



红日资本有限公司
RED SUN CAPITAL LIMITED

22 December 2023

To: *The independent board of committee and the independent shareholders of Lapco Holdings Limited*

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY
ONE (1) SHARE HELD ON THE RECORD DATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Placing Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 22 December 2023 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the Letter from the Board, the Board proposed to conduct the Rights Issue on the basis of three (3) Rights Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders. 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. The Company will allot and issue up to 72,000,000 Rights Shares at the Subscription Price of HK\$0.60 per Rights Share and raise up to an estimated net proceeds of approximately HK\$41.70 million.

Accordingly, on 24 November 2023 (after trading hours), 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. 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.

GEM LISTING RULES IMPLICATIONS

As the Rights Issue will increase the number of the issued Shares by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Independent Shareholders in a general meeting by a resolution on which all controlling Shareholders and their associates or, where there is no controlling Shareholder, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Latest Practicable Date, (i) the Company does not have any controlling Shareholder; and (ii) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors or the chief executive of the Company or their respective associates are interested in any Share, therefore no Shareholders will be required to abstain from voting of the Rights Issue at the EGM in accordance with Rule 10.29(1) of the GEM Listing Rules.

The Rights Issue does not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 10.44A of the GEM Listing Rules.

Subject to the fulfilment of the conditions of the Rights Issue, the Company will despatch the Prospectus Documents containing, among other matters, details of the Rights Issue, to the Qualifying Shareholders on the Prospectus Posting Date.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Mak Kwok Kei, Ms. Lam Kit Yan and Ms. Wan Hoi Shan, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM. We have been appointed as the Independent Financial Adviser and approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with or interest in the Company or the Placing Agent that could reasonably be regarded as relevant in assessing our independence. Save for our appointment as the Independent Financial Adviser, Red Sun Capital Limited did not act as an independent financial adviser to the Company under the GEM Listing Rules in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 17.96 of the GEM Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the "Management"). We have reviewed, among other things, (i) the Placing Agreement; (ii) the annual report of the Company for the year ended 31 December 2022; and (iii) the interim report of the Company for the six months ended 30 June 2023. We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular, nor statements, information, opinions or representation provided to us to be untrue, inaccurate or misleading.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group or its respective history, experience and track records, or the prospects of the markets in which it operates.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the transactions as contemplated under the Rights Issue, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Rights Issue, we have taken into consideration the following principal factors and reasons:

1. Background and Financial Information of the Group

As set out in the Letter from the Board, the Group is principally engaged in the provision of (i) cleaning services; (ii) pest management services; (iii) waste management and recycling services; and (iv) landscaping services in Hong Kong.

Set out below is a summary of (i) the audited consolidated financial performance of the Group for each of the years ended 31 December 2021 and 2022 as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report"); and (ii) the unaudited financial performance of the Group for the six months ended 30 June 2023 as extracted from the Company's interim report for the six months ended 30 June 2023 (the "2023 Interim Report").

Summary of consolidated statement of profit or loss and other comprehensive income

	For the year ended		For the six months	
	31 December	31 December	ended 30 June	ended 30 June
	2022	2021	2023	2022
	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	966,288	765,921	485,442	450,691
Cost of services	(918,454)	(721,336)	(458,659)	(427,213)
Gross profit	47,834	44,585	26,783	23,478
Profit before Taxation	22,786	6,401	9,016	10,621
Profit and total comprehensive income for the year attributable to owners of the Company	20,326	5,361	7,715	9,482

Financial performance for the year ended 31 December 2022

As set out in the 2022 Annual Report, the Group recorded revenue of approximately HK\$966.3 million for the year ended 31 December 2022, representing an increase of approximately 26.2% compared to approximately HK\$765.9 million for the year ended 31 December 2021. The increase was mainly driven by the new contracts commenced during the year ended 31 December 2022 in the service segments of cleaning services. The Group recorded an increase of approximately

27.3% in cost of services, amounting at approximately HK\$721.3 million for the year ended 31 December 2021 and rising to approximately HK\$918.5 million for the year ended 31 December 2022; and marked a gross profit of approximately HK\$47.8 million for the year ended 31 December 2022, representing an increase of approximately 7.2% from approximately HK\$44.6 million for the year ended 31 December 2021.

The Group recorded a profit and total comprehensive income for the year attributable to owners of the Company of approximately HK\$20.3 million for the year ended 31 December 2022, which represents an increase of approximately 275.9% as compared to approximately HK\$5.4 million for the year ended 31 December 2021. Such increase mainly attributable to the increase in revenue and gross profit as mentioned above and the increase in other income of approximately HK\$10.0 million which was mainly due to the Group recognised government grants of approximately HK\$5.6 million in respect of COVID-19-related subsidies for the year ended 31 December 2022, out of which approximately HK\$4.2 million relates to the Employment Support Scheme provided by the Hong Kong government and approximately HK\$1.4 million relates to an administration fee on anti-epidemic fund for cleaning workers in 2022 and no such income was recognised in 2021.

Financial performance for the six months ended 30 June 2023

As set out in the 2023 Interim Report, the Group recorded revenue of approximately HK\$485.4 million for the six months ended 30 June 2023, representing an increase of approximately 7.7% compared to approximately HK\$450.7 million for the six months ended 30 June 2022, which was primarily attributable to the commencement of certain new cleaning service contracts. The Group recorded an increase of approximately 7.4% in cost of services, amounting at approximately HK\$427.2 million for the six months ended 30 June 2022 and rising to approximately HK\$458.7 million for the six months ended 30 June 2023; and marked a gross profit of approximately HK\$26.8 million for the six months ended 30 June 2023, representing an increase of approximately 14.0% from approximately HK\$23.5 million for the six months ended 30 June 2022.

The Group recorded a profit and total comprehensive income for the year attributable to owners of the Company of approximately HK\$7.7 million for the six months ended 30 June 2023, which represents a decrease of approximately 18.9% as compared to approximately HK\$9.5 million for the six months ended 30 June 2022. Such decrease mainly attributable to (i) the decrease in other income of approximately HK\$2.8 million which was mainly due to the contribution from the government subsidy decreased from approximately HK\$4.9 million for the six months ended 30 June 2022 to approximately HK\$1.1 million for the six months ended 30 June 2023; (ii) the increase in finance costs of approximately HK\$1.8 million that mainly comprises interest expenses on lease liabilities for vehicles purchased and interest expenses on factoring of trade receivables; and (iii) the offset by increase in gross profit of approximately HK\$3.3 million.

Summary of the consolidated statement of financial position

	As at 30 June 2023 <i>(unaudited)</i> HK\$'000	As at 31 December 2022 <i>(audited)</i> HK\$'000	2021 <i>(audited)</i> HK\$'000
Non-current assets	86,963	93,380	55,279
Plant and equipment	32,317	36,649	18,720
Right-of-use assets	39,738	41,498	32,686
Deposits and prepayments	12,694	12,556	–
Current assets	231,221	228,601	195,534
Trade Receivables	141,339	163,806	119,815
Other receivables, deposits and prepayments	15,456	14,011	12,181
Pledged bank balances	29,700	29,700	21,700
Bank balances and cash	44,726	21,084	40,483
Current liabilities	176,859	200,723	171,781
Trade payables	9,840	14,187	5,683
Other payables	67,667	73,178	43,817
Provisions	19,190	20,973	15,503
Bank and other borrowings	45,661	58,508	91,904
Lease liabilities	12,380	12,118	14,874
Loan from a director of the Company's subsidiaries	–	20,000	–
Exchangeable bond	20,000	–	–
Non-current liabilities	46,390	41,949	20,049
Provisions	26,556	18,966	6,611
Lease liabilities	19,116	22,265	12,720
Equity attributable to owners of the Company	94,935	79,309	58,983

Note: For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above

Financial position as at 30 June 2023

As at 30 June 2023, the Group's total assets were approximately HK\$318.2 million, representing a decrease of approximately 1.2% as compared to approximately HK\$322.0 million as at 31 December 2022, which mainly comprised (i) non-current assets of approximately HK\$87.0 million as compared to approximately HK\$93.4 million as at 31 December 2022; and (ii) current assets of approximately HK\$231.2 million as compared to approximately HK\$228.6 million for as at 31 December 2022, which included (a) trade receivables of approximately

HK\$141.3 million as compared to approximately HK\$163.8 million as at 31 December 2022; (b) pledged bank balances of approximately HK\$29.7 million which has remained unchanged as compared to the amount as the balance as at 31 December 2022; and (c) bank balances and cash of approximately HK\$44.7 million as compared to approximately HK\$21.1 million as at 31 December 2022.

As at 30 June 2023, the total liabilities of the Group amounted to approximately HK\$223.2 million, representing a decrease of approximately 8.0% as compared to approximately HK\$242.7 million as at 31 December 2022, which mainly comprised (i) other payables of approximately HK\$67.7 million as compared to approximately HK\$73.2 million as at 31 December 2022, mainly due to a decrease in contribution from government subsidy; (ii) bank and other borrowings of approximately HK\$45.7 million as compared to approximately HK\$58.5 million as at 31 December 2022; (iii) provisions of approximately HK\$45.7 million as compared to approximately HK\$39.9 million as at 31 December 2022; and (iv) lease liabilities of approximately HK\$31.5 million as compared to approximately HK\$34.4 million as at 31 December 2022. On 19 January 2023, the Company entered into a subscription agreement in relation to the issuance of an exchangeable bond at a principal amount of HK\$20 million by the Company and subscription of the exchangeable bond by Mr. Tam with regard to setting off in its entirety against the Company's obligation to repay the loans in an aggregate principal amount of HK\$20 million due from the Company to Mr. Tam.

The equity attributable to the owners of the Company amounted to approximately HK\$94.9 million as at 30 June 2023, representing an increase of approximately 19.7% as compared to approximately HK\$79.3 million as at 31 December 2022.

Financial position as at 31 December 2022

As at 31 December 2022, the Group's total assets amounted to approximately HK\$322.0 million, representing an increase of approximately 28.4% as compared to approximately HK\$250.8 million as at 31 December 2021, which mainly comprised (i) non-current assets recorded at approximately HK\$93.4 million as compared to approximately HK\$55.3 million as at 31 December 2021; and (ii) current assets of approximately HK\$228.6 million, representing an increase of approximately 16.9% as compared to approximately HK\$195.5 million as at 31 December 2021, which included (a) trade receivables of approximately HK\$163.8 million as compared to approximately HK\$119.8 million as at 31 December 2021; (b) pledged bank balances of approximately HK\$29.7 million as compared to approximately HK\$21.7 as at 31 December 2021; and (c) bank balances and cash of approximately HK\$21.1 million as compared to approximately HK\$40.5 million as at 31 December 2021.

As at 31 December 2022, the total liabilities of the Group amounted to approximately HK\$242.7 million, representing an increase of approximately 26.5% as compared to approximately HK\$191.8 million as at 31 December 2021, which mainly comprised of (i) other payables of approximately HK\$73.2 million as compared to approximately HK\$43.8 million as at 31 December 2021; (ii) bank and

other borrowings of approximately HK\$58.5 million as compared to approximately HK\$91.9 million as at 31 December 2021; (iii) provisions of approximately HK\$39.9 million as compared to approximately HK\$22.1 million as at 31 December 2021; (iv) lease liabilities of approximately HK\$34.4 million as compared to approximately HK\$27.6 million as at 31 December 2021; and (v) loan from a director of the Company's subsidiaries of HK\$20 million.

The equity attributable to the owners of the Company amounted to approximately HK\$79.3 million as at 31 December 2022, representing an increase of approximately 34.4% as compared to approximately HK\$59.0 million as at 31 December 2021.

2. Reasons for the Rights Issue and the use of proceeds

As set out in the Letter from the Board, 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.

As set out in the Letter from the Board, 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 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 with customers in both public and private sectors. 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 set out in the Letter from the Board, as at 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.

In order to deliver the environmental hygiene services, in particular the street cleaning services, substantial financial and operational resources are required by the Group. 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 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.

Besides, the Group is required to use different 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 use part of the proceeds 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 its business growth.

As set out in the Letter from the Board, 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.

For debt financing, the interest rates for debt financing may remain high in the medium term and 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 Directors are of the view that and we concur that 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 the Group’s gearing ratio and finance

costs. Instead of the debt financing, the Board are of the view and we concur that it is relatively 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.

As set out in the Letter from the Board, the Directors have considered alternative fundraising methods, including but not limited to debt financing, placing and open offer. As mentioned in above, the 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. For placing of new Shares, the Directors considered 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. 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.

The Directors 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 members of the Independent Board Committee) are of the view that the Rights Issue is in the interests of the Company and the Shareholders as a whole. Having considered (i) the placing of new Shares would dilute the shareholding of the existing Shareholders while the Rights Issue will allow the Qualifying Shareholders to maintain their respective shareholdings in the Company on a pro rata basis; and (ii) as opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market, we are of the view that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Having consider that (i) debt financing will result in additional interest burden, higher gearing ratio of the Group and debt financing may not be achievable on favourable terms in a timely manner; (ii) placing would dilute the shareholding of the existing Shareholders without offering them the opportunity to maintain their shareholding interests in the Company; (iii) the open offer does not allow the trading of rights entitlements in the open market; (iv) the Rights Issue enables the Shareholders to sell the nil-paid rights in the market; (v) the Rights Issue gives the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interest in the Company and to continue to participate in the future development of the Company; (vi) 62% of proceeds will be used for financing the provision of performance guarantee to satisfy the expansion and development of existing business of the Group and 12% of proceeds will be

used for the repayment of the Group's bank loans and payables due within the next twelve months; (vii) the net proceeds from the Rights Issue could improve the financial position and gearing ratio of the Group by decreasing the Company outstanding debts in which the gearing ratio of the Group, which was calculated based on the total interest-bearing bank borrowings, non interest bearing loan from a director of the Company's subsidiaries and lease liabilities over total equity of the Group, would improve from 1.4 times to approximately 0.9 times as at 31 December 2022 upon completion of the Rights Issue; and (viii) the Rights Issue could facilitate the Group in reducing its future financing costs by early repayment of its outstanding debts, we concur with the Company and consider that the current fund-raising method by way of the Rights Issue is appropriate and acceptable for the Company and its Shareholders as a whole.

3. Previous fundraising exercise involving issue of securities in the prior 12-month period

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 intend
			(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.

4. Principal terms of the Rights Issue and the Placing Agreement

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

Basis of the 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 Share (i.e. the 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 the Latest Practicable Date	:	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\$43.2 million
Maximum amount of net proceeds raised from the Rights Issue	:	up to approximately HK\$41.7 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.

The Subscription Price

As set out in the Letter from the Board, the Subscription Price is 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) 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 43.40% to the closing price of HK\$1.060 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).

As stated in the Letter from the Board, 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 the Letter from the Board.

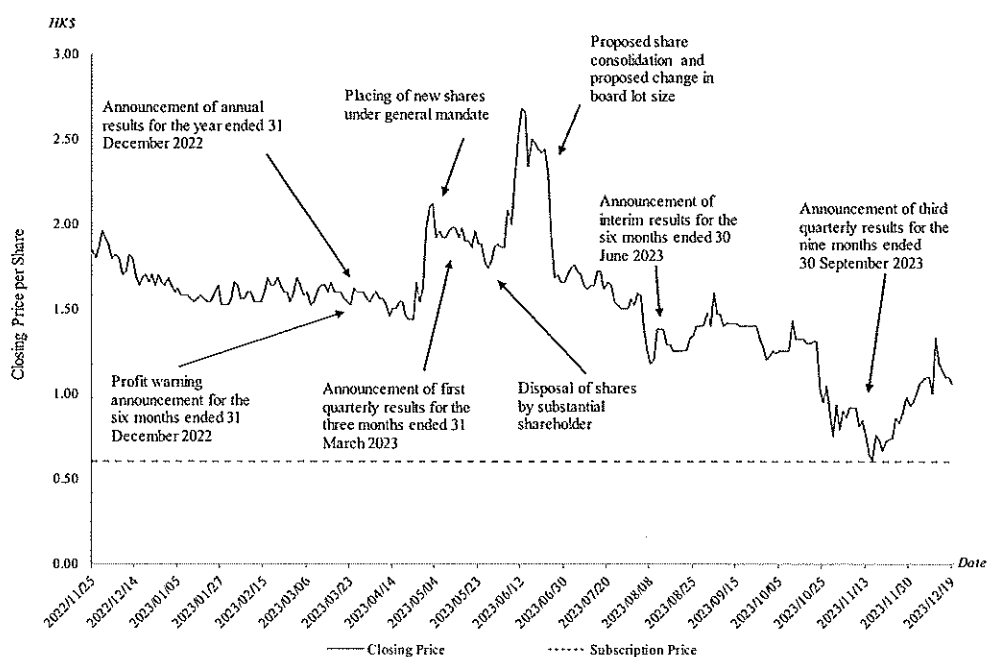
Analysis on the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following analysis for illustrative purposes:

Analysis on historical Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price per Share during the period from 25 November 2022, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "Share Price Review Period"), which is commonly adopted for share price analysis. We consider that a period of 12 months is adequate and long enough to illustrate the recent price movements and covered the seasonal factors of the Shares for conducting a reasonable comparison between the Subscription Price and the closing price of the Shares for assessing the reasonableness and fairness of the Subscription Price.

Share price chart during the Share Price Review Period



Source: www.hkex.com.hk

During the Share Price Review Period and up to the date of the Announcement, the average closing price per Share was approximately HK\$1.55 per Share (the "Average Closing Price"). The daily closing price per Share ranged from HK\$0.61 per Share recorded on 15 November 2023 (the "Lowest Closing Price") to HK\$2.68 per Share recorded on 12 June 2023 (the "Highest Closing Price"). We note that Shares were traded above the Subscription Price during the Share Price Review Period. The Subscription Price of HK\$0.60 represents (i) a discount of approximately 1.6% to the Lowest Closing Price; (ii) a discount of approximately 77.6% to the Highest Closing Price; and (iii) a discount of approximately 61.3% to the Average Closing Price.

As illustrated in the chart above, during the Share Price Review Period, we noted three waves of surge and plunge: (i) from 26 April 2023 to 3 May 2023, the closing price per Share reached HK\$2.12 per Share on 3 May 2023; (ii) from 10 May 2019 to 12 June 2023, the closing price per Share reached its peak of HK\$2.68 (i.e. the Highest Closing Price) on 12 June 2023; and (iii) from 12 June 2023, the closing price per Share gradually decreased to the Lowest Closing Price on 15 November 2023.

Overall, the closing price per Share generally experienced a decreasing price trend over the Share Price Review Period and we have discussed with the Company regarding the such decreasing price trend and were advised that the Company are not aware of any particular reason that may lead to the decreasing price trend over the Share Price Review Period.

The Subscription Price of HK\$0.60 per Rights Share represents a discount of approximately 1.6% to the Lowest Closing Price of HK\$0.61 per Share as quoted on the Stock Exchange on 15 November 2023 and a further discount of approximately 30.2% to the closing price of HK\$0.86 per Share as quoted on the Stock Exchange on the Last Trading Day. As set out in the section headed "Analysis on recent rights issue market comparables" below, we noted that it is a common market practice (17 out of 21 Rights Issue Comparables) to set the subscription price at a discount to the prevailing trading prices of the relevant shares in order to increase the attractiveness and encourage shareholders to participate in the right issues and the discount of the Subscription Price to the closing price on the Last Trading Day fall within discount range of Comparable LTD Range Comparables. Having considered the above and the Subscription Price Factors set out in our analysis under the section headed "Analysis on recent rights issue market comparables" below, we consider that the Subscription Price set at discount of approximately 30.2% to the closing price on the Last Trading Day is fair and reasonable.

Our analysis on historical trading volume and liquidity

We have also reviewed the historical trading volume of the Shares during the Share Price Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Share Price Review Period are shown in the table below.

Month/period	Number of trading days	Total volume of Shares traded	Approximately average daily number of Shares traded	Percentage of average daily trading volume to total number of issued shares as at the end of the month/ period (Note 1)
2022				
November (from 25 November 2022)	4	316,000	79,000	0.40%
December	20	1,256,250	62,813	0.31%
2023				
January	18	535,750	29,764	0.15%
February	20	1,061,250	53,063	0.27%
March	23	319,750	13,902	0.07%
April	17	1,190,500	70,029	0.35%
May	21	2,022,250	96,298	0.48%
June	21	5,322,750	253,464	1.06%
July	20	2,360,000	118,000	0.49%
August	23	798,750	34,728	0.14%
September	19	207,750	10,934	0.05%
October	20	984,750	49,238	0.21%
November	22	10,226,250	464,830	1.94%
December (up to the Latest Practicable Date)	13	2,311,000	177,769	0.74%
Average		2,060,214	113,131	0.47%
Maximum		10,226,250	464,830	1.94%
Minimum		207,750	10,934	0.05%

Source: www.hkex.com.hk

Note:

1. Calculated based on the total number of the Shares in issue at the end of month/period.

As set out in the table above, during the Share Price Review Period, the percentage of average daily trading volume of the Shares by month/period were in the range of approximately 0.05% to approximately 1.94% with an average of approximately 0.47% (the "Average Trading Percentage") as to the total number of issued Shares.

Based on the above statistics revealed that the trading liquidity of the Shares has been low in the open market, given the Average Trading Percentage of approximately 0.47%, and the closing price of the Shares generally showed a decreasing trend during the Share Price Review Period as discussed under the section headed "Analysis on historical Share price performance" above, we consider that the Company is unlikely to be able to raise equity funds without a substantial discount to the prevailing Share price. Having considered (i) the financial conditions of the Group as analysed under the section headed "1. Background and financial information of the Group" in this letter; (ii) the benefits and costs of each of the alternative fundraising methods and 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 discussed in section headed "2. Reasons for the Rights Issue and the use of proceeds" in this letter; (iii) the trading liquidity of the Shares has been low in the open market given the Average Trading Percentage of approximately 0.47% and the closing price of the Shares generally showed a decreasing trend during the Share Price Review Period as discussed under the section headed "Analysis on historical Share price performance" above; and (iv) the Subscription Price Factors set out in our analysis under the section headed "Analysis on recent rights issue market comparables" below, we concur with the Directors 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. In view of the above, we consider that it is fair and reasonable for the Company to determine the Subscription Price with reference to (i) the market price of the Shares under the prevailing market conditions; (ii) 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 the Letter from the Board.

Analysis on recent rights issue market comparables

With a view to assess the fairness and reasonableness of the terms of the Rights Issue, we have conducted market research on recent proposed rights issue transactions based on the following selection criteria: (i) the shares of the company are listed on the GEM of the Stock Exchange; and (ii) the proposed rights issues announced during the 12-months period (the "Review Period") commencing on 25 November 2022 up to and including the Last Trading Day (the "Criteria"). Based on the Criteria, we have identified 21 rights issues (the "Rights Issue Comparable(s)") for the purpose of our analysis. We consider that the Rights Issue Comparables are exhaustive under the Criteria.

We consider the Review Period of approximately 12 months is adequate and appropriate given that (i) such period would provide us with the recent and relevant information to demonstrate the prevailing market practice prior to the Announcement under the prevailing market conditions; and (ii) we are able to identify sufficient and reasonable samples size for selection of Rights Issue Comparables within the Review Period. We noted that (i) the terms of the rights issue announced by the Rights Issue Comparables may not be directly comparable to the terms of the Rights Issue announced by the Company due to the differences in business activities and performances; and (ii) the business activities of the Rights Issue Comparables may not be directly comparable to the business activities carried out by the Group. Despite the terms of the rights issue depend on various factors, including the dilution effect to shareholding, the funding needs and use of proceeds, discounts to share price, etc., we consider that they are often influenced by the recent market trends for rights issue. Although the Rights Issue Comparables included rights issue on different basis of entitlement, and involved issuers which engaged in different business or with different financial performance and funding needs from the Company, we consider that the Rights Issue Comparables are appropriate to serve as a general reference for the purpose of an assessment on the Subscription Price, as (i) all of the Rights Issue Comparables and the Company are listed on GEM of the Stock Exchange; (ii) our analysis is mainly concerned with the comparison of subscription price to closing price, maximum dilution on the shareholding and theoretical dilution effect; and (iii) the Rights Issue Comparables are exhaustive under the Criteria thus they represented a true and fair view of the recent market trends for rights issue.

We set out our findings in the following table:

Date of announcement	Company name (Stock code)	Basis of entitlement	Gross proceeds (Approximately HK\$ million)	Premium/ (discount) of subscription price over/to the closing price per share on the last trading day (Approximately %)	Premium/ (Discount) of subscription price over/to the consolidated net asset value per share (Note 1) (Approximately %)	Excess application (Yes/No)	Theoretical dilution effect (Approximately %)	Placing commission
21-Nov-2023	Gameone Holdings Limited (8282)	1 for 2	13.2	6.8	(11.3)	Yes	–	N/A
20-Nov-2023	Cool Link Holdings Limited (8491)	3 for 1	100.2	(28.7)	(56.5)	No	22.1	1.5
3-Oct-2023	Universe Printshop Holdings Limited (8448)	3 for 2	34.4	(14.8)	N/A	Yes	11.1	N/A
15-Sep-2023	Royal Century Resources Holdings Limited (8125)	5 for 1	36.1	(19.3)	(85.0)	No	16.1	1.0
16-Aug-2023	Wisdomcome Group Holdings Limited (8079)	3 for 1	70.0	(22.4)	(86.4)	Yes	16.8	N/A
11-Aug-2023	Almana Limited (8186)	3 for 1	18.7	(26.7)	22.2	No	21.8	1.0%
14-Jul-2023	Tasty Concepts Holding Limited (8096) (Note 2)	5 for 2	27.5	4.7	566.7	No	2.6	Higher of HK\$100,000 and 2.5%
6-Jul-2023	Classified Group (Holdings) Limited (8232)	3 for 2	14.3	(15.0)	(49.1)	No	8.8	HK\$38,000
8-Jun-2023	Hi-Level Technology Holdings Limited (8113)	1 for 1	78.3	(35.5)	188.0	No	17.7	1.0%
5-Jun-2023	Jisheng Group Holdings Limited (8133)	1 for 2	10.2	(20.8)	66.7	Yes	7.3	N/A
30-May-2023	Min Fu International Holding Limited (8511)	1 for 2	24.0	(8.3)	12.4	No	3.3	4.0%
29-May-2023	Hao Bai International (Cayman) Limited (8431)	1 for 2	19.5	(5.7)	37.0	No	3.8	1.6%
25-May-2023	Jimu Group Limited (8187)	2 for 1	14.4	15.6	N/A	Yes	–	N/A
13-Apr-2023	Finet Group Limited (8317)	1 for 2	33.9	(52.4)	96.1	No	18.0	HK\$20,000
6-Apr-2023	Luk Hing Entertainment Group Holdings Limited (8052)	1 for 1	43.9	(5.9)	N/A	No	2.9	3.0%

Date of announcement	Company name (Stock code)	Basis of entitlement	Gross proceeds <i>(Approximately HK\$ million)</i>	Premium/ (discount) of subscription price over/to the closing price per share on the last trading day <i>(Approximately %)</i>	Premium/ (Discount) of subscription price over/to the consolidated net asset value per share <i>(Note 1) (Approximately %)</i>	Excess application <i>(Yes/No)</i>	Theoretical dilution effect <i>(Approximately %)</i>	Placing commission
6-Mar-2023	CBK Holdings Limited (8428)	5 for 1	20.6	(15.9)	(79.1)	No	13.2	3.5%
17-Feb-2023	China New Consumption Group Limited (8275)	3 for 2	35.3	(26.5)	(53.5)	No	16.0	2.5%
10-Jan-2023	Kinetix Systems Holdings Limited (8606)	1 for 2	31.3	(29.4)	(47.0)	No	9.8	1.3%
6-Jan-2023	SDM Education Group Holdings Limited (8363)	1 for 2	23.8	–	N/A	Yes	–	N/A
28-Dec-2022	New Amante Group Limited (8412)	1 for 2	12.6	(10.6)	N/A	Yes	5.6	N/A
28-Dec-2022	Jiading International Group Holdings Limited (8153)	1 for 2	51.0	(50.0)	69.0	No	17.3	3.5%
	Maximum			15.6	188.0		22.1	4.0%
	Minimum			(52.4)	(86.4)		–	1.0%
	Average			(17.2)	1.6		10.2	2.2%
	The Company			(30.2)	(84.9)	No	22.7	2.5%

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

- The net asset value (the “NAV”) per share is calculated based on the latest published audited/unaudited consolidated equity attribute to owners of the company and total number of shares in issue as at the date of the respective announcements. “N/A” denotes that the NAV of the rights issue comparable company that has net liabilities according to their respective latest published audited/unaudited consolidated financial statements.
- The premium of the subscription price over the net asset value per issued share of the relevant Comparable is exceptionally high and considered an outlier, and is therefore not included in the calculation of the premium/discount of the subscription price to the net assets per share.

As set out in the table above, we noted that:

- (i) the premium or discount of subscription price over or to the closing price on the Last Trading Day of the Rights Issue Comparables ranged from a discount of approximately 52.4% to a premium of approximately 15.6% (the “Comparable LTD Range”), with an average discount of approximately 17.2% (the “Average Discount of Comparable LTD”). The Subscription Price represents a discount of approximately 30.2% to the closing price per Share on the Last Trading Day, which is within the Comparable LTD Range and higher than the above average discount of the Rights Issue Comparables;
- (ii) the premium or discount of subscription price over or to the net asset value per share of the Rights Issue Comparables ranged from a discount of approximately 86.4% to a premium of approximately 188.0% (the “Comparable NAV Range”), with an average premium of approximately 1.6% (the “Average Premium of Comparable NAV”). The Subscription Price represents a discount of approximately 84.85% to the unaudited net asset value per Share of approximately HK\$3.96 (the “NAV per Share”) (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), which is within the Comparable NAV Range;
- (iii) the theoretical dilution effect of the Rights Issue Comparables ranged from none of theoretical dilution effect to approximately 22.1% (the “Comparable Dilution Range”), with an average dilution effect of approximately 10.2% (the “Average Comparable Dilution”). The theoretical dilution effect of the Rights Issue of approximately 22.7% is closed to the Comparable Dilution Range and higher than the above average dilution effect of the Rights Issue Comparables;
- (iv) the placing commission of the Rights Issue Comparables, where applicable, ranged from 1.0% to 4.0%, with an average of approximately 2.2%. Pursuant to the terms of the Placing Agreement, the Placing Agent shall be entitled to a commitment fee equal to 2.5% of the actual gross proceeds from the subscription of the Placing Shares, and the such percentage is within the aforesaid range and higher than the such average placing commission of the Rights Issue Comparables.

In determining the current subscription ratio and the Subscription Price, we understand from the Management that the Company has considered various factors, including (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 funding needs of the Group.

It is noted from the Letter from the Board that the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. Based on our analysis on the Rights Issue Comparables, we noted that 14 out of 21 Rights Issue Comparables, did not offer excess application as part of the rights issue. On this basis, we considered the absence of excess application to be common market practice. Furthermore, the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company, for Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full, they would be able to maintain their respective existing shareholdings in the Company after completion of the Rights Issue. As such, we considered that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

Considering (i) the discount of Subscription Price to the closing price per Share on the Last Trading Day of approximately 30.2% was higher than the discount of Comparable LTD Average of approximately 17.2%; (ii) the discount of the Subscription Price to the consolidated net asset value per share (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) of approximately 84.85% was noted while there was approximately 1.6% of Average Premium of Comparable NAV and (iii) the theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 22.7% based on the Subscription Price was higher than the Average Comparable Dilution of approximately 10.2%, we have considered the factors set out below (the "Subscription Price Factors"): (a) it is a normal market practice (17 out of 21 Rights Issue Comparables) that the subscription price of a rights issue be set at a discount to the closing price as at Last Trading Date in order to enhance the attractiveness of a rights issue and to encourage the qualifying shareholders to take part in the rights issue; (b) the discount of the Subscription Price to the closing price on the Last Trading Day fall within discount ranges of Comparable LTD Range Comparables; (c) the discount of the Subscription Price to the NAV per Share falls within premium/discount range of Comparable NAV Range; (d) the theoretical dilution effect of the Rights Issue of approximately 22.7% which is below 25.0% as required under Rule 10.44A of the GEM Listing Rules; (e) the theoretical dilution effect of the Rights Issue of 22.7% represented 0.6% slightly higher than the maximum of Comparable Dilution Range of approximately 22.1%; (f) the Subscription Price was determined after considering under the prevailing market conditions and the downward trend and the prevailing market price of the Shares; and (g) 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 and the Rights Issue will proceed on a non-underwritten basis and, therefore, the certain discount to the prevailing trading prices of the Shares is considered necessary to increase the attractiveness and encourage shareholders to participate in the right issues and balance the thin trading liquidity of the Shares during the Share Price Review Period which may imply a lack of interest from potential investors to invest in the Shares.

In view of (i) the Subscription Price represents a discount of approximately 30.2% to the closing price per Share on the Last Trading Day which is within the Comparable LTD Range; (ii) the Subscription Price represents a discount of approximately 84.85% to the NAV per Share which is within the Comparable NAV Range; (iii) the theoretical dilution effect of the Rights Issue is closed to the Comparable Dilution Range; (iv) the Subscription Price is available to all Qualifying Shareholders; and (v) the Subscription Price Factors in our analysis as above, we consider that the principal terms of the Rights Issue (including the Subscription Price) to be fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

Principal terms of the Placing Agreement for the Unsubscribed Rights Shares

(a) Procedures in respect of the Unsubscribed 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.

As further mentioned in the Letter from the Board, 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;
- (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; and
- (iii) 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.

(b) *Principal terms of the Placing Agreement*

Details of the Placing Agreement are summarised as follows:

- Date : 24 November 2023 (after trading hours)
- Issuer : (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, Places 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) the 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.

The timetable of the Placing is driven by the timetable of the Rights Issue. Under the terms of the Placing Agreement, the Placing Period shall commence 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.

As set out in the Letter from the Board, 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.

We understand that the Compensatory Arrangements is at the cost of the Company that would protect the interest of the Company's minority Shareholders in the Rights Issue. The Unsubscribed Rights Shares may be placed to independent places under the Compensatory Arrangements which will expand the shareholders' base. As there will be no excess application arrangement in relation to the Rights Issue as stipulated under Rule 10.31(1)(a) of the GEM Listing Rules, the Company has put in place the Compensatory Arrangements as required by Rule 10.31(1)(b) of the GEM Listing Rules.

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 and we concur that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority Shareholders.

Taking into account the principal terms of the Rights Issue as highlighted above, we consider that the terms of the Rights Issue and the Placing Agreement are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned.

4.5 Potential dilution effect of the Rights Issue

The table below illustrates the shareholding structure of the Company as at the Latest Practicable Date and the possible changes upon completion of the Rights Issue.

	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 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 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
<i>Public Shareholders</i>								
Independent Placees (Note 2)	-	-	-	-	-	-	54,060,000	56.31
Other public Shareholders	<u>18,020,000</u>	<u>75.08</u>	<u>72,080,000</u>	<u>75.08</u>	<u>18,020,000</u>	<u>70.10</u>	<u>18,020,000</u>	<u>18.77</u>
Total	<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>

Note 1: 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.

Note 2: 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.

All Qualifying Shareholders are entitled to subscribe for the Rights Shares, and for those who take up their full provisional allotments under the Rights Issue, their shareholding interest in the Company remain the same after the Rights Issue. As illustrated above 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 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 and all the Placing Shares having been placed by Placing Agent.

Taking into account: (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and that the Qualifying Shareholders have their choice of whether to accept the Rights Issue or not; (ii) the Rights Issue offers the Qualifying Shareholders a chance to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at the Subscription Price; (iii) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; (iv) the inherent dilutive nature of rights issue in general if the existing shareholders do not subscribe in full for their assured entitlements; (v) the Rights Issue would enable the Group to improve its financial position; (vi) the Compensatory Arrangements will provide a compensatory mechanism for No Action Shareholders and the Excluded Shareholders; and (vii) although the compensatory mechanism would cost that the independent Placees have the potential to increase its equity interests in the Company at a lower cost because the Subscription Price is at discounts to the recent prevailing market price, the placing of the Unsubscribed Rights Shares may be placed to independent placees under the Compensatory Arrangements which will expand the shareholders' base, we are of the view that the potential dilution effect of the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned.

We are of the view that the implementation of the Rights Issue is beneficial to the Company and the Shareholders as a whole despite the potential dilution impact to the shareholding interests of the existing public Shareholders, who do not participate fully or partly in the Rights Issue, having regard to the potential mitigating measure such as the Compensatory Arrangements.

5. Financial effects of the Rights Issue

Net Assets

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net assets of the Group attributable to the owners of the Company was approximately HK\$94.9 million as at 30 June 2023. Assuming 72,000,000 Rights Shares are issued on the basis of three Rights Share for every one Share in issue as at 30 June 2023 at the Subscription Price of HK\$0.6 per Rights Share, upon completion of the Rights Issue,

the unaudited consolidated net assets of the Group attributable to the owners of the Company would improve from approximately HK\$94.9 million to unaudited consolidated net assets of the Group attributable to the owners of the Company of approximately HK\$136.6 million as at 30 June 2023, representing the increase by the expected net proceeds from the Rights Issue of approximately HK\$41.7 million.

Liquidity

According to the 2023 Interim Report, as at 30 June 2023, the Group had bank balances and cash of approximately HK\$44.7 million, current asset of approximately HK\$231.2 million and current liabilities of approximately HK\$176.9 million. Accordingly, the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 June 2023 was approximately 1.3 times. Immediately upon completion of the Rights Issue, the bank balances and cash of the Group is expected to increase by the expected net proceeds from the Rights Issue of approximately HK\$41.7 million. The current ratio of the Group will be increased from approximately 1.3 times to approximately 1.5 times. As such, the current ratio and the liquidity of the Group will be improved upon the completion of the Rights Issue.

Having considered that the Rights Issue will (i) improve the unaudited consolidated net assets attributable to the owners of the Company from approximately HK\$94.9 million to unaudited consolidated net assets of the Group attributable to the owners of the Company of approximately HK\$136.6 million as at 30 June 2023; and (ii) improve the overall liquidity position of the Group, we are of the view that the Rights Issue are fair and reasonable as far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, including:

- (i) the imminent need of capital of the Group as discussed in section headed "2. Reasons for the Rights Issue and the use of proceeds" in this letter;
- (ii) the Rights Issue, which the net proceeds of approximately HK\$41.7 million of which (a) approximately 62% will be used for financing the provision of performance guarantee to satisfy the expansion and development of existing business of the Group; (b) approximately 17% will be used to acquire additional 5 cleaning vehicles; (c) approximately 12% will be used for the repayment of the Group's bank loans and payables due within the next twelve

months; and (d) approximately 9% will be used as the general working capital of the Group;

- (iii) taking into account the benefits and costs of each of the alternative fundraising methods, the Rights Issue represents an appropriate means for fund raising to improve the Group's financial position as discussed under the section headed "2. Reasons for the Rights Issue and the use of proceeds" in this letter;
- (iv) the Subscription Price, which was determined at discounts to the prevailing market prices of the Share before the Last Trading Day, ensures that the Company would raise sufficient funding from the Rights Issue to improve its overall liquidity position and fulfil its capital requirements;
- (v) the Subscription Price is reasonable with considering the Subscription Price Factors as discussed in the section headed "4. Principal terms of the Rights Issue and the Placing Agreement — Analysis on the Subscription Price" in this letter;
- (vi) the Subscription Price, the dilution effects of the Rights Issue and the commission under the Placing Agreement are reasonable as discussed in the section headed "4. Principal terms of the Rights Issue and the Placing Agreement" in this letter; and
- (vii) the Rights Issue is conducted on the basis that all the Qualifying Shareholders have been offered the equal opportunity to maintain their proportionate interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company, and the maximum dilution effect only occur when the Qualifying Shareholders do not subscribe for their proportionate Rights Shares,

we are of the opinion that (i) the terms of the Rights Issue and the Placing Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) on the Rights Issue and the Placing Agreement to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited



Robert Siu
Managing Director

Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry.