
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in LAPCO HOLDINGS LIMITED, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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Lapco Holdings Limited
立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8472)

**(1) SUBSCRIPTION OF EXCHANGEABLE BOND BY
A CONNECTED PERSON;
(2) MAJOR AND CONNECTED TRANSACTION IN RELATION
TO DEEMED DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL
IN A WHOLLY-OWNED SUBSIDIARY;
AND
(3) NOTICE OF EGM**

Capitalised terms used in this circular shall have the same meanings as defined in the section headed "Definitions" in this circular unless the context otherwise requires.

A letter from the Board is set out on pages 5 to 26 of this circular.

A notice convening the EGM to be held by electronic means on Friday, 17 February 2023 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company as soon as possible but in any event no less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

20 January 2023

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CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

| | |
|-----------------------|---|
| “Announcement” | the announcement of the Company dated 19 January 2023 in relation to among others, the Subscription |
| “associate(s)” | has the meaning ascribed to it under the GEM Listing Rules |
| “BLR” | Hong Kong Dollar Best Lending Rate quoted by Hang Seng Bank from time to time |
| “Board” | the board of Directors |
| “Bondholder” | the holder, for the time being, of the Exchangeable Bond appearing in the register of Bondholders as the registered holder of the Exchangeable Bond |
| “Borrower(s)” | borrowers under the New Facilities, namely, Lapco Service, Shiny Glory and Shiny Hope and each a Borrower |
| “close associate(s)” | has the meaning ascribed to it under the GEM Listing Rules |
| “Company” | Lapco Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM (stock code: 8472) |
| “Completion” | the completion of the Subscription pursuant to the terms and conditions of the Subscription Agreement |
| “Completion Date” | the date on which Completion is to take place |
| “connected person(s)” | has the same meaning ascribed to it under the GEM Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “EGM” | an extraordinary general meeting of the Company to be convened for the purpose of considering, if thought fit, approving the Subscription and other transactions as contemplated under the Subscription Agreement |

DEFINITIONS

| | |
|--------------------------|---|
| “ET Global” | ET Global Limited (置金有限公司), a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date |
| “Exchangeable Bond” | the exchangeable bond to be issued by the Company to the Subscriber in the aggregate face value of HK\$20,000,000 under the Subscription Agreement |
| “Exchange Period” | any time following the first day of the fourth month from Issue Date up to and including the day immediately prior to the maturity date (i.e. 31 December 2024) |
| “Exchange Right” | the Bondholder’s right to exchange all the outstanding principal amount of the Exchangeable Bond into 100% of the issued share capital of Shiny Glory, at any time during the Exchange Period |
| “Existing Facilities” | the banking facilities granted by the Bank on 26 July 2021, details of which are set out in the section headed “Information on the Existing Facilities and the New Facilities” in the Letter from the Board |
| “Existing Loans” | the loans in an aggregate principal amount of HK\$20,000,000 due from the Company to the Subscriber under the respective May Loan Agreement and October Loan Agreement, the terms of which are unsecured, interest free and repayable on demand |
| “GEM” | GEM of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Initial Exchange Price” | initially at HK\$400 per SG Share, subject to the adjustments |

DEFINITIONS

| | |
|---------------------------|---|
| “Lapco Service” | Lapco Service Limited (立高服務有限公司), a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date |
| “Latest Practicable Date” | 19 January 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| “Long Stop Date” | 31 March 2023 or such later date as the parties to the Subscription Agreement may agree in writing |
| “May Loan” | an interest free loan in a principal amount of HK\$12,000,000 due from the Company to the Subscriber pursuant to the May Loan Agreement |
| “May Loan Agreement” | the loan agreement of the May Loan entered into between the Company and the Subscriber on 11 May 2022 |
| “New Facilities” | the banking facilities granted by the Bank, details of which are set out in the sections headed “Reasons for and Benefits of the Subscription and the Possible Disposal” and “Information on the Existing Facilities and the New Facilities” in the Letter from the Board |
| “October Loan” | an interest free loan in a principal amount of HK\$8,000,000 due from the Company to the Subscriber pursuant to the October Loan Agreement |
| “October Loan Agreement” | the loan agreement of the October Loan entered into between the Company and the Subscriber on 7 October 2022 |
| “Possible Disposal” | the exercise of the Exchange Right by the Bondholder to exchange the Exchange Shares pursuant to the terms of the Exchangeable Bond, which is deemed to be a disposal of the entire shareholding interest in Shiny Glory |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary shares of HK\$0.01 each in the share capital of the Company |

DEFINITIONS

| | |
|--------------------------|--|
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Sharp Idea” | Sharp Idea Global Limited (鋒意環球有限公司), a company incorporated in the British Virgin Islands with limited liability and is a direct wholly-owned subsidiary of the Company as at the Latest Practicable Date |
| “Shiny Glory” | Shiny Glory Services Limited (丞美服務有限公司), a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date |
| “Shiny Hope” | Shiny Hope Limited (亮豪有限公司), a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date |
| “SG Shares” | ordinary shares in the share capital of the Shiny Glory |
| “Stock Exchange” | the Stock Exchange of Hong Kong Limited |
| “Subscriber or Mr. Tam” | Mr. Tam Wai Tong |
| “Subscription” | the subscription of the Exchangeable Bond by the Subscriber in accordance with the terms and conditions set out in the Subscription Agreement |
| “Subscription Agreement” | the subscription agreement dated 19 January 2023 entered into among the Company, Shiny Glory and the Subscriber in relation to the Subscription |
| “%” | per cent. |

LETTER FROM THE BOARD

Lapco Holdings Limited

立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8472)

Executive Director:

Mr. Tam Yiu Shing, Billy

Independent Non-executive Directors:

Mr. Mak Kwok Kei

Mr. Ho Kin Wai

Ms. Lam Kit Yan

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

20 January 2023

To the Shareholders

Dear Sir or Madam,

**(1) SUBSCRIPTION OF EXCHANGEABLE BOND BY
A CONNECTED PERSON;
(2) MAJOR AND CONNECTED TRANSACTION IN RELATION
TO DEEMED DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL
IN A WHOLLY-OWNED SUBSIDIARY;
AND
(3) NOTICE OF EGM**

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription Agreement and the transactions contemplated thereunder; and (ii) the notice of EGM, in order to enable you to make an informed decision on how to vote at the EGM.

LETTER FROM THE BOARD

THE SUBSCRIPTION AGREEMENT

On 19 January 2023, the Company, Shiny Glory, an indirect wholly-owned subsidiary of the Company, and the Subscriber entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for the Exchangeable Bond at a principal amount of HK\$20,000,000 on Completion.

Principal Terms of the Subscription Agreement

The principal terms of the Subscription Agreement are summarised as follows:

- Date: 19 January 2023
- Parties: (a) the Company as the issuer;
- (b) Shiny Glory; and
- (c) Mr. Tam as the subscriber

Conditional Subscription

Subject to the fulfilment of the conditions precedent to the Subscription Agreement, the Subscriber has agreed to subscribe for and the Company has agreed to issue the Exchangeable Bond at a principal amount of HK\$20,000,000, payable by automatically and immediately setting off in its entirety against the Company's obligation to repay the Existing Loans to the Subscriber upon Completion.

Conditions precedents to the Subscription Agreement

Completion is subject to the fulfilment of the following conditions:

1. the Subscription and other transactions as contemplated under the Subscription Agreement having been approved by the Shareholders of the Company at the EGM; and
2. all necessary consents, approvals, registration and filings required from all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong or elsewhere or otherwise required from any third parties in connection with the transaction contemplated under the Subscription Agreement having been obtained.

None of the above conditions is waivable. If any of the above conditions have not been fulfilled on or before the Long Stop Date, all rights and obligations of the parties to the Subscription Agreement shall cease and terminate, save and except for certain surviving provisions therein.

As at the Latest Practicable Date, none of the conditions set forth above has been fulfilled.

LETTER FROM THE BOARD

Completion

Completion will take place on the Completion Date.

As at the Latest Practicable Date, the Subscriber is the director of certain subsidiaries of the Company, namely, Sharp Idea, Shiny Glory, Lapco Service, Shiny Hope and ET Global. The Subscriber will resign as a director all of the above subsidiaries save for Shiny Glory on the Completion Date.

PRINCIPAL TERMS OF THE EXCHANGEABLE BOND

The principal terms of the Exchangeable Bond are summarised below:

| | |
|-------------------|--|
| Issuer: | The Company |
| Principal amount: | HK\$20,000,000 |
| Interest: | The Exchangeable Bond shall not bear any interest. |
| Maturity Date: | 31 December 2024 |
| Exchange Shares: | 50,000 ordinary shares of Shiny Glory, representing 100% of the existing issued share capital of Shiny Glory |
| Exchange Price: | Initially at an Initial Exchange Price of HK\$400 per Exchange Share, subject to the adjustments stated below. |

The Initial Exchange Price is determined after arms-length negotiation among the parties to the Subscription Agreement and with reference to the outstanding amount of the Existing Loans of HK\$20,000,000 and the net assets value of Shiny Glory of approximately HK\$17,639,000 as at 30 June 2022 (“**June NAV**”). The Initial Exchange Price of HK\$400 per Exchange Share (i.e. calculated by dividing the outstanding amount of the Existing Loans of HK\$20,000,000 by 50,000 issued SG Shares) represents a premium of 13.4% over the June NAV per SG Share (i.e. HK\$352.78 per SG Share, calculated by dividing the June NAV of HK\$17,639,000 by 50,000 issued SG Shares).

LETTER FROM THE BOARD

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

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

Exchange Period:

The Exchange Right in respect of an Exchangeable Bond may not be exercised from the date of issue of the Exchangeable Bond (the “**Issue Date**”) up to the last day of the third month from the Issue Date.

The Bondholder is, subject to the Company not exercising the Redemption Right (as defined below), free to exercise the Exchange Right in whole attached thereto from the first day of the fourth month from the Issue Date up to and including the day immediately prior to the Maturity Date.

The Company shall confirm in writing to the Bondholder as to whether the Company elects to exercise the Redemption Right upon the Bondholder electing to exercise the Exchange Right. In the event that the Company elects not to exercise the Redemption Right, it shall procure that 100% shareholding interest in the Shiny Glory be transferred to the Bondholder.

LETTER FROM THE BOARD

- Transferability: The Exchangeable Bond is not transferable, without the consent of the Company, from the date of issue of the Exchangeable Bond and until the last day of the third month from the Issue Date, and will be freely transferable, in whole, from the date thereafter subject to the compliance with the applicable laws, listing rules, securities regulations, the applicable provisions of the Exchangeable Bond and the Subscription Agreement, in particular, the requirements under the GEM Listing Rules and/or imposed by the Stock Exchange and/or other requirements imposed by the Stock Exchange, and the approval of the Shareholders in a general meeting if so required under, and in compliance with, the GEM Listing Rules if such assignment and/or transfer is proposed to be made to a connected person of the Company.
- Redemption by Company: The Company may elect to redeem the Exchangeable Bond (in whole) then outstanding by paying to the Bondholder a redemption price equal to an aggregate of 100% of the outstanding principal amount of the Exchangeable Bond at any time from the Issue Date and up to the Maturity Date (the “**Redemption Right**”).
- Voting and dividend rights: The Exchangeable Bond does not confer the Bondholder any voting right at any meetings of Shiny Glory nor any dividends, distribution and capital returns.
- Status: The Exchangeable Bond constitutes direct, general, unsubordinated, unconditional and unsecured obligations of the Company and shall rank equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.
- Listing: No application will be made for listing of, or permission to deal in, the Exchangeable Bond on the Stock Exchange or any other stock exchange.

LETTER FROM THE BOARD

Pursuant to the terms of the Exchangeable Bond, except for business operation and/or obtaining financing from banks in the ordinary course of business of Shiny Glory, the Company shall procure that, among others, without prior written consent of the Subscriber, Shiny Glory shall not (i) enter into any new business not related to the current business of Shiny Glory or cessation of any existing business or otherwise materially change the nature and/or scale of the current business of Shiny Glory; (ii) conduct any reduction, alternation or reconstitution of or to its share capital or any rights attached thereto, or enter into any arrangements with its creditors; (iii) incur substantial financial indebtedness; and/or (iv) disposal of any substantial assets.

Basis for Determination of the Exchange Price

The Initial Exchange Price is HK\$400 per Exchange Share, subject to adjustments, is determined after arms-length negotiation among the parties to the Subscription Agreement and with reference to the June NAV of approximately HK\$17,639,000.

Having considered (i) the business model of Shiny Glory, with uncertainty income stream from contracts to be awarded through a competitive bidding process; (ii) the historical net profit of Shiny Glory (excluding Hong Kong government's COVID-19 related subsidies in year 2020) for the last four financial years were in the range of HK\$67,000 to HK\$316,000; (iii) most of Shiny Glory's assets and liabilities were short term receivables and payables as well as cash and bank balances and bank borrowings, and the earning power of Shiny Glory is derived primarily from its working capital and other tangible assets; and (iv) the value of each of Shiny Glory's assets and liabilities could be analysed and appraised individually, the Directors consider that the net assets value of Shiny Glory, which takes into account the fair value of its total assets minus its total liabilities is the most appropriate pricing method to reflect the market value of Shiny Glory and the June NAV is made with reference to the latest published interim results of the Group for the six months ended 30 June 2022.

Based on the above, the Directors consider that (i) the Exchange Price, which was determined based on the net assets value of Shiny Glory (with a view to best reflecting the market value of Shiny Glory); (ii) the financial position of Shiny Glory, in particular, low profit margin and increased gearing as a result of the Existing Loans as discussed in section headed "Reasons for and benefits of the Subscription and the Possible Disposal" and the Initial Exchange Price representing a premium to the June NAV per SG Share; (iii) the Exchangeable Bond is interest free; and (iv) adjustment mechanism is in place to ensure the Exchange Price will reflect the net assets value of Shiny Glory at the time the Exchange Right is being exercised, is fair and reasonable and in the interests of the Company and Shareholders as a whole.

INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the GEM (stock code: 8472). The principal activity of the Company is investment holding.

The Group is principally engaged in the provision of environmental hygiene services, including (a) cleaning services; (b) pest management services; (c) waste

LETTER FROM THE BOARD

management and recycling services; and (d) landscaping services through its two principal operating subsidiaries, namely Lapco Service and Shiny Glory to customers in both the public sector (i.e. various departments of the Hong Kong Government) and the private sector.

INFORMATION ON SHINY GLORY

Shiny Glory is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company. Shiny Glory is principally engaged in the provision of environmental hygiene services, including (a) cleaning services; (b) pest management services; (c) waste management and recycling services.

Set out below is an extract of the audited financial statements prepared for the two financial years ended 31 December 2021 and 31 December 2020 respectively of Shiny Glory prepared in accordance with the Hong Kong Financial Reporting Standards:

| | For the year ended | |
|------------------------|---------------------|---------------------|
| | 31 December 2021 | 31 December 2020 |
| | HK\$'000 | HK\$'000 |
| Revenue | 237,432 | 126,453 |
| Profit before taxation | 643 | 6,780 |
| Profit after taxation | 316 | 6,727 |

For the year ended 31 December 2020, Shiny Glory recorded other income of approximately HK\$6,524,000 in relation to Hong Kong government's COVID-19 related subsidies. If excluding such item, net profit of Shiny Glory for the year ended 31 December 2020 would reduce to approximately HK\$203,000.

The unaudited net assets of Shiny Glory as at 30 June 2022 amounted to approximately HK\$17,639,000.

As disclosed in the sections headed "Information on the Existing Facilities and the New Facilities" and "Information on the Existing Loans" in this letter, Shiny Glory is one of the co-borrowers of the Existing Facilities and the New Facilities and the proceeds of the Existing Loans were utilised by Shiny Glory for working capital purpose and to facilitate Shiny Glory, as co-borrower to obtain the New Facilities.

INFORMATION ON THE SUBSCRIBER

The Subscriber Mr. Tam Wai Tong, is a director of Sharp Idea, Shiny Glory, Lapco Service, Shiny Hope and ET Global, all of which are wholly-owned subsidiaries of the Company.

LETTER FROM THE BOARD

INFORMATION ON THE EXISTING FACILITIES AND THE NEW FACILITIES

Set out below are the principal terms of the Existing Facilities and the New Facilities:

| | Existing Facilities | New Facilities |
|---|--|--|
| Date: | 26 July 2021 | 13 October 2022 |
| Lender: | Hang Seng Bank (the “ Bank ”) | |
| Borrower: | (1) Lapco Service and Shiny Glory for trade finance facilities (“ TR Facilities ”); (2) Shiny Hope for equipment purchase loan facility (“ Equipment Loan ”) | |
| Purpose: | TR Facilities for bank financing services on, among others, factoring and bank guarantee Equipment Loan for bank financing services on equipment purchases (i.e. purchase/finance leasing of cleaning vehicles) | |
| Size of the Existing Facilities and the New Facilities: | TR Facilities: up to HK\$364.5 million, of which the maximum limit for bank guarantee facility (“ BG Limit ”) is HK\$165 million (can be raised to HK\$210 million at the Bank’s discretion) | TR Facilities: up to HK\$315 million, of which the maximum BG Limit is HK\$165 million Equipment Loan: HK\$22.2 million Equipment Loan: HK\$25 million |
| Interest rates: | TR Facilities: From 2% per annum below the BLR* to 8% per annum over the BLR* Equipment Loan: 1.3% per annum below the BLR *Current BLR is 5.625% per annum | |
| Maturity: | No maturity date but subject to review by the Bank from time to time (<i>Note 1</i>) | |

LETTER FROM THE BOARD

| | <u>Existing Facilities</u> | <u>New Facilities</u> |
|-------------------------------------|--|---|
| Security: | <p>The Existing Facilities are secured by, among others, (i) corporate guarantee from the Company; (ii) cross guarantees among certain subsidiaries (including Borrowers) of the Company; (iii) charge over receivables of the Borrowers; and (iv) charge over deposits at no less than HK\$17,700,000 and HK\$4,000,000 from Lapco Service and Shiny Glory respectively</p> | <p>The New Facilities are secured by, among others, (i) all security under the Existing Facilities; (ii) the provision of an additional HK\$8,000,000 deposit (“New Deposit”) to be pledged in favour of the Bank by Shiny Glory; (iii) the entering into of (a) a subordination deed (“Subordination Deed”) by the Subscriber in favour of the Bank subordinating and ranking any and all loans from the Subscriber behind the loans from the Bank); and (b) an undertaking (“Undertaking”) by the Subscriber to maintain an interest-free loan balance (i.e. no repayment) in the form of an exchangeable bond with the Company and/or Shiny Glory of no less than HK\$12,000,000 until 31 December 2024 save for the capitalisation of such exchangeable bond into equity of Shiny Glory (the above (ii) and (iii) are collectively known as the “New Security”)</p> |
| Gearing ratio of the Bank (Note 2): | 17.9 (Note 3) | 11.4 (Note 4) |

LETTER FROM THE BOARD

Notes:

1. Such review will normally be conducted by the Bank on an annual basis.
2. The gearing ratio of the Bank is calculated by dividing the maximum credit exposure by pledged deposit. The maximum credit exposure is defined to be the sum of the maximum TR Facilities and the Equipment Loan.
3. The gearing ratio of the Bank is calculated by dividing the maximum credit exposure of HK\$389.5 million by pledged deposit of HK\$21.7 million.
4. The gearing ratio of the Bank is calculated by dividing the maximum credit exposure of HK\$337.2 million by pledged deposit of HK\$29.7 million.

The Group is principally engaged in the provision of environmental hygiene services to customers in both public and private sectors in Hong Kong and the delivery of the environmental hygiene services requires substantial financial resources and the support of the banking facilities from the Bank, including the TR Facilities and the Equipment Loan under the Existing Facilities and the New Facilities for the following purposes:

(i) TR Facilities for payment of Performance Guarantee and Working Capital Financing

Performance Guarantee

The duration of the Group's service contracts with its customers ranges from one to five years and the Group is generally required, when a service contract is awarded by the customers and within 14 days from the award day, to provide performance guarantee by way of cash or bank guarantee at a certain percentage (i.e. approximately 6% of total contract sum as required by the majority of the contracts in the public sector) of the total contract sum as security for due performance of the Group's contractual obligations during the extended period.

The performance guarantee will be released by the customers to the Group upon completion of the service contracts. If the Group fails to meet the requirements of the contracts or quality standards of its customers, the Group may be liable to compensate its customers for losses and damages caused by delay or non-performance and the Group's customers may be entitled to retain performance guarantee maintained in their favour.

The Group relies on the Bank to provide bank guarantee under the Existing Facilities and the New Facilities for the payment of performance guarantee to enhance the Group's ability to participate in competitive tenders/quotations to obtain the service contracts from its customers and avoid the lock-up of significant amount of the Group's cash for a prolonged period.

LETTER FROM THE BOARD

As at 30 November 2022, the performance guarantees provided by the Bank under the Existing Facilities and New Facilities on behalf of the Group in favour of the Group's customers is HK\$165.2 million.

Working Capital Financing

The Group generally grants a credit term of 90 days for its customers but the Group is required to pay its suppliers/service providers in advance or within a 30 to 60 days credit period. In addition, the Group's business is labour intensive and as disclosed in the interim report of the Company for the six months ended 30 June 2022, the Group had 3,971 employees as at 30 June 2022 and it is required to pay salaries to its employees on a monthly basis.

As such, there are often time lags between making payments to the Group's employees and suppliers/service providers and receiving payments from its customers and the Group relies on the TR Facilities for trade receivables factoring and the proceeds from which are mainly applied for payment of staff costs, trade payables and operating expenses on monthly basis.

As at 30 November 2022, the Group reported loans from factoring of trade receivables of HK\$25.2 million and the monthly loan size from factoring can be up to approximately HK\$60 million to HK\$70 million.

(ii) Equipment Loan for Purchase/Finance Leasing of Cleaning Vehicles and Equipment

The Group deploys cleaning vehicles and mechanical cleaning equipment when providing services to its customers and the Equipment Loan under the Existing Facilities and the New Facilities is for the purchases of vehicles and equipment.

As at 30 November 2022, the Group reported Equipment Loan of approximately HK\$21.6 million.

INFORMATION ON THE EXISTING LOANS

As at the Latest Practicable Date, the Company is indebted to the Subscriber for a total of HK\$20,000,000 pursuant to the May Loan Agreement and the October Loan Agreement in respective principal amounts of HK\$12,000,000 and HK\$8,000,000 entered into between the Company, as borrower and the Subscriber, as lender on 11 May 2022 and 7 October 2022 respectively.

LETTER FROM THE BOARD

May Loan Agreement

The May Loan of HK\$12,000,000 was unsecured, interest free and repayable in three months after the drawdown date (i.e. 11 May 2022) pursuant to the May Loan Agreement and such loan has been renewed on 11 August 2022 and the terms of which are unsecured, interest free and repayable on demand.

In April 2022, Shiny Glory won the bid of a cleaning service contract with service commencement date on 1 May 2022 (“**May Cleaning Contract**”) from the Food and Environmental Hygiene Department of Hong Kong and was required to pay the performance guarantee (i.e. HK\$12.02 million, being 6% of the contract sum) in cash or by bank guarantee within 14 days from the date of the May Cleaning Contract was awarded. As the overall balance of bank guarantees granted by the Bank in favour of the Group’s customers at the relevant time had already exceeded the BG Limit by approximately 8.9%, Shiny Glory was unable to obtain the Bank’s approval for an increase in BG Limit and draw down the Existing Facilities for the payment of performance guarantee within the required timeframe. In view of the imminent deadline for the payment of the performance guarantee, after discussion among the executive Directors of the Company and directors of Shiny Glory, the Company obtained the May Loan from the Subscriber for such purpose. The proceeds of the May Loan were applied for the payment of performance guarantee of approximately HK\$12.02 million by Shiny Glory in May 2022 as required under the May Cleaning Contract.

October Loan Agreement

The October Loan in the principal amount of HK\$8,000,000 was unsecured, interest free and repayable on demand pursuant to the October Loan Agreement. The proceeds of the October Loan have been applied for the provision of New Deposits by Shiny Glory as pledged deposit in favour of the Bank under the New Facilities.

Details of the New Facilities have been disclosed in the section headed “Information on the Existing Facilities and the New Facilities” in this letter.

Accounting treatment of the Existing Loans

The Existing Loans have been recorded as current liabilities of the Group and intra-group debts due from Shiny Glory to the Company.

Effect to the Existing Loans after entering into of the New Facilities by the Group but before completion of the Exchangeable Bond

Following the entering into of the Undertaking by the Subscriber in favour of the Bank on 13 October 2022 under the New Facilities, the Subscriber agrees to maintain the loan balances with the Company of no less than HK\$12,000,000 under the Existing Loans with the Company until 31 December 2024.

LETTER FROM THE BOARD

Effect to the Existing Loans after completion of the Exchangeable Bond

Pursuant to the terms of the Exchangeable Bond, the principal of HK\$20,000,000 payable by the Subscriber under the Exchangeable Bond will be set off against the Company's obligation to repay the Existing Loans of HK\$20,000,000 at Completion.

Listing Rules Implications of the Existing Loans

The Subscriber is a director of Sharp Idea, Shiny Glory, Lapco Service, Shiny Hope and ET Global, all of which are wholly-owned subsidiaries of the Company. Therefore, the Subscriber is a connected person of the Company at the subsidiary level under Chapter 20 of the GEM Listing Rules.

As such, the entering into of the Existing Loans in May 2022 and October 2022 constituted connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As the Existing Loans were independent from the Exchangeable Bond, interest-free and not secured by the assets of the Group, and was considered to be conducted on normal commercial terms or better, the Existing Loans were fully exempted in accordance with Rule 20.88 of the GEM Listing Rules.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND THE POSSIBLE DISPOSAL

The Directors (including the independent non-executive Directors) considered the Subscription and the Possible Disposal is crucial for the Group for the reasons set out below:

(a) Refinancing the Existing Loans with better terms

The terms of Subordination Deed, the Undertaking and the New Deposits under the New Facilities

As abovementioned, the Group relies on bank financings to obtain new contracts and manage its liquidity position associated with undertaking contract works (which normally last for months and result in locking up a portion of the Group's capital for potentially a prolonged period if without bank financings). Banks in Hong Kong have become more prudent in lending as the Hong Kong economy has been showing signs of slow down for months amid the worsened prospects of the global economy. During the recent annual review of the Group's Existing Facilities by the Bank, the Bank performed a comprehensive assessment on the financial position of the Group. The Bank concluded that it had the urgent need to reduce its loan gearing ratio of 17.9 under the Existing Facilities. In addition to the reduction in the size of the banking facilities available to the Borrowers and imposing additional monitoring/control mechanisms relating to the utilisation of the banking facilities by the Borrowers, it requested for and both the Group and the

LETTER FROM THE BOARD

Subscriber (as lender of the Existing Loans and a director of the Borrowers with a view to facilitating the Group to obtain the New Facilities) have accepted the followings under the New Facilities entered into between the Borrowers and the Bank on 13 October 2022:

- (i) as the Existing Loans from the Subscriber are repayable by the Company on demand and the Group's bank balances and cash as at 30 June 2022 only amounted to approximately HK\$16.8 million, they create short-term repayment obligation and liquidity pressure on the Group and increase the difficulty for the Bank to assess the repayment capability of the Group. As such, new forms of guarantees (i.e. the Subordination Deed and the Undertaking, both of which are common arrangements for the banks in Hong Kong to mitigate the risks against borrower's high gearing position, particularly if related party loans form part of the loan portfolio of the borrowers) from the Subscriber are requested by the Bank and accepted by the Subscriber to extend the repayment period and the interest-free status of no less than HK\$12,000,000 in principal under the Existing Loans during the period of the Undertaking and prioritise the Bank's loan over the Existing Loans in order to reduce the Bank's exposure to the credit/default risk of the New Facilities arising from the short-term repayment obligation of the Existing Loans by the Company and the cash flow risk of the possible interests payment under the Existing Loans to the Subscriber during the period of Undertaking;
- (ii) additional collaterals from the Borrowers including the increase in the overall size of deposits pledged by the Borrowers to secure the Bank's exposure on the BG Limit (i.e. HK\$165 million under the New Facilities) and the uncertainty associated with the long outstanding performance guarantee; and
- (iii) as both Shiny Glory and Lapco Service are the Borrowers of the TR Facilities under the Existing Facilities, each of Lapco Service and Shiny Glory has already provided pledged deposits of HK\$17.7 million and HK\$4 million respectively to the Bank. In view of the relatively smaller size of pledged deposits from Shiny Glory under the Existing Facilities, the Bank requests for an additional HK\$8 million from Shiny Glory as New Deposit for the grant of the New Facilities and the Company has obtained the October Loan from the Subscriber for the provision of the New Deposit by Shiny Glory to the Bank.

By exercising the above measures, the Bank's gearing ratio will be reduced from 17.9 to 11.4, and that the Bank's credit exposure will be further reduced by HK\$20 million as the principal of HK\$20,000,000 payable by the Subscriber under the Exchangeable Bond will be set off against the Company's obligation to repay the Existing Loans of HK\$20,000,000 at Completion and the Company maintaining the Exchangeable Bond with an equity conversion option until 31 December 2024 pursuant to the Undertaking will not negatively affect the credit assessment of the Bank on the Group. By entering into the Subordination Deed in favour of the Bank, any and all of the Subscriber's loan provided to the Group (whether existing or provided in the future) will rank behind the Bank. It is therefore in the Bank's best interests to request for the above arrangements to reduce its credit exposure.

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The principal terms of the Existing Facilities and the New Facilities have been disclosed in the section headed “Information on the Existing Facilities and the New Facilities” in this letter.

Based on the above terms of the New Facilities, except for the arrangement of loan capitalisation, there are no other ways to repay or refinance the Existing Loans before 31 December 2024.

Strike a balance among the respective interests of the Borrowers, the Bank and the Subscriber

The Company, the Borrowers and the Bank, during the recent review of the Existing Facilities, have reviewed the Group’s operating structure with a view to optimising its finance structure, preserving liquidity, lowering its gearing and ultimately strengthening its financial position to mitigate the liquidity risk of the Group and the lending risk of the Bank associated with the Group’s business (the “**Operational Review**”). The Exchangeable Bond, together with the Possible Disposal was proposed by the Company to the Subscriber after the Operational Review to strike a balance between the respective interests of the Borrowers (i.e. the lack of funding and the need of banking facilities) and the Bank (i.e. manageable lending risk) under the New Facilities and the need to provide security to the Subscriber for his risk exposure under the New Facilities and the Existing Loans. The exchange into the Exchange Shares by the Subscriber upon an exchange of the Exchangeable Bond will be deemed to be a disposal of the Group’s entire interest in Shiny Glory under the GEM Listing Rules. Partial exchange of SG Shares is not permitted under the provisions of the Exchangeable Bond as it would be difficult for the Bank to further review the New Facilities, which will be subject to the satisfaction of the Bank on the credit assessment on the Subscriber as a potential minority shareholder of Shiny Glory when Shiny Glory is partially owned by the Group and partially owned by the Subscriber.

In addition to the Exchangeable Bond, the Company had discussed with the Subscriber as well as the Bank regarding the possibility of issuing an interest-bearing note/bond to be secured by a share charge on SG Shares, however, as additional finance costs will have negative impact on the cash flow and profitability of the Group and the share charge on SG Shares will affect the overall credit rating of the Group, it would be difficult for the Bank to further review the New Facilities. The Bank has therefore expressed its view during the Operational Review that it is inclined to grant the New Facilities on the basis that the Exchange Right is granted to the Subscriber exchangeable into 100% of the issued share capital of Shiny Glory, as opposed to a share charge over SG Shares, rendering it difficult for the Bank to assess the credit rating of the Group.

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Lack of alternative means of financing of the Group

In view of the Bank's requests under the New Facilities, the Company has, in addition to the Bank, discussed with other third-party financial institutions with a view to obtaining new trade finance facilities or replacing the existing facilities from the Bank. However, the Company failed to obtain any offers from other third-party financial institutions on comparable size with the New Facilities.

The Company has also considered debt/equity financings to refinance the Existing Loans, notwithstanding the restrictions under the New Facilities, pure debt financing from banks and other financial institutions was considered difficult and also not in favour of the Group as such loans will require collaterals and incur additional interest burden on the Group. In respect of equity financing, it will be difficult for the Company to obtain equity financings of such magnitude on acceptable terms in light of the current financial position of the Group, the recent market capitalisation of the Company in December 2022 and January 2023 in a range of approximately HK\$30.8 million to HK\$38.4 million and the market conditions.

Having considered the above and after arms-length negotiation between the Company and the Subscriber, the Company has entered into the Subscription Agreement with the Subscriber taking into account (i) the current liquidity position of the Group with cash and bank balances (excluding pledged deposit) of only approximately HK\$16.8 million as at 30 June 2022; (ii) the imminent need of the New Facilities from the Bank for maintaining the Group's business operations and development; (iii) the issue of the Exchangeable Bond is the only option available in consideration of the respective interests of the Bank, the Group and the Subscriber will not negatively affect the credit assessment of the Bank on the Group; (iv) the Exchangeable Bond is unsecured and interest free with maturity on 31 December 2024, the terms of which are better than the Bank's request of maintaining a zero interest loan of no less than HK\$12 million up to 31 December 2024; (v) the issue of the Exchangeable Bond with an equity conversion option during the Exchange Period for immediate settlement of the Existing Loans is allowed under the terms of the New Facilities and has been agreed with the Bank; and (vi) the financial position of Shiny Glory and the benefits of the Possible Disposal as discussed in paragraphs (b) and (c) below.

(b) Financial position of Shiny Glory

Based on the interim report of the Company for the six months ended 30 June 2022, the annual report of the Company for the year ended 31 December 2021 and the financial information of Shiny Glory as discussed in the section headed "Information on Shiny Glory" in this letter, notwithstanding that Shiny Glory contributes to (i) 54.3% of the total assets of the Group as at 30 June 2022; and (ii) 19% and 31% of the Group's revenue for the years ended 31 December 2020 and 2021 respectively, it reported relatively low profit margin (excluding Hong Kong government's COVID-19 related subsidies in year 2020) of 0.13% and 0.16% as compared with the Group's 0.54% and 0.70% for each of the year ended 31 December 2020 and 2021 and over 60% of Shiny Glory's total assets were trade receivables and subject to security charge in favour of the Bank for trade receivables

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factoring. In addition, under the New Facilities, the extended repayment arrangement of the Existing Loans as well as the new pledged deposits of HK\$8 million will increase the gearing level of Shiny Glory, negatively affecting its liquidity position and thus, creating further downward pressure on margins across the Group.

(c) The Possible Disposal can enhance the financial position of the Group

As abovementioned, the Directors have been exploring ways to optimise the Group's operating structure with a view to enhancing its cost efficiency and strengthening the Group's liquidity and financial position. While the primary intention of the Subscription (which may lead to the Possible Disposal) is to facilitate the Group in obtaining the New Facilities, having considered the current volatile economic situation, the negative impact of the expected decreasing size of available banking facilities and the increasing costs and difficulties in obtaining bank financings to the business growth and financial position of the Group and the financial position of Shiny Glory as discussed above, the Board is of the view that, the Exchangeable Bond and the Possible Disposal of Shiny Glory, can also offer an opportunity for the Group to scale down its less cost-efficient operations, lower its gearing and improve its overall financial position.

The Group will continue to be engaged in the provision of environmental hygiene services following completion of the Possible Disposal. Competition within the environmental hygiene service industry is always fierce with relatively low entry barriers and a large number of service providers (i.e. over 1,600 establishments engaged in cleaning and pest control activities in Hong Kong in 2021 according to the statistics from the Census and Statistics Department of Hong Kong). In spite of the fact that Shiny Glory, being engaged in similar business of the Group, may become one of the Group's competitors if the Possible Disposal materialises, the Directors believe that the Group has its own competitive strengths over its competitors. Due to the high level of competition already existing within the environmental hygiene service industry and the large number of industry players, the deconsolidation of Shiny Glory (if materialises) from the Group would not have any material adverse effect on the competitive environment of the industry which the Group is currently operating in. It is anticipated that should the Possible Disposal materialise, the level of competition from Shiny Glory would be similar to that from any other existing industry player.

The Group has a well-established presence in the environmental hygiene service industry in Hong Kong with a proven track record since 1988 and long history of business relationships in both public and private sectors, the Directors believe that, the Group, with the improved financial position will be in a better position to negotiate the terms with banks and other financial institutions in raising new funds with improved financial and gearing position, and thus will be well-positioned to capture the business opportunities in the environmental hygiene service industry in Hong Kong. Further, taking advantage of the Group's position as an established environmental hygiene service provider in Hong Kong, it is always open for the Group to expand its operations following completion of the Possible Disposal where the Directors consider that it is time to do so taking into account the future economic environment and the financial position of the Group. In any event, the Directors are of the view that regardless of whether the Possible Disposal eventually materialises, the financing arrangements with the Bank and the proposed issue of the Exchangeable Bond to the Subscriber would be beneficial to the Group as a whole.

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The terms of the Subscription Agreement are agreed based on arm's length negotiations among the Company, Shiny Glory and the Subscriber with reference to, the financial and liquidity position of the Group and Shiny Glory, the terms of the New Facilities to be granted by the Bank to the Borrowers and the terms of the New Security requested by the Bank and the risk exposure of the Subscriber under the terms of the New Facilities. In addition, the principal amount of the Exchangeable Bond to be issued was determined after taking into account the principal amount of the Existing Loans, the amount of the New Deposit required as well as the net assets value of Shiny Glory as at 30 June 2022. The Initial Exchange Price was determined based on the outstanding amount of the Existing Loans and the net assets value of Shiny Glory as at 30 June 2022. If the net asset value of Shiny Glory as at the preceding calendar month end date at the time the Bondholder elects to exercise the Exchange Right is higher than 110% of the outstanding principal amount of the Exchangeable Bond, the Bondholder shall reimburse the Company the difference between such net asset value and 110% of the outstanding principal amount of the Exchangeable Bond in cash.

The Directors (including the independent non-executive Directors) considered that while the Subscription, together with the Possible Disposal is not in the ordinary and usual course of business of the Group, the transactions contemplated therein are on normal commercial terms or better and are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE SUBSCRIPTION AND THE POSSIBLE DISPOSAL

Following Completion, the Company's obligation to repay the Existing Loans would be automatically and immediately set off in its entirety against the consideration for the issue of the Exchangeable Bond at a principal amount of HK\$20,000,000 and Shiny Glory will remain as an indirect wholly-owned subsidiary of the Company, and its accounts will continue to be consolidated into the consolidated financial statements of the Group.

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

Any gain or loss to be recorded in the consolidated statement of profit or loss of the Group arising from the Possible Disposal upon the exercise of the Exchange Right by the Subscriber will depend on, amongst others, the net asset value of Shiny Glory as at the date of exchange. For illustrating the financial effect of the Possible Disposal, on the assumption that upon the exercise of the Exchange Right by the Bondholder, (i) the Exchange Price remains at HK\$400 per Exchange Share of 50,000 issued SG Shares; and (ii) the net assets value of Shiny Glory remains at HK\$17,639,000 (i.e. the same as that as at 30 June 2022), the Group is expected to recognise an unaudited gain (excluding any costs and expenses in connection with the Possible Disposal) of approximately HK\$2,361,000, which is calculated based on the difference between the net assets value of Shiny Glory and the aggregate Exchange Price of 50,000 issued SG Shares.

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Assuming the Exchange Price remains at HK\$400 per Exchange Share of 50,000 issued SG Shares and having taken into account the total assets and liabilities of Shiny Glory of HK\$171,122,000 and HK\$153,483,000 respectively as at 30 June 2022, it is estimated that upon completion of the Possible Disposal, the total assets of the Group will decrease by approximately HK\$151,122,000, while the total liabilities of the Group will decrease by approximately HK\$153,483,000. It is estimated that the net assets of the Group will increase by approximately HK\$2,361,000.

The exact financial effect upon exchange of the Exchangeable Bond is subject to the opinion of the Company's auditors at the relevant time.

POSSIBLE CONTINUING CONNECTED TRANSACTIONS FOLLOWING COMPLETION OF THE POSSIBLE DISPOSAL

Immediately following completion of the Possible Disposal, there may be continuing or recurring transactions between Shiny Glory on the one hand and certain members of the Group on the other hand. These transactions may constitute continuing connected transactions of the Company. The Company will comply with the requirements of the relevant GEM Listing Rules in respect of these continuing connected transactions, where applicable. Further announcements will be made by the Company as and when appropriate in accordance with the requirements of the GEM Listing Rules.

GEM LISTING RULES IMPLICATION

As at the date of the Subscription Agreement, the Subscriber is a director of Sharp Idea, Shiny Glory, Lapco Service, Shiny Hope and ET Global, all of which are wholly-owned subsidiary of the Company. Therefore, the Subscriber is a connected person of the Company at the subsidiary level under Chapter 20 of the GEM Listing Rules and the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Since the Board has approved the Subscription and the independent non-executive Directors have confirmed their view that the terms of the Subscription and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the Subscription is only subject to reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In addition, the issue of the Exchangeable Bond to the Subscriber will grant an exchange right to the Subscriber to exchange the Exchangeable Bond into the Exchange Shares, which will be deemed to be a disposal of interest in Shiny Glory to the Subscriber under the GEM Listing Rules. As the relevant percentage ratio(s) for the Possible Disposal is above 25% and less than 75%, the Possible Disposal also constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and shall be subject to the announcement, reporting and Shareholders' approval requirements under the GEM Listing Rules.

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None of the Directors had material interests in the Subscription and hence no Director is required to abstain from voting on the Board resolutions approving the Subscription Agreement and the transactions contemplated thereunder. So far as the Company is aware, having made all reasonable enquiries, no Shareholder has a material interest in, and is required to abstain from voting on the resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder at the EGM.

EGM

The EGM will be convened and held by electronic means on Friday, 17 February 2023 at 3:00 p.m. for the purpose of considering and, if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder.

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

Registered Shareholders are requested to provide a valid email address of himself/herself/itself or his/her/its proxy (except for the appointment of the chairman of the EGM) for the proxy to receive the login access code to participate online in Tricor e-Meeting System.

Registered Shareholders will be able to attend the EGM, vote and submit questions online via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company.

Non-registered shareholders whose Shares are held in the Central Clearing and Settlement System through banks, brokers, custodians or Hong Kong Securities Clearing Company Limited may also be able to attend the EGM, vote and submit questions online. In this regard, they should consult directly with their banks, brokers or custodians (as the case may be) for the necessary arrangements.

Shareholders who would like to speak during the EGM through a live webcast will need to register by sending an email to our Share Registrar, Tricor Investor Services Limited at is-enquiries@hk.tricorglobal.com or via telephone hotline at (852) 2980 1333 during business hours (9:00 a.m. to 5:00 p.m., Monday to Friday, excluding Hong Kong Public holidays) no later than 3:00 p.m. on 15 February 2023 (being not less than forty-eight (48) hours before the time appointed for holding the EGM) to enable the Company to verify the Shareholders' status.

If any Shareholder has any question on the arrangements of the EGM, please contact Tricor Investor Services Limited, the Company's branch share registrar, at the following:

Address: 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong

Email: is-enquiries@hk.tricorglobal.com

Telephone: (852) 2980 1333

(Monday to Friday, excluding Hong Kong public holidays)

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM, you are requested to complete, sign and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked. The resolution(s) proposed to be approved at the EGM will be taken by poll and an announcement on the results of the EGM will be made by the Company thereafter.

BOOK CLOSURE FOR DETERMINING VOTING ENTITLEMENTS AT THE EGM

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 14 February 2023 to Friday, 17 February 2023, both days inclusive, in order to determine the identity of the members of the Company who are entitled to attend and vote at the EGM. All transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Monday, 13 February 2023.

RECOMMENDATION

The Board considers that despite the entering into of the Subscription Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group, the terms and conditions of the Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM.

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FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Shareholders and potential investors should note that the Subscription is subject to fulfilment of conditions precedent to the Subscription Agreement and may or may not proceed.

Shareholders and potential investors of the Company should exercise caution when dealing in the Shares of the Company, and if they are in any doubt about their position, they should consult their professional adviser(s).

Yours faithfully,
By Order of the Board
Lapco Holdings Limited
Tam Yiu Shing, Billy
Executive Director and Company Secretary

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the years ended 31 December 2019, 2020 and 2021 and the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.lapco.com.hk>):

Annual report for the year ended 31 December 2019 (pages 54 to 119):
<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0330/2020033001134.pdf>

Annual report for the year ended 31 December 2020 (pages 56 to 115):
<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0330/2021033001330.pdf>

Annual report for the year ended 31 December 2021 (pages 54 to 113):
<https://www1.hkexnews.hk/listedco/listconews/gem/2022/0330/2022033002604.pdf>

Interim report for the six months ended 30 June 2022 (pages 1 to 15):
<https://www1.hkexnews.hk/listedco/listconews/gem/2022/0812/2022081202222.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 November 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had approximately HK\$95,731,000 outstanding indebtedness comprising the following debts:-

- (a) Secured and guaranteed bank loans from factoring of trade receivables with full recourse of approximately HK\$25,199,000;
- (b) Unsecured and guaranteed other bank loans of approximately HK\$21,622,000;
- (c) Lease liabilities of approximately HK\$1,085,000 relating to right-of-use assets in respect of leased properties which were unsecured and unguaranteed;
- (d) Lease liabilities of approximately HK\$393,000 relating to right-of-use assets in respect of leased properties which were secured by rental deposits and unguaranteed;
- (e) Lease liabilities of approximately HK\$27,432,000 relating to right-of-use assets in respect of leased motor vehicles which were secured by motor vehicles and guaranteed by the Company or a subsidiary of the Company; and
- (f) Unsecured and unguaranteed loans from a director of the Company's subsidiaries of HK\$20,000,000.

The secured and guaranteed bank borrowings were secured and/or guaranteed by:

- (i) the pledged bank balances of the Group;
- (ii) the pledge of the Group's trade receivables to the factoring loans;
- (iii) the subordination deed given by the Group to subordinate HK\$12,000,000 to the facilities against HK\$12,000,000 loan from a director of the Company's subsidiaries;
- (iv) unlimited corporate guarantee provided by the Company and its subsidiaries; and
- (v) personal guarantee of HK\$20,000,000 from a director of the Company's subsidiaries.

Save as aforesaid and apart from intra-group liabilities, normal trade and wages payables, as at the close of business on 30 November 2022, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or other borrowings, mortgages, charges, guarantees or contingent liabilities.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

4. WORKING CAPITAL SUFFICIENCY

After taking into account the financial resources available to the Group, the internally generated funds and currently available facilities from its banks, institutions and person, the Directors, are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of the publication of this circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the annual report of the Company for the year ended 31 December 2021 and the interim report of the Company for the six months ended 30 June 2022, the competition in the environmental hygiene service industry remained keen. Shortage of labour and high operating costs continued to be the challenges of the business. Looking ahead, the global and local economies are expected to continue to fluctuate due to the ongoing 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. 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, the Group is optimistic and confident about the future of the environmental hygiene service industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions of in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties in the Shares or underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

| Name of shareholder | Interest in a controlled corporation | Beneficial owner | Approximate percentage of interest |
|--|--------------------------------------|-------------------------------------|------------------------------------|
| Mr. Cheung Chun Man, Anthony ^(Note 2) | 119,600,000 (L) ^(Note 1) | - | 29.9% |
| Ravarock Financial Group Limited ^(Note 2) | - | 119,600,000 (L) ^(Note 1) | 29.9% |
| Mr. Tan Guichu | - | 21,000,000 (L) ^(Note 1) | 5.25% |

Notes:

- The letter "L" denotes the person's long position in the Shares.
- Ravarock Financial Group Limited is wholly-owned by Mr. Cheung Chun Man, Anthony.

Save as disclosed above, as at the Latest Practicable Date, no person had any interests or short positions in the Shares or underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which would not expire or was not determinable within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his respective close associates had any interests in any business apart from the Group's business which competed or might compete, either directly or indirectly, with the business of the Group.

5. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware of, none of the members of the Group was involved in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACT

Save for the Subscription Agreement, there was no contract (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date, which is or may be material.

7. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors had any material interest, directly or indirectly, in any contract or arrangement subsisting which was significant in relation to the business of the Group.

8. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Tam Yiu Shing, Billy, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The Company has established the Audit Committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are (a) to review the Group's annual reports, interim reports and quarterly reports; (b) to discuss and review with the auditor of the Company on the scope and findings of the audit; and (c) to supervise the financial reporting process, risk management and internal control systems of the Group. The Audit Committee consists of three independent non-executive Directors, namely Ms. Lam Kit Yan, Mr. Ho Kin Wai and Mr. Mak Kwok Kei. The chairman of the Audit Committee is Ms. Lam Kit Yan, who possesses extensive experience in finance and accounting.

Ms. Lam Kit Yan ("Ms. Lam"), aged 47, was appointed as an 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 was the company secretary, chief financial officer and the authorised representative of Shandong Hi-Speed New Energy Group Limited (formerly known as Beijing Enterprises Clean Energy Group Limited and Jin Cai Holdings Company Limited) (stock code: 01250), the shares of which 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), the shares of which are listed on GEM. In November 2016, Ms. Lam was appointed as the company secretary and chief financial officer of StarGlory Holdings Company Limited (stock code: 08213), the shares of which are listed on GEM.

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 ("Mr. Ho"), aged 46, was appointed as an 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: 08187), the shares of which are listed on GEM 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: 08081), the shares of which are listed on GEM 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.

Mr. Mak Kwok Kei (“Mr. Mak”), aged 36, was appointed as an 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-networth 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: 02323), the shares of which are listed on the Main Board of the Stock Exchange.

Mr. Mak obtained a bachelor degree with first class honours 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.

- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (d) The head office and principal place of business of the Company in Hong Kong is at Unit No. 301A, 3/F., Tower III, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (f) This circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the respective Chinese text.

9. DOCUMENTS ON DISPLAY

Copy of the Subscription Agreement will be published on the websites on the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.lapco.com.hk>) for a period of 14 days commencing from the date of this circular.

NOTICE OF EGM

Lapco Holdings Limited 立高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8472)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of Lapco Holdings Limited (the “Company”) will be held at by way of electronic means on Friday, 17 February 2023 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. “THAT:
 - (a) the entering into of the subscription agreement (the “**Subscription Agreement**”) dated 19 January 2023 among the Company, as the issuer, Shiny Glory Services Limited, an indirect wholly-owned subsidiary of the Company, and Mr. Tam Wai Tong, as the subscriber, the details of which are set out in the circular of the Company dated 20 January 2023, and all the transactions contemplated thereunder, be and hereby approved, confirmed and ratified; and
 - (b) any one director of the Company be and is hereby authorised to do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purposes of or in connection with implementing, completing and giving effect to the Subscription Agreement and all the transactions contemplated thereunder and to agree to such variation of the terms of the Subscription Agreement as he/she may think in his/her absolute discretion consider necessary or desirable.”

By order of the Board
Lapco Holdings Limited
Tam Yiu Shing, Billy
Executive Director and Company Secretary

Hong Kong, 20 January 2023

Notes:

1. Registered Shareholders are requested to provide a valid email address of himself/herself/itself or his/her/its proxy (except for the appointment of the chairman of the Meeting) for the proxy to receive the login access code to participate online in Tricor e-Meeting System.

Registered Shareholders will be able to attend the Meeting, vote and submit questions online via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company.

NOTICE OF EGM

Non-registered holders whose Shares are held in the Central Clearing and Settlement System through banks, brokers, custodians or Hong Kong Securities Clearing Company Limited may also be able to attend the Meeting, vote and submit questions online. In this regard, they should consult directly with their banks, brokers or custodians (as the case may be) for the necessary arrangements.

Shareholders who would like to speak during the EGM through a live webcast will need to register by sending an email to our Share Registrar, Tricor Investor Services Limited at is-enquiries@hk.tricorglobal.com or via telephone hotline at (852) 2980 1333 during business hours (9:00 a.m. to 5:00 p.m., Monday to Friday, excluding Hong Kong Public holidays) no later than 3:00 p.m. on 15 February 2023 (being not less than forty-eight (48) hours before the time appointed for holding the EGM) to enable the Company to verify the Shareholders' status.

2. Any member entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member. In addition, a proxy or proxies representing a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised on its behalf.
4. The register of members of the Company will be closed from Tuesday, 14 February 2023 to Friday, 17 February 2023, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for attending and voting at the Meeting, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Monday, 13 February 2023.
5. To be valid, the form of proxy must be duly completed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority, at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Centre, 16 Harcourt Road, Hong Kong or via the designated URL (<https://spot-emeeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting.
6. Completion and delivery of the form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting or any adjournment thereof should such member so wish, and in such event, the instrument appointing a proxy shall be deemed revoked.
7. Where there are joint holders of any Share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he was solely entitled to vote, but if more than one of such joint holders are present at the Meeting, the most senior holder shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand first on the register of members of the Company in respect of the joint holding.
8. In compliance with the GEM Listing Rules, the resolution to be proposed at the Meeting convened by this notice will be voted on by way of poll.

As at the date of this notice, the board of Directors comprises one executive Director, namely, Mr. Tam Yiu Shing, Billy; and three independent non-executive Directors, namely Mr. Mak Kwok Kei, Mr. Ho Kin Wai and Ms. Lam Kit Yan.

This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this notice is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this notice misleading.

NOTICE OF EGM

This notice will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days after date of publication and on the website of the Company at www.lapco.com.hk.