# LAPCO HOLDINGS LIMITED
# 立高控股有限公司

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

## Annual Report 2021

## Characteristics of GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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)

### 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. Tam Yiu Shing Billy (譚耀誠先生)
Mr. Mak Kwok Kei (麥國基先生)

## NOMINATION COMMITTEE

Mr. Tam Yiu Shing Billy (譚耀誠先生) *(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. Tam Yiu Shing Billy (譚耀誠先生)

## AUTHORISED REPRESENTATIVES

Mr. Tam Yiu Shing Billy (譚耀誠先生)
*Certified Public Accountant*
Mr. Wong Tsz Chun, Jacky (王子進先生)

## AUDITOR

Deloitte Touche Tohmatsu
*Registered Public Interest Entity Auditors*
35/F, One Pacific Place
88 Queensway
Hong Kong

## PRINCIPAL BANKERS

**Hang Seng Bank Limited**
83 Des Voeux Road Central,
Hong Kong

**Bank of China (Hong Kong) Limited**
Bank of China Tower
1 Garden Road
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

**Conyers Trust Company (Cayman) Limited**
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

**Tricor Investor Services Limited**
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 301A, 3/F., Tower III
Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Kowloon
Hong Kong

## WEBSITE ADDRESS

www.lapco.com.hk

## STOCK CODE

08472

# STATEMENT FROM BOARD OF DIRECTORS

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 2021 (the "**Reporting Period**").

During the Reporting Period, the Group recorded an increase in revenue as compared to the corresponding period of last year. Public and private organizations have stepped up epidemic prevention efforts in response to the spread of COVID-19, which also resulted in an increase in the demand for cleaning services of the Group.

The competition in the environmental hygiene service industry remained keen. Shortage of labour, and high operating costs, particularly the insurance expenses, labour costs, vehicle expenses, legal and professional expenses continued to be the challenges of the business.

In order to mitigate the risk of intensified competition, we have been cautious when bidding tenders, and 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 outbreak of the fifth wave of COVID-19 in Hong Kong in the first quarter of 2022 had a significant impact on the works of the cleaning service contractors. In response to the threat of infectious diseases and to ensure the safety of cleaning workers, we strive to provide employees with adequate protective equipment, disinfection tools and supplies for routine cleaning and disinfection, and to strengthen the promotion on epidemic prevention and work guidelines. Thanks to the efforts of our excellent team and the long-established reputation, the Group successfully obtained more service contracts during the Reporting Period, especially the additional service contracts from the Hong Kong government, which drove the business growth for the Reporting Period.

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 application of information technology to deliver even higher operational efficiency. Furthermore, we will consider acquiring more advanced and innovative cleaning machinery and equipment and specialised vehicles to further enhance service quality and efficiency and reinforce the Group's market position.

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 welfare 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 wages 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 has kicked in and is expected to improve the Group's profit margins since 2020.

We believe that the success of an enterprise must accept the value of social care and environmental protection. Hence, while improving 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, the global and local economies are expected to continue to fluctuate due to COVID-19 epidemic. The Group will remain vigilant and actively respond to the impact of the epidemic on the Group's operation and financial position, and will fully support the anti-epidemic work in Hong Kong on an on-going basis and to contribute to the society by the Group's professional services. Although the environment in the future is still full of challenges and uncertainties, with the increasing public awareness of environmental hygiene and health as well as the escalating demand for services in response to the long-term anti-epidemic efforts, we are optimistic and confident about the future of the environmental hygiene service industry.

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.

**Tam Yiu Shing, Billy**
*Executive Director and Company Secretary*

28 March 2022

## 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 2021 include various departments of the Hong Kong Government, property management companies and other corporations in the private sector.

During the Reporting Period, the competition in the environmental hygiene service industry remained keen. Shortage of labour and high operating costs, particularly the insurance expenses, labour costs, vehicle expenses, legal and professional expenses continued to be the challenges of the business.

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

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

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

We have been cautious when bidding tenders, and will continue to invest resources to secure more promising business with higher gross profit from both public and private sectors to strengthen the business foundation. During the Reporting Period, this strategy was successful, and the profit margins of street cleaning contracts, which account for the largest proportion of the Group's business, were greatly improved since 2020.

By bolstering our sales and marketing manpower to promote our brand recognition in the coming years, we will endeavour to become more competitive and be able to compete for more sizeable and profitable projects.

Looking ahead, the global and local economies are expected to continue to fluctuate due to COVID-19 epidemic. The Group will remain vigilant and actively respond to the impact of the epidemic on the Group's operation and financial position, and will fully support the anti-epidemic work in Hong Kong on an on-going basis and to contribute to the society by the Group's professional services. Although the environment in the future is still full of challenges and uncertainties, with the increasing public awareness of environmental hygiene and health as well as the escalating demand for services in response to the long-term anti-epidemic efforts, we are optimistic and confident about the future of the environmental hygiene service industry.

### Financial Results

Revenue of the Group increased by approximately 15.0% from approximately HK$665.8 million for the year ended 31 December 2020 to approximately HK$765.9 million for the Reporting Period. The Group, recorded an increase in the cost of services by approximately 15.5% to approximately HK$721.3 million (2020: approximately HK$624.5 million) and an increase of approximately 7.9% in gross profit to approximately HK$44.6 million (2020: approximately HK$41.3 million). Gross profit margin also decreased by approximately 0.4% to 5.8% (2020: increased approximately 2.2% to 6.2%). Due to the receipt of the Employment Support Scheme, the anti-epidemic fund subsidy of commercial vehicles and other income from administration fee received for processing the anti-epidemic fund for cleaning workers for the year ended 31 December 2020, as well as the increase in administrative expenses, the Group only recorded a profit attributable to equity shareholders of the Company (the "**Shareholders**") for the year ended 31 December 2021 which amounted to approximately HK$5.4 million (as compared to a profit of approximately HK$18.4 million for the corresponding period in 2020).

### Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

## HUMAN RESOURCES

As at 31 December 2021, the Group employed 2,231 employees, including both full time and part time (31 December 2020: 3,177). 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 2021 and 2020 were approximately HK$765.9 million and HK$665.8 million, respectively, representing an increase of approximately 15.0%. 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 2021 and 2020:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2021** | | 2020 | |
| | ***HK$'000*** | *%* | *HK$'000* | *%* |
| Cleaning services | **600,104** | **78.4** | 533,448 | 80.1 |
| Pest management services | **64,608** | **8.4** | 43,848 | 6.6 |
| Waste management and recycling services | **100,484** | **13.1** | 88,060 | 13.2 |
| Landscaping services | **725** | **0.1** | 409 | 0.1 |
| Total | **765,921** | **100.0** | 665,765 | 100.0 |

The revenue from cleaning services increased by approximately 12.5% for the year ended 31 December 2021 as comparing with that of the previous year as certain cleaning services contracts were awarded during the year. The revenue from pest management services increased significantly by approximately 47.3% for the year ended 31 December 2021 as compared to the previous year as certain pest management services contracts were awarded during the year. The revenue from waste management and recycling services increased by approximately 14.1% for the year ended 31 December 2021 as compared to the previous year as certain waste management and recycling services contracts were awarded during the year.

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

### Cost of Services

For the years ended 31 December 2021 and 2020, the cost of services of the Group amounted to approximately HK$721.3 million and HK$624.5 million respectively, representing approximately 94.2% and 93.8% 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 increase in cost of services was mainly caused by the increase in direct labour costs, petrol expenses and motor vehicles expenses attributable to the new tender contracts awarded.

### Gross Profit

The Group's gross profit for the year ended 31 December 2021 was approximately HK$44.6 million, representing an increase of approximately 7.9% from approximately HK$41.3 million for the year ended 31 December 2020. The increase was mainly caused by the increase of revenue.

### Gross Profit Margin

The gross profit margins of the Group for the years ended 31 December 2021 and 2020 were approximately 5.8% and 6.2% respectively.

### Other income

The Group's other income for the years ended 31 December 2021 and 2020 were approximately HK$0.5 million and HK$16.1 million respectively. The significant decrease was mainly due to the Group recognised government grants of HK$14.7 million in respect of COVID-19-related subsidies for the year ended 31 December 2020, out of which HK$10.5 million relates to the Employment Support Scheme provided by the Hong Kong government and HK$1.7 million relates to an administration fee on anti-epidemic fund for cleaning workers in 2020 and no such income in 2021, HK$2.6 million relates to the one-off subsidy to the registered owners of commercial vehicles reduced to HK$0.2 million for the year ended 31 December 2021.

### Administrative Expenses

The administrative expenses incurred by the Group for the years ended 31 December 2021 and 2020 were approximately HK$35.8 million and HK$31.1 million respectively, representing a increase of approximately 15.0%, and approximately 4.7% and 4.7% of the respective year's total revenue. The increase was mainly due to the increase in salaries and welfare of approximately HK$3.7 million for the year ended 31 December 2021.

### Finance Costs

The finance costs of the Group amounted to approximately HK$4.4 million and HK$6.3 million for the years ended 31 December 2021 and 2020 respectively, representing approximately 0.6% and approximately 0.9% of the Group's revenue in the respective years.

### Profit Attributable to Owners of The Company

As a result of the foregoing, the profit attributable to the Shareholders for the year ended 31 December 2021 amounted to approximately HK$5.4 million as compared to the approximately HK$18.4 million for the year ended 31 December 2020.

## 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 2021, total bank and other borrowings of the Group amounted to approximately HK$91.9 million (2020: approximately HK$81.7 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 2021, the cash and cash equivalents and pledged bank balances of the Group amounted to approximately HK$62.2 million (2020: approximately HK$79.1 million). As at 31 December 2021, debt to equity ratio of the Group was approximately 97.2% (2020: approximately 63.6%). Debt to equity ratio is calculated by dividing the net debt, which is defined to include bank and other borrowings and lease liabilities net of pledged bank balances and bank balances and cash, by total equity at the end of the respective years. Current ratio as at 31 December 2021 was approximately 1.1 time (2020: approximately 1.1 time).

The Group maintained sufficient working capital as at 31 December 2021 with bank balances and cash of approximately HK$40.5 million (2020: approximately HK$35.6 million). The Board of Directors will continue to follow a prudent treasury policy in managing its cash balances and maintain a strong and healthy liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business.

As at 31 December 2021, the Group's net current assets amounted to approximately HK$23.8 million (2020: approximately HK$12.2 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 2021, performance guarantee of approximately HK$160,542,000 (2020: HK$102,978,000) 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 was a 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 2021 is set out below:

### Summary of use of proceeds

| Use of net proceeds | Total planned amount to be used *HK$' million* | Actual amount utilized up to 31 December 2020 *HK$' million* | Actual amount utilized during the year ended 31 December 2021 *HK$' million* | Actual amount utilized up to 31 December 2021 *HK$' million* | Unutilized balance as at 31 December 2021 *HK$' million* | Expected timeline for utilising the remaining Net Proceeds as at 31 December 2021 |
|---|---|---|---|---|---|---|
| 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 | 0.4 | 0.4 | 0.8 | 1.9 | On or before 31 December 2022 |
| Repay a bank loan | 2.9 | 2.9 | – | 2.9 | – | |
| General working capital | 1.8 | 1.8 | – | 1.8 | – | |
| Total | 18.7 | 16.4 | 0.4 | 16.8 | 1.9 | |

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

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2021, the amount of lease liabilities within one year was approximately HK$14.9 million (31 December 2020: HK$22.8 million), and after one year but within five years was approximately HK$12.7 million (31 December 2020: HK$8.8 million).

As at 31 December 2021, we had approximately HK$91.7 million (31 December 2020: HK$67.6 million) of secured bank borrowings (excluding secured bank overdrafts). Such loans were primarily used in financing the working capital requirement of our operations.

In addition, we have (i) pledged bank balances of approximately HK$21.7 million as at 31 December 2021 (31 December 2020: HK$43.5 million), (ii) pledged the Group's trade receivables of approximately HK$119.8 million as at 31 December 2021 (31 December 2020: HK$105.6 million) and (iii) pledged the Group's motor vehicles of approximately HK$30.7 million (31 December 2020: HK$37.8 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.

## EXECUTIVE DIRECTORS

**Mr. Cai Weiming (蔡偉明)**, aged 56, 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 31, 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 41, is our executive Director, financial controller, company secretary and compliance officer 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 36, was appointed as our independent non-executive Director on 24 June 2017.

Mr. Mak has over ten years of experience in securities dealing and capital markets advisory, specialising in capital fund raising for companies in China and Hong Kong. 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 high grade corporate and government bonds with central banks in Asia, from September 2009 to November 2010. From November 2010 to August 2015, he 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 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. From January 2019 to July 2021, he has served as Head of Investment Banking Division of China Investment Securities (Hong Kong) Financial Holdings Limited, which was subsequently acquired by Soochow Securities International Financial Holdings Limited where Mr. Mak is a Member of Executive Committee and Head of Investment Banking Division. He oversees the investment banking division, including IPO sponsoring, capital 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 Renco Holdings Group Limited (formerly known as China HKBridge Financial 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 47, 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 (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 46, 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; and further ceased to be CEO and resigned as executive director with effect from September 2020. He has been director of Primech Holdings Pte. Limited since June 2021 and appointed as Chairman of Primech Holdings Pte. Limited on November 2021.

Mr. Ho was 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 from January 2019 to December 2020. He has also been a director and vice chairman of Fit Boxx Holdings Limited from May 2018 to November 2021. He was then redesignated as a non-executive director of Fit Boxx Holdings Limited.

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.

## 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. Tam Yiu Shing, Billy (譚耀誠)**, our executive Director, financial controller and company secretary, was appointed as our compliance officer on 31 December 2021. 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 2021.

## 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 34 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 21 to 30 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 31 to 49 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 2021 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 DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: 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 35 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 25 to the consolidated financial statements.

## 7. DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company has distributable reserves of approximately HK$1,598,000 available for distribution to shareholders of the Company (2020: HK$3,834,000).

## 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 2020 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 2021 and of the assets and liabilities of the Group as at 31 December 2020 and for the previous four financial years are set out on page 114.

## 13. DIRECTORS

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

**Executive Directors:**
Mr. Lam Pak Ling (resigned on 31 December 2021)
Mr. Cai Weiming
Mr. Wong Tsz Chun, Jacky
Mr. Tam Yiu Shing, Billy

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

Pursuant to article 84 of the Articles, 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 13.

## 15. DIRECTORS' SERVICE CONTRACTS

Each of 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 has been renewed for a further term of three years and 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 31 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 2021, none of the Directors and chief executive of the Company had any 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.

Save as disclosed above, as at 31 December 2021, 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 2021, the following persons had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of Shareholder | Nature of interest | Number of ordinary shares | Approximate shareholding |
|---|---|---|---|
| Mr. Cheung Chun Man, Anthony | Interest in controlled corporation | 119,600,000 | 29.9% |
| Ravarock Financial Group Limited | Beneficial interest | 119,600,000 | 29.9% |

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

Save as disclosed herein, the Company has not been notified of any other person (other than a Director or a chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2021.

## 21. CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 31 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 90.6% (2020: 94.4%) of the total revenue for the Reporting Period and revenue contributed by the largest customer amounted to 84.4% (2020: 88.1%). The Group's five largest suppliers accounted for 25.4% (2020: 28.6%) of the total purchases for the Reporting Period and purchases from the largest supplier amounted to 6.5% (2020: 9.3%).

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 International Limited, Max Super Holdings Limited, Mr. Lam Pak Ling ("**Mr. Lam**"), Ms. Wong Siu Fan, Beatrice, Magic Pioneer Limited, 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 2021 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.

## 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 21 to 30.

## 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. 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.

## 31. AUDITORS

The consolidated financial statements for the year ended 31 December 2021 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. Tam Yiu Shing, Billy**
*Executive Director and Company Secretary*

Hong Kong, 28 March 2022

## 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 2021, 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 was the chairman of the Board and the chief executive officer of the Company until 31 December 2021 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 has 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 2021.

## 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. 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. 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 has been renewed for a further term of three years and 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 2021.

## BOARD OF DIRECTORS

The Directors who held office during the year ended 31 December 2021 and as at the date of this report are as follows:

**Executive Directors:**
Mr. Lam Pak Ling (resigned on 31 December 2021)
Mr. Cai Weiming
Mr. Wong Tsz Chun, Jacky
Mr. Tam Yiu Shing, Billy

**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 13 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 2021. 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 2021 are summarized as follows:

| | Board meeting | Audit Committee meeting | Remuneration Committee meeting | Nomination Committee meeting | Annual General meeting |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Mr. Lam Pak Ling | 5/5 | N/A | 2/2 | 2/2 | 1/1 |
| Mr. Cai Weiming | 6/6 | N/A | N/A | N/A | 1/1 |
| Mr. Wong Tsz Chun, Jacky | 6/6 | N/A | N/A | N/A | 1/1 |
| Mr. Tam Yiu Shing, Billy | 6/6 | *6/6 | *3/3 | *2/2 | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Mak Kwok Kei | 6/6 | 6/6 | 3/3 | 2/2 | 1/1 |
| Ms. Lam Kit Yan | 6/6 | 6/6 | N/A | N/A | 1/1 |
| Mr. Ho Kin Wai | 5/6 | 5/6 | 3/3 | 2/2 | 0/1 |

* 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. Cai Weiming | | | |
| Mr. Wong Tsz Chun, Jacky | | | |
| Mr. Tam Yiu Shing, Billy | | Member | Chairman |
| 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 2021 and to the date of this report, the Audit Committee had reviewed the final results of the Group for the year ended 31 December 2020, the first quarterly results (and related quarterly report) of the Group for the three months ended 31 March 2021, the interim results (and interim report) of the Group for the six months ended 30 June 2021 and the third quarterly results (and related quarterly report) of the Group for the nine months ended 30 September 2021. The Group's final results for the year ended 31 December 2021 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. Tam Yiu Shing, Billy, Mr. Mak Kwok Kei and Mr. Ho Kin Wai. Mr. Ho Kin Wai currently serves as the chairman of the Remuneration Committee. The Remuneration Committee is mainly responsible for making recommendations to the Board on 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 three meetings during the year ended 31 December 2021 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. Tam Yiu Shing, Billy, Mr. Mak Kwok Kei and Mr. Ho Kin Wai. Mr. Tam Yiu Shing, Billy currently serves as the chairman of the Nomination Committee. The Nomination Committee is mainly responsible for making recommendations to the Board on appointment of the Directors and succession planning for the Directors. 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 2021 to review the structure, size and composition of the Board, consider and recommend to the Board on the appointment of directors and 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 2021 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 2021, the company secretary has taken no less than 15 hours of relevant professional training.

During the year ended 31 December 2021, Mr. Tam Yiu Shing, Billy had received no less than 15 hours of relevant professional training to refresh his skills and knowledge.

## 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 2021. 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 2020, the fee payable to Deloitte Touche Tohmatsu in respect of its statutory audit and non-audit services provided to the Group were HK$950,000 and HK$260,000 respectively.

## 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 2021, 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 2021.

# 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 2021 (the "**Reporting Period**" or "**FY21**"). 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 2021 to 31 December 2021.

## 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:*** | Important and relevant information pertaining to environmental and social issues are identified through the stakeholder materiality assessment and disclosed in this report. |
| ***Data Quantification:*** | Quantitative information with comparative data, where appropriate, are provided and discussed to enable an objective assessment of the Company's ESG performance and progress. |
| ***Consistency:*** | Consistent methodologies are adopted in preparation of ESG data and the comparison of data to previous results where appropriate. |
| ***Balance:*** | ESG performance of the Company is reported in a fair and objective manner. |
| ***Transparency:*** | Disclosures of all relevant and material data as mandated by HKEX adhere to a high level of transparency and authenticity. |

It is of 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. This is to ensure the truthfulness, accuracy of the contents and alignment of reporting principles with the ultimate objective to create value for all stakeholders.

## 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 to uphold our quality of services for our clients and to establish a solid and long-lasting relationship with our stakeholders based on our core values through mindfulness of social, economic and environmental responsibilities to our society.

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

**Sustainable Development Goals and Strategies**

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

**Protecting our Environment from Pollution:**
With ISO14001 as our basis, to work on avoiding, reducing and controlling environmental pollution in our daily operations

**Promoting 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. Distribution of sanitary products to combat risk of COVID-19

**Strengthening our Services:**
To provide quality service to our customers through continuous improvement by achieving and setting higher goals

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

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


The Board of Directors of the Company holds the overall responsibility for the Company's ESG strategy and reporting, which includes the review of the Company aims to better manage ESG performance and corresponding issues and risks that may hinder with the effectiveness of ESG management systems. As such, the Company has established an ESG working group to formulate and translate policies into actions, while facilitating the exchange of best practices with other benchmarking companies. The ESG working group consists of the management, administrative and functional departments working together to collect and analyse relevant data to ensure 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, including ESG-related 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<br>Meetings and briefings<br>Training Sessions<br>Employee Activities<br>Performance Appraisal<br>Surveys and Interviews |
| Customers | Corporate Website<br>Client Service Hotline<br>Client Survey<br>Client Meetings |
| Investors and Stockholders | Annual General Meeting<br>Annual and Interim Report<br>Press Release and Announcements |
| Suppliers and Business Partners | Business Meeting<br>Performance Evaluation<br>Field Visitation<br>Supplier Assessments<br>Business Meetings<br>Surveys |
| Government and Regulators | Consultation |
| Community | Community Events |
| Media | Press Releases |

## 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**

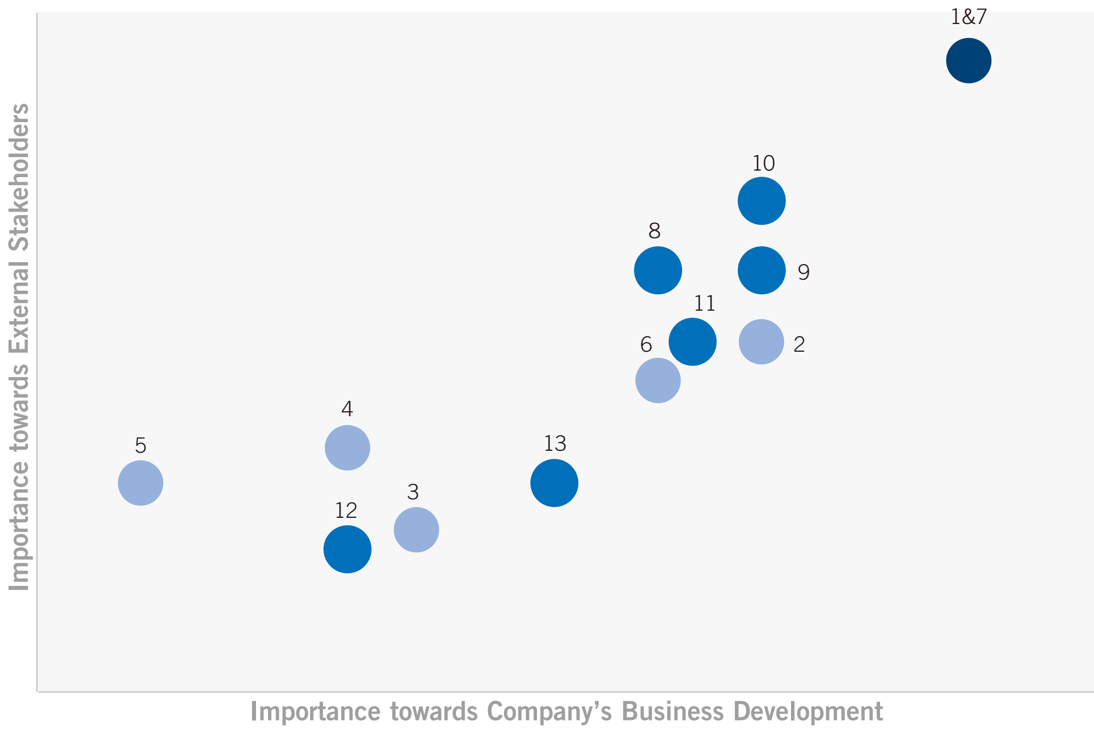
- **ESG Materiality Ranking:** Taking results from issues identification and stakeholder evaluation to generate ESG materiality ranking

**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 identified 17 material ESG issues from the stakeholder groups:




| *Categories* | *#* | *ESG Issues* |
|---|---|---|
| *Genera* | (1) | Compliance |
| *A1* | (2) | Air Emission and Carbon Footprint |
| | | Waste Management |
| *A2* | (3) | Efficient Use of Resources |
| | | Water Stewardship |
| *A3* | (4) | Environmental Impacts from Business Operations |
| *A4* | (5) | Climate Change and Other Associated Risks |
| *B1* | (6) | Recruitment, Compensation, Promotion, Dismissal, and other Employee Benefits |
| | | Diversity and Equal Opportunity |
| *B2* | (7) | Workplace and Occupational Health and Safety |
| *B3* | (8) | Employee Development and Training |
| *B4* | (9) | Anti-child and Forced Labour |
| *B5* | (10) | Sustainable Procurement |
| *B6* | (11) | Service Quality and Product Safety |
| | | Data Privacy and Protection |
| *B7* | (12) | Anti-corruption and Anti-fraud |
| *B8* | (13) | 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.

Since FY20, over 80% of Lapco's vehicles were Euro V standard vehicles and Lapco has 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 | 2021 | 2020 |
|---|---|---|---|
| Nitrogen Oxides ($NO_x$)[2] | kg | 28,529 | 28,646 |
| Sulphur Oxides ($SO_x$)[3] | kg | 44 | 50 |
| Particulate Matter (PM)[2] | kg | 2,172 | 2,273 |

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 the 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 The Stock Exchange of Hong Kong Limited's "Reporting Guidance on Environmental KPIs".

From the above data disclosure, we could see an overall decrease in generation of Nitrogen Oxides, Sulphur Oxides and Particulate Matter. This trend of results stems from decreasing consumption of fuel and distance travelled during the Reporting Period, as compared to that of last year. The decrease in emissions could be largely explained by our emission reduction efforts to decrease pollutants.

We will 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. We will continue to keep to our efforts in adopting clean and energy efficient fuel in the operations of our car fleet, which has shown to be effective as reflected in the decrease in intensity of emissions.

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.

***Carbon footprint***

Aligning with the global sustainability agenda towards decarbonisation, we have taken measures to monitor and reduce carbon emissions. The majority of our GHG emissions are direct GHG emissions generated through the use of petroleum from our vehicles, indirect GHG emissions consists of solely electricity consumption by the company.

| Emission Type | Emission Amount | | | Intensity | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **Unit** | **2021** | 2020 | **Unit** |
| Scope 1 – Direct GHG Emissions | **7,199** | 8,118 | Tonnes of $CO_2$ equivalent ($tCO_2e$) | **47.05** | 73 | $tCO_2e$/project |
| Scope 2 – Indirect GHG Emissions | **32** | 31 | Tonnes of $CO_2$ equivalent ($tCO_2e$) | **0.21** | 0.27 | $tCO_2e$/project |
| Total | **7,231** | 8,148 | Tonnes of $CO_2$ equivalent ($tCO_2e$) | **47.26** | 73.27 | $tCO_2e$/project |

In 2021, we recorded a 13% decrease in absolute GHG emission and a 55% decrease in GHG emission intensity. Going forward, we are aiming to limit or reduce the intensity of GHG emissions generated at 2021 levels by 2030. We have been exploring carbon reduction measures and methods to increase our energy efficiency to help reduce overall emissions. Although the future sustainability outlook for us is highly dependent on the demand of our services and the availability of sustainable technologies, we will ensure to operate with decarbonisation as our direction and core value within our company.

***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, and 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.

During the Reporting Period, no material hazardous waste was produced. The major non-hazardous waste generated was 6,088 kg (6,050 kg in FY20) of paper with an intensity of 0.4 tonnes/project (0.4 tonnes/project in FY20) while 309 kg (282 kg in FY20) of plastic water bottles were used, collected and returned to vendors with an intensity of 0.002 tonnes/project (0.002 tonnes/project in FY20). Going forward, we are aiming to limit or reduce applicable waste levels generated through paper and plastic bottle use at 2021 levels by 2030. Employees will continue to be reminded to minimise unnecessary consumption of resources, and shall continue to implement green efforts in reducing resource consumption from its source to reflect the Company's efforts in aligning with our green workplace and green operations mission.

### 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 | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **Unit** | **2021** | 2020 | **Unit** |
| Electricity | **85,811** | 82,459 | kWh | **14.2** | 13.7 | kWh/ft$^2$ |
| Petroleum | **20,397** | 14,914 | L | **133** | 134 | L/project |
| Diesel | **2,732,975** | 3,090,037 | L | **17,863** | 27,838 | L/project |

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

Total petroleum consumption from our business operations increased and total diesel consumption decreased. However, both the intensity of petroleum and diesel has dropped to 133 L/project (134 L/project in FY20) and 17,863 L/project (27,838 L/project in FY20) respectively, which reflects our efforts in fuel saving and energy efficiency. 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. With the global pandemic as the backdrop, our clients are more cautious of their health, hygiene and safety. This has stimulated greater demand in our services, and resulted in higher number of service projects and engagements performed during the Reporting Period, as compared to those of last year. Consequently, a general increase in petroleum has been observed.

Our electricity consumption across the Company during the Reporting Period has increased to 85,881 kWh (82,459 kWh in FY20), with a resulting intensity of 14.2 kWh/ft$^2$. The increase is largely due to an increase demand for our services, however we are still continuing our efforts in energy consumption saving through green commitments practiced throughout our business operations and services. The Company is also continuing to transform the modes of communication to digital platforms, for example greater use of video conferencing, resulting in less office utilisation and hence contributing to minimising energy consumption over the Reporting Period.

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 and we are aiming to limit or reduce electricity and water consumption at 2021 levels by 2030 and improve energy efficiency no less than 2021 levels by 2030. In order to achieve our targets, we are 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. We have continued to adopt measures in replacing our old fleet of vehicles to Euro V vehicles. Such replacement could significantly reduce fuel consumption for each kilometre travelled. In our office premises, we have upgraded our 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;
- Visual reminders throughout the office to remind employees to be mindful in usage of office consumables;
- Preference in usage of energy efficient products in our offices such as fluorescent bulbs, LED lamps, electrical appliances with higher energy consumption efficiency;
- Maintain the average indoor temperature of our office workspace between 24°C 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 our employees with regular training to 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.

### Aspect A4: Climate Change

***Climate Change and Other Associated Risks***

The issue of climate change is undoubtedly one of the greatest issues confronting our world today. Lapco believes that building climate resilience provides the Company with the capacity to adapt and succeed in the face of direct and indirect impacts of climate change, and the ability to capitalize on the strategic opportunities presented by the shift to a lower-carbon economy. As such, Lapco shares the responsibilities to reduce emissions and relieve the impact from climate change, and adopts a forward-thinking approach in integrating climate risk factors into our strategic business planning.

In assessing the potential risks stemming from climate change, we have summarized the following dimensions of risks that are potentially vulnerable to our business operations, as well as approaches to cope with such risks:

*Physical risks*

**Given the nature of our business in cleaning and pest management, the delivery of our services is dependent on our physical assets. As such, the Company is prone to physical risks when facing extreme weather conditions, no matter whether it is heavy precipitation, typhoon, fire, or flood. The Company has developed an Emergency Preparedness and Response Guideline to address emergency situations, including prevention of potential environmental or safety incidents and response actions in the event of an emergency. Trainings and drills are also provided to relevant employees to ensure their personal safety.**

*Transition risks*

**As policy changes are expected to be moving towards a low-carbon economy, new climate-related regulations are expected to be introduced and tightened. This could result in loss of asset value, and trigger reputational and legal risks from inability to adapt to changes. As such, the Company takes a step further to ensure compliance to latest climate-related regulations, and build resilience through increasing our resource productivity (e.g. upgrading our car fleet to latest energy efficiency standards). This enables the Company to take competitive advantage in cost reduction in the long run, while aligning with our green visions.**

*Reputational risks*

**Extreme weather events may disrupt operations, which may pose reputational risk to our Company. Given the broad-based impacts of climate change, our strategy leverages on the depth of our expertise and insights to climate-related opportunities and to manage climate risk. The Company continues to adopt best practices to reduce our own carbon footprint and integrate resiliency into our business operations.**

Lapco recognizes the impact of climate change and its associated risks to our business operations and our long term growth. We strive to embed considerations of climate change risks into our corporate strategy and risk management systems. We target to use a three-step approach in measuring our vulnerability to climate change, where we would (1) assess the degree of climate vulnerability of our operations, equipment and facilities; (2) consider climate risks into enterprise risk assessments, and; (3) conduct scenario analysis to assist management in decision making on risks and opportunities associated climate change. With this approach, we aim to adopt the best practices to reduce our own carbon footprint, and build greater resilience for our operations.

## SOCIAL

### Aspect B1: Employment

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

Lapco 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.

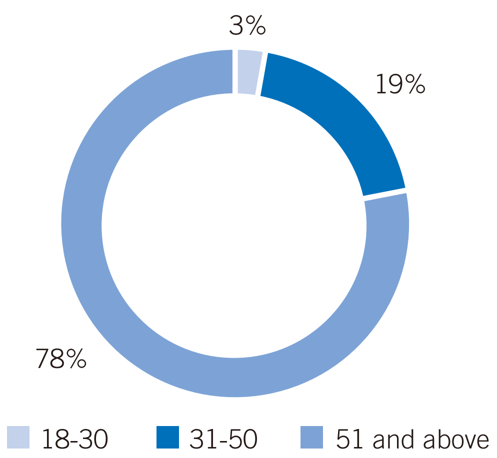
We have developed the Human Resources Policy to govern compensation, dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare, in accordance with relevant employment rules and regulations stipulated in the Employment 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 in this reporting year are stated below:

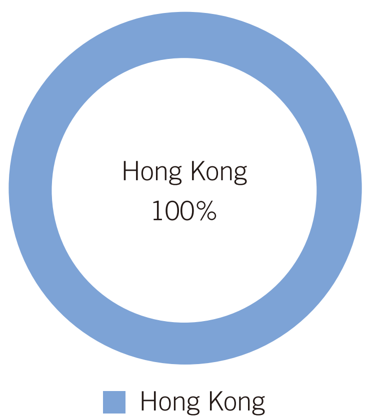
*Employee breakdown*

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Number of Employees** | **Percentage (%)** | Number of Employees | Percentage (%) |
| Male | **1,030** | **46%** | 1,354 | 43% |
| Female | **1,201** | **54%** | 1,823 | 57% |
| Total | **2,231** | **100%** | 3,177 | 100% |

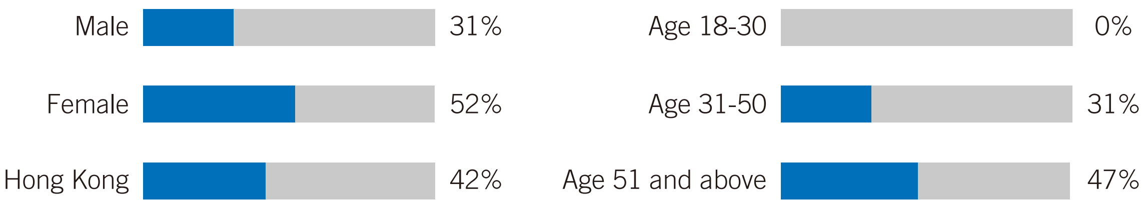
**Employees by age group**




**Employees by geographical region**



*Employee turnover rate breakdown*




In 2021, we have worked to increase the ratio of female employees to male employees to further demonstrate our agenda for equality in opportunity and diversity within the company. 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.

Maintenance of appropriate work-life balance has been effective in reducing working pressure of employees and enhancing the overall productivity. In previous years, the Company has actively held social activities to promote bonding between our employees, and to recognize their efforts and contributions to the Company. As the global pandemic has restricted our social activities during the year, social gatherings are instead held on digital platforms, which enable our employees to mingle and bond without compromising social distancing measures. This enables the Company to strengthen interactions and relationships between staff level and senior management. In addition, the Company has introduced an employee award scheme starting from 2019 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***

A healthy workforce is the foundation of long-term success to any company, and it is not an exception to Lapco. As such, occupational health and safety has been the top priority of our business operations. 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. The Safety Manual is being reviewed each year to ensure that it is up to date, and circulated to related staff to promote awareness of any implemented changes. 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.

With the outbreak of the coronavirus disease starting from early 2020, the Company has also implemented several health and safety measures to protect our employees throughout the Reporting Period. The Company has procured and distributed hygiene supplies, such as disinfectants, alcohol swaps and face masks across our office for employees' use. The office has also enhanced cleaning and ventilation for good environmental hygiene. Employees are also recommended to implement flexible working arrangements, where appropriate, and practice social distancing in common areas. The Company has referred to the advices provided by the Occupational Safety and Health Council on how to minimize infection risk in the workplace, and has provided guidance to our employees on how to maintain personal hygiene.

The Company also actively monitors records of employees' health and travel history on a regular basis. We would make alternative working arrangement for employees who feel unwell or may have the risk of being exposed to infected cases. These measures have been effective in minimizing risk of workplace infection, ensuring the health of our employees.

During the Reporting Period, we have recorded 3,734 lost days as a result of work injury. We have not identified any material cases of non-compliance on health and safety related laws and regulations. No work-related fatalities were recorded in the past three years including the Reporting Period.

### 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.

During the reporting year, 100% of all employees went through appropriate training. Male employees averaged 2.1 hours, female employees averaged 2.02 hours of training, director and management level employees averaged 15 hours of training and normal employees averaged 2 hours of training.

### 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 our supply chain and have implemented a sustainable procurement practice to minimise the adverse impact on the environment and maintain cost effectiveness. We encourage all 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 all 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, transparency and sustainability requirements.

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 including sustainability 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. The measures indicated above applied to all 136 of Lapco's suppliers during the reporting period, all of which were based in Hong Kong.

## Aspect B6: Product Responsibility

### *Service Quality and Product Safety*

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. Proper inspection on individual cases will be conducted and remedial measures will be implemented to reduce the chance of re-occurrence of the same kind of compliant in the future.

During the reporting period, there were a total of 936 written complaints received, all of which were properly handled. In addition, as Lapco is a service company, there were no products sold or shipped subject to recalls for safety and health reasons.

### *Data Privacy and Protection*

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.

***Intellectual Property Rights***

We recognise the importance of intellectual property rights. Employees are required to comply with our internal policies on intellectual property rights that protects intellectual property owners as well as relevant laws and regulations in place. Any software used by the company must be properly licensed and operated in a manner that complies with the terms and conditions listed by the service providers.

During the reporting period there were no cases of non-compliance against company policy or laws and regulations regarding intellectual property rights.

**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 (for example, the Prevention of Bribery Ordinance of Hong Kong) 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 and anti-corruption trainings are provided to directors and staff. 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***

Lapco strives to be a responsible company, and we take pride in serving and strengthening the wider community through continuous encouragement of our employees and other stakeholders to support the community. Therefore, we are engaged in various community activities such as public fundraising, donations, sponsorships and volunteering services.

Regarding this year's community service agenda, our staff participated in a 12 hour community service campaign which donated meal boxes to the underprivileged in Shum Shui Po. Donations of HKD50,000 were made to the Liaison Office of the CPG In The HKSAR for disaster relief to help those in Henan province, mainland China whom have suffered from the impacts of major flooding, Lapco and its employees stands with those impacted by this unfortunate tragedy and will continue show its support in different ways. We also donated 28,800HKD to the Sai Kung Yulan Association for The Ghost Festival held in August 2021 to show our support for community and religious traditions.

In the near future we plan to continue collaborating 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 113, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 of the Group in assessing the impairment of trade receivables from non-government customers under the expected credit loss ("ECL") model.<br><br>As disclosed in note 4 to the consolidated financial statements, the carrying amount of trade receivables from non-government customers as at 31 December 2021 is HK$23,900,000. In determining the impairment of trade receivables from non-government customers, the management of the Group assessed the balance collectively with reference to (i) average loss rates, which are based on the study of other corporates' default and recovery data from international credit-rating agencies, 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 2021. | Our procedures in relation to estimated impairment of trade receivables from non-government customers included:<br><br>• Assessing the reasonableness of the key data inputs used in determination of average loss rates, on a sample basis, and evaluating the assumptions, including both historical settlement history and forward-looking information used;<br><br>• 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<br><br>• Re-performing the calculation of the impairment based on the average loss rates 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, actions taken to eliminate threats or safeguards applied.

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 K. W. Yim.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
28 March 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | Notes | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|---|
| Revenue | 5 | **765,921** | 665,765 |
| Cost of services | | **(721,336)** | (624,450) |
| Gross profit | | **44,585** | 41,315 |
| Other income | 6 | **516** | 16,148 |
| Other gains and losses, net | 6 | **1,526** | 854 |
| Administrative expenses | | **(35,795)** | (31,129) |
| Other expenses | | **–** | (1,700) |
| Finance costs | 7 | **(4,431)** | (6,277) |
| Profit before taxation | 10 | **6,401** | 19,211 |
| Income tax expense | 11 | **(1,040)** | (824) |
| Profit and total comprehensive income for the year attributable to owners of the Company | | **5,361** | 18,387 |
| Earnings per share | | | |
| – Basic *(HK cents)* | 13 | **1.34** | 4.60 |

At 31 December 2021

| | Notes | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Plant and equipment | 14 | **18,720** | 8,562 |
| Right-of-use assets | 15 | **32,686** | 38,733 |
| Deposits and prepayments | 17 | **–** | 6,289 |
| Deposits for acquisition of plant and equipment | | **3,873** | 700 |
| | | **55,279** | 54,284 |
| **Current assets** | | | |
| Trade receivables | 16 | **119,815** | 105,626 |
| Other receivables, deposits and prepayments | 17 | **12,181** | 14,811 |
| Tax recoverable | | **1,355** | 627 |
| Pledged bank balances | 18 | **21,700** | 43,490 |
| Bank balances and cash | 18 | **40,483** | 35,583 |
| | | **195,534** | 200,137 |
| **Current liabilities** | | | |
| Trade payables | 19 | **5,683** | 4,926 |
| Other payables | 20 | **43,817** | 47,685 |
| Provisions | 21 | **15,503** | 30,340 |
| Bank and other borrowings | 22 | **91,904** | 81,666 |
| Lease liabilities | 23 | **14,874** | 22,774 |
| Tax payable | | **–** | 587 |
| | | **171,781** | 187,978 |
| Net current assets | | **23,753** | 12,159 |
| Total assets less current liabilities | | **79,032** | 66,443 |
| **Non-current liabilities** | | | |
| Provisions | 21 | **6,611** | 3,976 |
| Deferred tax liabilities | 24 | **718** | 88 |
| Lease liabilities | 23 | **12,720** | 8,757 |
| | | **20,049** | 12,821 |
| Net assets | | **58,983** | 53,622 |

| | Note | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Issued share capital | 25 | **4,000** | 4,000 |
| Reserves | | **54,983** | 49,622 |
| Equity attributable to owners of the Company | | **58,983** | 53,622 |

The consolidated financial statements on pages 54 to 113 were approved and authorised for issue by the Board of Directors on 28 March 2022 and are signed on its behalf by:

**Tam Yiu Shing, Billy**
*DIRECTOR*

**Wong Tsz Chun, Jacky**
*DIRECTOR*

| | Issued share capital *HK$'000* | Share premium *HK$'000* | Other reserve *HK$'000* *(note)* | Accumulated (losses) profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| At 1 January 2020 | 4,000 | 31,362 | 11,051 | (11,178) | 35,235 |
| Profit and total comprehensive income for the year | – | – | – | 18,387 | 18,387 |
| At 31 December 2020 | 4,000 | 31,362 | 11,051 | 7,209 | 53,622 |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **5,361** | **5,361** |
| At 31 December 2021 | **4,000** | **31,362** | **11,051** | **12,570** | **58,983** |

*Note:* Other reserve represented (i) the difference between the share capital of Lapco Service Limited, Shiny Glory Services Limited and Shiny Hope Limited and that of Sharp Idea Global Limited issued pursuant to a group reorganisation completed in 2017 amounted to HK$10,200,000; and (ii) the fair value adjustment on the non-current shareholder loans using the effective interest rate of 7.5% per annum in 2019 amounted to HK$851,000.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | **6,401** | 19,211 |
| Adjustments for: | | |
| Depreciation of plant and equipment | **4,241** | 6,000 |
| Depreciation of right-of-use assets | **23,965** | 23,345 |
| Interest income | **(51)** | (414) |
| Gain on disposal of plant and equipment, net | **(2,351)** | (851) |
| Loss on early termination of life insurance policies | **792** | – |
| Finance costs | **4,431** | 6,277 |
| Operating cash flows before movements in working capital | **37,428** | 53,568 |
| (Increase) decrease in trade receivables | **(14,189)** | 32,705 |
| Decrease in other receivables, deposits and prepayments | **3,020** | 3,091 |
| Increase (decrease) in trade payables | **757** | (4,696) |
| (Decrease) increase in other payables | **(4,648)** | 3,648 |
| (Decrease) increase in provisions | **(12,202)** | 22,849 |
| Cash generated from operations | **10,166** | 111,165 |
| Net income tax paid | **(1,725)** | (1,653) |
| **NET CASH FROM OPERATING ACTIVITIES** | **8,441** | 109,512 |
| **INVESTING ACTIVITIES** | | |
| Interest received | **659** | 189 |
| Deposits paid for acquisition of plant and equipment | **(3,873)** | (700) |
| Purchases of plant and equipment | **(10,058)** | (3,965) |
| Proceeds from disposal of plant and equipment | **3,072** | 999 |
| Proceeds from early termination of life insurance policies | **4,969** | – |
| Payment for a life insurance policy | **(470)** | (454) |
| Placement of pledged bank balances | **(21,700)** | (21,700) |
| Withdrawal of pledged bank deposits | **43,490** | – |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | **16,089** | (25,631) |

| | 2021<br>HK$'000 | 2020<br>HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Interest paid | **(4,431)** | (5,481) |
| Repayment of lease liabilities | **(25,437)** | (25,516) |
| New bank and other borrowings raised | **1,094,843** | 643,787 |
| Repayment of bank and other borrowings | **(1,084,605)** | (682,120) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(19,630)** | (69,330) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **4,900** | 14,551 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **35,583** | 21,032 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR,** represented by bank balances and cash | **40,483** | 35,583 |

## 1. GENERAL INFORMATION

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. 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

In the current year, the Company and its subsidiaries (collectively the "**Group**") has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 |

The application of the 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 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 and the related Amendments[3] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021[1] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[3] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[3] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3] |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018-2020[2] |

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

Except for the 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 HKFRS Practice Statement 2 "Disclosure of Accounting Policies"***

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 "Making Materiality Judgements" (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

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

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

***Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies" (Continued)***

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

***Amendments to HKAS 8 "Definition of Accounting Estimates"***

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgments or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

***Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"***

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 "Income Taxes" ("HKAS 12") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK$32,686,000 and HK$27,594,000, respectively. The Group is in still the process of assessing the full impact of the application of the amendments.

## 3. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basic of preparation of consolidated financial statements

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 accounting 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 share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 "Leases" ("**HKFRS 16**"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or 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.

## 3. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies

***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 or 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 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*

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

For contracts entered into or modified on or after the date of initial application of HKFRS 16, 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*

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.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

## 3. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Leases (Continued)***

*The Group as a lessee (Continued)*

Short-term leases

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases 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 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Leases (Continued)***

*The Group as a lessee (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;
- 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 Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

## 3. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Government grants***

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

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

***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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 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 these 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 individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Payment for life insurance policies***

Payment for life insurance policies was 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 "Revenue from Contracts with Customers". Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Financial instruments (Continued)***

*Financial assets (Continued)*

Classification and subsequent measurement of financial assets (Continued)

<u>Amortised cost and interest income</u>

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 assessment 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. The ECL on these assets are assessed individually for all government customers and collectively for non-government customers using a collective assessment 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, in which case 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Financial instruments (Continued)***

*Financial assets (Continued)*

Impairment of financial assets (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 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 and 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.

Lifetime ECL for trade receivables from non-government customers are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by the management of the Group 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Financial instruments (Continued)***

*Financial assets (Continued)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

The Group's financial liabilities including trade payables, other payables 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Significant accounting policies (Continued)

***Employee benefits***

*Retirement benefits costs*

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 profit 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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 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 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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

***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. BASIC OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 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. The management of the Group assessed the balance collectively with reference to (i) average loss rates, which are based on the study of other corporates' default and recovery data from international credit-rating agencies, 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 28 and 16 respectively.

The carrying amount of trade receivables from non-government customers is HK$23,900,000 (2020: HK$11,805,000). No impairment of trade receivables from non-government customers was recognised during the year ended 31 December 2021 (2020: nil) as the amount of ECL has no material impact on the consolidated financial statements 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***

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Types of services* | | |
| Cleaning services | **600,104** | 533,448 |
| Pest management services | **64,608** | 43,848 |
| Waste management and recycling services | **100,484** | 88,060 |
| Landscaping services | **725** | 409 |
| | **765,921** | 665,765 |
| *Types of customers* | | |
| Government | **682,709** | 622,014 |
| Non-government | **83,212** | 43,751 |
| | **765,921** | 665,765 |
| *Timing of revenue recognition* | | |
| Over time | **765,921** | 665,765 |

***(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, performance obligation satisfied over time as 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) at 31 December 2021 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 | 454,104 | 35,941 | 105,763 | 830 |
| More than one year but not more than two years | 303,744 | 2,448 | 92,437 | 830 |
| More than two years | 201,394 | – | 247,693 | 138 |
| | 959,242 | 38,389 | 445,893 | 1,798 |

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at 31 December 2020 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 | 436,987 | 38,226 | 82,329 | 101 |
| More than one year but not more than two years | 83,019 | 34,598 | 33,578 | – |
| More than two years | 52,639 | 2,448 | 15,936 | – |
| | 572,645 | 75,272 | 131,843 | 101 |

### Segment information

Information reported to 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 2021** | | | | | |
| Segment revenue – external customers | **600,104** | **64,608** | **100,484** | **725** | **765,921** |
| Segment results | **40,381** | **3,117** | **1,055** | **32** | **44,585** |
| Other income | | | | | **516** |
| Other gains and losses, net | | | | | **1,526** |
| Administrative expenses | | | | | **(35,795)** |
| Finance costs | | | | | **(4,431)** |
| Profit before taxation | | | | | **6,401** |
| **For the year ended 31 December 2020** | | | | | |
| Segment revenue – external customers | 533,448 | 43,848 | 88,060 | 409 | 665,765 |
| Segment results | 35,749 | 3,658 | 1,898 | 10 | 41,315 |
| Other income | | | | | 16,148 |
| Other gains and losses, net | | | | | 854 |
| Administrative expenses | | | | | (31,129) |
| Other expenses | | | | | (1,700) |
| Finance costs | | | | | (6,277) |
| Profit before taxation | | | | | 19,211 |

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 represent the results from each segment without allocation of other income, other gains and losses, net, 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* |
|---|---|---|---|---|---|
| **At 31 December 2021** | | | | | |
| Segment assets | 110,099 | 15,098 | 48,661 | 222 | 174,080 |
| Certain plant and equipment | | | | | 208 |
| Certain right-of-use assets | | | | | 1,994 |
| Certain other receivables, deposits and prepayments | | | | | 10,993 |
| Tax recoverable | | | | | 1,355 |
| Pledged bank balances | | | | | 21,700 |
| Bank balances and cash | | | | | 40,483 |
| Total assets | | | | | 250,813 |
| Segment liabilities | 48,929 | 7,943 | 7,797 | 57 | 64,726 |
| Certain other payables | | | | | 5,592 |
| Certain provisions | | | | | 1,296 |
| Bank and other borrowings | | | | | 91,904 |
| Lease liabilities | | | | | 27,594 |
| Deferred tax liabilities | | | | | 718 |
| Total liabilities | | | | | 191,830 |

## 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 |
|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | |
| Segment assets | 108,365 | 9,781 | 32,458 | 87 | 150,691 |
| Certain plant and equipment | | | | | 256 |
| Certain right-of-use assets | | | | | 2,674 |
| Certain other receivables, deposits and prepayments | | | | | 21,100 |
| Tax recoverable | | | | | 627 |
| Pledged bank balances | | | | | 43,490 |
| Bank balances and cash | | | | | 35,583 |
| Total assets | | | | | 254,421 |
| Segment liabilities | 64,013 | 5,262 | 10,567 | 49 | 79,891 |
| Certain other payables | | | | | 4,740 |
| Certain provisions | | | | | 2,296 |
| Bank and other borrowings | | | | | 81,666 |
| Lease liabilities | | | | | 31,531 |
| Tax payable | | | | | 587 |
| Deferred tax liabilities | | | | | 88 |
| Total liabilities | | | | | 200,799 |

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, certain provisions, bank and other borrowings, lease liabilities, tax payable 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 2021** | | | | | | | |
| Deposits paid for acquisition of plant and equipment | – | – | 3,873 | – | 3,873 | – | 3,873 |
| Additions to plant and equipment | 1,040 | – | 10,477 | – | 11,517 | 21 | 11,538 |
| Additions to right-of-use assets | 6,215 | – | 13,081 | – | 19,296 | 2,204 | 21,500 |
| Depreciation of plant and equipment | 2,322 | 199 | 1,651 | – | 4,172 | 69 | 4,241 |
| Depreciation of right-of-use assets | 8,788 | 1,699 | 12,308 | – | 22,795 | 1,170 | 23,965 |
| Gain on disposal of plant and equipment, net | 1,887 | 453 | – | – | 2,340 | 11 | 2,351 |
| **For the year ended 31 December 2020** | | | | | | | |
| Deposits paid for acquisition of plant and equipment | 700 | – | – | – | 700 | – | 700 |
| Additions to plant and equipment | 4,917 | – | – | – | 4,917 | – | 4,917 |
| Additions to right-of-use assets | 863 | – | – | – | 863 | – | 863 |
| Depreciation of plant and equipment | 3,031 | 1,267 | 1,564 | – | 5,862 | 138 | 6,000 |
| Depreciation of right-of-use assets | 8,393 | 12,000 | 1,651 | – | 22,044 | 1,301 | 23,345 |
| Gain on disposal of plant and equipment, net | 753 | 98 | – | – | 851 | – | 851 |

### 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$18,720,000 (2020: HK$8,562,000), right-of-use assets amounting to HK$32,686,000 (2020: HK$38,733,000) and other non-current assets excluded financial instruments amounting to HK$3,873,000 (2020: HK$895,000) at 31 December 2021 are all located in Hong Kong by physical location of assets.

### Information about major customer

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

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Customer A[1] | 646,589 | 586,825 |

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

## 6. OTHER INCOME/OTHER GAINS AND LOSSES, NET

### Other income

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Bank interest income | 18 | 189 |
| Interest income from payment for life insurance policies | 33 | 225 |
| Sundry income | 293 | 970 |
| Government grants *(note)* | 172 | 14,764 |
| | 516 | 16,148 |

*Note:*

During the year ended 31 December 2021, the Group recognised government grants of HK$172,000 (2020: HK$14,764,000), of which nil (2020: HK$10,540,000) related to Employment Support Scheme provided by the Hong Kong government, HK$172,000 (2020: HK$2,550,000) related to one-off subsidy to the registered owners of commercial vehicles and nil (2020: HK$1,674,000) related to an administration fee on anti-epidemic fund for cleaning workers.

### Other gains and losses, net

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Gain on disposal of plant and equipment, net | 2,351 | 851 |
| Net foreign exchange (losses) gains | (33) | 3 |
| Loss on early termination of life insurance policies | (792) | – |
| | 1,526 | 854 |

## 7. FINANCE COSTS

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Interests on: | | |
| Bank and other borrowings | 2,788 | 3,498 |
| Lease liabilities | 1,643 | 1,983 |
| Imputed interest expense on shareholder loans | – | 796 |
| | 4,431 | 6,277 |

## 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 and by the Hong Kong Companies Ordinance, are as follows:

| | Fees<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Discretionary bonus<br>*HK$'000*<br>*(note iii)* | Retirement benefits scheme contributions<br>*HK$'000* | Total emoluments<br>*HK$'000* |
|---|---|---|---|---|---|
| **For the year ended 31 December 2021** | | | | | |
| Executive directors: | | | | | |
| Mr. Lam Pak Ling ("**Mr. Lam**") *(note i)* | **2,696** | **–** | **1,220** | **18** | **3,934** |
| Mr. Cai Weiming | **930** | **–** | **93** | **18** | **1,041** |
| Mr. Wong Tsz Chun, Jacky | **882** | **–** | **83** | **18** | **983** |
| Mr. Tam Yiu Shing, Billy | **936** | **–** | **98** | **18** | **1,052** |
| Sub-total | **5,444** | **–** | **1,494** | **72** | **7,010** |

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

| | Fees<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Discretionary bonus<br>*HK$'000* | Retirement benefits scheme contributions<br>*HK$'000* | Total emoluments<br>*HK$'000* |
|---|---|---|---|---|---|
| Independent non-executive directors: | | | | | |
| Mr. Mak Kwok Kei | **120** | **–** | **–** | **–** | **120** |
| Ms. Lam Kit Yan | **120** | **–** | **–** | **–** | **120** |
| Mr. Ho Kin Wai | **120** | **–** | **–** | **–** | **120** |
| Sub-total | **360** | **–** | **–** | **–** | **360** |

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

| | | | | | |
|---|---|---|---|---|---|
| Total | | | | | **7,370** |

| | Fees<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Discretionary bonus<br>*HK$'000* | Retirement benefits scheme contributions<br>*HK$'000* | Total emoluments<br>*HK$'000* |
|---|---|---|---|---|---|
| **For the year ended 31 December 2020** | | | | | |
| Executive directors: | | | | | |
| Mr. Lam | 2,127 | – | 200 | 18 | 2,345 |
| Mr. Cai Weiming | 852 | – | 65 | 18 | 935 |
| Mr. Wong Tsz Chun, Jacky | 732 | – | 55 | 18 | 805 |
| Mr. Tam Yiu Shing, Billy | 912 | – | 70 | 18 | 1,000 |
| Sub-total | 4,623 | – | 390 | 72 | 5,085 |

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

| | Fees<br>*HK$'000* | Salaries and other benefits<br>*HK$'000* | Discretionary bonus<br>*HK$'000*<br>*(note iii)* | Retirement benefits scheme contributions<br>*HK$'000* | Total emoluments<br>*HK$'000* |
|---|---|---|---|---|---|
| The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. | | | | | |
| Independent non-executive directors: | | | | | |
| Mr. Mak Kwok Kei | 120 | – | – | – | 120 |
| Ms. Lam Kit Yan | 120 | – | – | – | 120 |
| Mr. Ho Kin Wai | 120 | – | – | – | 120 |
| Sub-total | 360 | – | – | – | 360 |
| The independent non-executive directors' emoluments shown above were for their services as directors of the Company. | | | | | |
| Non-executive director: | | | | | |
| Mr. Gao Ran ("**Mr. Gao**") *(note ii)* | – | – | – | – | – |
| The non-executive director emolument shown above was for the services as directors of the Company and its subsidiaries, if applicable. | | | | | |
| Total | | | | | 5,445 |

*Notes:*

(i) Mr. Lam was resigned as executive director and chief executive of the Company on 31 December 2021.

(ii) Mr. Gao was appointed as non-executive director on 22 July 2020 and resigned on 20 November 2020.

(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.

Mr. Choi Chung Yin was appointed as chief executive of the Company on 31 December 2021.

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 (2020: three) directors for the year ended 31 December 2021 whose emoluments are included in the disclosures in note 8. The emoluments of the remaining two (2020: two) non-director employees for the year ended 31 December 2021 were as follows:

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| Salaries and other benefits | **3,025** | 2,809 |
| Discretionary bonus *(note)* | **220** | 200 |
| Retirement benefits scheme contributions | **33** | 36 |
| | **3,278** | 3,045 |

*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:

| | **2021**<br>***Number of employees*** | 2020<br>*Number of employees* |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| HK$1,500,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |

No emolument was 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 for both years.

## 10. PROFIT BEFORE TAXATION

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Auditor's remuneration | **950** | 1,100 |
| Depreciation of plant and equipment | **4,241** | 6,000 |
| Depreciation of right-of-use assets | **23,965** | 23,345 |
| Provision on litigation claims (included in other expenses) | **–** | 1,700 |
| Directors' remuneration *(note 8)* | **7,370** | 5,445 |
| Other staff costs | | |
| Salaries, bonuses and other benefits | **601,973** | 505,696 |
| Retirement benefits scheme contributions | **17,058** | 14,057 |
| Total staff costs | **626,401** | 525,198 |

## 11. INCOME TAX EXPENSE

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Hong Kong Profits Tax: | | |
| – Current tax | 313 | 732 |
| – Underprovision in previous years | 97 | 158 |
| Deferred tax charge (credit) *(note 24)* | 630 | (66) |
| | 1,040 | 824 |

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million for current year. Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profit for prior year.

During the year, the Group agreed the income tax expense, penalties and interests of approximately HK$1,582,000, approximately HK$1,385,000 and approximately HK$195,000, respectively, on certain Hong Kong subsidiaries of the Company for the previous years of assessment from 2011/2012 onwards with Inland Revenue Department (the "**IRD**") that they were included in underprovision in previous years of Hong Kong Profits Tax, other expenses and finance costs, respectively, for the year. Income tax expense, penalties and interests of approximately HK$1,311,000, approximately HK$1,385,000 and approximately HK$195,000, respectively, have been offset by the compensation from a retired director (who was also an ex-major shareholder) of the Company for the settlement of the same amounts to the IRD directly.

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

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Profit before taxation | 6,401 | 19,211 |
| Tax at Hong Kong Profits Tax rate of 16.5% | 1,056 | 3,170 |
| Tax effect of income not taxable for tax purpose | (32) | (2,436) |
| Tax effect of expenses not deductible for tax purpose | 721 | 1,039 |
| Underprovision in previous years | 97 | 158 |
| Utilisation of tax losses not recognised | (572) | (1,076) |
| Tax effect on two-tiered tax rate | (165) | – |
| Others | (65) | (31) |
| Income tax expense for the year | 1,040 | 824 |

## 12. DIVIDEND

No dividends were paid, declared and proposed by the Company during the year ended 31 December 2021 (2020: Nil).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

## 13. EARNINGS PER SHARE

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

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purpose of basic earnings per share | **5,361** | 18,387 |

| | **2021** | 2020 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **400,000,000** | 400,000,000 |

No diluted earnings per share for both 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 2020 | **689** | **699** | **12,574** | **69,285** | **83,247** |
| Additions | **–** | **–** | **128** | **4,789** | **4,917** |
| Transfer from right-of-use assets | **–** | **–** | **–** | **9,240** | **9,240** |
| Disposals/written-off | **–** | **–** | **–** | **(2,367)** | **(2,367)** |
| At 31 December 2020 | **689** | **699** | **12,702** | **80,947** | **95,037** |
| Additions | **–** | **180** | **121** | **11,237** | **11,538** |
| Transfer from right-of-use assets | **–** | **–** | **–** | **50,376** | **50,376** |
| Disposals/written-off | **–** | **–** | **–** | **(10,991)** | **(10,991)** |
| At 31 December 2021 | **689** | **879** | **12,823** | **131,569** | **145,960** |
| DEPRECIATION | | | | | |
| At 1 January 2020 | 593 | 535 | 10,280 | 63,382 | 74,790 |
| Provided for the year | 24 | 115 | 664 | 5,197 | 6,000 |
| Transfer from right-of-use assets | – | – | – | 7,904 | 7,904 |
| Eliminated on disposals/written-off | – | – | – | (2,219) | (2,219) |
| At 31 December 2020 | 617 | 650 | 10,944 | 74,264 | 86,475 |
| Provided for the year | 24 | 100 | 512 | 3,605 | 4,241 |
| Transfer from right-of-use assets | – | – | – | 46,794 | 46,794 |
| Eliminated on disposals/written-off | – | – | – | (10,270) | (10,270) |
| At 31 December 2021 | 641 | 750 | 11,456 | 114,393 | 127,240 |
| CARRYING VALUES | | | | | |
| At 31 December 2021 | 48 | 129 | 1,367 | 17,176 | 18,720 |
| At 31 December 2020 | 72 | 49 | 1,758 | 6,683 | 8,562 |

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% |

## 15. RIGHT-OF-USE ASSETS

| | Leased properties *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| At 31 December 2021 | | | |
| Carrying amount | 1,994 | 30,692 | 32,686 |
| At 31 December 2020 | | | |
| Carrying amount | 961 | 37,772 | 38,733 |
| For the year ended 31 December 2021 | | | |
| Depreciation charge | 1,170 | 22,795 | 23,965 |
| For the year ended 31 December 2020 | | | |
| Depreciation charge | 1,181 | 22,164 | 23,345 |

| | **2021** ***HK$'000*** | 2020 *HK$'000* |
|---|---|---|
| Expense relating to short-term leases | **212** | 218 |
| Total cash outflow for leases | **27,292** | 27,717 |
| Additions to right-of-use assets | **21,500** | 863 |

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.

In addition, lease liabilities of HK$21,500,000 are recognised with related right-of-use assets in respect of leased properties and motor vehicles amounting to HK$21,500,000 during the year ended 31 December 2021 (2020: lease liabilities of HK$863,000 are recognised with related right-of-use assets in respect of leased properties amounting to HK$863,000).

The Group regularly entered into short-term leases for warehouse. As at 31 December 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

### Restrictions or covenants on leases

At 31 December 2021, lease liabilities of HK$27,594,000 (2020: HK$31,531,000) are recognised with related right-of-use assets in respect of leased properties and motor vehicles amounting to HK$32,686,000 (2020: HK$38,733,000). The lease agreements for leased properties and motor vehicles do not impose any covenants other than the security interests in the leased properties and motor vehicles that are held by the lessors. Leased properties and motor vehicles may not be used as security for borrowing purposes.

## 16. TRADE RECEIVABLES

At 1 January 2020, trade receivables from contracts with customers amounted to HK$138,331,000.

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

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| Government customers | **95,915** | 93,821 |
| Non-government customers | **23,900** | 11,805 |
| | **119,815** | 105,626 |

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.

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| 0–30 days | **49,326** | 59,826 |
| 31–60 days | **48,469** | 42,730 |
| 61–90 days | **12,697** | 2,212 |
| 91–180 days | **9,115** | 837 |
| Over 180 days | **208** | 21 |
| | **119,815** | 105,626 |

At 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$9,323,000 (2020: HK$858,000) which are past due at the reporting date. Out of the past due balances, HK$9,115,000 (2020: HK$837,000) 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$208,000 (2020: HK$21,000) 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 2021, carrying amount of trade receivables amounted to HK$119,815,000 (2020: HK$105,626,000) have been pledged as security for the Group's bank borrowings.

Details of impairment assessment of trade receivables are set out in note 28.

## 16. TRADE RECEIVABLES (Continued)

### Transfer of financial assets

The followings were the Group's trade receivables at 31 December 2021 and 2020 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.

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying amount of transferred assets | **119,815** | 105,626 |
| Carrying amount of associated liabilities | **(88,321)** | (64,396) |
| Net position | **31,494** | 41,230 |

## 17. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental, utilities and other deposits | **2,697** | 1,451 |
| Payment for life insurance policies *(Note i)* | **–** | 5,981 |
| Prepayment for life insurance policies *(Note ii)* | **–** | 213 |
| Compensation receivable from insurance companies | **4,070** | 7,847 |
| Other receivables | **531** | 90 |
| Prepayments | **4,883** | 5,519 |
| Total | **12,181** | 21,100 |
| Presented as non-current assets | **–** | 6,289 |
| Presented as current assets | **12,181** | 14,811 |
| Total | **12,181** | 21,100 |

## 17. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

*Notes:*

(i) At 31 December 2020, the Group had two life insurance policies to insure Mr. Lam (2020: Mr. Lam) and paid premium of United States Dollar ("**US$**") US$806,137 (equivalent to approximately HK$6,288,000).

Under the life insurance policies, the Group was the beneficiary and policy holder and the aggregate insured sum was US$2,261,211. 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.

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.

During the year ended 31 December 2021, total proceeds of HK$4,969,000 and interest income of HK$641,000 were received due to the early termination of the life insurance policies.

The balance of the deposits of life insurance policies at 31 December 2020 was denominated in US$, being a currency other than the functional currency of the relevant group entity.

(ii) The amount represented the prepayment of policies charges and were 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 28.

## 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 0.06% to 0.96% (2020: 0.06% to 0.96%) per annum.

Bank balances and cash carry interest at prevailing market rates at 0.01% (2020: 0.01%) per annum.

Details of impairment assessment of pledged bank balances and bank balances are set out in note 28.

## 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:

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| 0–30 days | **2,415** | 2,733 |
| 31–60 days | **3,218** | 2,025 |
| 61–90 days | **45** | 166 |
| Over 90 days | **5** | 2 |
| | **5,683** | 4,926 |

## 20. OTHER PAYABLES

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| Salaries payables | **35,030** | 42,945 |
| Subcontracting fee payables | **2,415** | – |
| Payable for acquisition of plant and equipment | **780** | – |
| Other payables | **5,592** | 4,740 |
| | **43,817** | 47,685 |

## 21. PROVISIONS

| | **Contractual gratuity**<br>*HK$'000*<br>*(note i)* | **Redundancy cost and annual leave**<br>*HK$'000*<br>*(note ii)* | **Others**<br>*HK$'000* | **Total**<br>*HK$'000* |
|---|---|---|---|---|
| At 1 January 2020 | 2,272 | 7,299 | 1,896 | 11,467 |
| Payment during the year | (989) | (2,396) | (1,300) | (4,685) |
| Provided for the year | 15,538 | 10,296 | 1,700 | 27,534 |
| At 31 December 2020 | 16,821 | 15,199 | 2,296 | 34,316 |
| Payment during the year | (21,591) | (5,257) | (1,000) | (27,848) |
| Provided (reversed) for the year | 16,545 | (899) | – | 15,646 |
| At 31 December 2021 | **11,775** | **9,043** | **1,296** | **22,114** |

## 21. PROVISIONS (Continued)

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Presented as non-current liabilities | 6,611 | 3,976 |
| Presented as current liabilities | 15,503 | 30,340 |
| | 22,114 | 34,316 |

Notes:

(i) 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.

(ii) 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 the best estimate of probable future payments by the management of the Group 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

| | 2021 HK$'000 | 2020 HK$'000 |
|---|---|---|
| Secured and guaranteed bank borrowings: | | |
| Loans from factoring of trade receivables with full recourse | **88,321** | 64,396 |
| Other bank loans | **3,339** | 3,200 |
| Unsecured and unguaranteed other borrowings | **244** | 3,070 |
| Unsecured and unguaranteed shareholder loans | **–** | 11,000 |
| | **91,904** | 81,666 |

| | Bank borrowings | | Other borrowings and shareholder loans | |
|---|---|---|---|---|
| | **2021 HK$'000** | 2020 HK$'000 | **2021 HK$'000** | 2020 HK$'000 |
| Carrying amounts repayable*: | | | | |
| Within one year | **88,940** | 67,596 | **244** | 13,826 |
| Within a period of more than one year but not exceeding two years | **643** | – | **–** | 244 |
| Within a period of more than two years but not exceeding five years | **2,077** | – | **–** | – |
| | **91,660** | 67,596 | **244** | 14,070 |
| Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities | **(91,660)** | (67,596) | **(244)** | (14,070) |
| Amounts shown under non-current liabilities | **–** | – | **–** | – |

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

The banking facilities were secured and/or guaranteed by:

(i) the pledged bank balances of HK$21,700,000 (2020: HK$43,490,000) at 31 December 2021;

(ii) all life insurance policies of the Group at 31 December 2020;

(iii) project proceeds from certain service contracts of the Group at 31 December 2021 and 2020;

(iv) the pledge of the Group's trade receivables with aggregate values of HK$119,815,000 (2020: HK$105,626,000) to the factoring loans at 31 December 2021;

(v) unlimited corporate guarantee provided by the Company and subsidiaries of the Group at 31 December 2021 and 2020.

## 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 (2020: HK$ Prime Rate plus or minus a spread or HIBOR plus 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:

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Effective interest rate per annum: | | |
| Floating-rate borrowings | **3.00%–5.00%** | 1.42%–5.25% |

The other borrowings are at fixed rate of 6.5% per annum at 31 December 2021 (2020: 6.5%).

At 31 December 2020, the shareholder loans were interest-free and with no maturity date. The management of the Group expected to settle the balances within 12 months, therefore, it was shown as current liabilities. The amount was fully settled during the year ended 31 December 2021.

## 23. LEASE LIABILITIES

Lease liabilities payable:

| | **2021** | 2020 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **14,874** | 22,774 |
| Within a period of more than one year but not exceeding two years | **7,579** | 8,213 |
| Within a period of more than two years but not exceeding five years | **5,141** | 544 |
| | **27,594** | 31,531 |
| Less: Amount due for settlement within 12 months shown under current liabilities | **(14,874)** | (22,774) |
| Amount due for settlement after 12 months shown under non-current liabilities | **12,720** | 8,757 |

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 at 31 December 2021 and 2020.

## 24. DEFERRED TAX LIABILITIES

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

| | Tax losses *HK$'000* | Accelerated tax depreciation *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| At 1 January 2020 | 6,796 | (6,950) | (154) |
| (Charge) credit to profit or loss *(note 11)* | (2,714) | 2,780 | 66 |
| At 31 December 2020 | 4,082 | (4,170) | (88) |
| Credit (charge) to profit or loss *(note 11)* | 92 | (722) | (630) |
| At 31 December 2021 | **4,174** | **(4,892)** | **(718)** |

At 31 December 2021, the Group has unused tax loss of HK$25,295,000 (2020: HK$28,204,000) available for offset against future profits. Deferred tax assets has been recognised in respect of such losses of HK$25,295,000 (2020: HK$24,738,000). No deferred tax assets has been recognised in respect of nil (2020: HK$3,466,000) due to unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

## 25. 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 2020, 31 December 2020 and 2021 | 10,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January 2020, 31 December 2020 and 2021 | 400,000,000 | 4,000 |

## 26. COMMITMENTS

### Capital Commitments

| | **2021** ***HK$'000*** | 2020 *HK$'000* |
|---|---|---|
| Capital expenditure in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements | **15,263** | 3,603 |

## 27. 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, and lease liabilities as disclosed in notes 22 and 23, respectively, net of cash and cash equivalent and equity of the Group, comprising issued share capital, share premium, other reserve and accumulated profits (losses).

The 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.

## 28. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| Financial assets | | |
| Amortised cost | **189,296** | 194,086 |
| Financial liabilities | | |
| Amortised cost | **106,374** | 91,332 |

### 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 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 of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*Interest rate risk*

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

The Group is also exposed to cash flow interest rate risk in relation to 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, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

## 28. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***Market risk (Continued)***

*Interest rate risk (Continued)*

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HK$ Prime Rate (2020: HK$ Prime Rate and HIBOR) arising from the Group's bank borrowings or other market interest rate from pledged bank balances.

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, pledged bank balances, bank balances and bank borrowings, hence sensitivity analysis is not presented.

***Credit risk and impairment assessment***

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, other receivables and deposits, pledged bank balances and bank balances. 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:

<u>Trade receivables arising from contracts with customers</u>

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 collective assessment on trade receivables from non-government customers with reference to (i) average loss rates, which are based on the study of other corporates' default and recovery data from international credit-rating agencies, 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.

## 28. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***Credit risk and impairment assessment (Continued)***

Other receivables and deposits

The management of the Group makes 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.

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$91,924,000 (2020: HK$91,335,000) comprised approximately 77% (2020: 86%) of the Group's trade receivables at 31 December 2021. 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.

And there is no significant concentration of credit risk on other receivables and deposits.

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 or 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 |

## 28. 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 | 2021 Gross carrying amounts *HK$'000* | 2020 Gross carrying amounts *HK$'000* |
|---|---|---|---|---|---|---|
| **Financial assets at amortised costs** | | | | | | |
| Trade receivables (government) | 16 | N/A | Low risk *(note 1)* | Lifetime ECL | 95,915 | 93,821 |
| Trade receivables (non-government) | 16 | N/A | *(note 1)* | Lifetime ECL (collective assessment) | 23,900 | 11,805 |
| Other receivables and deposits | 17 | N/A | Low risk *(note 2)* | 12m ECL | 7,298 | 9,387 |
| Pledged bank balances | 18 | Aa3 (2020: Aa3) *(note 3)* | N/A | 12m ECL | 21,700 | 43,490 |
| Bank balances | 18 | Aa3, A1, A2 (2020: Aa3, A1, A2) *(note 3)* | N/A | 12m ECL | 40,416 | 35,515 |

*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 ECL on trade receivables from non-government customers by using a collective assessment, 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.

## 28. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***Credit risk and impairment assessment (Continued)***

*Notes:* (Continued)

1. (Continued)

As part of the Group's credit risk management, the Group assessed the balance collectively with reference to (i) average loss rates, which are based on study of other corporates' default and recovery data from international credit-rating agencies, 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 consisting 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 collective assessment at the end of the reporting period within lifetime ECL (not credit-impaired).

**Gross carrying amount**

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **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%** | **22,883** | 0.1% | 11,640 |
| 31-90 days past due | **2.3%** | **809** | 2.6% | 144 |
| Over 90 days past due | **7.0%** | **208** | 8.3% | 21 |
| | | **23,900** | | 11,805 |

During the year ended 31 December 2021, no impairment allowance was provided for trade receivables from non-government customers based on the collective assessment as the amount is insignificant (2020: nil).

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* |
|---|---|---|---|
| At 31 December 2021 | | | |
| Other receivables and deposits | **–** | **7,298** | **7,298** |
| At 31 December 2020 | | | |
| Other receivables and deposits | – | 9,387 | 9,387 |

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

## 28. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group 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.

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 |
|---|---|---|---|---|---|---|
| At 31 December 2021 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | **N/A** | **–** | **5,683** | **–** | **5,683** | **5,683** |
| Other payables | **N/A** | **–** | **8,787** | **–** | **8,787** | **8,787** |
| Bank and other borrowings | | | | | | |
| – floating rates | **4.02** | **91,660** | **–** | **–** | **91,660** | **91,660** |
| – fixed rate | **6.50** | **244** | **–** | **–** | **244** | **244** |
| | | **91,904** | **14,470** | **–** | **106,374** | **106,374** |
| Lease liabilities | **2.22** | **–** | **16,239** | **13,309** | **29,548** | **27,594** |
| At 31 December 2020 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | N/A | – | 4,926 | – | 4,926 | 4,926 |
| Other payables | N/A | – | 4,740 | – | 4,740 | 4,740 |
| Bank and other borrowings | | | | | | |
| – floating rates | 5.07 | 67,596 | – | – | 67,596 | 67,596 |
| – fixed rate | 6.50 | 3,070 | – | – | 3,070 | 3,070 |
| – interest-free | N/A | 11,000 | – | – | 11,000 | 11,000 |
| | | 81,666 | 9,666 | – | 91,332 | 91,332 |
| Lease liabilities | 2.05 | – | 23,890 | 8,911 | 32,801 | 31,531 |

## 28. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

***Liquidity risk (Continued)***

Bank and other borrowings with a repayment on demand clause are included in the "Repayable on demand" time band in the above maturity analysis. At 31 December 2021, the aggregate carrying amount of these bank and other borrowings amounted to HK$91,904,000 (2020: HK$81,666,000). 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.

For the purpose of managing liquidity risk, the 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<br>*%* | Within 1 year<br>*HK$'000* | Within 1 – 5 years<br>*HK$'000* | Total undiscounted cash flows<br>*HK$'000* | Total carrying amount<br>*HK$'000* |
|---|---|---|---|---|---|
| **Bank and other borrowings:** | | | | | |
| At 31 December 2021 | **4.02** | **92,809** | **2,930** | **95,739** | **91,904** |
| At 31 December 2020 | 5.31 | 84,964 | 245 | 85,209 | 81,666 |

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.

## 29. 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* | Total *HK$'000* |
|---|---|---|---|
| At 1 January 2020 | 56,184 | 119,203 | 175,387 |
| Financing cash flows *(Note)* | (27,499) | (41,831) | (69,330) |
| New leases entered *(note 30)* | 863 | – | 863 |
| Finance costs recognised | 1,983 | 4,294 | 6,277 |
| At 31 December 2020 | 31,531 | 81,666 | 113,197 |
| Financing cash flows *(Note)* | **(27,080)** | **7,450** | **(19,630)** |
| New leases entered *(note 30)* | **21,500** | **–** | **21,500** |
| Finance costs recognised | **1,643** | **2,788** | **4,431** |
| At 31 December 2021 | **27,594** | **91,904** | **119,498** |

*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.

## 30. MAJOR NON-CASH TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, during the year ended 31 December 2021, the Group entered into new lease agreements for the use of leased properties and motor vehicles (2020: leased properties) for 2–5 years. On the lease commencement, the Group recognised HK$21,500,000 (2020: HK$863,000) right-of-use assets and HK$21,500,000 (2020: HK$863,000) lease liabilities.

## 31. 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:

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| Total building management fee, government rent and rates paid or payable to: | | |
| CCT Limited *(note i)* | **29** | 27 |
| Source Mega Inc. Limited ("**Source Mega**") *(note ii)* | **29** | 27 |
| LES Limited *(note iii)* | **29** | 27 |
| Interests on lease liabilities paid or payable to: | | |
| CCT Limited *(note i)* | **28** | 14 |
| Source Mega *(note ii)* | **24** | 12 |
| LES Limited *(note iii)* | **23** | 11 |
| Imputed interest expense on shareholder loans | **–** | 796 |
| Lease liabilities: | | |
| CCT Limited | **–** | 99 |
| Source Mega | **–** | 83 |
| LES Limited | **–** | 81 |

*Notes:*

(i) CCT Limited is owned by Ms. Wong Siu Fan, Beatrice ("Ms. Wong"), common law spouse of Mr. Lam.

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

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

### 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 2021 and 2020 were as follows:

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* |
|---|---|---|
| Short-term benefits | **9,028** | 6,958 |
| Post-employment benefits | **87** | 90 |
| | **9,115** | 7,048 |

## 32. 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 10.

## 33. PERFORMANCE GUARANTEE

At 31 December 2021, performance guarantee of HK$160,542,000 (2020: HK$102,978,000) 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 note 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.

## 34. 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 at 31 December 2021 | 2020 | Principal activities |
|---|---|---|---|---|---|---|
| Sharp Idea | The BVI | Hong Kong | US$1,000 | 100% | 100% | Investment holding |
| Lapco Service | Hong Kong | Hong Kong | HK$15,790,000 (2020: HK$11,400,000) | 100% | 100% | Provision of environmental hygiene services in Hong Kong |
| Shiny Glory | Hong Kong | Hong Kong | HK$5,000,000 | 100% | 100% | Provision of environmental hygiene 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% | 100% | Inactive |
| ET Global Limited | Hong Kong | Hong Kong | HK$1 | 100% | 100% | Inactive |

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

## 35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 2021<br>*HK$'000* | 2020<br>*HK$'000* |
|---|---|---|
| **Non-current asset** | | |
| Investments in subsidiaries | **18,278** | 18,278 |
| **Current assets** | | |
| Other receivables, deposits and prepayments | **180** | 200 |
| Amounts due from subsidiaries | **–** | 4,987 |
| Bank balances | **167** | 167 |
| | **347** | 5,354 |
| **Current liabilities** | | |
| Other payables | **1,618** | 1,728 |
| Amounts due to subsidiaries | **11,152** | – |
| Shareholder loans | **–** | 11,000 |
| Other borrowings | **244** | 3,070 |
| | **13,014** | 15,798 |
| **Net current liabilities** | **(12,667)** | (10,444) |
| **Net assets** | **5,611** | 7,834 |
| **Capital and reserves** | | |
| Share capital | **4,000** | 4,000 |
| Reserves | **1,611** | 3,834 |
| Total equity | **5,611** | 7,834 |

## 35. 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 2020 | 31,362 | 851 | (24,628) | 7,585 |
| Loss and total comprehensive expense for the year | – | – | (3,751) | (3,751) |
| **At 31 December 2020** | **31,362** | **851** | **(28,379)** | **3,834** |
| Loss and total comprehensive expense for the year | **–** | **–** | **(2,223)** | **(2,223)** |
| **At 31 December 2021** | **31,362** | **851** | **(30,602)** | **1,611** |

*Note:* The amount of HK$851,000 represented the fair value adjustment on the non-current shareholder loans using the effective interest rate of 7.5% per annum in 2019.

# FINANCIAL SUMMARY

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* | 2019*<br>*HK$'000* | 2018*<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|---|---|---|
| Revenue | **765,921** | 665,765 | 579,864 | 529,838 | 448,021 |
| Profit (loss) before taxation | **6,401** | 19,211 | (16,519) | (12,884) | (8,447) |
| Income tax (expense) credit | **(1,040)** | (824) | 404 | 1,197 | 208 |
| Profit (loss) for the year | **5,361** | 18,387 | (16,115) | (11,687) | (8,239) |
| Attributable to owners of the Company | **5,361** | 18,387 | (16,115) | (11,687) | (8,239) |

| | **2021**<br>***HK$'000*** | 2020<br>*HK$'000* | 2019*<br>*HK$'000* | 2018*<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|---|---|---|
| Assets and liabilities | | | | | |
| Total assets | **250,813** | 254,421 | 276,625 | 280,172 | 293,482 |
| Total liabilities | **(191,830)** | (200,799) | (241,390) | (229,673) | (231,296) |
| | **58,983** | 53,622 | 35,235 | 50,499 | 62,186 |
| Attributable to owners of the Company | **58,983** | 53,622 | 35,235 | 50,499 | 62,186 |

* 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 16, which the comparative financial information was not restated.