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31 October 2024

*To: the Listing Rules Independent Board Committee and
the Listing Rules Independent Shareholders of
Sunway International Holdings Limited*

Dear Sirs,

CONNECTED TRANSACTION
(1) PROPOSED SHARE SUBSCRIPTION UNDER SPECIFIC MANDATE;
AND
(2) PROPOSED ISSUANCE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders in respect of the Share Subscription Agreement, the CB Subscription Agreement and transaction contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate), details of which are set out in the letter from the Board (the “**Letter from the Board**”) in this circular issued by the Company to the Shareholders dated 31 October 2024 (the “**Circular**”), of which this letter forms part. Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

On 6 September 2024, the Company and the Subscriber entered into the Share Subscription Agreement pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue the Subscription Shares (i.e. a total of 35,920,000 Shares) at the Share Subscription Price of HK\$0.10 per Subscription Share. Details of the Share Subscription Agreement are contained in the Letter from the Board of the Circular.

The Share Subscription is subject to various conditions set out under the paragraph headed “Conditions to Share Subscription” in the Letter from the Board. The Subscription Shares represent (i) approximately 20.00% of the total number of issued Shares as at the Latest Practicable Date; (ii) approximately 16.67% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares and assuming there will be no other changes in the total number of issued Shares between the Latest Practicable Date and the date of Share Subscription Completion; and (iii) approximately 6.97% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares, full conversion of the Convertible Bonds at the initial Conversion Price and assuming there will be no change in the total number of issued Shares between the Latest Practicable Date and the allotment and issue of the Conversion Shares, except for the Subscription Shares.

On 6 September 2024, the Company and the Subscriber entered into the CB Subscription Agreement pursuant to which the Company has conditionally agreed to issue and the Subscriber has conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK\$30,000,000. Details of the CB Subscription Agreement are contained in the Letter from the Board of the Circular. According to the Letter from the Board, the CB Subscription Price will be partially set-off against the amount due by the Company to the Subscriber as a Shareholder in the amount of HK\$22,676,843.80 (the “**Amount due to the Subscriber**”) and the balance of HK\$7,323,156.20 will be paid by the Subscriber in cash at the CB Completion.

The CB Subscription is subject to various conditions set out under the paragraph headed “Conditions precedent for the CB Subscription Agreement” in the Letter from the Board. Based on the initial Conversion Price of HK\$0.10 per Conversion Share, a maximum number of 300,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full, representing (i) approximately 167.04% of the total number of issued Shares as at the Latest Practicable Date; (ii) approximately 139.20% of the total number of issued Shares immediately upon the Share Subscription Completion; and (iii) approximately 58.19% of the total number of issued Shares as enlarged by the allotment and issue of 300,000,000 Conversion Shares upon full conversion of the Convertible Bonds and assuming there will be no other changes in the number of issued Shares between the Latest Practicable Date and the date of full conversion of the Convertible Bonds, save and except for the Share Subscription Completion.

As stated in the Letter from the Board, (i) the gross proceeds of the Share Subscription and the remaining part of the CB Subscription will be approximately HK\$3.6 million and HK\$7.3 million respectively, and the aggregate gross proceeds will be approximately HK\$10.9 million; (ii) the net proceeds from the Share Subscription and CB Subscription, after the deduction of the related professional fees and other related expenses, are estimated to be approximately HK\$8.9 million; and (iii) the Company intends to use the net proceeds from the Share Subscription and the CB Subscription for general working capital purpose.

Pursuant to the Letter from the Board, the Subscriber is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Chim is the sole legal and beneficial shareholder and the sole director of the Subscriber. As at the Latest Practicable Date, the Subscriber (i) is interested in 73,693,706 Shares, representing approximately 41.03% of the total number of issued Shares; and (ii) is a controlling shareholder of the Company. As such, the Subscriber is regarded as a connected person to the Company under Chapter 14A of the Listing Rules. As a result, the Share Subscription and the CB Subscription constitute non-exempt connected transactions for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and the Listing Rules Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Subscription Shares will be allotted and issued under the Share Subscription Specific Mandate, and the Conversion Shares will be allotted and issued under the CB Specific Mandate, to be respectively sought at the SGM, and is therefore subject to the Listing Rules Independent Shareholders' approval.

The Company will seek approval from the Listing Rules Independent Shareholders in respect of the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate) by way of a poll at the SGM. As stated in the Letter from the Board, the resolution approving the Share Subscription Agreement and the CB Subscription Agreement was approved at a Board meeting of the Company. Given none of the Directors has any material interest in the Share Subscription Agreement and the CB Subscription Agreement, no Directors were required to abstain from voting at the Board meeting relating to approval of the Share Subscription Agreement and the CB Subscription Agreement. In accordance with the Listing Rules, the Subscriber, Mr. Chim and its respective associates, who together hold 73,693,706 Shares shall abstain from the voting on the resolution(s) to be proposed at the SGM to approve the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate). Save as the Subscriber, Mr. Chim and its respective associates, to the best of the knowledge, information and belief of the Directors, no other Shareholder has a material interest in

the transactions contemplated under the Share Subscription Agreement and the CB Subscription Agreement and will be required to abstain from voting on the resolution(s) to approve the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate) at the SGM.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Conversion Shares.

LISTING RULES INDEPENDENT BOARD COMMITTEE

The Listing Rules Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Choi Pun Lap, Mr. Yu Shui Sang Bernard and Mr. Wong Yue Kwan Alan, has been formed to advise the Listing Rules Independent Shareholders on whether the terms of the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Listing Rules Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Adviser.

OUR INDEPENDENCE

We, Dakin Capital Limited, have been appointed as the Independent Financial Adviser to advise the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders in this regard. Our appointment as the Independent Financial Adviser has been approved by the Listing Rules Independent Board Committee. During the past two years immediately preceding the Latest Practicable Date, we did not act as the financial adviser or the independent financial adviser to the other transactions of the Company and the Subscriber. We are independent from, and are not associated with the Company, the Subscriber, or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders, no other arrangements exist whereby we will receive any fees and/or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated

thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate) to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders in accordance with the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Listing Rules Independent Board Committee and the Listing Rules Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors, the director of the Subscriber and the management of the Company. We have assumed that all statements, information and representations provided by the Directors, the director of the Subscriber and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors, the director of the Subscriber and the management of the Company in this Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in this Circular, or the reasonableness of the opinions expressed by the the Directors, the director of the Subscriber and the management of the Company and/or its advisers, which have been provided to us.

Your attention is drawn to the responsibility statements as set out in the paragraph headed “1. Responsibility statement” under the section headed “Appendix General information” in this Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Shareholders as a result of the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate). Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Share Subscription Agreement, the CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate), we have taken into account the following principal factors and reasons:

1. Background and financial information of the Group

As stated in the Letter from the Board, the Group is principally engaged in manufacturing and trading of pre-stressed high strength concrete piles, ready-mixed concrete, autoclaved sand-lime bricks, aerated concrete products and eco-permeable concrete products. The products are sold to customers located in Yangjiang City and its surrounding cities in the Guangdong Province in the People's Republic of China.

The table below summarises the general financial information of the Group (i) for the financial years ended 31 December 2022 and 2023 which are extracted from the Company's annual report for the year ended 31 December 2023 (the "Annual Report"); and (ii) for the six months ended 30 June 2023 and 2024 which are extracted from the Company's interim report for the six months ended 30 June 2024 (the "Interim Report").

Summary of the consolidated financial results of the Group

	For the year ended 31 December 2022 (audited) HK\$'000	For the year ended 31 December 2023 (audited) HK\$'000	For the six months ended 30 June 2023 (unaudited) HK\$'000	For the six months ended 30 June 2024 (unaudited) HK\$'000
Financial performance				
Revenue	451,115	246,531	115,611	100,511
Gross profit	105,597	37,556	17,436	16,811
Loss for the year/period	(45,384)	(64,262)	(18,921)	(19,099)

	As at 31 December 2022 (audited) HK\$'000	As at 31 December 2023 (audited) HK\$'000	As at 30 June 2024 (unaudited) HK\$'000
Financial position			
Total assets	409,537	330,938	320,631
Total liabilities	206,102	195,264	206,316
Net assets	203,435	135,674	114,315

Annual results of the Group

The Group's total revenue for the financial year ended 31 December 2023 ("FY2023") decreased by approximately HK\$204.6 million, or approximately 45.4% from approximately HK\$451.1 million in the previous financial year ended 31 December 2022 ("FY2022") to approximately HK\$246.5 million in FY2023. The Group's gross profit decreased from approximately HK\$105.6 million for FY2022 to approximately HK\$37.6 million for FY2023, representing a decrease of approximately 64.4%. As stated in the Annual Report, such decrease in the Group's total revenue and gross profit for FY2023 were mainly due to the slumping property market and related business sectors in the People's Republic of China (the "PRC").

The Group's loss for the year widened from approximately HK\$45.4 million for FY2022 to approximately HK\$64.3 million for FY2023. Pursuant to the Annual Report, such widen in loss for the year was mainly due to (i) the decrease in revenue by approximately 45.4% as well as the decrease in gross profit; and (ii) the outstanding goodwill of approximately HK\$19.9 million, relating to the Group's manufacturing and trading business in the PRC, was impaired during FY2023.

Total assets of the Group as at 31 December 2023 amounted to approximately HK\$330.9 million whereas total liabilities of the Group amounted to approximately HK\$195.3 million, resulting in a net assets position of approximately HK\$135.6 million.

Interim results of the Group

The Group's total revenue decreased from approximately HK\$115.6 million for the six months ended 30 June 2023 ("IR2023") to approximately HK\$100.5 million for the six months ended 30 June 2024 ("IR2024"), representing a decrease of approximately 13.1%. The Group's gross profit decreased from approximately HK\$17.4 million for IR2023 to approximately HK\$16.8

million for IR2024, representing a decrease of approximately 3.6%. Pursuant to the Interim Report, such decrease in the Group's total revenue and gross profit for IR2024 was mainly driven by the weakening of property and construction market.

The Group's loss for the period widened from approximately HK\$18.9 million for IR2023 to approximately HK\$19.1 million for IR2024. According to the Interim Report and the management of the Company, such widen in loss for the period was mainly due to the combined effect of (i) the decrease in revenue and gross profit as mentioned above; (ii) the increase in other losses, net from approximately HK\$1.4 million for IR2023 to approximately HK\$9.3 million for IR2024; and partially offset by (iii) the decrease in selling and distribution expenses from approximately HK\$23.3 million for IR2023 to approximately HK\$20.9 million for IR2024; (iv) the decrease in administrative expenses from approximately HK\$11.9 million for IR2023 to approximately HK\$9.9 million for IR2024; and (v) the increase in income tax credit from approximately HK\$1.1 million for IR2023 to approximately HK\$5.4 million for IR2024.

Total assets of the Group as at 30 June 2024 amounted to approximately HK\$320.6 million whereas total liabilities of the Group amounted to approximately HK\$206.3 million, resulting in a net assets position of approximately HK\$114.3 million.

2. Background information of the Subscriber

Wealthy Port Holdings Limited, the Subscriber is primarily engaged in investment holding and is a controlling shareholder of the Company which beneficially owns 73,693,706 Shares, representing approximately 41.03% of the total number of issued Shares as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, as at the Latest Practicable Date, (i) Mr. Chim is the sole legal and beneficial shareholder and the sole director of the Subscriber; (ii) Mr. Chim, aged 78, was a member of the Legislative Council of Hong Kong, representing the Financial Services Functional Constituency, for the period from 1991 to 1998 and from 2004 to 2012; and (iii) Mr. Chim had been the directors of various companies listed on the Main Board of the Stock Exchange.

3. Reasons for and benefits of the Share Subscription and the CB Subscription

According to the Annual Report and the Interim Report, we noted that there was an increasing trend in the Group's gearing ratio, which is computed by dividing the current liabilities and non-current liabilities by total equity ("**Gearing Ratio**"), of approximately 101%, 144% and

180% as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively. As advised by the management of the Company, such increasing trend in the Group's Gearing Ratio was mainly due to the losing making position of the Group for FY2022, FY2023 and IR2024.

As review on the Annual Report and the Interim Report, we also noted that the Group's cash and cash equivalents (i) increased from approximately HK\$9.3 million as at 31 December 2022 to approximately HK\$27.7 million as at 31 December 2023, representing an increase of approximately 197.5%; and (ii) decreased from approximately HK\$27.7 million as at 31 December 2023 to approximately HK\$7.3 million as at 30 June 2024, representing a decrease of approximately 73.5%. In this regard, we have discussed with the management of the Company and be advised that

- (i) such substantial increase in cash and cash equivalents during FY2023 was mainly contributed by (a) the net cash generated from operating activities of approximately HK\$27.7 million; and partially offset by (b) the net cash used in investing activities and financing activities of approximately HK\$1.0 million and HK\$5.0 million respectively;
- (ii) such substantial decrease in cash and cash equivalents during IR2024 was mainly due to (a) the net cash used in operating activities of approximately HK\$29.7 million; and partially offset by (b) the net cash generated from investing activities and financing activities of approximately HK\$0.8 million and HK\$9.7 million respectively.

Therefore, the Directors consider that the Group's financial performance and financial position remained unstable during FY2022, FY2023 and IR2024.

Furthermore, as stated in the Letter from the Board, the CB Subscription Price will be partially set-off against the Amount due to the Subscriber. In light of this, we have also reviewed the Annual Report, obtained confirmation from the Directors and noted that the Amount due to the Subscriber is unsecured, interest-free and repayable on demand. As confirmed by the Directors, (i) no net proceeds will be received by the Company from the CB Subscription regarding the partially set-off against the Amount due to the Subscriber; and (ii) no immediate cash outflow will be incurred in the settlement of the Amount due to the Subscriber. The Directors consider that the CB Subscription would (i) improve the gearing ratio as the relevant liability will be recorded as equity upon the CB Completion; and (ii) not incur immediate cash outflow for the settlement of the Amount due to the Subscriber. Furthermore, the Directors consider that the net proceeds from the Share Subscription and the CB Subscription allow the Company to replenish its working capital for daily operation.

Pursuant to the Letter from the Board, the gross proceeds of the Share Subscription and the remaining part of the CB Subscription will be approximately HK\$3.6 million and HK\$7.3 million respectively, and the aggregate gross proceeds will be approximately HK\$10.9 million. The net proceeds from the Share Subscription and CB Subscription, after the deduction of the related professional fees and other related expenses, are estimated to be approximately HK\$8.9 million. The Company intends to use the net proceeds from the Share Subscription and the CB Subscription for general working capital purpose, including (i) approximately HK\$3.9 million for directors' remuneration and staff costs; (ii) approximately HK\$3.0 million for audit fee and other legal and professional expenses; and (iii) approximately HK\$2.0 million for rental expenses and other administration expenses. It is expected that the net proceeds will be fully utilised by 31 December 2025 based on the working capital needs of the Group.

Having considered that,

- (i) the high Gearing Ratio of the Group as at 31 December 2022, 31 December 2023 and 30 June 2024;
- (ii) the instability of the Group's recent financial performance and financial position;
- (iii) the net proceeds from the Share Subscription and the CB Subscription would strengthen the capital base of the Company;
- (iv) the principal terms of the Share Subscription Agreement are on normal commercial terms, fair and reasonable as discussed in the paragraph headed "4. Principal terms of the Share Subscription Agreement" below in this letter;
- (v) the principal terms of the CB Subscription Agreement are on normal commercial terms, fair and reasonable as discussed in the paragraph headed "5. Principal terms of the CB Subscription Agreement" below in this letter; and
- (vi) other financing alternatives may not be feasible as discussed in the paragraph headed "6. Other financing alternatives" below in this letter.

We concur with the Directors' view that the Share Subscription and the CB Subscription are fair and reasonable so far as the Listing Rules Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Share Subscription Agreement

According to the Share Subscription Agreement, the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue the Subscription Shares (i.e. a total of 35,920,000 Shares) at the Share Subscription Price of HK\$0.10 per Subscription Share. The Share Subscription is subject to various conditions set out under the paragraph headed “Conditions to Share Subscription” in the Letter from the Board. The Subscription Shares represent (i) approximately 20.00% of the total number of issued Shares as at the Latest Practicable Date; (ii) approximately 16.67% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares and assuming there will be no other changes in the issued Shares between the Latest Practicable Date and the date of Share Subscription Completion; and (iii) approximately 6.97% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares, full conversion of the Convertible Bonds at the initial Conversion Price and assuming there will be no change in the total number of issued Shares between the Latest Practicable Date and the allotment and issue of the Conversion Shares, except for the Subscription Shares. Please refer to the paragraph headed “The Share Subscription Agreement” in the Letter from the Board for further details of the Share Subscription Agreement.

We have reviewed the following terms of the Share Subscription Agreement. In order to assess the fairness and reasonableness of the Share Subscription Price, we have compared with reference to (i) the recent price performance of Shares; (ii) the trading liquidity of Shares; and (iii) the market comparables analysis, as follows:

4.1 The Share Subscription Price

The Share Subscription Price of HK\$0.10 per Subscription Share represents:

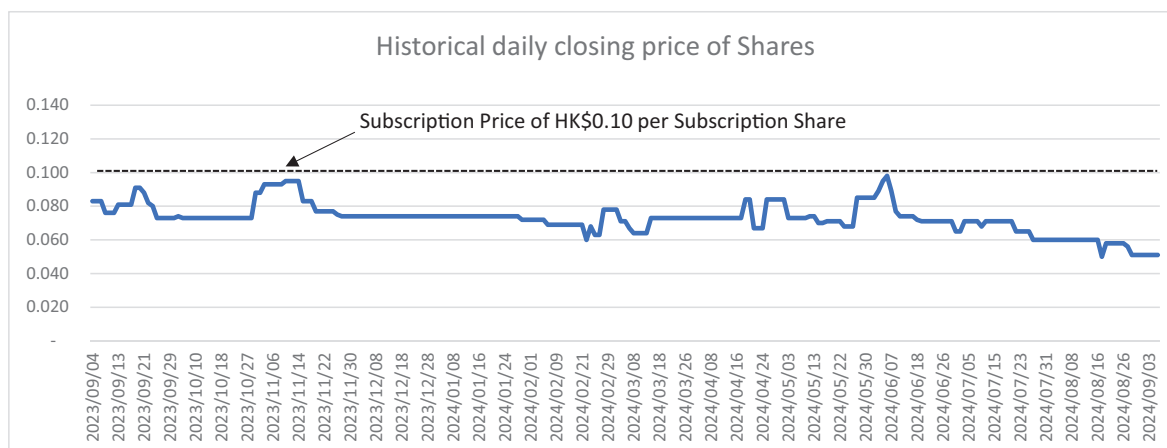
- (1) a discount of approximately 84.38% to the closing price of HK\$0.64 per Share as at the Latest Practicable Date;
- (2) a premium of approximately 96.08% to the closing price of HK\$0.051 per Share as quoted on the Stock Exchange on 5 September 2024, being the Last Trading Day;
- (3) a premium of approximately 96.08% to the average closing price of approximately HK\$0.051 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;

- (4) a premium of approximately 75.44% to the average closing price of approximately HK\$0.057 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (5) a discount of approximately 86.75% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.755 per Share (based on the audited consolidated net asset value attributable to Shareholders as at 31 December 2023 (the date to which the latest audited financial results of the Group were made up) divided by 179,600,000 Shares in issue as at the Latest Practicable Date); and
- (6) a discount of approximately 84.28% to the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 of approximately HK\$0.636 per Share (based on the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 (the date to which the latest unaudited financial results of the Group were made up) divided by 179,600,000 Shares in issue as at the Latest Practicable Date).

The net issue price per Share from the Share Subscription will be approximately HK\$0.07. As stated in the Letter from the Board and the advice from the Directors, (i) the Share Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares; and (ii) even though the Share Subscription Price represents a discount of approximately 86.75% to the audited consolidated net asset value per Share as at 31 December 2023 and 84.28% to the unaudited consolidated net asset value per Share as at 30 June 2024, the Share Subscription Price represents a substantial premium to the recent closing prices of the Shares prior to the Last Trading Day. Further, the Shares have been trading at a greater discount to the net asset value per Share during the six months prior to the Last Trading Day, as compared to the Share Subscription Price, with the highest closing price of the Shares at HK\$0.098 per Share as quoted on the Stock Exchange on 6 June 2024 and the lowest closing price of the Shares at HK\$0.050 per Share as quoted on the Stock Exchange on 19 August 2024.

4.2 Historical performance of share price

The historical closing prices of the Shares for the period from 4 September 2023, being the preceding twelve-month from the date of the Share Subscription Agreement (the “**Review Period**”), are plotted below against the Share Subscription Price.



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

During the Review Period, the closing price of Shares was on a general sideways trend throughout the Review Period. The closing price of Shares range from HK\$0.050 on 19 August 2024 to HK\$0.098 on 6 June 2024, with an average of approximately HK\$0.073. The Share Subscription Price of HK\$0.10 (i) represents a premium of approximately 37.3% over the average closing price of Shares of approximately HK\$0.073 during the Review Period; and (ii) is higher than all the closing prices of Shares during the Review Period.

4.3 Trading volume of the Shares

Set out below are the average daily trading volumes of the Shares during the Review Period.

	Average daily trading volumes during the period/month <i>(Shares)</i>	Percentage of average daily trading volumes over the issued Shares of the Company as at period/month end <i>(approximate %)</i>
2023		
From 4 September 2023 to 29 September 2023	29,074	0.0162
October	9,450	0.0053
November	77,018	0.0429
December	168	0.0001
2024		
January	4,636	0.0026
February	53,995	0.0301
March	29,090	0.0162
April	13,500	0.0075
May	49,271	0.0274
June	44,909	0.0250
July	15,638	0.0087
August	32,382	0.0180
From 2 September 2024 to 4 September 2024	25,200	0.0140

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

As illustrated above, the percentage of average daily trading volumes over the issued Shares as at period/month end ranged from approximately 0.0001% to 0.0429% during the Review Period, which is considered low compared with the number of the Subscription Shares.

4.4 Comparable analysis of the Share Subscription Price

In assessing whether the Share Subscription Price is fair and reasonable, we carried out a comparable analysis on the issue of new shares for fund-raising (the “**Shares Issue Comparables**”) as announced by companies listed on the Stock Exchange (excluding those (i) issue of A shares by issuers incorporated in the PRC; and (ii) issuers which have prolonged suspension of trading of shares over twelve months) from 5 March 2024, being the precedent six months from the date of the Share Subscription Agreement. We identified an exhaustive list of 18 comparables based on the abovementioned selection criteria. We consider that the abovementioned selection criteria of the Shares Issue Comparables during the six months allows us to (i) capture the Shares Issue Comparables, which could provide a general reference for the recent market practice in relation to the principal terms for issue of new shares for fund-raising; and (ii) generate a sufficient sample size for the purpose of our comparable analysis. Shall the Shares Issue Comparables be different in their principal activities, business nature, market capitalisations, financial performance and financial positions as compared to the Company, having considered that our analysis is mainly concerned of the principal terms for issue of new shares for fund-raising under the prevailing market condition and sentiment, we consider that the Shares Issue Comparables can provide a general reference in relation to the terms for issue of new shares for fund-raising under recent market condition and sentiment. In view of the above, we are of the view that the Shares Issue Comparables are fair and representative.

Details of the Shares Issue Comparables are set out below:

No.	Name of company (stock code)	Date of initial announcement	Premium/(Discount)	Premium/(Discount)
			of subscription price over/(to) closing price per share on the last trading day prior to/on the date of relevant announcement/ agreement (%)	of subscription price over/(to) average closing price per share on the last 5 trading days prior to/on the date of relevant announcement/ agreement (%)
1.	Apollo Future Mobility Group Limited (860)	15 March 2024	(9.80)	(16.36)
2.	Longhui International Holdings Limited (1007)	8 April 2024	(37.70)	(29.40)
3.	China Silver Technology Holdings Limited (515)	19 April 2024	(16.28)	(16.15)
4.	B.Duck Semk Holdings International Limited (2250)	26 April 2024	(6.00)	(5.70)
5.	Labixaoxin Snacks Group Limited (1262)	13 May 2024	(5.17)	(15.77)
6.	Television Broadcasts Limited (511)	13 May 2024	7.24	12.68
7.	China Zenith Chemical Group Limited (362)	20 May 2024	(2.00)	(4.20)
8.	Cornerstone Technologies Holdings Limited (8391)	22 May 2024	12.28	20.75
9.	Wenye Group Holdings Limited (1802)	7 June 2024	(3.50)	(14.10)
10.	Kingkey Financial International (Holdings) Limited (1468)	17 June 2024	29.50	33.70
11.	Aidigong Maternal & Child Health Limited (286)	20 June 2024	(14.29)	(15.15)
12.	China Ruifeng Renewable Energy Holdings Limited (527)	21 June 2024	(21.28)	(21.28)

No.	Name of company (stock code)	Date of initial announcement	Premium/(Discount)	
			Premium/(Discount) of subscription price over/(to) closing price per share on the last trading day prior to/on the date of relevant announcement/ agreement (%)	of subscription price over/(to) average closing price per share on the last 5 trading days prior to/on the date of relevant announcement/ agreement (%)
13.	Winshine Science Company Limited (209)	8 July 2024	(9.10)	(9.10)
14.	Kiu Hung International Holdings Limited (381)	16 July 2024	(1.77)	(6.57)
15.	Jimu Group Limited (8187)	4 August 2024	(13.80)	(24.90)
16.	China Zenith Chemical Group Limited (362)	22 August 2024	(6.54)	(0.20)
17.	Well Link Securities Holdings Limited (8350)	2 September 2024	65.60	66.90
18.	China Hongguang Holdings Limited (8646)	4 September 2024	(42.80)	(34.40)
		Mean	(4.19)	(4.40)
		Median	(6.27)	(11.60)
		Maximum	65.60	66.90
		Minimum	(42.80)	(34.40)
	The Company (58)	27 September 2024	96.08	96.08

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

As indicated in the above table, we noted that (i) the premium of approximately 96.08% represented by the Share Subscription Price over the closing price per Share on the Last Trading Day (5 September 2024) is higher than all of the Shares Issue Comparables, which ranges from a discount of approximately 42.80% to a premium of approximately 65.60%; and (ii) the premium of approximately 96.08% represented by the Share Subscription Price over the average closing price per Share on the last five trading days up to and including the Last Trading Day (5 September 2024) is higher than all of the Shares Issue Comparables, which ranges from a discount of approximately 34.40% to a premium of approximately 66.90%.

Despite the Share Subscription Price represents a discount of approximately 86.75% to the audited consolidated net asset value per Share as at 31 December 2023 and 84.28% to the unaudited consolidated net asset value per Share as at 30 June 2024, we have considered the following factors:

- (i) the Share Subscription Price of HK\$0.10 per Subscription Share represents a premium over all the closing prices per Share and the highest closing price per Share of HK\$0.098 throughout the Review Period;
- (ii) the Share Subscription Price represents a substantial premium to the recent closing prices of the Shares prior to the Last Trading Day;
- (iii) the Shares have been trading at a greater discount to the net asset value per Share during the six months prior to the Last Trading Day, as compared to the Share Subscription Price;
- (iv) the closing price of the Shares was generally in a sideways trend throughout the Review Period;
- (v) the trading volume of the Shares was low during the Review Period;
- (vi) the Company was in loss-making position for FY2022, FY2023 and IR2024; and
- (vii) the Share Subscription would strengthen the capital base of the Company.

Based on the above, we are of the view that the Share Subscription Price is fair and reasonable so far as the Listing Rules Independent Shareholders are concerned, and in the interest of the Company and Shareholders as a whole.

4.5 Other terms of the Share Subscription Agreement

Furthermore, we have also reviewed other terms of the Share Subscription Agreement, including, among others, the conditions precedent, and nothing has come to our attention that they are not on normal commercial terms. Please refer to the paragraph headed “Conditions to Share Subscription” in the Letter from the Board for further details of the conditions precedent.

4.6 Our view

Having considered (i) the reasons for and benefits of the issue of the Subscription Shares as mentioned in the paragraph headed “3. Reasons for and benefits of the Share Subscription and the CB Subscription” above in this letter; and (ii) the comparable analysis on the Share Subscription Price as mentioned above in this paragraph, nothing has come to our attention that the principal terms of the Share Subscription Agreement are not on normal commercial terms and not fair and reasonable.

5. Principal terms of the CB Subscription Agreement

Set out below are the principal terms of the CB Subscription Agreement:

Issuer	:	The Company
Subscriber	:	Wealthy Port Holdings Limited
Issue Price	:	100% of the principal amount. The CB Subscription Price will be partially set-off against the amount due to the Subscriber as a Shareholder in the amount of HK\$22,676,843.80 and the balance of HK\$7,323,156.20 will be paid by the Subscriber in cash at the CB Completion.
Principal amount	:	HK\$30,000,000
Conversion price	:	HK\$0.10, subject to adjustment as hereafter described.

- Adjustment events** :
- The Conversion Price shall from time to time be subject to adjustment upon occurrence of the following events:
- (a) an alteration to the nominal amount of the Shares by way of consolidation, sub-division, or reclassification;
 - (b) an issue (other than in lieu of cash dividend and other than issue that would amount to capital distribution) of any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
 - (c) a capital distribution (in cash or specie and whether on a reduction of capital or otherwise) to the Shareholders or grant to the Shareholders rights to acquire for cash assets of the Group;
 - (d) an offer of new Shares to the Shareholders for conversion by way of rights, or grant, to Shareholders of any options or warrants to subscribe for new Shares, at a price which is less than 95% of the market price on the date of the announcement of the terms of the offer or grant;
 - (e) (aa) an issue of securities wholly for cash or for reduction of liabilities or for acquisition of asset exchangeable for or carry rights of conversion for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 95% of the market price on the date of the announcement of the terms of issue of such securities;

(bb) modification of the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this paragraph (e), so that the total effective consideration per Share initially receivable for such securities shall be less than 95% of the market price on the date of announcement of the proposal to modify such rights of conversion or exchange or subscription;

(f) an issue of any Shares wholly for cash or for reduction of liabilities at a price per Share which is less than 95% of the market price on the date of the announcement of the terms of such issue; and

(g) an issue of any Shares for the acquisition of asset at a total effective consideration per Share which is less than 95% of the market price at the date of the announcement of the terms of such issue.

Interest	:	Nil
Conversion Shares	:	Based on the principal amount of the Convertible Bonds of HK\$30,000,000, the Convertible Bonds are convertible into 300,000,000 Conversion Shares at the initial Conversion Price of HK\$0.10 per Conversion Share (subject to adjustments).
Conversion period	:	Commencing from the date of issue of the Convertible Bonds to the day immediately prior to and exclusive of the Maturity Date.
Conversion rights and restrictions	:	The holder(s) of the Convertible Bonds shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in its name into Conversion Shares provided that:

- (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$500,000 on each conversion save that it at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK\$500,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted;
- (ii) the conversion will not cause the Company to be unable to meet the public float requirement under the Listing Rules, in which case only a portion of the Conversion Rights may be exercised so as to maintain the public float requirement; and
- (iii) the conversion will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Bondholder(s) which exercised the conversion rights and parties acting in concert with it, in which case only a portion of the conversion rights may be exercised such that the mandatory offer obligation will not be triggered.

Early redemption : The Convertible Bonds shall be redeemable by the Company at any time before the Maturity Date.

Ranking : The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the relevant conversion date including the right to all dividends or other distributions, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the relevant conversion date.

Maturity Date : The calendar day immediately before the first anniversary date of the initial issue date of the Convertible Bonds.

- Automatic conversion** : Unless previously redeemed, converted or cancelled, the Convertible Bonds shall be automatically converted into Conversion Shares at the Conversion Price on the Maturity Date at the outstanding principal amount, subject to the terms and conditions of the Convertible Bonds.
- Voting rights** : The holder(s) of the Convertible Bonds shall not have any right to attend or vote in any general meeting of the Company.
- Transferability** : Subject to compliance with the Listing Rules, the Convertible Bonds may be transferred or assigned in whole or in part in integral multiples of HK\$10,000,000 by the holder(s) of the Convertible Bonds to any party, save and except that the Convertible Bonds shall not be transferred to a connected person of the Company unless with the prior written consent of the Company.
- Security** : The obligations of the Company under the Convertible Bonds are unsecured.

The Conversion Shares will be issued pursuant to the CB Specific Mandate proposed to be sought from the Listing Rules Independent Shareholders at the SGM.

Based on the initial Conversion Price of HK\$0.10 per Conversion Share, a maximum number of 300,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds in full, which represent: (i) approximately 167.04% of the total number of issued Shares as at the Latest Practicable Date; (ii) approximately 139.20% of the total number of issued Shares immediately upon the Share Subscription Completion; and (iii) approximately 58.19% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds in full and assuming there will be no other changes in the number of issued Shares between the Latest Practicable Date and the date of full conversion of the Convertible Bonds, save and except for the Share Subscription Completion.

The maximum aggregate nominal value of the Conversion Shares is HK\$30,000,000.

The initial Conversion Price of HK\$0.10 per Conversion Share represents:

- (i) a discount of approximately 84.38% to the closing price of HK\$0.64 per Share as at the Latest Practicable Date;
- (ii) a premium of approximately 96.08% to the closing price of HK\$0.051 per Share as quoted on the Stock Exchange on 5 September 2024, being the Last Trading Day;
- (iii) a premium of approximately 96.08% to the average closing price of approximately HK\$0.051 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 75.44% to the average closing price of approximately HK\$0.057 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 86.75% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.755 per Share (based on the audited consolidated net asset value attributable to Shareholders as at 31 December 2023 (the date to which the latest audited financial results of the Group were made up) divided by 179,600,000 Shares in issue as at the Latest Practicable Date); and
- (vi) a discount of approximately 84.28% to the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 of approximately HK\$0.636 per Share (based on the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 (the date to which the latest unaudited financial results of the Group were made up) divided by 179,600,000 Shares in issue as at the Latest Practicable Date).

The net Conversion Price, after deduction of relevant expenses, is approximately HK\$0.097 per Conversion Share. As stated in the Letter from the Board and the advice from the Directors, (i) the Conversion Price was determined after arm's length negotiations between the Company and the Subscriber with reference to the prevailing market price of the Shares; and (ii) even though the Conversion Price represents a discount of approximately 86.75% to the audited consolidated net asset value per Share as at 31 December 2023 and 84.28% to the unaudited consolidated net asset value per Share as at 30 June 2024, the Conversion Price represents a substantial premium to the recent closing prices of the Shares prior to the Last Trading Day. Further, the Shares have been trading at a greater discount to the net asset value per Share during the six months prior to the Last Trading Day, as compared to the Conversion Price, with the highest closing price of the Shares at HK\$0.098 per Share as quoted on the Stock Exchange on 6 June 2024 and the lowest closing price of the Shares at HK\$0.050 per Share as quoted on the Stock Exchange on 19 August 2024..

In order to assess the fairness and reasonableness of the terms of the Convertible Bonds, we have searched for relevant convertible bonds/notes issued by other issuers listed on the Stock Exchange for fund-raising (the “**CB Comparables**”) as announced during the six months prior to and including 6 September 2024, being the date of the CB Subscription Agreement, and identified an exhaustive list of 17 CB Comparables which (i) are denominated in Hong Kong dollars; and (ii) has term to maturity of not more than three years. We consider that the abovementioned selection criteria of the CB Comparables during the six months prior to and including 6 September 2024 allows us to (i) capture the CB Comparables, which provide a general reference for the recent market practice in relation to the principal terms of issue of convertible bonds/notes; and (ii) generate a sufficient sample size for the purpose of our comparable analysis. Shall the CB Comparables be different in their principal activities, business nature, market capitalisations, financial performance and financial positions as compared to the Company, having considered that our analysis is mainly concerned of the principal terms of the convertible bonds/notes under the prevailing market condition and sentiment, we consider that the CB Comparables can provide a general reference in relation to the terms of convertible bonds/notes under recent market condition and sentiment. In view of the above, we are of the view that the CB Comparables are fair and representative.

Details of the CB Comparables are set out in the table below:

No.	Name of company (stock code)	Date of initial announcement	Principal amount <i>HK\$'000</i>	Interest rate per annum <i>(%)</i>	Maturity <i>(Year(s))</i>	Premium/(Discount)	Premium/(Discount)
						of the conversion price over/(to) the closing price per share on the last trading day/date of agreement/ announcement in relation to the respective placing/subscription of convertible bonds <i>(%)</i>	of the conversion price over/(to) the last five consecutive trading days prior to/up to and including the date of agreement/ announcement in relation to the respective placing/subscription of convertible bonds <i>(%)</i>
1.	Grand Field Group Holdings Limited (115)	6 March 2024	101,912	6.00	3.00	5.70	3.30
2.	Huayi Tencent Entertainment Company Limited (419)	7 March 2024	120,000	10.00	2.00	0.40	—
3.	Oriental Payment Group Holdings Limited (8613)	20 March 2024	3,910	7.00	1.00	—	1.14
4.	China Biotech Services Holdings Limited (8037)	25 March 2024	88,000	8.00	2.00	34.15	53.63
5.	Legendary Education Group Limited (8195)	24 April 2024	15,000	10.00	1.00	(18.70)	(14.00)
6.	Prosperity Investment Holdings Limited (310)	30 April 2024	4,000	8.00	2.00	66.00	67.70
7.	Sinolink Worldwide Holdings Limited (1168)	30 April 2024	200,000	—	3.00	—	10.10
8.	Vobile Group Limited (3738)	14 May 2024	159,997	3.00	2.00	15.00	14.00
9.	Tibet Water Resources Limited (1115)	22 May 2024	90,000	10.00	0.33	9.09	2.39
10.	Future Data Group Limited (8229)	7 June 2024	2,000	8.00	1.00	—	0.20
11.	China Ruifeng Renewable Energy Holdings Limited (527)	21 June 2024	259,701	5.50	3.00	(21.28)	(21.28)
12.	New Focus Auto Tech Holdings Limited (360)	27 June 2024	400,000	8.00	3.00	43.56	29.00
13.	China Baoli Technologies Holdings Limited (164)	12 July 2024	6,000	5.00	3.00	370.59 <i>(Note 2)</i>	335.73 <i>(Note 2)</i>

No.	Name of company (stock code)	Date of initial announcement	Principal amount	Interest rate per annum	Maturity (Note 1) (Year(s))	Premium/(Discount)	Premium/(Discount)
						of the conversion price over/(to) the closing price per share on the last trading day/date of agreement/ announcement in relation to the respective placing/subscription of convertible bonds	of the conversion price over/(to) the last five consecutive trading days prior to/up to and including the date of agreement/ announcement in relation to the respective placing/subscription of convertible bonds
			HK\$'000	(%)	(Year(s))	(%)	(%)
14.	Cornerstone Technologies Holdings Limited (8391)	31 July 2024	34,450	4.00	0.50	(19.70)	(14.24)
15.	Millennium Pacific Group Holdings Limited (8147)	4 August 2024	6,800	5.00	2.00	17.24	7.26
16.	China Healthwise Holdings Limited (348)	19 August 2024	16,800	6.00	2.00	57.14	54.93
17.	Ev Dynamics (Holdings) Limited (476)	2 September 2024	5,000	4.00	2.00	25.00	23.46
			Mean	6.32	1.93	13.35	13.60
			Median	6.00	2.00	7.40	5.28
			Maximum	10.00	3.00	66.00	67.70
			Minimum	—	0.33	(21.28)	(21.28)
	The Company (58)	27 September 2024	30,000	—	1.00	96.08	96.08

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

Notes:

1. For the term of maturity, either it is specified in the announcement or it is counted from the announcement date to the maturity date specified in the announcement; and
2. It is considered as outlier. As such, it is excluded from the analysis.

5.1 Interest rate per annum

As shown in the above table, the interest rates of the CB Comparables range from nil to 10.00%, with an average interest rate of approximately 6.32%. Given (i) the interest-free of the Convertible Bonds is within the range of the CB Comparables; and (ii) the Convertible Bonds is interest-free which is favourable to the Group and would not increase the Group's interest burden, we consider that the interest rate of the Convertible Bonds is justifiable.

5.2 Maturity

As shown in the above table, the terms to maturity of the CB Comparables range from 0.33 year to 3.00 years with an average of approximately 1.93 years. The term to maturity of the Convertible Bonds falls within the range of the CB Comparables. Nothing has come to our attention that one year maturity of the Convertible Bonds is not on normal commercial terms.

5.3 Conversion Price

As shown in the above table, we noted that (i) the premium of approximately 96.08% represented by the Conversion Price over the closing price per Share on the Last Trading Day is higher than all the CB Comparables, which ranges from a discount of approximately 21.28% to a premium of approximately 66.00% of the CB Comparables; and (ii) the premium of approximately 96.08% represented by the Conversion Price over the average closing price per Share on the last five trading days up to and including the Last Trading Day is higher than all the CB Comparables, which ranges from a discount of approximately 21.28% to a premium of approximately 67.70%. We are of the view that the Conversion Price of the Convertible Bonds is justifiable.

5.4 Other terms of the CB Subscription Agreement

Furthermore, we have also reviewed other terms of the CB Subscription Agreement, including, among others, the conditions precedent, and nothing has come to our attention that they are not on normal commercial terms. Please refer to the paragraph headed "Conditions precedent for the CB Subscription Agreement" in the Letter from the Board for further details of the conditions precedent.

5.5 Our view

Despite the Conversion Price represents a discount of approximately 86.75% to the audited consolidated net asset value per Share as at 31 December 2023 and 84.28% to the unaudited consolidated net asset value per Share as at 30 June 2024, we have considered the following factors:

- (i) the Conversion Price of HK\$0.10 represents a premium over all the closing prices per Share and the highest closing price per Share of HK\$0.098 throughout the Review Period;
- (ii) the Conversion Price represents a substantial premium to the recent closing prices of the Shares prior to the Last Trading Day;
- (iii) the Shares have been trading at a greater discount to the net asset value per Share during the six months prior to the Last Trading Day, as compared to the Conversion Price;
- (iv) the closing price of the Shares was generally in a sideways trend throughout the Review Period;
- (v) the trading volume of the Shares was low during the Review Period;
- (vi) the Company was in loss-making position for FY2022, FY2023 and IR2024; and
- (vii) the CB Subscription would strengthen the capital base of the Company.

Based on the above, we are of the view that the Conversion Price is fair and reasonable so far as the Listing Rules Independent Shareholders are concerned, and in the interest of the Company and Shareholders as a whole.

Having considered (i) the reasons for and benefits of the issue of the Convertible Bonds as mentioned in the paragraph headed “3. Reasons for and benefits of the Share Subscription and the CB Subscription” above in this letter; and (ii) the comparable analysis on the principal terms of issue of convertible bonds/notes as mentioned above in this paragraph, nothing has come to our attention that the principal terms of the CB Subscription Agreement are not on normal commercial terms and not fair and reasonable.

6. Other financing alternatives

As advised by the Directors, other financing alternatives, including debt financing and other forms of equity financing such as rights issue, open offer and placing of new shares to Independent Third Parties, have been considered.

According to the Directors, due diligence and negotiation process with the relevant banks/financial institutions of bank borrowings may be lengthy. As stated in the Letter from the Board, despite the Group's attempt to negotiate with various lenders, including banks and other financial institutions for debt financing, the Group had not been able to realize these fundraising activities due to the loss-making financial performance of the Group and the lack of ability to provide adequate securities for borrowings over the past few years. According to the Letter from the Board, the Company has approached one of its principal banks to explore debt financing, however the bank is not willing to provide borrowings to the Company given the loss-making financial performance of the Group and the lack of adequate securities. As mentioned in the paragraph headed "3. Reasons for and benefits of the Share Subscription and the CB Subscription" above in this letter, (i) the Group was in high Gearing Ratio of approximately 180% as at 30 June 2024; and (ii) the Group's financial performance and position remain unstable recently. Based on the recent financial performance and position of the Group, we concur with the Directors' view that it is difficult for the Group to obtain bank borrowing.

In addition to debt financing, we understand that the Directors had considered to conduct equity financing such as rights issue, open offer exercise or private placement. According to the Directors, based on the instability of recent financial market, it is not easy for the Company to appoint placing agent/underwriter to underwrite the fund-raising exercises, such as placing of new Shares, open offer and rights issue. Pursuant to the Letter from the Board, despite the Group's attempt to negotiate with placing agents and underwriters for equity financing, the Group had not been able to realize these fundraising activities due to the loss-making financial performance of the Group. Pursuant to the Letter from the Board, the Company has approached two placing agents for exploring equity financing, however the Company did not receive favourable response due to the low trading volume of the Shares and the recent uncertain macroeconomic environment. We also noted that the closing price of Hang Seng Index dropped from approximately 20,145 points on 3 January 2023 to approximately 17,444 points on 5 September 2024, representing a decrease of approximately 13.4%.

Also, as advised by the Directors, although both open offer and rights issue would allow the Shareholders to participate in the subscription of new Shares and maintain their respective pro-rata shareholdings in the Company, it would take a relatively longer timeframe of more than three months from the dispatch of the prospectus to commencement of dealing in the offer shares or rights shares (as the case may be) when compared to the Share Subscription Agreement and the CB Subscription Agreement.

In view of the above and our comparable analysis in respect of the principal terms of the Subscription Shares and the Convertible Bonds as discussed in the paragraphs headed "4. Principal terms of the Share Subscription Agreement" and "5. Principal terms of the CB Subscription Agreement" above in this letter respectively, we concur with the Directors' view that the entering of the Share Subscription Agreement and the CB Subscription Agreement would be the best financing alternative available to the Company.

7. Possible dilution effect on shareholding interests of the public Shareholders

With reference to the shareholding table in the paragraph headed “Effect on shareholding structure of the Company” of the Letter from the Board and as confirmed by the management of the Company, (i) assuming that there will be no other changes in the issued Shares between the Latest Practicable Date and the date of the Share Subscription Completion, the shareholding in the Company held by other Shareholders will be diluted from approximately 58.97% as at the Latest Practicable Date to approximately 49.14% upon the Share Subscription Completion; and (ii) assuming that there will be no other changes in the issued Shares between the date of the Share Subscription Completion and the date of full conversion of the Convertible Bonds, the shareholding in the Company held by other Shareholders will be further diluted from approximately 49.14% as at the date of the Share Subscription Completion to approximately 20.54% upon full exercise of the conversion rights attaching to the Convertible Bonds.

Such dilution effect is for illustration purpose only as the Company will be unable to satisfy the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules. Pursuant to the terms and conditions of the Convertible Bonds, the holder(s) of the Convertible Bonds shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in its name into the Conversion Shares provided that:

- (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$500,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK\$500,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted;
- (ii) the conversion will not cause the Company to be unable to meet the public float requirement under the Listing Rules, in which case only a portion of the Conversion Rights may be exercised so as to maintain the public float requirement; and
- (iii) the conversion will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the bondholder(s) which exercised the conversion rights and parties acting in concert with it, in which case only a portion of the conversion rights may be exercised such that the mandatory offer obligation will not be triggered.

We are aware of the potential dilution effect as a result of the issue of the Subscription Shares and the conversion of the Convertible Bonds based on the Conversion Price. Nonetheless, having considered that (i) the Group has immediate funding needs to improve the financial position; (ii) the Share Subscription and the CB Subscription would strengthen the capital base of the Group; (iii) the principal terms of the Share Subscription Agreement are on normal commercial terms, fair and reasonable as discussed in the paragraph headed “4. Principal terms of the Share

Subscription Agreement” above in this letter; (iv) the principal terms of the CB Subscription Agreement are on normal commercial terms, fair and reasonable as discussed in the paragraph headed “5. Principal terms of the CB Subscription Agreement” above in this letter; (v) other financing alternatives may not be feasible as discussed in the paragraph headed “6. Other financing alternatives” above in this letter; and (vi) there is conversion restriction on the Convertible Bonds in order to comply with the Listing Rules, we concur with the view of the Directors that such potential dilution effect on the shareholding interests of the existing public Shareholders resulting from the Share Subscription and the CB Subscription is acceptable.

8. Financial effect of the Share Subscription and the CB Subscription

Liquidity

As stated in the Interim Report, the cash and cash equivalent of the Group was approximately HK\$7.3 million as at 30 June 2024. According to the Letter from the Board and the management of the Company, the net proceeds from the Share Subscription and CB Subscription, after the deduction of the related professional fees and other related expenses, are estimated to be approximately HK\$8.9 million. As confirmed by the Directors, such net proceeds from the Share Subscription and CB Subscription of approximately HK\$8.9 million will be additional cash injected into the Company upon completion of the Share Subscription and CB Subscription.

Gearing ratio

According to the Interim Report, the gearing ratio of the Group was approximately 180% as at 30 June 2024. In any event the holder of the Convertible Bonds or the transferee of the Convertible Bonds exercises the conversion rights attaching to the Convertible Bonds, assuming no other factors affecting the financial position of the Group, the gearing position would be improved and the conversion of the Convertible Bonds by the bondholder into Conversion Shares would enlarge the capital base of the Group. On the other hand, if the conversion rights attaching to the Convertible Bonds are not exercised upon maturity of the Convertible Bonds, the Company will have to repay the principal amount of the Convertible Bonds to the holder(s) of the Convertible Bonds in cash. The gearing position of the Group will also be improved on the condition that all other financial factors remain constant and the cash position of the Group by then is sufficient to repay the loan as well as to maintain the operation of the Group.

Shareholders should be noted that the abovementioned analysis are for illustrative purpose only and does not purport to represent how the financial performance and financial position of the Company would be upon completion of the Share Subscription and the CB Subscription.

RECOMMENDATION

Having taken into consideration of the above factors and reasons, we are of the view and concur with the Directors' view that although the entering of the Share Subscription Agreement and the CB Subscription Agreement are not in the ordinary and usual course of the Group's business, the terms of the Share Subscription Agreement, CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate and the CB Specific Mandate) are on normal commercial terms, fair and reasonable so far as the Listing Rules Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend (i) the Listing Rules Independent Board Committee to advise the Listing Rules Independent Shareholders; and (ii) the Listing Rules Independent Shareholders, to vote in favour of the relevant resolution(s) at the SGM to approve the Share Subscription Agreement, CB Subscription Agreement and the transactions contemplated thereunder (including the grant of the Share Subscription Specific Mandate for allotment and issue of the Subscription Shares and the CB Specific Mandate for allotment and issue of the Conversion Shares).

Yours faithfully,
For and on behalf of
Dakin Capital Limited



Tam Kin Fong
Managing Director

Note: Mr. Tam Kin Fong is a responsible officer of Dakin Capital Limited, which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions.