

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
Mr. Au Pak Lun Patrick
Mr. Wang Rong

Independent Non-executive Directors:

Mr. Mak Kwok Kei
Ms. Lam Kit Yan
Ms. Wan Hoi Shan

Registered Office:

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Cayman Islands

*Headquarters and Principal Place of
Business in Hong Kong:*

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Enterprise Square
9 Sheung Yuet Road
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Kowloon
Hong Kong

31 January 2024

*To the Qualifying Shareholders; and
for information only, the Excluded Shareholders*

Dear Sirs or Madams,

RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY ONE (1) SHARE

INTRODUCTION

Reference is made to the Announcement and the Circular, in relation to, among others, the Rights Issue. The Company proposes to raise gross proceeds of up to approximately HK\$43.20 million by way of the issue of up to 72,000,000 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date), at the Subscription Price of HK\$0.60 per Rights Share on the basis of three (3) Rights Share for every one (1) Share held on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

At the EGM, the resolution approving the Rights Issue including the Placing Agreement and the transaction contemplated respectively thereunder was duly passed by the Independent Shareholders by way of poll. The purpose of this Prospectus is to provide you with, among others, the information of the Rights Issue, including the procedures for acceptance of the Rights Shares provisionally allotted to you, together with certain financial and other general information of the Group.

RIGHTS ISSUE

Issue statistics

Assuming no further change in the number of issued Shares on or before the Record Date:

| | | |
|--|---|---|
| Basis of Rights Issue | : | Three (3) Rights Shares for every one (1) Share held by the Qualifying Shareholders at the close of business on the Record Date |
| Subscription Price | : | HK\$0.60 per Rights Share |
| Net price per Rights Shares (i.e. Subscription Price less estimated cost and expenses incurred in the Rights Issue on a per Rights Share basis) | : | HK\$0.579 per Rights Share |
| Number of Shares in issue as at date of the Announcement | : | 24,000,000 Shares |
| Number of Rights Shares to be issued pursuant to the Rights Issue | : | up to 72,000,000 Rights Shares |
| Aggregate nominal value of the Rights Shares | : | up to HK\$14,400,000 |
| Number of Shares in issue immediately upon completion of the Rights Issue | : | up to 96,000,000 Shares |
| Maximum amount of gross proceeds raised from the Rights Issue (before expenses) | : | up to approximately HK\$43.20 million |
| Maximum amount of net proceeds raised from the Rights Issue | : | up to approximately HK\$41.70 million |

As at the Latest Practicable Date, the Group had no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into the Shares. Assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the 72,000,000 Rights Shares to be issued under the Rights Issue represent (i) 300% of the total number of

issued Shares as at the Latest Practicable Date; and (ii) 75% of the total number of issued Shares as enlarged by the allotment and issue of the Rights Shares.

The Company has no intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date.

Non-underwritten basis

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully subscribed, any Unsubscribed Rights Shares together with the ES Unsold Rights Shares will be placed to independent Placees under the Compensatory Arrangements. Any Unsubscribed Rights Shares and ES Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Subject to the Rights Shares undertaken to be subscribed by Mr. Tam as set out in section headed "Irrevocable Undertaking" in the letter from the Board, there is no minimum amount to be raised under the Rights Issue. There is also no statutory requirement regarding minimum subscription level in respect of the Rights Issue.

As the Rights Issue will proceed on a non-underwritten basis, Shareholders who apply to take up all or part of their entitlements under the PALs may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

Irrevocable Undertaking

As at the Latest Practicable Date, Mr. Tam, a substantial Shareholder and a director of a subsidiary of the Company, is interested in 5,980,000 Shares, representing approximately 24.92% of the issued share capital of the Company. Pursuant to the Irrevocable Undertaking, Mr. Tam has, among other things, irrevocably and unconditionally undertaken to the Company:

- (i) subject to the Note to Rule 10.26(2) in relation to scaling down mechanism in case of an obligation to make a general offer being triggered under the Takeovers Code, to subscribe for the 17,940,000 Rights Shares to be offered to Mr. Tam; and
- (ii) not to sell, dispose of or transfer, or agree to sell, dispose of or transfer any of the Shares held by Mr. Tam from the date of the Irrevocable Undertaking to the close of business on the Record Date.

Save for the above Irrevocable Undertaking, the Company has not received, as at the Latest Practicable Date, any other information or irrevocable undertaking from other Shareholders of their intention to take up the Rights Shares to be provisionally allotted to them under the Rights Issue.

Subscription Price

The Subscription Price is of HK\$0.60 per Rights Share, payable in full by the Qualifying Shareholders upon acceptance of the relevant provisional allotment of Rights Shares or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares.

The Subscription Price represents:

- (i) a discount of 30.23% to the closing price of HK\$0.86 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of 19.35% to the average closing price of HK\$0.744 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of 9.77% to the theoretical ex-rights price of HK\$0.665 per Share based on the closing price of HK\$0.86 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of 22.67% represented by the theoretical diluted price of HK\$0.665 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules) of HK\$0.86 per Share;
- (v) a discount of 84.85% to the unaudited net asset value per Share of HK\$3.96 (based on the unaudited consolidated net asset value of the Group of HK\$94.94 million as at 30 June 2023 and 24,000,000 Shares in issue as at the Latest Practicable Date); and
- (vi) a discount of 36.17% to the closing price of HK\$0.94 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.579 per Rights Share (assuming no change in the number of Shares in issue on or before the Record Date).

The Subscription Price was determined with reference to (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong; (iii) the latest financial position of the Group; and (iv) the reasons for and benefits of the Rights Issue as discussed in the section headed "Reasons for and benefits of the Rights Issue and use of proceeds" in this Prospectus.

The Board has noted the relatively large discount mentioned in (v) above. Nevertheless, given the pre-emptive nature of the Rights Issue and taking into account of the fact that the Shares were traded at a discount to the net asset value attributable to the Shareholders per Share (based on unaudited net asset value of the Group of HK\$94.94 million as at 30 June 2023 and 24,000,000 shares in issue as at the Latest Practicable Date) for the six months preceding the Last Trading Day ranging from approximately 32.32% to 84.60%, with an average of approximately 63.32%, after balancing the funding needs of the Company and the recent prevailing market price of the Shares, the Board is of the view that the prevailing market price of the Shares would be a more appropriate reference, instead of net asset value per Share to determine the Subscription Price.

The Directors consider that the discount of the Subscription Price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future growth and development of the Group. After taking into consideration the reasons for the Rights Issue as stated in the section headed "Reasons for and benefits of the Rights Issue and use of proceeds" below, the Board (including the independent non-executive Directors) considers that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Basis of provisional allotment

The basis of the provisional allotment shall be three (3) Rights Shares for every one (1) Share held by the Qualifying Shareholders as at the close of business on the Record Date. The PAL(s) relating to the Rights Shares will be enclosed with the Prospectus entitling the Qualifying Shareholders to whom it is addressed to subscribe for the Rights Shares.

Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by completing a PAL and lodging the same with a remittance for the Rights Shares being applied for with the Share Registrar on or before the Latest Time for Acceptance.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company and not be an Excluded Shareholder on the Record Date. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge the relevant documents for transfer of Shares (with the relevant share certificates) with the Share Registrar at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on Tuesday, 23 January 2024.

Qualifying Shareholders who take up their pro-rata entitlement in full will not suffer any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Shares arising from the aggregation of fractional entitlements).

Qualifying Shareholders who do not fully take up the Rights Shares to which they are entitled and Excluded Shareholders should note that their proportionate shareholdings in the Company will be diluted.

Please refer to the section headed “Dilution Effect on the Shareholding Interests of the Existing Public Shareholders” for the dilution impact to existing public Shareholders if they elect not to participate the Rights Issue.

Rights of Overseas Shareholders

If, at the close of business on the Record Date, a Shareholder’s address on the Company’s register of members is in a place outside Hong Kong, such Shareholder may not be eligible to take part in the Rights Issue. The Prospectus Documents to be despatched in connection with the Rights Issue will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

According to the register of members of the Company as at the Latest Practicable Date, there was no Overseas Shareholder with registered addresses situated outside Hong Kong. Accordingly, there will be no Excluded Shareholder for the purpose of Rights Issue.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of the enquiries with the legal advisers made by the Board pursuant to Rule 17.41(1) of the GEM Listing Rules regarding the feasibility of extending the Rights Issue to the Overseas Shareholders and whether such exclusion of the Overseas Shareholders is necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction.

If any Overseas Shareholders are excluded from the Rights Issue and such exclusion is necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, subject to the advice of the Company’s legal advisers in the relevant jurisdictions and to the extent reasonably practicable, the Company will send copies of this prospectus to such Excluded Shareholders for their information only, but will not send any PAL to them. Receipt of a copy of this Prospectus does not and will not constitute an offer to the Excluded Shareholder(s).

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before the last day for dealing in the nil-paid Rights Shares, if a premium (net of expenses) can be obtained. Any net proceeds of sale thereof, after deduction of expenses, will be paid in Hong Kong dollars to the Excluded Shareholders pro rata to their respective entitlements as at the close of business on the Record Date, provided that if any of such persons would be entitled to a sum not exceeding HK\$100, such sum will be retained by the Company for its own benefit.

Any such ES Unsold Rights Shares to which such Excluded Shareholders would otherwise have been entitled will be placed by the Placing Agent to the Placees at the price at least equal to the Subscription Price under the Placing.

Overseas Shareholders should note that they may or may not be eligible to take part in the Rights Issue, subject to the results of enquiries made by the Directors pursuant to Rule 17.41(1) of the GEM Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

Procedures for acceptance and payment or transfer

A PAL is enclosed with this Prospectus which entitles the Qualifying Shareholders to whom it is addressed to subscribe for the number of Rights Shares shown therein. If a Qualifying Shareholder wishes to accept all the Rights Shares provisionally allotted to him/her/it as specified in the PAL, he/she/it must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance with the Share Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by not later than 4:00 p.m. on Friday, 16 February 2024. All remittances must be made in Hong Kong dollars by cheques which must be drawn on an account with, or by cashier's orders which must be issued by, a licensed bank in Hong Kong and made payable to "TRICOR TRUST (HONG KONG) LIMITED — A/C NO.34" and crossed "ACCOUNT PAYEE ONLY".

It should be noted that unless the duly completed PAL, together with the appropriate remittance, have been lodged with the Share Registrar by not later than 4:00 p.m. on Friday, 16 February 2024 whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled. The Company may, at its sole discretion, treat a PAL as valid and binding on the person by whom or on whose behalf it is lodged even if the PAL is not completed in accordance with the relevant instructions. The Company may require such incomplete PAL to be completed by the relevant applicants at a later stage.

If a Qualifying Shareholder wishes to accept only part of his/her/its provisional allotment or transfer part of his/her/its rights to subscribe for the Rights Shares provisionally allotted to him/her/it under the PAL or to transfer part or all of his/her/its rights to more than one person, the entire PAL must be surrendered and lodged for cancellation by not later than 4:00 p.m. on Tuesday, 6 February 2024 to the Share Registrar, who will cancel the original PAL and issue new PALs in the denominations required which will be available for collection from the Share Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, after 9:00 a.m. on the second Business Day after the surrender of the original PAL.

The PAL contains further information regarding the procedures to be followed for acceptance and/or transfer of the whole or part of the provisional allotment of the Rights Shares by the Qualifying Shareholders. All cheques or cashier's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of the PAL with a cheque or a cashier's

order, whether by a Qualifying Shareholder or by any nominated transferee(s), will constitute a warranty by the applicant that the cheque or the cashier's order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any PAL in respect of which the cheque or cashier's order is dishonoured on first presentation, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the conditions of the Rights Issue as set out in the section headed "Conditions of the Rights Issue" below are not fulfilled, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person without interest, by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders to their registered addresses by the Share Registrar on or before Friday, 1 March 2024.

No receipt will be issued in respect of any application monies received.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects among themselves and with the Shares in issue at the time. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid by the Company after the date of allotment and issue of the fully-paid Rights Shares.

Fractional entitlement to the Rights Shares

The Company will not provisionally allot fractions of Rights Shares in nil-paid form to the Qualifying Shareholders. All fractions of Rights Shares will be aggregated (and rounded down to the nearest whole number of a Share) and all nil-paid Rights Shares arising from such aggregation will be sold in the market for the benefit of the Company if a premium (net of expenses) can be achieved.

Procedures in respect of the Unsubscribed Rights Shares and the ES Unsold Rights Shares and the Compensatory Arrangements

According to Rule 10.31(1)(b) of the GEM Listing Rule, the Company will make Compensatory Arrangements to dispose of the Unsubscribed Rights Shares and the ES Unsold Rights Shares (i.e. Placing Shares) by offering the Placing Shares to independent placees for the benefit of the relevant No Action Shareholders and Excluded Shareholders. As the Compensatory Arrangements are in place, there will be no excess application arrangements in relation to the Rights Issue.

Accordingly, on 24 November 2023 (after trading hours of the Stock Exchange), the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Company has appointed the Placing Agent to place the Placing Shares during the Placing Period to Placee(s) who and whose ultimate beneficial owner(s) are Independent

Third Party(ies) on a best efforts basis. Any premium over the Subscription Price that is realised will be paid to the No Action Shareholders and the Excluded Shareholders on a pro-rata basis. Any Placing Shares which are not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

Net Gain (if any but rounded down to the nearest cent) will be paid (without interest) on a pro-rata basis to the relevant No Action Shareholders and Excluded Shareholders as set out below:

- (i) for No Action Shareholders, the relevant Qualifying Shareholders (or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed) whose nil-paid rights are not validly applied for in full, by reference to the extent that Shares in his/her/its nil-paid rights are not validly applied for; and
- (ii) for Excluded Shareholders, the relevant Excluded Shareholders whose name and address appeared on the register of members of the Company on the Record Date with reference to their shareholdings in the Company on the Record Date.

If and to the extent in respect of any Net Gain, any No Action Shareholders or Excluded Shareholders become entitled on the basis described above to an amount of (i) more than HK\$100, the entire amount will be paid to the relevant No Action Shareholders or Excluded Shareholders in Hong Kong Dollars only; or (ii) HK\$100 or less, such amount will be retained by the Company for its own benefit.

Shareholders are reminded that Net Gain may or may not be realised and, accordingly, the No Action Shareholders and the Excluded Shareholders may or may not receive any Net Gain.

PLACING AGREEMENT

On 24 November 2023 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed as agent of the Company (either by itself or through its sub-placing agents) to procure independent Placees, on a best effort basis, to subscribe for the Placing Shares. Details of the Placing are as follows:

| | | |
|---------------|---|--|
| Date | : | 24 November 2023 |
| Parties | : | (i) the Company, as issuer; and (ii) the Placing Agent |
| Placing Agent | : | Zijing Capital Limited was appointed as the Placing Agent to procure, on a best effort basis, Placees to subscribe for the Placing Shares during the Placing Period. |

The Placing Agent confirmed that it and its ultimate beneficial owner(s) are Independent Third Parties.

- Placing Period : A period commencing from the first Business Day after the date of announcement of the number of Unsubscribed Rights Shares and the ES Unsold Rights Shares, which is expected to be Tuesday, 20 February 2024, and ending at the 6:00 p.m. on Friday, 23 February 2024.
- Fees and expenses : Subject to completion of the Placing, the Company shall pay to the Placing Agent a placing commission of 2.5% of the actual gross proceeds from the subscription of the Placing Shares (i.e. amount which is equal to the placing price multiplied by the Placing Shares that are successfully placed by the Placing Agent) and reimbursed for the expenses in relation to the Placing, which the Placing Agent is authorized to deduct from the payment to be made by the Placing Agent to the Company at completion of the Placing.
- Placing price of the Placing Shares : The placing price of the Placing Shares shall be not less than the Subscription Price. The final price shall be determined by the Placing Agent based on the demand for and the market conditions of the Placing Shares during the placing.
- Placees : The Placing Shares shall only be offered to institutional, corporate or individual investor(s) who and whose ultimate beneficial owner(s) shall be Independent Third Parties, such that:
- (i) no Placee shall become a substantial Shareholder of the Company immediate following the placing;
 - (ii) the Placing will not have any implication under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing; and
 - (iii) the Placing will not result in the Company incapable of complying with the public float requirements under the GEM Listing Rules immediately following the Placing.

- Ranking of the Unsubscribed Rights Shares and ES Unsold Rights Shares : The placed Placing Shares (when allotted, issued and fully-paid, if any) shall rank pari passu in all respects among themselves and with the existing Shares in issue as at the date of completion of the Rights Issue.
- Termination : The Placing Period shall end at 6:00 p.m. on Friday, 23 February 2024 or any other date by mutual agreement between the Placing Agent and the Company.

The Placing Agent may terminate the Placing Agreement by notice in writing given to the Company at any time prior to 6:00 p.m. on Tuesday, 27 February 2024 (or any other date any mutually agreed between the Company and the Placing Agent) upon the occurrence of the following events which, in the reasonable opinion of the Placing Agent, to be material in the context of the Placing or has or may have a material adverse effect on the business or financial conditions or prospects of the Group or the success of the Placing or the full placement of all of the Placing Shares or has or may otherwise make it inappropriate, inadvisable or inexpedient to proceed with the Placing on the terms and in the manner contemplated in the Placing Agreement if there develops, occurs or comes into force:

- (i) the Company fails to comply with its material obligations under the Placing Agreement;
- (ii) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date of the Placing Agreement) and including an event or change in relation to or a development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature, resulting in a change in, or which may result in a change in, political, economic, fiscal, financial, regulatory or stock market conditions and which in the Placing Agent's reasonable opinion would materially and adversely affect the success of the Placing;
or

- (iii) any of the warranties of the Company under the Placing Agreement is not, or has ceased to be, true, accurate and not misleading in material respect by reference to the facts subsisting at the time.

If notice of termination is given by the Placing Agent, the Placing Agreement shall be terminated and be of no further effect and neither party shall be under any liability to the other party in respect of the Placing Agreement save for any antecedent breach under the Placing Agreement prior to such termination.

Conditions precedent : The Placing is subject to and conditional upon:

- (i) passing by the Independent Shareholders at the general meeting of the Company of the necessary resolution(s) to approved the Rights Issue;
- (ii) the GEM Listing Committee having granted the listing of, and permission to deal in, the Rights Shares; and
- (iii) the Company having obtained all necessary consents and approvals for allotting and issuing the Rights Shares.

None of the above conditions are capable of being waived.

Placing Completion Date : Tuesday, 27 February 2024 or such other date as the Company and the Placing Agent may agree in writing.

The terms of the Placing Agreement (including the placing fee) were determined after arm's length negotiation between the Placing Agent and the Company with reference to the size of the Rights Issue, and the market conditions. The Board considers the terms of the Placing for the Placing Shares (including the commission payable) are on normal commercial terms and are fair and reasonable.

As explained above, the Placing Shares will be placed by the Placing Agent to independent Places on a best effort basis for the benefits of the No Action Shareholders and Excluded Shareholders. If all or any of the Placing Shares are successfully placed, any premium over the Subscription Price will be distributed to the relevant No Action Shareholders and Excluded Shareholders.

Given that the Compensatory Arrangements would provide (i) a distribution channel of the Unsubscribed Rights Shares and the ES Unsold Rights Shares; and (ii) a compensatory mechanism for No Action Shareholders and the Excluded Shareholders, the Board considers that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority Shareholders.

Application for listing of the Rights Shares

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. The nil-paid and fully-paid Rights Shares shall have the same board lot size as the Shares, i.e. 2,000 Shares in one board lot. No part of the share capital of the Company is listed or dealt in or on which listing or permission to deal in is being or is proposed to be sought on any other stock exchange.

Eligibility for admission into CCASS

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Stamp duty and other applicable fees

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, SFC transaction levy or any other applicable fees and charges in Hong Kong.

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Overseas Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

Share certificates and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, (i) share certificates for all fully paid Rights Shares and (ii) refund cheques in respect of wholly or partially unsuccessful applications for Rights Shares (if any) are expected to be posted to those entitled thereto by ordinary post to their registered address, at their own risks, on or before Friday, 1 March 2024. You, except HKSCC Nominees Limited, will receive one share certificate for all the Rights Shares issued to you.

Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (i) passing by the Independent Shareholders at the EGM of the resolution to approve the Rights Issue by no later than the Prospectus Posting Date;
- (ii) the GEM Listing Committee granting or agreeing to grant and not having withdrawn or revoked the listing of, and permission to deal in, all the Rights Shares (in their nil-paid and fully-paid forms);
- (iii) the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong no later than the Prospectus Posting Date of Prospectus Documents in compliance with the Companies (WUMP) Ordinance and otherwise complying with the requirements of the Companies (WUMP) Ordinance, the Companies Ordinance and the GEM Listing Rules;
- (iv) the posting of the Prospectus Documents to Qualifying Shareholders; and
- (v) the Placing Agreement not being terminated.

None of the above conditions can be waived. The Company shall use its reasonable endeavours to procure the fulfilment of the conditions above (to the extent it is within its power to do so) and shall do all the things required to be done by it pursuant to the Prospectus Documents or otherwise reasonably necessary to give effect to the Rights Issue. If any of the conditions referred to above are not fulfilled at or before the Latest Time for Termination, the Rights Issue will not proceed.

As at the Latest Practicable Date, save for the above condition (i), none of the other conditions has been fulfilled.

REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in the provision of (a) cleaning services; (b) pest management services; (c) waste management and recycling services; and (d) landscaping services in Hong Kong. The Group has a well-established presence in the environmental hygiene service industry in Hong Kong since 1990 and long history of business relationships with customers in both public and private sectors. Driven by the increasing public awareness of environmental hygiene due to outbreaks of past diseases, including COVID-19 in the past three years, the Directors believes that the environmental hygiene service industry in Hong Kong has strong growth potentials.

The maximum net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK\$41.70 million (assuming no change in the number of Shares in issue on or before the Record Date). The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately 62% (or approximately HK\$26.00 million) will be used for financing the provision of performance guarantee to satisfy the expansion and development of existing business of the Group; (ii) approximately 17% (or approximately HK\$7.00 million) will be used to acquire additional 5 cleaning vehicles; (iii) approximately 12% (or approximately HK\$4.80 million) will be used for the repayment of the Group's bank loans and payables due within the next twelve months; and (iv) approximately 9% (or approximately HK\$3.90 million) will be used as the general working capital of the Group.

The cleaning segment forms the core service of the Group. As disclosed in the annual report of the Company for the year ended 31 December 2022, the Group's revenue mainly derived from the provision of cleaning services, which contributed to approximately 81.43% and approximately 78.35% of the Group's revenue for the years ended 31 December 2022 and 31 December 2021 respectively and a large portion of the Group's revenue from cleaning segment was generated from street cleaning service contracts with the Government of Hong Kong that the Group obtained from open tenders. As of the Latest Practicable Date, the Group has 10 contracts on hand with a duration of three years for the provision of street cleaning services to the Government of Hong Kong and the aggregate contract sum is amounted to approximately HK\$1.76 billion. In addition, based on the Group's latest data on the Hong Kong Government's outsourced street cleaning contracts, there are total of 14 contracts (only 2 contracts in 2023) with an aggregate contract sum of approximately HK\$3.61 billion (of which 2 contracts with total contract sum of approximately HK\$654.88 million are existing contracts of the Group) that will be expired in year 2024 ("**2024 Expiring Contracts**") and will open for tendering. The Group intends to submit tenders for these 2024 Expiring Contracts taking into account the available financial resources of the Group.

The delivery of the environmental hygiene services, in particular the street cleaning services requires substantial financial and operational resources. Over the years, the Group relies on bank financings and internally generated funds to obtain new contracts from customers in both public and private sectors and manage its working capital associated with undertaking contract works (i.e. time lags between making payments to our employees/suppliers and receiving payments from our customers). Further, the Group is generally required to provide performance guarantee at a rate of 2%-6% of the

total contract sum to public sector customers, as security for due performance of the Group's contractual obligations during the contract period (i.e. three years for public sector customers). Considering the expected increase in numbers of contracts to be undertaken by the Group in the coming years as disclosed above, the net proceeds raised from the Rights Issue will be substantially utilised to satisfy the expansion and relevant business opportunities anticipated by the Group. In addition, given the relatively long contract period for these contracts and the provision of performance guarantee would result in the lock-up of a portion of the Group's capital and available banking facilities for a prolonged period of time, which affects the Group's liquidity position, the maintenance and expansion of the Group's existing businesses entail a healthy and sufficient level of cash flow of the Company.

Furthermore, the Group is required to use different types of specialised vehicles and equipment in performing the Group's cleaning services and waste management and recycling services and taking into account the existing and potential contracts as discussed above, the Group plans to purchase five cleaning vehicles as new additions to replace some of the Group's existing vehicles, which would allow an increase in the Group's service capacity and accommodate business growth of the Group.

Considering, as at 30 June 2023, (i) the short-term bank loans of the Group, bearing interest rates from 4.13% to 4.45% per annum amounted to HK\$18.77 million; (ii) the Group's cash and cash equivalent and net current assets amounted to approximately HK\$44.70 million and approximately HK\$54.36 million; and (iii) the utilised amounts of bank guarantees (as performance guarantees) in favour of the Group's customers under the Group's existing banking facilities were HK\$159.00 million as at 30 June 2023, representing approximately 96% of the available banking facilities of the Group, the Directors have been exploring ways to enhance the Group's liquidity position to cope with the Group's business operations and development requirements as discussed above.

In addition, the Directors are of the view that (i) the interest rates for debt financing may remain high in the medium term; and (ii) it is difficult and time consuming for the Group to liaise with banks to obtain new/additional loan facilities for the Group as banks in Hong Kong have become more prudent in lending amid the slowdown of the Hong Kong and global economy, the Rights Issue could enhance the Group's cash flow position to accommodate the liquidity needs for the Group's business operations and development without increasing its gearing ratio and finance costs.

As the Rights Issue will be on a non-underwritten basis, the actual amount of the net proceeds cannot be ascertained at this moment. In the event that the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue are expected to be utilised with proportional reductions in the same usage scenarios as above.

The Board considers it is prudent to finance the Group's long term growth by long term financing, preferably in the form of equity which will not increase the Group's finance costs. The Directors has also considered other fund-raising alternatives available before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. Debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations. In addition, debt financing may not be achievable on favourable terms in a timely manner. As for placing of new Shares, it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market unlike a rights issue, which would allow Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights attaching thereto.

It is considered that the Rights Issue would give the Qualifying Shareholders an equal opportunity to participate in the growth of the Group. Given it is pre-emptive in nature, it allows Qualifying Shareholders to maintain their proportional shareholdings in the Company through participation in the Rights Issue. The Rights Issue also allows the Qualifying Shareholders to (a) increase their respective shareholding interests in the Company by acquiring additional rights entitlement in the open market (subject to the availability); or (b) reduce their respective shareholding interests in the Company by disposing of their rights entitlements in the open market (subject to the market demand). Further, the Rights Issue will enable the Group to strengthen its capital base and to enhance its financial position without increasing its debt or finance costs. Accordingly, the Board (including the independent non-executive Directors) considers that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

CHANGE IN SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company, assuming no further change in the number of issued Shares before completion of the Rights Issue other than the allotment and issue of the Rights Shares, (i) as at the Latest Practicable Date; (ii) immediately upon completion of Rights Issue assuming full acceptance of Rights Shares by existing Shareholders; (iii) immediately upon completion of Rights Issue assuming nil acceptance of Rights Shares by Qualifying Shareholders (other than Mr. Tam pursuant to Irrevocable Undertaking) and none of the Placing Shares having been placed by Placing Agent; and (iv) immediately upon completion of Rights Issue assuming nil acceptance of Rights Shares by Qualifying Shareholders (other than Mr. Tam pursuant to Irrevocable Undertaking) and all the Placing Shares having been placed by Placing Agent:

| Name of Shareholders | As at the Latest Practicable Date | | Immediately upon completion of Rights Issue assuming full acceptance of Rights Shares by existing Shareholders | | Immediately upon completion of Rights Issue assuming nil acceptance of Rights Shares by Qualifying Shareholders (other than Mr. Tam pursuant to Irrevocable Undertaking) and none of the Placing Shares having been placed by Placing Agent | | Immediately upon completion of Rights Issue assuming nil acceptance of Rights Shares by Qualifying Shareholders (other than Mr. Tam pursuant to Irrevocable Undertaking) and all the Placing Shares having been placed by Placing Agent | |
|--------------------------------|-----------------------------------|---------------|--|---------------|---|---------------|---|---------------|
| | Number of Shares | % | Number of Shares | % | Number of Shares | % | Number of Shares | % |
| Mr. Tam (Note 1) | 5,980,000 | 24.92 | 23,920,000 | 24.92 | 7,686,000 | 29.90 | 23,920,000 | 24.92 |
| Public Shareholders | | | | | | | | |
| – Independent Placees (Note 2) | – | – | – | – | – | – | 54,060,000 | 56.31 |
| – Other public Shareholders | 18,020,000 | 75.08 | 72,080,000 | 75.08 | 18,020,000 | 70.10 | 18,020,000 | 18.77 |
| | <u>24,000,000</u> | <u>100.00</u> | <u>96,000,000</u> | <u>100.00</u> | <u>25,706,000</u> | <u>100.00</u> | <u>96,000,000</u> | <u>100.00</u> |

Notes:

- The total number of Rights Shares to be subscribed by Mr. Tam will be scaled down to the extent that it and its associates will not trigger a general offer obligation under the Takeovers Code as a result of the Rights Issue.
- As it is not expected that any of the individual Placees will become a substantial Shareholder immediately after completion of the Placing, the Placing Shares will form part of the public float of the Company.

DILUTION EFFECT ON THE SHAREHOLDING INTERESTS OF THE EXISTING PUBLIC SHAREHOLDERS

As illustrated in the table under the section headed “Change in Shareholding Structure of the Company” in this letter from the Board, assuming there are no other changes to the issued share capital of the Company other than the Rights Issue from the Latest Practicable Date to the date of the completion of the Rights Issue; and if (i) none of the Qualifying Shareholders have taken up their entitled Rights Shares (other than Mr. Tam pursuant to the Irrecoverable Undertaking) and none of the Placing Shares having been placed by the Placing Agent, the shareholding interests of the existing public Shareholders will decrease from approximately 75.08% to approximately 70.10%; and (ii) none of the Qualifying Shareholders have taken up their entitled Rights Shares (other than Mr. Tam pursuant to the Irrecoverable Undertaking) and all the Placing Shares having been placed by the Placing Agent, the shareholding interests of the existing public Shareholders will decrease from approximately 75.08% to approximately 18.77%.

In addition, the Directors’ noted that the theoretical dilution effect of the Rights Issue is approximately 22.67%, which is close to the dilution effect of 22.1% of the Comparable Dilution Range (as defined in the Letter from the Independent Financial Adviser in the Circular) and higher than the average dilution effect of approximately 10.2% of the Rights Issue Comparables (as defined in the Letter from Independent Financial Adviser in the Circular).

Nonetheless, in view of (a) the imminent need of capital of the Group for the purposes of financing the provision of performance guarantee to satisfy the expansion and development of existing business of the Group and repayment of the Group’s bank loans and payables due within the next twelve months as disclosed in the section headed “Reasons for and Benefits of the Rights Issue and Use of Proceeds” in this letter from the Board; (b) the theoretical dilution effect of the Rights Issue of approximately 22.67% which is below 25.0% as required under Rule 10.44A of the GEM Listing Rules; (c) the theoretical dilution effect of the Rights Issue of approximately 22.67% is slightly higher than the maximum of Comparable Dilution Range (as defined in the Letter from the Independent Financial Adviser in the Circular) of approximately 22.1%; (d) the Subscription Price was determined after considering the prevailing market conditions, the downward trend and the prevailing market price of the Shares; (e) it is common for the listed issuers in Hong Kong to issue rights shares at a discount to the market price in order to enhance the attractiveness of a rights issue transaction; and (f) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares and maintain their respective pro rata shareholdings in the Company and the dilution effect will not be prejudicial to the interests of the Qualifying Shareholders as long as they choose to subscribe for their full entitlements of the Rights Shares, the Directors are of the view that the potential dilution effect of the Rights Issue on the shareholding interests of the public Shareholders is acceptable.

EQUITY FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has conducted the following equity fund raising activity during the twelve months immediately preceding the date of the Announcement:

| Date of Announcement | Event | Net proceeds raised (Approximately) | Proposed use of proceeds | Actual use of proceeds as at the date of the Announcement |
|----------------------|-------------------|-------------------------------------|---|---|
| 4 May 2023 | May Share Placing | HK\$7.91 million | (i) approximately HK\$5.54 million for acquisition of additional vehicles including waste compaction vehicles and street washing vehicles | Used as intended |
| | | | (ii) approximately HK\$2.37 million, for the business operation and general working capital of the Group | Used as intended |

Save as disclosed above, the Company has not conducted any equity fund raising activities during the past twelve months immediately preceding the date of the Announcement.

RISK FACTORS INVOLVED IN THE OPERATIONS OF THE GROUP

In compliance with the GEM Listing Rules, the Company sets out below the risk factors of the Group for the attention of the Shareholders and potential investors. The Directors believe that there are certain risks involved in the operations of the Group, which includes but are not limited to, the following:

- (i) The Group derives its revenue mainly from contracts awarded through competitive tendering. The Group cannot guarantee that the Group can successfully renew its existing contracts upon their expiry or secure new contracts with the terms and conditions that would be comparable to the existing contracts. In view of the competitiveness of the tendering process, the Group may have to offer a more competitive price and/or more favourable terms to customers in order to be awarded the contract. If the Group is unable to renew the existing contracts, secure new contracts or control the Group's costs accordingly, the Group's financial results and profitability would be adversely affected;

- (ii) The Group is regulated by, among others, the Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong) and the statutory minimum wage rate has been raised to HK\$40 per hour with effect from 1 May 2023. The Group has a total of 3,853 employees (including both full-time and part-time), as at 31 December 2022 and the Group's reported staff costs (excluding Directors' and chief executive remuneration) of approximately HK\$771.91 million as at 31 December 2022 represented approximately 79.88% of the Group's revenue for the year ended 31 December 2022. The Group expects that the Group's staff costs will continue to represent a significant percentage of the Group's total costs and the increase in labour costs may adversely affect the Group's profitability;
- (iii) The Group is engaged in a labour-intensive industry which may be subject to the risk of labour disputes and labour strikes, which may have a material adverse effect on the Group's reputation, business, results of operation and financial conditions;
- (iv) The Group's employees are susceptible to workplace accidents and injuries as they are required to undertake certain tasks including but not limited to (a) working at height or on slippery floor; (b) operation of site equipment; (c) lifting of heavy objects; (d) use of corrosive and inflammable chemicals; and (e) working in environments containing dust, dirt, viruses and bacteria. The Group cannot guarantee that the Group's employees will fully comply with the safety measures during their execution of work. Employees of the Group who suffer bodily injury or death as a result of accidents or contract occupational diseases arising out of and in the course of their employment with our Group are entitled to claim damages under the Employees' Compensation Ordinance (Cap. 282 of the Laws of Hong Kong) as well as under the common law. The Group may also become liable to third parties who suffer personal injuries in workplace where the Group provides its services;

The Group considers that the employees' compensation insurance policy currently effective generally covers the full amount of valid employees' compensation claims. However, the Group cannot assure you that the Group's insurance policies will fully cover the Group against its liability under all litigations and claims and that the Group will not need to pay additional compensation out of the Group's own resources for these potential litigations and claims. The Group may also become involved in litigations relating to, among other things, labour disputes with its employees and contractual disputes with its customers. Furthermore, regardless of the merits of cases, the Group may need to spend resources and incur costs to handle these claims, and these claims may also affect the Group's reputation in the environmental hygiene service industry, therefore adversely affect the Group's business operations, financial results and profitability;

- (v) The Group is responsible for the quality of services provided by its staff. The Group is generally required to provide performance guarantee (“**Performance Guarantee**”) to the Group’s customers, for example, 2%-6% of the total contract sum to public sector customers, as security for due performance of the Group’s contractual obligations. As at 31 December 2022, the aggregate amount of performance guarantee maintained in favour of the Group’s customers was approximately HK\$168.5 million. If the Group fails to meet the requirements of the Group’s contracts or quality standards of the Group’s customers, the Group may be liable to compensate the Group’s customers for losses and damages caused by delay or non-performance. Furthermore, the Group customers may be entitled to retain performance guarantee maintained in their favour. Any delay or failure in collecting performance guarantee may have a material and adverse effect on the Group’s cash flow and financial position;
- (vi) When undertaking contract works, there are often time lags between making payments to the Group’s employees and suppliers and receiving payments from the Group’s customers, resulting in cash flow mismatch. The Group generally grants a credit term of 90 days for its customers and makes payments to its employees on a monthly basis and its suppliers in a period of 30 days to 60 days. However, the Group cannot assure that its customers will settle the payment on time and in full and delay in collecting the Group’s trade receivables could materially and adversely affect the Group’s cash flows and financial position. Further, the Group generally requires to provide Performance Guarantee to the Group’s customers as discussed above. This would result in the lock-up of a portion of the Group’s capital for potentially a prolonged period of time and thereby affecting the Group’s liquidity position; and
- (vii) The Group’s revenue was derived from its operation in Hong Kong. As such, the Group’s business depends on the economic, political and social conditions in Hong Kong. Any unfavourable economic, political and social conditions may adversely affect the spending budget of the Group’s target customers, and thus the results of the Group’s operations, financial condition and sustainability. In addition, any changes in laws, policies and regulations on environmental hygiene industry in Hong Kong may have unfavourable impact to the Group’s business.

WARNING OF THE RISKS OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shares have been dealt on an ex-rights basis from Monday, 22 January 2024. Dealings in the nil-paid rights are expected to take place from Friday, 2 February 2024 to Friday, 9 February 2024 (both days inclusive). If the conditions of the Rights Issue (please refer to the paragraph headed “Conditions of the Rights Issue” in this Prospectus) are not fulfilled, the Rights Issue will not proceed.

Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or the nil-paid rights is advised to exercise caution when dealing in the Shares and/or the nil-paid rights.

The Rights Issue will proceed on a non-underwritten basis irrespective of the acceptance of the provisionally allotted Rights Shares. Any person who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional advisor(s). Any Shareholder or other person dealing in the Shares or in the nil-paid rights up to the time at which the Rights Issue becomes unconditional will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
Lapco Holdings Limited

Tam Yiu Shing, Billy
Executive Director and Joint Company Secretary

* *For identification purpose only*