESG concerns to Management

The Board of Directors of the Company holds the overall responsibility for the Company's ESG strategy and reporting. With the aim of better managing the Company's ESG performance and its corresponding issues and risks affecting the effectiveness of ESG management systems, the Company has established an ESG working group to formulate and translate policies into actions, while facilitating exchange of best practices with other benchmark companies. The ESG working group consists of the management, administrative and functional departments, with the aim of better managing the Company's ESG performance and its corresponding issues and risks affecting the effectiveness of ESG management systems. The ESG working group collectively collects and analyses data, and ensures compliance with ESG-related laws and regulations.

The ESG working group arranges regular meetings to discuss and monitor current and upcoming plans in managing the Company's strategic goals in sustainable development, and to mitigate any potential risks or issues that could be material to the Company's environmental and labour performance, minimising the impact to business operations. At the same time, the ESG working group also comes together to evaluate the effectiveness of existing policies, and develop remedies to enhance ESG policy performances.

Specific to the risk management framework, the Company has established a risk management working group consisting of the Board of Directors, the Audit Committee, and the Risk Management Taskforce ("**RMTF**"). The Board of Directors determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. In addition to the Company's robust risk management models, a third party professional consultant has been engaged for the Company's annual assessment of internal controls so as to identify potential risk and control deficiencies and recommend on necessary improvements.

STAKEHOLDER ENGAGEMENT

The Company takes an extra mile in integrating the expectations of our stakeholders to truly understand their concerns, with the aim to maximise greater economic output and business value while keeping in line with the Company's long term sustainable development goals.

To achieve this, the Company launched an internal and external stakeholder engagement process that involves the identification and clarification of such expectations with our stakeholders, which includes employees, clients, investors and stockholders, suppliers and business partners, government and supervising authorities, social groups and public, and the media. We continuously and actively engage with our stakeholders through diverse stakeholder engagement methods as listed below:

Stakeholder Groups	Engagement Methods
Employees	Internal emails and publications Meetings and briefings Training Employee Activities Performance Appraisal
Clients	Corporate Website Client Service Hotline Client Survey Client Meetings
Investors and Stockholders	Annual General Meeting Annual and Interim Report Press Release and Announcements
Suppliers and Business Partners	Business Meeting Performance Evaluation Field Visitation
Government and Supervising Authorities	Public Consultation

MATERIALITY ASSESSMENT

We conducted a materiality assessment through a stakeholder engagement process based on the outlined established channels with our stakeholder groups. The following outlines the procedures of the assessment:

Identify Potential ESG Issues

- **ESG Reporting Guide:** Pinpointing initial ESG issues through making reference to the ESG reporting guide of the Stock Exchange
- **Peer benchmark:** Tracking and comparing material ESG issues against comparable peer companies

Stakeholder Evaluation

- **Questionnaires and Interviews:** Assessing and evaluating key material ESG issues through invitation of internal and external stakeholders to rank the importance of each ESG issue

Prioritise

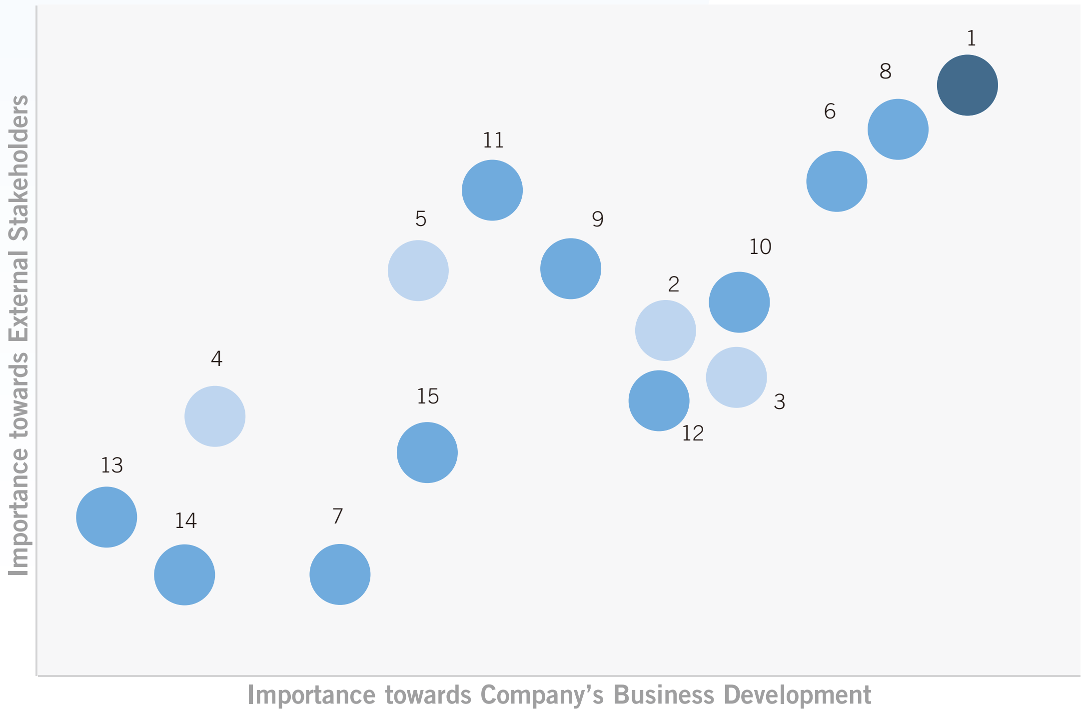
- **ESG Materiality Ranking:** Taking results from issues identification and stakeholder evaluation to generate ESG materiality ranking

Validate

- **Validation:** Management and ESG working group of the Company to validate and confirm the applicable material ESG issues, and how it links to the respective HKEx Aspects, KPIs, and listing rules requirements.

Allocating equal weighting to the score responses of each external stakeholder group, their average scores plot on the "Importance towards external stakeholders" axis, while the responses by the Group's management and employees that possesses greater understanding of the company's business operations are recorded on the "Importance towards company's business development" axis.

In accordance with the results from this stakeholder engagement exercise, we have structured the following list of material ESG issues identified by each stakeholder group:



Categories	#	*ESG Issues*
General	1	Compliance
A1	2	Air Emission and Carbon Footprint
A1	3	Waste Management
A2	4	Efficient Use of Resources
A3	5	Environmental Impacts from Business Operations
B1	6	Recruitment, Compensation, Promotion, Dismissal, and other Employee Benefits
B1	7	Diversity and Equal Opportunity
B2	8	Workplace and Occupational Health and Safety
B3	9	Employee Development and Training
B4	10	Anti-child and Forced Labour
B5	11	Sustainable Procurement
B6	12	Service Quality Assurance
B6	13	Data Privacy and Protection
B7	14	Anti-corruption and Anti-fraud
B8	15	Community Support and Social Responsibility

ENVIRONMENT

Having a clean environment is crucial for the sustainable development of our society. Lapco recognises that as a corporate citizen, it is our responsibility to minimise the environmental impact of our business operations. As such, we are driving environmental sustainability by innovating in the highest impact areas of our business. We incorporate ESG practices fundamentally into the core of our business strategy and operational practices, with a clear aim of conducting our businesses in the most environmental-friendly manner, in order to create long-term value for both the Company and the environment alike.

Aspect A1: Emissions

As a service company in the cleaning and pest management businesses, our services often rely on our large vehicle fleet and machineries for business operations. Owing to such nature, we are highly committed to controlling the air and greenhouse gas emissions and waste generation arising from our business operations. We also strictly comply with relevant environmental laws and regulations.

During the Reporting Period, we have not identified any material cases of non-compliance on environmental laws and regulations.

Air Emission and Carbon Footprint

Mobile vehicles are our major source of air emission. Hence we have taken a step to integrate vehicle emissions reduction in our sustainable business practice. One of the measures to reduce the environmental impact of vehicles is the selection of green vehicles. In our vehicle procurement process, environmental performance of vehicles is one of the critical determinant factors in our selection and comparison. We prefer vehicles with higher fuel efficiency and fewer pollutants. We also aim to enhance fuel consumption efficiency of the vehicles through regular maintenance and repair services performed by qualified personnel, which at the same time help ensure vehicle emissions comply with the emission standards as stipulated in the Air Pollution Control Ordinance (Cap. 311) of Hong Kong.

In FY19, over 80% of Lapco's vehicles were Euro V standard vehicles and we have been increasing the use of such environmental-friendly models. Adoption of Euro V vehicles could bring striking environmental benefits, notably an 80% reduction of sulphur dioxide from motor vehicles[1]. All of our Euro V standard vehicles below 2.5 tonnes consume Euro V petroleum, which could reduce motor vehicle emissions of carbon monoxide, nitrogen oxides and hydrocarbons by approximately 10%[1]. All of our Euro V standard vehicles above 2.5 tonnes consume Euro V diesel, which is effective in reducing respiratory suspended particulates by 5%[1]. The table below shows the generation of Nitrogen Oxides, Sulphur Oxides and Particulate Matter from the use of vehicles during the Reporting Period:

Emission	Unit	2019	2018
Nitrogen Oxides (NO_x)[2]	kg	21,006	22,975
Sulphur Oxides (SO_x)[3]	kg	46	42
Particulate Matter (PM)[2]	kg	1,625	1,793

1 The figures in reference to the reduction in the amount of Sulphur Dioxide, Carbon Monoxide, Nitrogen Oxides and Hydrocarbons are taken in reference to the data obtained from Hong Kong's Environment Protection Department – Advisory Council on the Environment, ACE paper 17/2009 'Introduction of Euro V Standard for Motor Vehicle Fuel'.

2 The emission of Nitrogen Oxide and Particulate Matter is calculated by using the emission factors, and the distance travelled by the vehicle fleet which was estimated based on the fuel consumption ratio of the vehicle fleet. The emission factor was based on the information from Stock Exchange of Hong Kong Limited's "Reporting Guidance on Environmental KPIs".

3 The emission of Sulphur Oxide is calculated by using the emission factors, and the units of fuel consumed by the vehicle fleet, which was estimated based on the total amount of purchased fuel for the vehicle fleet. The emission factor was based on the information from Stock Exchange of Hong Kong Limited's "Reporting Guidance on Environmental KPIs".

From the above data disclosure, we could see a decrease in generation of Nitrogen oxides and Particulate Matter, while a slight increase in Sulphur Oxides. This trend of results stems from increasing consumption of fuel due to engagements in higher quantity of projects over the Reporting Period, despite a decrease in overall traveling. This could be explained with the happening of social unrest activities on the roads in Hong Kong over the second half of the year, resulting in higher driver idle times from traffic disruptions. As these road obstructions are forecasted not to be long-term factors, we maintain a positive outlook on the impact of such disruptions in our future fuel consumption. We would continue to keep our efforts in lowering the vehicle emissions arising from our services rendered, for example by efficient planning on methods of delivery to reduce journeys made.

Likewise, the use of clean and formulated fuel in vehicles is effective in slowing atmospheric build-up of carbon dioxide, which halts global warming. We have continued to adopt clean and energy efficient fuel in the operations of our car fleet. During the Reporting period, the total carbon dioxide equivalent (CO_2e) emissions was approximately 7,662,664 kg[4] (7,038,798 kg in FY18), with an intensity of 79,819 kg/project (73,320 kg/project[5] in FY18).

Apart from the fuel combustion of vehicles, another major source of greenhouse gases is electricity consumption. Details of our continued initiatives in reducing our carbon footprint are covered in Section A2 Efficient Use of Resources.

Waste Management

We are constantly monitoring our waste generation and the methods in handling and disposal of waste. We uphold the principles of waste management and is committed to the proper handling and disposal of all wastes from our business activities. We ascertain that all of our waste management practices comply with the relevant laws and regulations in all material aspects, namely the Waste Disposal Ordinance (Cap. 354) of Hong Kong. We aim to reduce adverse consequences on the environment and the public through our waste management policies. We currently apply the principle of waste hierarchy which we prefer to prevent and reuse waste than disposing them.

This principle is incorporated into our daily operational procedures. For instance, bulk purchasing for cleaners and disinfectants has been adopted to reduce the number of containers to be disposed of. We also continuously optimise recycling processes and increasing recycling rates to implement our green practices.

We strive to minimise the usage of common office consumables, such as paper and plastic water bottles. We promote the use of electronic communication and encourage employees to reduce, reuse, and recycle waste paper. In addition, the used plastic water bottles would be collected and returned to vendors for re-use, while other operational waste would be collected and disposed at public refuse collection points under the Food and Environmental Hygiene Department of Hong Kong. Responsible supervisors are also assigned to regularly review environmental performances for our operations.

4 The Carbon Dioxide Equivalent emissions consist of Carbon Dioxide, Methane, Nitrous Oxide and CLP Electricity Emissions calculations. Such calculations are based on the EPD's "Guidelines to Account for and Report Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong, and the "Carbon Audit Toolkit for Small and Medium Enterprises in Hong Kong" published by the University of Hong Kong and City University of Hong Kong, and the Greenhouse Gas Protocol. The CLP electricity emissions factor is based on the figures published in CLP 2018 Sustainability Report.

5 The figure from FY18 has been restated for intensity calculation to be based on number of projects instead of the floor area.

During the Reporting Period, no material hazardous waste was produced. The major non-hazardous waste generated was 8,410 kg (6,040 kg in FY18) of paper, while 333 kg (333 kg in FY18) of plastic water bottles were used, collected and returned to vendors. Increase in consumption of paper was due to the higher quantity of projects engaged during the Reporting Period, which required greater paper resources for documentation and operational purposes. Employees are however constantly being reminded to minimise unnecessary consumption of resources, and shall continue to implement green efforts in reducing resource consumption from its source.

Aspect A2: Uses of Resources

Efficient Use of Resources

Our major sources of resource consumption are the fuel consumed by the vehicles for cleaning services and electricity used for lighting, air-conditioning, and daily office utilities for office operation. The following table summarises our resource consumption during the Reporting Period:

Resource	Consumption			Intensity		
	2019	2018	Unit	2019	2018	Unit
Electricity	89,983	89,358	kWh	14.9	14.8	kWh/ft^2
Petroleum	12,283	9,624	L	128	114	L/project
Diesel	2,855,787	2,621,651	L	29,748	31,210	L/project

Note: Owing to our business nature, no packaging materials were used and the related disclosure was not applicable.

Total petroleum and diesel consumption from our business operations has shown a slight increase in energy usage and its resulting intensity. The increase in such consumption was due to more service projects and engagements performed over the Reporting Period, as compared to that of last year. The intensity of diesel has dropped to 29,748 L/project (31,210 L/project in FY18), which has reflected our efforts in fuel saving, despite a general small increase in overall consumption of the fuel. The Company constantly monitors our vehicle fleets energy usage closely during our project services, which has benefitted the Company in general cost saving and in turn promote environmentally friendly practices socially.

Likewise, our electricity consumption across the Company during the Reporting Period has decreased to 89,983 kWh, leading on to an intensity of 14.9 kWh/ft^2. This reflects our efforts in energy consumption saving through the green commitments practiced throughout our business operations and services, as reflected by the stable intensity rate given our higher service projects. Owing to our operation model and terms of contracts with clients, our electricity and water for the cleaning services are directly provided and controlled by the clients and the amount of usage highly depends on external environmental factors such as cleanliness of the street areas and specific demand from clients. Hence, the Company is in a passive position to measure and control electricity and water usage for our services. However, we still endeavour to improve efficiency of resource usage in all aspects of our operations by introducing advanced technologies, regular maintenance of machinery and tools, adopting green practices in office, implementing water stewardship efforts, as well as employee education and engagement. These are covered in detail below.

i. Advanced Technologies

Advanced technologies are introduced to reduce the use of resources. One of the measures is the adoption of Euro V vehicles to replace our old fleet of cars. Such replacement could significantly reduce fuel consumption for each kilometre travelled. In our office premises, we have adopted green technology by redirecting our preference in energy products, including the use of fluorescent bulbs, LED lamps, as well as using electric appliances that consume less energy.

ii. Regular Maintenance

Other than adopting the use of advanced vehicles and machinery for our business operations, we promote the efficient use of resources through regular maintenance of machinery and tools. The annual inspection on our assets is used to make sure that they are up to standards, to prevent reduction in fuel efficiency, increase durability of our assets, and hence promote efficient use of resources for the Company.

iii. Green Practice

Shortage of natural resources is a global area of concern. We work to establish a more sustainable business by focusing on our resource conservation and water stewardship efforts where we can have the greatest impact. We have developed several energy-saving principles and green practice in our workplace. Examples of such green practice include:

- Switching off idle office equipment, lighting and air-conditioning;
- Preference in usage of energy efficient products in our offices such as florescent bulbs, fluorescent bulbs, LED lamps, electrical appliances with higher energy consumption efficiency;
- Maintain the average indoor temperature of our office workspace between 24 and 26°C during the summer time in active support of the "Energy Saving Charter on Indoor Temperature" established by the Government of Hong Kong Special Administrative Region.

We would constantly monitor the electricity consumption from our office operations, and evaluate the existing action plans on environmental protection in order to demonstrate our long-term support on green practice.

iv. Water Stewardship

Owing to our operational business model, our water consumption is directly provided by our clients or publicly sourced by government, therefore we have no difficulty in sourcing water. Such consumption quantity is based on client's demand and is not directly controllable by us. As such, relevant disclosure is considered not applicable. Despite the Company's passive position in controlling water consumption, we continue to establish a more sustainable business by focusing our water stewardship efforts on areas where we can have the greatest impact. Such areas include improving water-use efficiency and reuse, and helping to manage water resources in our supply chain, for example the water coming from our clients and/or the government.

v. Employee Education and Engagement

We provide regular training to our employees to raise or maintain their awareness on energy and water conservation. Relevant environmental awareness messages such as tips for saving electricity saving, fuel and water are also communicated to all levels of staffs via emails and posters. We hope the involvement of our employees into energy and water saving practices could assist in alerting them the importance of resource conservation and if possible in enhancing our energy efficiency methods.

Aspect A3: The Environment and Natural Resources

Environmental Impacts from Business Operations

We are fully committed to minimising environmental impacts associated with our business activities, and strive to uphold our environmental performance standards through the establishment of an Environmental Management System ("**EMS**"). We currently possess the certification for ISO 14001:2015, an accreditation in the EMS in the provision of cleaning, pest control and waste management services. The ISO 14001 has strengthened our company-wide focus on continuous improvement and enabled a common vision in managing environmental processes across the Company. The EMS also includes an incident management mechanism to deal with all incidents arising from our operations which will bring adverse impact to the environment. An incident response team has been established to be responsible for incident handling processes such as incident detection and recording, investigation and analysis, resolution and incident closure. Operation personnel would also ensure that cleaning detergents and disinfectants sourced for each service project are non-hazardous products and bring minimal impacts on to the environment. The management system is reviewed at the beginning of each business year and environmental performance is measured based on the results of reviews conducted for each individual service projects. Internal reviews are also supplemented by regular external inspections.

SOCIAL

Aspect B1: Employment

Recruitment, Compensation, Promotion, Dismissal, and other Employee Benefits

The Company regards people as the most valuable assets for supporting its business growth. We deeply appreciate the contributions made by our employees, and are committed to improving their welfare and wellbeing in their tenure. We aim to create a harmonious working environment with cooperation and respect in order to enhance our staff's sense of belonging and retain talents.

We have developed the Human Resources Policy to govern compensation, dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare, in accordance with relevant employment rules and regulations stipulated in the Employment Ordinance (Cap. 57) and Employees' Compensation Ordinance (Cap. 282) of Hong Kong. Our Human Resources Policy is regularly reviewed and updated to ensure compliance with the latest labour laws and regulations, while Human Resources Department will strictly adhere to such Policy by imposing adequate internal controls in their operations.

During the Reporting Period, the composition of our employees by gender is as below:

	2019		2018	
	Number of Employees	%	Number of Employees	%
Male	1,559	43.7	1,622	45.5
Female	2,005	56.3	1,945	54.5
Total	3,564	100	3,567	100

We offer our employees with an attractive remuneration package in order to retain talents. Remuneration is based on the four key principles: fairness, ability, competitiveness and timeliness. The level of compensation of the Company's employees is established according to their abilities and reviewed annually based on their performance and the market conditions. The remuneration package also includes a range of benefits to all employees such as mandatory provident fund, life insurance, medical insurance, annual leave, overtime leave, wedding leave, and maternity leave.

In addition, we perform annual performance appraisal on our staff through a coherent performance management mechanism, which includes the following principles: specific, measurable, actionable, realistic, and timely. Such performance appraisal provides a basis for employees to understand their strengths and weaknesses, and to strengthen mutual understanding and communication between staff and the Company. Results could also be used as reference for related personnel decisions including salary increment, bonus allocation, promotion, transferral, job rotations and other arrangements.

We recognise that maintenance of appropriate work-life balance can assist in reducing working pressure of employees and enhancing the overall productivity. The Company's policy stipulates that the number of working hours for full-time employees is eight. Social activities such as annual dinners are held each year to celebrate employees' efforts and contributions to the Company, as well as to strengthen social bonding between colleagues and management. In 2019, the Company has also introduced an employee award scheme to recognise the performance of our staff talents as the Company's token of appreciation.

Employee satisfaction is one of our key concerns and we have put continuous effort to maintain and enhance their morale. Employee surveys are regularly conducted to understand the views of the employees on the Company or the working environment. The management will review the result of the survey and implement improvement measures if necessary.

Diversity and Equal Opportunity

We respect the diversity of employees by promoting gender equality and equal opportunity in the workplace. We want to create an inclusive and harmonious workplace by strictly adopting non-discriminatory employment practices, which prohibits less favourable treatment to anyone on the basis of their personal characteristics, including but not limited to race, gender, religion, age, disability, nationality and family status. As an equal opportunity employer, we emphasise fairness, openness and objectivity and have incorporated these principles into our human resources management practices. Opportunities of recruitment, promotion and training programs would be given to employees based on the pre-defined criteria and systematic assessment conducted by a group of assessors.

By adopting the above practices, we comply with, in all material respects, the corresponding ordinances and its respective codes of practices, which includes the Sex Discrimination Ordinance (Cap. 480), Disability Discrimination Ordinance (Cap. 487), Family Status Discrimination Ordinance (Cap. 527), and Race Discrimination Ordinance (Cap. 602) supported by the Hong Kong Equal Opportunities Commission ("**EOC**").

During the Reporting Period, we have not identified any material non-compliance of labour laws and regulations.

Aspect B2: Health and Safety

Workplace and Occupational Health and Safety

Occupational health and safety is of top priority for our operation. A healthy workforce is the foundation of long-term success to any company, and it is not an exception to Lapco. Lapco contributes to promoting and sustaining the physical and mental performance of its employees. To ensure this, our service line is certified in accordance with the internationally recognised OHSAS 18001, the Occupational Health and Safety Assessment Series, that ensures sound performance and promotes a robust workplace safety management system. The implementation of such system also ensure tight compliance with the Occupational Safety and Health Ordinance (Cap. 509) of Hong Kong.

Lapco has established the Safety Manual for providing instructions to employees on work safety. In addition, we have implemented a set of workplace safety measures to protect our employees. These measures are periodically reviewed to ensure continuous improvement to the health and safety conditions prevailing in the workplace.

Employees are required to receive training on how to use relevant machines and tools and must be well equipped before they provide services to our clients. Supervisors are assigned to take the responsibility of overseeing the operations, make immediate responses, and notify the management if any hazards in the workplace are noted. Other activities such as periodic safety training and fire and evacuation drills are conducted in order to maintain and raise our employees' safety awareness and knowledge in safety. Employees are also encourage to give opinions on safety procedures to the management.

Furthermore, we conduct periodic risk assessment in order to timely identify, evacuate and mitigate any new risks from workplace and to ultimately provide our employees with a healthy and safe working environment.

During the Reporting Period, we have not identified any material cases of non-compliance on health and safety related laws and regulations.

Aspect B3: Development and Training

Employee Development and Training

To accomplish our corporate objectives as well as personal development of employees, Lapco encourages and supports our employees in continuous personal and professional training. We have incorporated employee development into one of the key components of our business development plan. Various training programs are provided by the Company, such as in-house training programmes, seminars, workshops, conferences, peer learning, sharing sessions, and on-job training. One of our most important training programmes is the Pest Control Training, which aims to enhance the knowledge of employees on technical skills of pest control and occupational safety and is conducted by professional consultants specialised in areas such as laws and regulations, hazardous materials handling and first aid procedures. Apart from the in-house training provided to them, we encourage employees to attend external training programmes to further improve their knowledge and share them with other employees afterwards.

Aspect B4: Labour Standards

Anti-Child and Forced Labour

We strictly comply with the Labour Law in Hong Kong, in particular the Employment Ordinance (Cap. 57), and prohibit the employment of child and forced labour of any kind in our operations and services. Labour being forced to work by means of physical punishment, abuse, involuntary servitude, peonage or trafficking is strictly prohibited. Children who are below the age as set by the Labour Law are not allowed to be employed with the strict screening procedures by Human Resources Department. All employees are encouraged to report to the Company at any time for any suspected non-compliance incidents such as employment of child and forced labour during the course of our recruitment and operation.

During the Reporting Period, we have not identified any material cases of non-compliance on child and forced labour laws and regulations.

Aspect B5: Supply Chain Management

Sustainable Procurement

We closely monitor the supply chain and have implemented a sustainable procurement practice to minimise the adverse impact on the environment and maintain cost effectiveness. We encourage our suppliers to maintain high standards of business ethics and conduct, and put effort into maintaining satisfactory environment and social performance. During the selection process of new suppliers, authorised management would evaluate and select the suppliers based on the Company's pre-set criteria including the quality and durability of the products, service quality, price competitiveness, and sustainability efforts made by our suppliers. Examples of sustainability efforts include production methodology, waste management methods, choice of raw materials and labour practices.

We maintain an open and fair relationship with our suppliers. Tendering procedures are conducted during the selection process of major suppliers and the tendering process is closely monitored at all times to ensure the process conforms to our principles of fairness and transparency.

The Company has devised a mechanism to evaluate the performance of existing suppliers and conducted such evaluation periodically. Each supplier is assigned a grade during the evaluation to indicate its recent performance. The management will handle cases of unsatisfactory performance in accordance with established policies and procedures (e.g. issue of warnings or suspension for a specified period from invitation to bid) and will remove the suppliers with persistent adverse performance from the approved list or suspend them permanently from bidding as appropriate with proper approval.

Aspect B6: Product Responsibility

Service Quality Assurance

We are devoted to high quality of services and are certified with ISO 9001:2015 for our provision of cleaning, pest control and waste management services. We uphold the highest level of integrity through ethical marketing and sourcing, ensuring that we procure products from suppliers with high transparency and accountability, fair trade principles and good working conditions, and ensure that we market our products and services in an open, fair and honest way. We have invested in the areas of human resources, information management, infrastructure and equipment, professional skills and techniques in order to maintain a high quality service. Management support in investment of resources and their active participation in daily operations of business also contribute to the maintenance and enhancement of service quality.

Customers are welcome to provide comments on our services. If customer has a complaint, a dedicated customer service team is responsible for handling the complaint. The complaint will be investigated by various management personnel. All complaint cases will be reported to senior management for review and approval. Remedial measures will be implemented to reduce the chance of re-occurrence of the same kind of compliant in the future.

Data Privacy Policy

We value the confidentiality of personal data and are committed to protecting customer information with care. Therefore, we have implemented the appropriate data protection measures in order to comply with the Personal Data (Privacy) Ordinance (Cap. 486) ("**PDPO**").

Data Protection Principles from the Ordinance are applied to our business operations. Specifically, Lapco would only be collecting personal data from clients that we believe are relevant and required in our business operations. The personal data would only be used for the purpose of which the data was being collected for, or for a directly related purpose. Our personnel would always seek for consent for the use of data in the event that the data is to be used for new purposes. In line with our Standards and Code of Ethics, disclosure or transfer of personal data to any entity that is not a member of the Company without consent is strictly prohibited unless required by law, or was previously notified. The Company has appropriate security controls in place and has designed measures for prevention of any unauthorised access to personal data. Only designated personnel will be granted the access rights to personal data, and such list of designated personnel will also be regularly reviewed to ensure that access rights are still applicable.

During the Reporting Period, we have not identified any material cases of non-compliance on service quality and data privacy related laws and regulations.

Aspect B7: Anti-corruption

Anti-corruption and Anti-fraud

There is zero tolerance to corruption, bribery, extortion, money-laundering and other fraudulent activities in connection with any of our business operations. Employees must comply with all local laws and regulations when conducting their duties, and also those in other jurisdictions when conducting business there.

The Company has established the Code of Ethics and Employee Handbook which stipulates the proper work ethics and practices for employees' reference. Employees are required to declare potential conflicts under their job responsibilities. A whistle-blowing mechanism is established as an anonymous and confidential communication channel for employees and external parties if they suspect any potential or actual irregularities and conflicts. Any reported cases will be investigated and the results will be reported to the senior management of the Company directly. The Company will never punish or reprimand anyone for reporting breaches and violations of these kinds in good faith.

Internal controls are also in place to mitigate risk on fraudulent activities and the effectiveness of internal controls are regularly assessed.

During the Reporting Period, we have not identified any material cases of non-compliance on corruption-related laws and regulations.

Aspect B8: Community Investment

Community Support and Social Responsibility

As a responsible company, we aim at serving and strengthening the wider community, and encourage employees and other stakeholders in supporting the community. Therefore, we are engaged in various community activities such as public fundraising, donations, sponsorships and volunteering services. Regarding our upcoming agenda, we have planned to collaborate with non-profit organisations and play a part in hosting community events. We also encourage our employees to actively participate in volunteer events to raise their awareness, and with hopes to redress disadvantages of the less privileged, create impact and drive change. As recognition for our long-term commitment, Lapco has been accredited for the Caring Company award from the Hong Kong Council of Social Services for more than ten years since 2007. The award highlights the steps we have taken to caring for the community, our employees, and the environment which are the award qualification criteria.

Deloitte. 德勤

TO THE MEMBERS OF LAPCO HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Lapco Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 54 to 119, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of trade receivables from non-government customers	
We identified the estimated impairment of trade receivables from non-government customers as a key audit matter due to the use of significant estimates by the management in assessing the impairment of trade receivables from non-government customers under the expected credit loss ("ECL") model using the provision matrix. As disclosed in note 4 to the consolidated financial statements, the carrying amount of trade receivables from non-government customers as at 31 December 2019 is HK$9,181,000. In determining the impairment of trade receivables from non-government customers, the management of the Group assessed the balance collectively using a provision matrix with reference to (i) average loss rates applied in the provision matrix, which are based on the Group's historical default rates, taking into account both quantitative and qualitative information that is reasonable and supportable, and forward-looking information that is available without undue costs or effort; and (ii) past due aging analysis of trade receivables from non-government customers. No impairment of trade receivables from non-government customers was recognised during the year ended 31 December 2019.	Our procedures in relation to estimated impairment of trade receivables from non-government customers included: • Obtaining an understanding of how the management assesses the impairment of trade receivables from non-government customers under the ECL model using the provision matrix; • Assessing the reasonableness of the key data inputs used in determination of average loss rates applied in the provision matrix, on a sample basis, and challenging the assumptions, including both historical settlement history and forward-looking information used; • Testing the accuracy of the past due ageing analysis of the trade receivables from non-government customers, on a sample basis, by comparing with the relevant sales invoices; and • Re-performing the calculation of the impairment based on the average loss rates applied in the provision matrix and the past due ageing analysis of the trade receivables from non-government customers.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lui Chi Wang.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
25 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 HK$'000	2018 HK$'000
Revenue	5	**579,864**	529,838
Cost of services		**(556,703)**	(504,604)
Gross profit		**23,161**	25,234
Other income	6	**847**	1,132
Other gains and losses	6	**882**	(197)
Administrative expenses		**(32,479)**	(32,188)
Other expenses		**(1,896)**	–
Finance costs	7	**(7,034)**	(6,865)
Loss before taxation	10	**(16,519)**	(12,884)
Income tax credit	11	**404**	1,197
Loss and total comprehensive expense for the year attributable to owners of the Company		**(16,115)**	(11,687)
Loss per share			
– Basic *(HK cents)*	13	**(4.03)**	(2.92)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	As at 31 December 2019 HK$'000	2018 HK$'000
Non-current assets			
Plant and equipment	14	**8,457**	83,966
Right-of-use assets	15	**62,551**	–
Deposits and prepayments	17	**5,909**	5,602
Deposits for acquisition of plant and equipment		**952**	233
		77,869	89,801
Current assets			
Trade receivables	16	**138,331**	129,778
Other receivables, deposits and prepayments	17	**17,603**	25,694
Tax recoverable		**–**	1,651
Pledged bank balances	18	**21,790**	21,790
Bank balances and cash	18	**21,032**	11,458
		198,756	190,371
Current liabilities			
Trade payables	19	**9,622**	7,242
Other payables and accrued charges	20	**44,037**	38,694
Provisions	21	**3,367**	5,078
Bank and other borrowings	22	**112,499**	110,220
Lease liabilities	23	**25,370**	–
Obligations under finance leases	24	**–**	22,510
Tax payable		**723**	–
		195,618	183,744
Net current assets		**3,138**	6,627
Total assets less current liabilities		**81,007**	96,428
Non-current liabilities			
Provisions	21	**8,100**	1,020
Deferred tax liabilities	25	**154**	933
Lease liabilities	23	**30,814**	–
Obligations under finance leases	24	**–**	43,976
Other borrowings	22	**6,704**	–
		45,772	45,929
Net assets		**35,235**	50,499

	Note	As at 31 December 2019 HK$'000	2018 HK$'000
Capital and reserves			
Issued share capital	26	**4,000**	4,000
Reserves		**31,235**	46,499
Equity attributable to owners of the Company		**35,235**	50,499

The consolidated financial statements on pages 54 to 119 were approved and authorised for issue by the Board of Directors on 25 March 2020 and are signed on its behalf by:

Lam Pak Ling
DIRECTOR

Tam Yiu Shing, Billy
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Issued share capital *HK$'000*	Share premium *HK$'000*	Other reserve *HK$'000* *(note)*	Accumulated profits (losses) *HK$'000*	Total *HK$'000*
At 1 January 2018	4,000	31,362	10,200	16,624	62,186
Loss and total comprehensive expense for the year	–	–	–	(11,687)	(11,687)
At 31 December 2018	4,000	31,362	10,200	4,937	50,499
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**(16,115)**	**(16,115)**
Fair value adjustment on initial recognition of shareholder loans	**–**	**–**	**851**	**–**	**851**
At 31 December 2019	**4,000**	**31,362**	**11,051**	**(11,178)**	**35,235**

Note: As at 1 January 2018 and 31 December 2018, other reserve represented the difference between the share capital of Lapco Service Limited ("**Lapco**"), Shiny Glory Services Limited ("**Shiny Glory**") and Shiny Hope Limited and that of Sharp Idea Global Limited ("**Sharp Idea**") issued pursuant to a group reorganisation completed in 2017. During the year ended 31 December 2019, the amount of HK$851,000 represents the fair value adjustment on the non-current shareholder loans using the effective interest rate of 7.5% per annum.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	**(16,519)**	(12,884)
Adjustments for:		
Depreciation of plant and equipment	**4,679**	30,118
Depreciation of right-of-use assets	**24,031**	–
Interest income	**(778)**	(931)
Gain on disposal/written-off of plant and equipment, net	**(786)**	(1,999)
Finance costs	**7,034**	6,865
Operating cash flows before movements in working capital	**17,661**	21,169
Increase in trade receivables	**(8,553)**	(9,889)
(Increase) decrease in other receivables, deposits and prepayments	**(4,167)**	12,722
Increase in trade payables	**2,380**	1,426
Increase (decrease) in other payables and accrued charges	**5,343**	(1,986)
Decrease in amount due to a related party	**–**	(13)
Increase (decrease) in provisions	**5,369**	(112)
Increase in factoring trade receivables with recourse	**20**	13,468
Cash generated from operations	**18,053**	36,785
Net income tax refunded (paid)	**1,999**	(349)
NET CASH FROM OPERATING ACTIVITIES	**20,052**	36,436
INVESTING ACTIVITIES		
Interest received	**209**	173
Deposits paid for acquisition of plant and equipment	**(719)**	–
Purchases of plant and equipment	**(2,200)**	(136)
Proceeds from disposal of plant and equipment	**1,956**	2,079
Proceeds from early termination of life insurance policies	**12,995**	–
Payment for a life insurance policy	**(475)**	–
Placement of pledged bank balances	**–**	(12,710)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**11,766**	(10,594)

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Interest paid	**(6,979)**	(6,865)
Repayment of obligations under finance leases	**–**	(26,953)
Repayment of lease liabilities	**(25,024)**	–
New bank and other borrowings raised	**25,922**	6,648
Repayment of bank and other borrowings	**(16,163)**	(8,684)
NET CASH USED IN FINANCING ACTIVITIES	**(22,244)**	(35,854)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**9,574**	(10,012)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**11,458**	21,470
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**21,032**	11,458

1. GENERAL AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Lapco Holdings Limited (the "**Company**") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands on 12 August 2016. The shares of the Company were listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 18 July 2017. Its parent is Gold Cavaliers International Limited (incorporated in the British Virgin Islands ("**BVI**")). Its ultimate controlling parties are Mr. Lam Pak Ling ("**Mr. Lam**"), an executive director of the Company and Ms. Wong Siu Fan, Beatrice ("**Ms. Wong**"), common law spouse of Mr. Lam. 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases"

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

Definition of a lease

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

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 5.38%.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	2,685
Lease liabilities discounted at relevant incremental borrowing rates	2,543
Less: Recognition exemption – short-term leases	(81)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	2,462
Add: Obligations under finance leases recognised at 31 December 2018 *(Note)*	66,486
Lease liabilities as at 1 January 2019	68,948
Analysed as	
Current	23,659
Non-current	45,289
	68,948

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

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

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	2,462
Amounts included in plant and equipment under HKAS 17 – Assets previously under finance leases *(Note)*	73,572
Right-of-use assets as at 1 January 2019	76,034
By class:	
Leased properties	2,462
Motor vehicles	73,572
	76,034

Note: In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to HK$73,572,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK$22,510,000 and HK$43,976,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 16 "Leases" (Continued)

As a lessee (Continued)

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

	Carrying amounts previously reported at 31 December 2018 *HK$'000*	Adjustments *HK$'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *HK$'000*
Non-current assets			
Plant and equipment	83,966	(73,572)	10,394
Right-of-use assets	–	76,034	76,034
Current liabilities			
Obligations under finance leases	22,510	(22,510)	–
Lease liabilities	–	23,659	23,659
Non-current liabilities			
Obligations under finance leases	43,976	(43,976)	–
Lease liabilities	–	45,289	45,289

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
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 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective (Continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the amounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

The Group recognises revenue mainly from (i) cleaning services; (ii) pest management services; (iii) waste management and recycling services; and (iv) landscaping services.

Under the terms of these contracts, the customers of the Group simultaneously receive and consume the benefits provided by the Group's performance as the Group performs and thus these income are recognised over time.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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

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

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

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

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

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

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

Refundable rental deposits

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Lease liabilities

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

The lease payments include:

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

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

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

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Plant and equipment

Plant and equipment are tangible assets that are held for use in the supply of services, or for administrative purposes. Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment loss on plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of plant and equipment and right-of-use assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit or group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Payment for life insurance policies

Since 1 January 2018, payment for life insurance policies is stated in the consolidated statement of financial position at cost adjusted for interest income and service charges, less impairment losses, if any.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") on financial assets (including trade receivables, other receivables, deposits, pledged bank balances and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for all government customers and collectively for non-government customers using a provision matrix with past due status groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by the management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Derecognition of financial asset

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

The Group's financial liabilities including trade payables, other payables and accrued charges and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs and termination benefits

Payments to the Mandatory Provident Fund Scheme ("**MPF Scheme**") as defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment of trade receivables from non-government customers

The impairment of trade receivables from non-government customers is estimated under the ECL model using the provision matrix. The management of the Group assessed the balance collectively using a provision matrix with reference to (i) average loss rates applied in the provision matrix, which are based on the Group's historical default rates, taking into account both quantitative and qualitative information that is reasonable and supportable, and forward-looking information that is available without undue costs or effort; and (ii) past due aging analysis of trade receivables from non-government customers. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables from non-government customers are disclosed in notes 29 and 16 respectively.

The carrying amount of trade receivables from non-government customers is HK$9,181,000 (2018: HK$5,126,000). No impairment of trade receivables from non-government customers was recognised during the year ended 31 December 2019 (2018: nil) as the amount of ECL has no material impact on the consolidated financial statements as at the end of the reporting period.

5. REVENUE AND SEGMENT INFORMATION

Revenue

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

(i) Disaggregation of revenue from contracts with customers

	2019 *HK$'000*	2018 *HK$'000*
Types of services		
Cleaning services	**426,650**	360,767
Pest management services	**64,416**	79,923
Waste management and recycling services	**88,225**	88,543
Landscaping services	**573**	605
	579,864	529,838
Types of customers		
Government	**544,765**	507,476
Non-government	**35,099**	22,362
	579,864	529,838
Timing of revenue recognition		
Over time	**579,864**	529,838

(ii) Performance obligations for contracts with customers

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue (Continued)

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and the expected timing of recognising revenue are as follows:

	Cleaning services *HK$'000*	Pest management services *HK$'000*	Waste management and recycling services *HK$'000*	Landscaping services *HK$'000*
Within one year	490,361	32,410	88,472	608
More than one year but not more than two years	352,822	27,062	71,209	101
More than two years	10,818	24,806	17,412	–
	854,001	84,278	177,093	709

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Cleaning services *HK$'000*	Pest management services *HK$'000*	Waste management and recycling services *HK$'000*	Landscaping services *HK$'000*
Within one year	276,796	59,303	89,355	608
More than one year but not more than two years	23,095	5,348	88,440	608
More than two years	3,188	–	88,621	101
	303,079	64,651	266,416	1,317

Segment information

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information (Continued)

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

	Cleaning services HK$'000	Pest management services HK$'000	Waste management and recycling services HK$'000	Landscaping services HK$'000	Total HK$'000
For the year ended 31 December 2019					
Segment revenue – external customers	**426,650**	**64,416**	**88,225**	**573**	**579,864**
Segment results	**17,821**	**3,255**	**2,072**	**13**	**23,161**
Other income					**847**
Other gains and losses					**882**
Administrative expenses					**(32,479)**
Other expenses					**(1,896)**
Finance costs					**(7,034)**
Loss before taxation					**(16,519)**
For the year ended 31 December 2018					
Segment revenue – external customers	360,767	79,923	88,543	605	529,838
Segment results	16,304	5,369	3,547	14	25,234
Other income					1,132
Other gains and losses					(197)
Administrative expenses					(32,188)
Finance costs					(6,865)
Loss before taxation					(12,884)

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 other income, other gains and losses, administrative expenses, other expenses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	Cleaning services *HK$'000*	Pest management services *HK$'000*	Waste management and recycling services *HK$'000*	Landscaping services *HK$'000*	Total *HK$'000*
As at 31 December 2019					
Segment assets	144,644	15,767	47,807	140	208,358
Certain plant and equipment					394
Certain right-of-use assets					1,539
Certain other receivables, deposits and prepayments					23,512
Pledged bank balances					21,790
Bank balances and cash					21,032
Total assets					276,625
Segment liabilities	43,869	6,623	9,071	59	59,622
Certain other payables and accrued charges					3,608
Certain provisions					1,896
Bank and other borrowings					119,203
Lease liabilities					56,184
Tax payable					723
Deferred tax liabilities					154
Total liabilities					241,390

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

	Cleaning services HK$'000	Pest management services HK$'000	Waste management and recycling services HK$'000	Landscaping services HK$'000	Total HK$'000
As at 31 December 2018					
Segment assets	135,288	21,118	56,885	47	213,338
Certain plant and equipment					406
Certain other receivables, deposits and prepayments					31,529
Tax recoverable					1,651
Pledged bank balances					21,790
Bank balances and cash					11,458
Total assets					280,172
Segment liabilities	31,681	7,776	7,019	53	46,529
Certain other payables and accrued charges					5,505
Bank borrowings					110,220
Obligations under finance leases					66,486
Deferred tax liabilities					933
Total liabilities					229,673

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating and reportable segments other than certain plant and equipment, certain right-of-use assets, certain other receivables, deposits and prepayments, tax recoverable, pledged bank balances and bank balances and cash.
- all liabilities are allocated to operating and reportable segments other than certain other payables and accrued charges, certain provisions, tax payable, bank and other borrowings, lease liabilities, obligations under finance leases and deferred tax liabilities.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

	Cleaning services HK$'000	Pest management services HK$'000	Waste management and recycling services HK$'000	Landscaping services HK$'000	Segment total HK$'000	Unallocated HK$'000	Total HK$'000
For the year ended 31 December 2019							
Additions to plant and equipment	**2,064**	**–**	**–**	**–**	**2,064**	**136**	**2,200**
Additions to right-of-use assets	**12,260**	**–**	**–**	**–**	**12,260**	**–**	**12,260**
Depreciation of plant and equipment	**2,185**	**1,756**	**590**	**–**	**4,531**	**148**	**4,679**
Depreciation of right-of-use assets	**7,835**	**13,028**	**1,847**	**–**	**22,710**	**1,321**	**24,031**
Gain on disposal/written off of plant and equipment, net	**526**	**260**	**–**	**–**	**786**	**–**	**786**
For the year ended 31 December 2018							
Additions to plant and equipment	6,632	8,742	1,633	1	17,008	–	17,008
Depreciation of plant and equipment	12,325	4,213	13,519	1	30,058	60	30,118
Gain on disposal/written off of plant and equipment, net	1,361	302	334	2	1,999	–	1,999

Geographical information

No geographical segment information is presented as the Group's revenue are all derived from Hong Kong based on the location of services provided and the Group's plant and equipment amounting to HK$8,457,000 (2018: HK$83,966,000) and right-of-use assets amounting to HK$62,551,000 (2018: nil) as at 31 December 2019 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	
	2019	2018
	HK$'000	*HK$'000*
Customer A[1]	**488,823**	445,911

[1] Revenue from cleaning services, waste management and recycling services and landscaping services.

6. OTHER INCOME/OTHER GAINS AND LOSSES

Other income

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Bank interest income	**209**	173
Interest income from payment for life insurance policies	**569**	758
Sundry income	**69**	201
	847	1,132

Other gains and losses

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Gain on disposal/written off of plant and equipment, net	**786**	1,999
Net foreign exchange gains	**27**	99
Loss on life insurance policies	**–**	(2,295)
Others	**69**	–
	882	(197)

7. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Interests on:		
Bank and other borrowings	**4,718**	4,159
Lease liabilities	**2,261**	–
Obligations under finance leases	**–**	2,706
Imputed interest expense on shareholder loans	**55**	–
	7,034	6,865

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to the directors of the Company and chief executive of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) by the Group, disclosed pursuant to the applicable Rules governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited and Companies Ordinance, are as follows:

	Directors' fees *HK$'000*	Salaries and other benefits *HK$'000*	Discretionary bonus *HK$'000* *(note iii)*	Contributions to retirement benefits scheme *HK$'000*	Total emoluments *HK$'000*
Year ended 31 December 2019					
Executive directors:					
Mr. Lam *(Chairman and chief executive)*	**2,037**	**–**	**200**	**18**	**2,255**
Mr. Cai Weiming ("**Mr. Cai**")	**750**	**–**	**55**	**18**	**823**
Mr. Wong Tsz Chun, Jacky ("**Mr. Wong**")	**702**	**–**	**45**	**18**	**765**
Mr. Tam Yin Shing, Billy ("**Mr. Tam**") *(note i)*	**808**	**–**	**60**	**18**	**886**
Independent non-executive directors:					
Mr. Mak Kwok Kei ("**Mr. Mak**")	**120**	**–**	**–**	**–**	**120**
Ms. Lam Kit Yan ("**Ms. Lam**")	**120**	**–**	**–**	**–**	**120**
Mr. Ho Kin Wai ("**Mr. Ho**")	**120**	**–**	**–**	**–**	**120**
Total	**4,657**	**–**	**360**	**72**	**5,089**
Year ended 31 December 2018					
Executive directors:					
Mr. Lam *(Chairman and chief executive)*	2,022	–	200	18	2,240
Mr. Cai	660	–	45	18	723
Mr. Wong	510	–	35	18	563
Non-executive director:					
Mr. Choi Chung Yin ("**Mr. Choi**") *(note ii)*	146	–	–	–	146
Independent non-executive directors:					
Mr. Mak	120	–	–	–	120
Ms. Lam	120	–	–	–	120
Mr. Ho	120	–	–	–	120
Total	3,698	–	280	54	4,032

Notes:

(i) Mr. Tam was appointed as executive director of the Company on 25 January 2019.

(ii) Mr. Choi resigned as a non-executive director of the Company on 10 August 2018.

(iii) The discretionary bonus is determined with reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's and independent non-executive directors' emoluments shown above were for their services as director of the Company.

No emolument was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors of the Company has waived any emoluments during both years.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three (2018: two) directors for the year ended 31 December 2019 whose emoluments are included in the disclosures in note 8. The emoluments of the remaining two (2018: three) non-director employees for the year ended 31 December 2019 were as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Salaries and other benefits	**2,692**	3,295
Discretionary bonus *(note)*	**200**	255
Retirement benefits scheme contributions	**36**	54
	2,928	3,604

Note: The discretionary bonus is determined with reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

Their emoluments were within the following bands:

	Year ended 31 December	
	2019	2018
	Number of employees	*Number of employees*
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	1

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. LOSS BEFORE TAXATION

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Auditor's remuneration	**1,200**	1,200
Depreciation of plant and equipment	**4,679**	30,118
Depreciation of right-of-use assets	**24,031**	–
Provision on litigation claims (included in other expense)	**1,896**	–
Directors' remuneration *(note 8)*	**5,089**	4,032
Other staff costs		
Salaries, bonuses and other benefits	**444,727**	402,729
Retirement benefits scheme contributions	**11,705**	11,855
Total staff costs	**461,521**	418,616

11. INCOME TAX CREDIT

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong Profits Tax:		
– Current tax	**(234)**	(805)
– Underprovision in previous years	**(141)**	(25)
Deferred tax credit *(note 25)*	**779**	2,027
	404	1,197

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

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Loss before taxation	**(16,519)**	(12,884)
Tax at Hong Kong Profits Tax rate of 16.5%	**2,726**	2,126
Tax effect of income not taxable for tax purpose	**19**	4
Tax effect of expenses not deductible for tax purpose	**(998)**	(963)
Underprovision in previous years	**(141)**	(25)
Tax effect of tax losses not recognised	**(1,226)**	–
Others	**24**	55
Income tax credit for the year	**404**	1,197

During the year ended 31 December 2019, Hong Kong Inland Revenue Department initiated tax enquiries on the Hong Kong subsidiaries of the Company for the years of assessment from 2011/12 onwards. The scope and outcome of the tax audit cannot be readily ascertained at this stage. The directors of the Company believed that no significant amount of additional profits tax will be payable by the Group and no provision for additional Hong Kong Profits Tax is necessary at this initial stage.

12. DIVIDEND

No dividends were paid, declared and proposed by the Company during the year ended 31 December 2019 (2018: nil).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

13. LOSS PER SHARE

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

	2019 **HK$'000**	2018 HK$'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	**(16,115)**	(11,687)

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**400,000,000**	400,000,000

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

14. PLANT AND EQUIPMENT

	Leasehold Improvements HK$'000	Office equipment HK$'000	Site equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2018	569	683	10,614	163,030	174,896
Additions	–	–	13	16,995	17,008
Disposals/written-off	–	–	(117)	(3,046)	(3,163)
At 31 December 2018	569	683	10,510	176,979	188,741
Adjustment upon application of HKFRS16	–	–	–	(120,920)	(120,920)
At 1 January 2019 (restated)	569	683	10,510	56,059	67,821
Additions	120	16	2,064	–	2,200
Transfer from right-of-use assets	–	–	–	16,030	16,030
Disposals/written-off	–	–	–	(2,804)	(2,804)
At 31 December 2019	689	699	12,574	69,285	83,247
DEPRECIATION					
At 1 January 2018	507	277	9,014	67,942	77,740
Provided for the year	62	134	740	29,182	30,118
Eliminated on disposals/written-off	–	–	(102)	(2,981)	(3,083)
At 31 December 2018	569	411	9,652	94,143	104,775
Adjustment upon application of HKFRS16	–	–	–	(47,348)	(47,348)
At 1 January 2019 (restated)	569	411	9,652	46,795	57,427
Provided for the year	24	124	628	3,903	4,679
Transfer from right-of-use assets	–	–	–	14,318	14,318
Eliminated on disposals/written-off	–	–	–	(1,634)	(1,634)
At 31 December 2019	593	535	10,280	63,382	74,790
CARRYING VALUES					
At 31 December 2019	96	164	2,294	5,903	8,457
At 31 December 2018	–	272	858	82,836	83,966

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the lease terms
Office equipment	20%
Site equipment	20%
Motor vehicles	20%

At 31 December 2018, the carrying values of motor vehicles included an amount of HK$73,572,000 in respect of assets held under finance leases.

15. RIGHT-OF-USE ASSETS

	Leased properties *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
As at 1 January 2019			
Carrying amount	2,462	73,572	76,034
As at 31 December 2019			
Carrying amount	1,279	61,272	62,551
For the year ended 31 December 2019			
Depreciation charge	1,183	22,848	24,031
Expense relating to short-term leases with lease terms end within 12 months of the date of initial application of HKFRS 16			84
Total cash outflow for leases			27,369
Additions to right-of-use assets			12,260

For both years, the Group leases various properties and motor vehicles for its operation. Lease contracts are entered into for fixed term of 2 years to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

16. TRADE RECEIVABLES

As at 1 January 2018, trade receivables from contracts with customers amounted to HK$119,889,000.

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

	As at 31 December	
	2019 ***HK$'000***	2018 *HK$'000*
Government customers	**129,150**	124,652
Non-government customers	**9,181**	5,126
	138,331	129,778

16. TRADE RECEIVABLES (Continued)

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

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
0–30 days	**56,163**	44,615
31–60 days	**54,689**	43,208
61–90 days	**22,136**	28,441
91–180 days	**4,553**	13,364
Over 180 days	**790**	150
	138,331	129,778

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$5,343,000 (2018: HK$13,514,000) which are past due as at the reporting date. Out of the past due balances, HK$4,553,000 (2018: HK$13,364,000) has been past due 1-90 days and is not considered as in default as the Group has good understanding on the financial position of the counterparties and with satisfactory settlement history. The remaining balance of HK$790,000 (2018: HK$150,000) has been past due over 90 days, the directors of the Company do not consider these receivables as credit-impaired as these customers have good business relationships with the Group and recurring overdue records of these customers were supported by satisfactory settlement history. The Group does not hold any collateral over these balances.

At 31 December 2019, carrying amount of trade receivables amounted to HK$138,331,000 (2018: HK$115,171,000) have been pledged as security for the Group's bank borrowings.

Details of impairment assessment of trade receivables are set out in note 29.

Transfer of financial assets

The followings were the Group's trade receivables as at 31 December 2019 and 2018 that were transferred to banks by factoring trade receivables on a full recourse basis. As the Group had not transferred the significant risks and rewards relating to these receivables, it continued to recognise the full carrying amount of the trade receivables and has recognised the cash received on the transfer as secured bank borrowings (see note 22). These financial assets were carried at amortised cost in the Group's consolidated statement of financial position.

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Carrying amount of transferred assets	**138,331**	115,171
Carrying amount of associated liabilities	**(96,358)**	(96,338)
Net position	**41,973**	18,833

17. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Rental, utilities and other deposits	**2,071**	1,794
Payment for life insurance policies *(Note i)*	**5,487**	17,643
Prepayment for life insurance policies *(Note ii)*	**230**	933
Other receivables	**8,907**	5,565
Prepayments	**6,817**	5,361
Total	**23,512**	31,296
Presented as non-current assets	**5,909**	5,602
Presented as current assets	**17,603**	25,694
Total	**23,512**	31,296

Notes:

(i) As at 31 December 2019, the Group has two (2018: five) life insurance policies to insure Mr. Lam (2018: Mr. Lam and Ms. Wong) and paid premium of United States Dollar ("**US$**") US$745,721 (equivalent to approximately HK$5,817,000) (2018: US$2,513,140 (equivalent to approximately HK$19,602,000)).

During the year ended 31 December 2019, total proceeds of HK$12,995,000 was received due to the termination of three life insurance policies.

Under all the existing life insurance policies, the Group is the beneficiary and policy holder and the aggregate insured sum is US$2,261,211 (2018: US$7,361,211). The Group can, at any time, withdraw cash based on the account value of these policies ("**Account Value**") at the date of withdrawal, which is determined by the gross premium paid plus accumulated interest earned and minus any charges made in accordance with the terms and conditions of these policies. If withdrawal is made during the surrender period stated in these policies (i.e. between 1st and 15th to 18th policy year), there is a specified amount of surrender charge deducted from Account Value. The insurance companies will pay the Group a guaranteed interest rate from 3.65% to 4.40% per annum for the first to three years and a variable return per annum afterwards (with guaranteed minimum interest rate of 2% per annum) during the effective period of the policies.

17 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

(i) *(Continued)*

At the inception date, the gross premium paid by the Group included a fixed policy premium charge and a deposit. Monthly policy expense and insurance charges will be incurred over the insurance period with reference to the terms set out in the life insurance policies.

The balance of the deposits of life insurance policies is denominated in US$, being a currency other than the functional currency of the relevant group entity.

(ii) The amount represents the prepayment of policies charges and are recognised in profit or loss over the expected life of the policies.

Details of impairment assessment of other receivables and deposits are set out in note 29.

18. PLEDGED BANK BALANCES/BANK BALANCES AND CASH

Pledged bank balances represents balances pledged to banks to secure the banking facilities (including the bank borrowings and performance guarantee) granted to the Group, and carried with prevailing market interest rates ranging from 0.01% to 0.95% (2018: 0.01% to 0.95%) per annum.

Bank balances and cash comprise cash held and short term bank deposits with an original maturity of three months or less and carrying interest at prevailing market rates from 0.01% to 0.95% (2018: 0.01% to 0.95%) per annum.

Details of impairment assessment of pledged bank balances and bank balances are set out in note 29.

19. 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	
	2019	2018
	HK$'000	*HK$'000*
0–30 days	**5,029**	2,179
31–60 days	**2,368**	1,045
61–90 days	**600**	1,219
Over 90 days	**1,625**	2,799
	9,622	7,242

20. OTHER PAYABLES AND ACCRUED CHARGES

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Salaries payables	**40,428**	33,212
Other payables and accrued charges	**3,609**	5,482
	44,037	38,694

21. PROVISIONS

	Litigation claims	Contractual gratuity	Redundancy cost and annual leave	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note i)	*(note ii)*	*(note iii)*	
At 1 January 2018	–	–	6,210	6,210
Payment during the year	–	–	(3,961)	(3,961)
Provided for the year	–	–	3,849	3,849
At 31 December 2018	–	–	6,098	6,098
Payment during the year	–	–	(4,328)	(4,328)
Provided for the year	1,896	2,272	5,529	9,697
At 31 December 2019	**1,896**	**2,272**	**7,299**	**11,467**

21. PROVISIONS (Continued)

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Presented as non-current liabilities	**8,100**	1,020
Presented as current liabilities	**3,367**	5,078
	11,467	6,098

Notes:

(i) In September 2019, a statement of claim was filed by a plaintiff to claim for medical expenses, pain, suffering and loss of amenities and future home care expenses against the Group and a driver, an ex-employee of the Group, due to the physical injuries caused by the ex-employee of the Group. The directors of the Company sought legal advice for the potential settlement amount under this claim. During the year ended 31 December 2019, the directors of the Company made a provision of HK$1,896,000 based on the legal advice.

(ii) The government of Hong Kong Special Administrative Region has implemented improvement measure for enhancing the protection of the employment terms and conditions as well as labour benefits of non-skilled employees engaged by government service contractors since April 2019. The Group as a government service contractor is required to pay contractual gratuity to their non-skilled employees pursuant to the terms of the government service contracts and under the improvement measures. The contractual gratuity is payable to non-skilled employees with no less than one year's service of a continuous contract who complete an employment contract, or whose employment contract is terminated (including resignation by employees, or dismissal by employers except for summary dismissal due to the employee's serious misconduct). The rate of the gratuity is 6% of the total wages earned by the employee during the relevant employment period.

(iii) The Group provides for the probable future redundancy cost expected to be made to the project-based employees with employment period of not less than two years when the employees are dismissed by the Group upon the end of the employment period under the Hong Kong Employment Ordinance. The provision represents management's best estimate of probable future payments which have been earned by the employees from the dismissal of redundancy up to the end of the reporting period.

22. BANK AND OTHER BORROWINGS

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Secured and guaranteed bank overdrafts	**223**	3,370
Secured and guaranteed bank borrowings:		
Revolving loans	**3,200**	–
Term loans	**–**	10,512
Loans from factoring of trade receivables with full recourse	**96,358**	96,338
Unsecured and unguaranteed other borrowings	**12,718**	–
Unsecured and unguaranteed shareholder loans	**6,704**	–
	119,203	110,220
Carrying amounts repayable*:		
Within one year	**109,429**	105,287
More than one year, but not exceeding two years	**9,530**	1,416
More than two years, but not more than five years	**244**	2,997
More than five years	**–**	520
	119,203	110,220
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	**(112,499)**	(110,220)
Amounts shown under non-current liabilities	**6,704**	–

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The banking facilities were secured and/or guaranteed by as at 31 December 2019 and 2018:

(i) the pledged bank balances of HK$21,790,000 (2018: HK$21,790,000) as at 31 December 2019;

(ii) all life insurance policies of the Group;

(iii) project proceeds from certain service contracts of the Group;

(iv) the pledge of the Group's trade receivables with aggregate values of HK$138,331,000 (2018: HK$115,171,000) to the factoring loans as at 31 December 2019;

(v) unlimited corporate guarantee provided by the Company and subsidiaries of the Group as at 31 December 2019 and 2018.

22. BANK AND OTHER BORROWINGS (Continued)

The bank borrowings are at floating rate which carry interest at HK$ Prime Rate plus or minus a spread.

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

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Effective interest rate per annum:		
Floating-rate borrowings	**4.01%–5.38%**	2.25%–5.38%

The other borrowings are at fixed rate ranging from 6.5%–7.5% as at 31 December 2019.

The shareholder loans are interest-free and are required to repay on 1 July 2021 and the balance is therefore shown as non-current liabilities. The non-current shareholder loans are carried at amortised cost using effective interest rate of 7.5% per annum.

23. LEASE LIABILITIES

Lease liabilities payable:

	As at 31 December 2019 *HK$'000*
Within one year	25,370
Within a period of more than one year but not more than two years	22,374
Within a period of more than two years but not more than five years	8,440
	56,184
Less: Amount due for settlement with 12 months shown under current liabilities	(25,370)
Amount due for settlement after 12 months shown under non-current liabilities	30,814

Certain of lease liabilities were secured by the lessor's charge over the leased assets and guarantee provided by a shareholder and a subsidiary of the Group as at 31 December 2019.

24. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December 2018 *HK$'000*
Analysed for reporting purposes as:	
Current liabilities	22,510
Non-current liabilities	43,976
	66,486

The Group leased certain of its motor vehicles under finance leases. The lease terms were ranged from three to five years for the year ended 31 December 2018. Interest rates underlying all obligations under finance leases were fixed at respective contract dates ranging from 1.35% to 3.00% per annum as at 31 December 2018.

	Minimum lease payments As at 31 December 2018 *HK$'000*	Present value of minimum lease payments As at 31 December 2018 *HK$'000*
Obligations under finance leases payable:		
Within one year	24,632	22,510
Within a period of more than one year but not more than two years	22,087	20,642
Within a period of more than two years but not more than five years	24,287	23,334
	71,006	66,486
Less: future finance charges	(4,520)	–
Present value of lease obligations	66,486	66,486
Less: Amount due for settlement with 12 months (shown under current liabilities)		(22,510)
Amount due for settlement after 12 months		43,976

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets and guarantee provided by a shareholder and a subsidiary of the Group as at 31 December 2018.

25. DEFERRED TAX LIABILITIES

The following is the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior year:

	Tax loss *HK$'000*	Accelerated tax depreciation *HK$'000*	Total *HK$'000*
At 1 January 2018	3,733	(6,693)	(2,960)
Credit (charge) to profit or loss *(note 11)*	2,410	(383)	2,027
At 31 December 2018	6,143	(7,076)	(933)
Credit to profit or loss *(note 11)*	653	126	779
At 31 December 2019	6,796	(6,950)	(154)

At 31 December 2019, the Group has unused tax loss of HK$48,622,000 (2018: HK$37,233,000) available for offset against future profits. Deferred tax assets of HK$41,191,000 (2018: 37,233,000) has been recognised in respect of such losses. No deferred tax assets has been recognised in respect of HK$7,431,000 (2018: nil) due to unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

26. ISSUED SHARE CAPITAL

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 1 January 2018, 31 December 2018 and 2019	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 2019	400,000,000	4,000

27. COMMITMENTS

Operating Lease Commitments

The Group as lessee

	Year ended 31 December 2018 *HK$'000*
Minimum lease payments paid under operating leases during the year	**1,349**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December 2018 *HK$'000*
Within one year	**1,505**
In the second to fifth year inclusive	**1,180**
	2,685

The above operating lease payments represent rental payable by the Group for office premises for both years.

Leases and rentals are negotiated and fixed for a term of two to three years.

Capital Commitments

	As at 31 December	
	2019 ***HK$'000***	2018 *HK$'000*
Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements	**3,221**	–

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged throughout both years. The capital structure of the Group consists of net debt, which includes bank and other borrowings, lease liabilities and obligations under finance leases as disclosed in notes 22, 23 and 24, respectively, net of cash and cash equivalent and equity of the Group, comprising issued share capital, share premium, other reserve and accumulated profits (losses).

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raise of borrowings or the repayment of the existing borrowings.

29. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Financial assets		
Amortised cost	**192,131**	168,979
Financial liabilities		
Amortised cost	**132,434**	122,944

Financial risk management objectives and policies

The Group's financial instruments include trade receivables, other receivables and deposits, pledged bank balances, bank balances and cash, trade payables, other payables and accrued charges and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has limited currency exposure as both the sales and direct costs were denominated in the functional currency of the respective group entities. However, the Group has payment for life insurance policies of HK$5,487,000 (2018: HK$17,643,000) denominated in foreign currency which expose the Group to foreign currency risk.

Since the exchange rate of HK$ is pegged with US$, the management of Group does not expect any significant movements in the US$/HK$ exchange rates. Thus, there is no sensitivity analysis on US$ denominated financial assets.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowings (note 22), lease liabilities (note 23) and obligations under finance leases (note 24).

The Group is also exposed to cash flow interest rate risk in relation to the payment for life insurance policies (note 17), pledged bank balances and bank balances (note 18) as well as floating-rate bank borrowings (note 22).

The Group has not used any interest rate swaps to mitigate its exposure associated with interest rate risk. However, management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HK$ Prime Rate arising from the Group's bank borrowings or other market interest rate from pledged bank balances and payment for life insurance policies.

In the opinion of the management of the Group, the expected change in interest rate will not have significant impact on the interest income or expenses on payment for life insurance policies, pledged bank balances, bank balances and bank borrowings, hence sensitivity analysis is not presented.

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade receivables, other receivables and deposits, pledged bank balances and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group's credit risk management and maximum credit risk exposures are summarised as below:

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model individually for trade receivables from government customers or using provision matrix on trade receivables from non-government customers with reference to (i) average loss rates applied in the provision matrix, which are based on the Group's historical default rates, taking into account both quantitative and qualitative information that is reasonable and supportable, and forward-looking information that is available without undue costs or effort; and (ii) past due aging analysis of trade receivables from non-government customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables and deposits

The management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable, supportive and forward-looking information that is available without undue cost or effort. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables and deposits.

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Pledged bank balances and bank balances

The credit risks on pledged bank balances and bank balances are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies. No loss allowance provision for pledged bank balances and bank balances was recognised as the amount is insignificant. The Group has limited exposure to any single financial institution.

The Group has concentration of credit risks with exposure limited to certain customers. Top two customers which are departments of the government of the Hong Kong Special Administrative Region amounting to HK$122,974,000 (2018: HK$115,171,000) comprised approximately 89% (2018: 89%) of the Group's trade receivables as at 31 December 2019. The management of the Group closely monitors the subsequent settlement of the customers. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amounts HK$'000	2018 Gross carrying amounts HK$'000
Financial assets at amortised costs						
Trade receivables (government)	16	N/A	Low risk (note 1)	Lifetime ECL	129,150	124,652
Trade receivables (non-government)	16	N/A	(note 1)	Lifetime ECL (provision matrix)	9,181	5,126
Other receivables and deposits	17	N/A	Low risk (note 2)	12m ECL	10,978	6,063
Pledged bank balances	18	Aa3 (2018: Aa3) (note 3)	N/A	12m ECL	21,790	21,790
Bank balances	18	Aa3, A1, A2 (2018: Aa3, A1, A2, A3) (note 3)	N/A	12m ECL	20,962	11,348

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Notes:

1. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for trade receivables from government customers which are assessed individually, the Group determines the expected credit losses on trade receivables from non-government customers by using a provision matrix, grouped by past due status.

   For trade receivables from government customers, the credit risks are limited because the counterparties are governments and there was no history of defaults. ECL is expected to be insignificant.

   As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its non-government customers in relation to its operation because these non-government customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables from non-government customers which are assessed based on provision matrix as at the end of the reporting period within lifetime ECL (not credit impaired).

   Gross carrying amount

	As at 31 December			
	2019		2018	
	Average loss rate	**Trade receivables – non-government customers** ***HK$'000***	Average loss rate	Trade receivables – non-government customers *HK$'000*
Not past due and 1-30 days past due	**0.1%**	**7,653**	0.1%	4,921
31-90 days past due	**2.4%**	**738**	1.0%	55
Over 90 days past due	**4.2%**	**790**	9.2%	150
		9,181		5,126

   During the year ended 31 December 2019, no impairment allowance was provided for trade receivables from non-government customers based on the provision matrix as the amount is insignificant (2018: nil).

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Notes: (Continued)

2. For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due *HK$'000*	Not past due/ no fixed repayment terms *HK$'000*	Total *HK$'000*
As at 31 December 2019			
Other receivables and deposits	**–**	**10,978**	**10,978**
As at 31 December 2018			
Other receivables and deposits	–	6,063	6,063

3. The external credit rating is assessed according to Moody's Rating Scaling.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank and other borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing market rate at the end of the reporting period.

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Repayable on demand HK$'000	Within 1 year HK$'000	Within 1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
As at 31 December 2019						
Non-derivative financial liabilities						
Trade payables	**N/A**	**–**	**9,622**	**–**	**9,622**	**9,622**
Other payables and accrued charges	**N/A**	**–**	**3,609**	**–**	**3,609**	**3,609**
Bank and other borrowings						
– floating rates	**5.34**	**99,781**	**–**	**–**	**99,781**	**99,781**
– fixed rate	**7.21**	**12,718**	**–**	**7,500**	**20,218**	**19,422**
		112,499	**13,231**	**7,500**	**133,230**	**132,434**
Lease liabilities	**2.05**	**–**	**27,327**	**32,025**	**59,352**	**56,184**
As at 31 December 2018						
Non-derivative financial liabilities						
Trade payables	N/A	–	7,242	–	7,242	7,242
Other payables and accrued charges	N/A	–	5,482	–	5,482	5,482
Bank borrowings – floating rates	5.13	110,220	–	–	110,220	110,220
		110,220	12,724	–	122,944	122,944
Obligations under finance leases	1.95	–	24,632	46,374	71,006	66,486

Bank and other borrowings with a repayment on demand clause are included in the "Repayable on demand" time band in the above maturity analysis. As at 31 December 2019, the aggregate carrying amount of these bank and other borrowings amounted to HK$112,499,000 (2018: HK$110,220,000). Taking into account of the Group's financial position, the management of the Group does not believe that it is probable that the banks and the financial institution will exercise their discretionary rights to demand immediate repayments. The management of the Group believes that such bank and other borrowings of the Group will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

For the purpose of managing liquidity risk, management of the Group reviews the expected cash flow information of the Group's bank and other borrowings based on the scheduled repayment dates set out in the bank and other borrowings agreements as set out in the table below:

	Weighted average effective interest rate %	Within 1 year HK$'000	Within 1 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
Bank and other borrowings:						
As at 31 December 2019	**5.53**	**115,229**	**3,187**	**–**	**118,416**	**112,499**
As at 31 December 2018	5.13	110,753	4,660	524	115,937	110,220

The amount included above bear variable interest instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group estimates the fair value of the Group's financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities *HK$'000*	Bank and other borrowings *HK$'000*	Obligations under finance leases *HK$'000*	Total *HK$'000*
At 1 January 2018	–	98,788	76,829	175,617
Financing cash flows *(Note)*	–	(6,195)	(29,659)	(35,854)
Loan from factoring of trade receivables included in operating activities	–	13,468	–	13,468
Purchase of plant and equipment through finance lease *(note 31)*	–	–	16,610	16,610
Finance costs recognised	–	4,159	2,706	6,865
At 31 December 2018	–	110,220	66,486	176,706
Adjustment upon application of HKFRS 16	68,948	–	(66,486)	2,462
At 1 January 2019 (restated)	**68,948**	**110,220**	**–**	**179,168**
Financing cash flows *(Note)*	**(27,285)**	**5,041**	**–**	**(22,244)**
Loan from factoring of trade receivables included in operating activities	**–**	**20**	**–**	**20**
Fair value adjustment on shareholder loans	**–**	**(851)**	**–**	**(851)**
New leases entered *(note 31)*	**12,260**	**–**	**–**	**12,260**
Finance costs recognised	**2,261**	**4,773**	**–**	**7,034**
At 31 December 2019	**56,184**	**119,203**	**–**	**175,387**

Note: The financing cash flows represented the net amount of proceeds from bank and other borrowings, payment of finance costs, repayments of lease liabilities, bank and other borrowings and obligations under finance leases.

31. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a new lease agreement for the use of leased properties and motor vehicles for 2–5 years. On the lease commencement, the Group recognised HK$12,260,000 of right-of-use asset and HK$12,260,000 lease liabilities.

Additions to plant and equipment of HK$16,610,000 for the year ended 31 December 2018 were made under the finance leases.

32. 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 year:

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Total building management fee, rent and rates paid or payable to:		
CCT Limited *(note i)*	**33**	336
Source Mega Inc. Limited ("**Source Mega**") *(note ii)*	**32**	282
LES Limited *(note iii)*	**33**	276
Interests on lease liabilities paid or payable to:		
CCT Limited *(note i)*	**29**	N/A
Source Mega *(note ii)*	**24**	N/A
LES Limited *(note iii)*	**24**	N/A
Imputed interest expense on shareholder loans	**55**	–
Subcontracting fee paid or payable to Kwok Tai Cleaning Service Company Limited *(note iv)*	**5**	69
Lease liabilities		
CCT Limited	**385**	N/A
Source Mega	**323**	N/A
LES Limited	**316**	N/A

Notes:

(i) CCT Limited is owned by Ms. Wong.

(ii) Source Mega is owned by Ms. Wong.

(iii) LES Limited is owned by Mr. Lam.

(iv) Kwok Tai Cleaning Service Company Limited is owned by brother of Ms. Lam.

32. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the years ended 31 December 2019 and 2018 were as follows:

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Short-term benefits	**6,512**	6,074
Post-employment benefits	**90**	90
	6,602	6,164

33. RETIREMENT BENEFITS SCHEME

The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the scheme.

The contributions paid and payable to the scheme by the Group are disclosed in notes 8 and 9.

34. CONTINGENT LIABILITIES

As at 31 December 2019, performance guarantee of HK$111,759,000 (2018: HK$72,802,000) were given by banks in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers. If the Group fails to provide satisfactory performance to its customers to whom performance guarantee have been given, such customers may demand the banks to pay to them the sum or sum stipulated in such demand. The Group will become liable to compensate such banks accordingly. The performance guarantee will be released upon completion of the service contracts. The performance guarantee were granted under the banking facilities with details as set out in notes 22.

At the end of the reporting period, the management of the Group does not consider it is probable that a claim will be made against the Group.

35. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place incorporation	Place of operation	Issued and fully paid share capital	Attributable equity interest of the Group as at 31 December		Principal activities
				2019	2018	
Sharp Idea	The BVI	Hong Kong	US$1,000	100%	100%	Investment holding
Lapco Service	Hong Kong	Hong Kong	HK$7,900,000	100%	100%	Provision of cleaning services in Hong Kong
Shiny Glory	Hong Kong	Hong Kong	HK$5,000,000	100%	100%	Provision of cleaning services in Hong Kong
Shiny Hope	Hong Kong	Hong Kong	HK$1	100%	100%	Provision of transportation services to group companies in Hong Kong
Perfect Capital Limited	Hong Kong	Hong Kong	HK$1	100%	–	Inactive
ET Global Limited	Hong Kong	Hong Kong	HK$1	100%	–	Inactive

None of the subsidiaries had issued any debt securities of the end of reporting period.

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 *HK$'000*	2018 *HK$'000*
Non-current asset		
Investments in subsidiaries	**18,278**	18,278
Current assets		
Other receivables, deposits and prepayments	**198**	194
Amounts due from subsidiaries	**14,134**	600
Bank balances	**165**	165
	14,497	959
Current liabilities		
Other payables and accrued charges	**1,768**	1,169
Amount due to a subsidiary	**–**	3,739
Other borrowings	**12,718**	–
	14,486	4,908
Net current assets (liabilities)	**11**	(3,949)
Total assets less current liabilities	**18,289**	14,329
Non-current liability		
Other borrowings	**6,704**	–
Net assets	**11,585**	14,329
Capital and reserves		
Share capital	**4,000**	4,000
Reserves	**7,585**	10,329
Total equity	**11,585**	14,329

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserves

	Share premium *HK$'000*	Other reserve *HK$'000* *(note)*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2018	31,362	–	(18,260)	13,102
Loss and total comprehensive expense for the year	–	–	(2,773)	(2,773)
At 31 December 2018	**31,362**	**–**	**(21,033)**	**10,329**
Loss and total comprehensive expense for the year	**–**	**–**	**(3,595)**	**(3,595)**
Fair value adjustment on initial recognition of shareholder loans	**–**	**851**	**–**	**851**
As 31 December 2019	**31,362**	**851**	**(24,628)**	**7,585**

Note: During the year ended 31 December 2019, the amount of HK$851,000 represents the fair value adjustment on the non-current shareholder loans using the effective interest rate of 7.5% per annum.

FINANCIAL SUMMARY

	Year ended 31 December				
	2019*	2018*	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**579,864**	529,838	448,021	404,124	363,467
(Loss) profit before taxation	**(16,519)**	(12,884)	(8,447)	12,452	18,144
Income tax credit (expense)	**404**	1,197	208	(3,663)	(3,056)
(Loss) profit for the year	**(16,115)**	(11,687)	(8,239)	8,789	15,088
Attributable to owners of the Company	**(16,115)**	(11,687)	(8,239)	8,789	15,088

	As at 31 December				
	2019*	2018*	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**276,625**	280,172	293,482	151,815	163,374
Total liabilities	**(241,390)**	(229,673)	(231,296)	(116,752)	(137,100)
	35,235	50,499	62,186	35,063	26,274
Attributable to owners of the Company	**35,235**	50,499	62,186	35,063	26,274

* The amounts for the years ended 31 December 2018 were presented upon the application of HKFRS 9 and HKFRS 15, and the amounts for the year ended 31 December 2019 were presented upon the application of HKFRS 9, HKFRS 15 and HKFRS 16, which the comparative financial information was not restated.