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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; AND (2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO DEEMED DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL IN A WHOLLY-OWNED SUBSIDIARY

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. 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.

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.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, 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.

An EGM will be convened and held for the Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder. A circular containing further information relating to the Subscription and other information required by the GEM Listing Rules will be despatched to the Shareholders within the prescribed timeframe as stipulated under the GEM Listing Rules. 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.

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.

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 positions, they should consult their professional adviser(s).

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.

Completion

Completion will take place on the Completion Date.

As at the date of this announcement, 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).

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.

- 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.

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 of 13.4% over the June NAV per SG Share based on the calculation; (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 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 | 31 December |
| | 2021 | 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 announcement, 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.

INFORMATION ON THE EXISTING FACILITIES AND THE NEW FACILITIES

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

| | <u>Existing Facilities</u> | <u>New Facilities</u> |
|---|--|--|
| 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 | |
| | * <i>Current BLR is 5.625% per annum</i> | |
| Maturity: | No maturity date but subject to review by the Bank from time to time (<i>Note 1</i>) | |

Existing Facilities

New Facilities

Security:

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

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**”)

Gearing ratio of the Bank (Note 2): 17.9 (Note 3)

11.4 (Note 4)

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.

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 date of this announcement, 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.

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 announcement.

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.

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 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.

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 announcement.

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.

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 and 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 announcement, 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 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.

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.

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 audit by 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 this announcement, 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.

An EGM will be convened and held for the Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder. A circular containing further information relating to the Subscription and other information required by the GEM Listing Rules will be despatched to the Shareholders within the prescribed timeframe as stipulated under the GEM Listing Rules. 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.

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.

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 positions, they should consult their professional adviser(s).

DEFINITIONS

Unless the context requires otherwise, the terms below have the following meanings in this announcement:

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| “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 |
| “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) |

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| “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 |
| “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 date of this announcement |
| “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 this announcement |
| “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 |

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| “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 |
| “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 date of this announcement |
| “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 this announcement |
| “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 |
| “SG Shares” | ordinary shares in the share capital of the Shiny Glory |
| “Share(s)” | ordinary shares of HK\$0.01 each in the share capital of the Company |
| “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 date of this announcement |

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| “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 date of this announcement |
| “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 date of this announcement |
| “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. |

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

Hong Kong, 19 January 2023

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

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

This announcement will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the Company’s website at www.lapco.com.hk.