Donvex 富域資本

Unit 2501–02, 25th Floor,
Carpo Commercial Building
18–20 Lyndhurst Terrace
Central
Hong Kong

26 January 2022

The Independent Board Committee and the Independent Shareholders of
Prosperous Printing Company Limited

Dear Sir/Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) EXISTING SHARES HELD ON THE RECORD DATE

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the fairness and reasonableness of the terms of the Rights Issue, the Underwriting 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 of the Company dated 26 January 2022 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

As stated in the Letter from the Board, on 29 December 2021, the Company proposes to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date at the Subscription Price of HK$0.044 per Rights Share, to raise up to approximately HK$52.8 million (before expenses) by issuing up to 1,200,000,000 Rights Shares to the Qualifying Shareholders.

On 29 December 2021 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares up to 660,000,000 (other than those agreed to be taken up by First Tech pursuant to the Irrevocable Undertakings), subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein.

As at the Latest Practicable Date, First Tech is interested in an aggregate of 480,000,000 Shares, representing 60.00% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertakings, First Tech has unconditionally and irrevocably undertaken to the Company, among other things, that (i) it shall accept and subscribe its entitlement to the provisional allotment of 540,000,000 Rights Shares; and (ii) it shall not sell, transfer or otherwise dispose of the Shares held by it in any manner before the completion or lapse of the Rights Issue.

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on, among other things, the approval by the Independent Shareholders in general meeting by a resolution at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, 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, as Mr. Lam and First Tech are the controlling shareholders of the Company, Mr. Lam, First Tech and their respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder at the GM.

The Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the date of the Announcement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue, open offer and/or specific mandate placings within such 12-month period.

The Rights Issue will 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.

The Independent Board Committee comprising all the independent non-executive Directors has been established to provide recommendations to the Independent Shareholders in connection with the Rights Issue (including the Underwriting Agreement). Donvex Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue (including the Underwriting Agreement), and as to voting, after taking into account the recommendation of the Independent Financial Adviser. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

We did not act as financial adviser to the Group and its respective connected persons in the past two years immediately preceding the Latest Practicable Date.

We are independent from, and not connected with, the Company or any of its substantial shareholders, directors, chief executive, or any of their respective associates, and have sufficient expertise and resources to give an opinion on the transactions. As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties within the past two years that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist within the past two years whereby we had received or will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. We consider ourselves independent to form our opinion in relation to the Rights Issue (including the Underwriting Agreement).

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have reviewed, among others:

(i) the Company's annual report for the year ended 31 December 2019 ("**FY2019**") and 31 December 2020 ("**FY2020**");

(ii) the Company's interim report for the six months ended 30 June 2021 ("**6M2021**");

(iii) the Company's quarterly report for the nine months ended 30 September 2020 ("**9M2020**") and 30 September 2021 ("**9M2021**");

(iv) the Underwriting Agreement; and

(v) other information as set out in the Circular and its relevant supporting documents.

We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the GM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the Rights Issue, and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with the Rights Issue (including the Underwriting Agreement), 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 purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information on the Group

The Group is principally engaged in the provision of printing products to Hong Kong based print brokers with customers in overseas markets and to international publishers mainly located in the United States of America, the United Kingdom (the "**U.K.**"), Australia and Europe (excluding the U.K.). The Group's products comprise mainly books and other paper-related products.

2. Financial information of the Group

The tables below set forth a summary of the consolidated financial information of the Company for FY2019, FY2020, 6M2021, 9M2020 and 9M2021 as extracted from the annual report for FY2020, the interim report for 6M2021 and the quarterly report for the 9M2021 of the Company:

	FY2019	**FY2020**	**9M2020**	**9M2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Total revenue	461,561	278,944	235,158	219,408
Profit/(loss) after taxation	18,199	(100,824)	(7,682)	(4,530)

	As at 31 December		**As at 30 June**
	2019	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)
Current assets			
Cash and cash equivalents	29,116	1,551	9,559
Pledged bank deposits	8,908	9,126	5,183
Trade and other receivables	179,227	163,093	191,172
Current liabilities			
Bank loans and overdrafts	138,059	159,578	148,489
Trade and other payables	44,563	50,238	85,686
Non-current liabilities			
Bank loans	20,227	20,053	21,854
Net current assets	85,661	7,254	612
Net assets	299,692	208,347	203,087

Revenue

The revenue of the Group decreased from approximately HK$461.6 million for FY2019 to approximately HK$278.9 million for FY2020 and from approximately HK$235.2 million for 9M2020 to approximately HK$219.4 million for 9M2021, respectively, which was mainly attributable to the decreasing revenue generated from the sales of books and paper products as a result of the impact of global COVID-19 pandemic.

Profit/(loss) after taxation

The loss after taxation of the Group for FY2020 was approximately HK$100.8 million as compared to the profit after taxation of approximately HK$18.2 million for FY2019, which was mainly due to (i) a decline in revenue as the continuing uncertainties in the global economy resulted from the outbreak of COVID-19 pandemic since early 2020; (ii) a decrease in profit margin mainly attributable to competitors' aggressive pricing strategy in the challenging business environment; and (iii) increase in impairment losses on certain inventories and accounts receivables in FY2020.

The loss after taxation of the Group decreased from approximately HK$7.7 million for 9M2020 to approximately HK$4.5 million for 9M2021, which was mainly attributable to the gain on disposal of property, plant and equipment and increase in rental income of the Group during 9M2021.

Cash and cash equivalents

The cash and cash equivalents of the Group decreased from approximately HK$29.1 million as at 31 December 2019 to approximately HK$1.6 million as at 31 December 2020, which was mainly due to (a) the increase in net cash used in investing activities as a result of the purchase of other properties lease for own use and plants and machineries during FY2020; and (b) the decrease in net cash generated from operating activities as a result of the decrease in the gross profit.

The cash and cash equivalents of the Group increased from approximately HK$1.6 million as at 31 December 2020 to approximately HK$9.6 million as at 30 June 2021, which was mainly due to the net effect of (a) the decrease in net cash generated from operating activities as a result of the decrease in the gross profit; and (b) the increase in net cash generated from investing activities as a result of the entering into a sale and leaseback arrangement to dispose certain properties of the Group and decrease in pledged bank deposits in 6M2021.

Bank loans and overdrafts

Bank loans and overdrafts of the Group increased from approximately HK$158.3 million as at 31 December 2019 to approximately HK$179.6 million as at 31 December 2020, which was increased for replenishing the business operational cash flow to maintain sufficient reserves of cash to meet its operational needs. As at 30 June 2021, the bank loans and overdrafts of the Group remained stable at approximately HK$170.3 million.

3. Reasons for and benefits of the Rights Issue and use of proceeds

As stated in the Letter from the Board, the net proceeds from the Rights Issue, after deducting the estimated expenses, are estimated to be approximately HK$51.4 million. The Company intends to utilize the proceeds from the Rights Issue as follows:

(i) approximately HK$30.8 million (or approximately 60% of the net proceeds) for the development of the Group's existing printing business, including but not limited to (a) upgrading equipment with higher level of automation; (b) expanding customer base and strengthening sales and marketing coverage; and (c) attracting and retaining top talent in the industry; and

(ii) approximately HK$20.6 million (or approximately 40% of the net proceeds) for general corporate and working capital purposes, including but not limited to settling trade and other payables, staff salaries, wages and other benefits, rental expenses and interests on bank loans and overdrafts.

Development of the existing printing business to improve the financial performance

We noted the Group had been loss making since the outbreak of COVID-19 in early 2020. As discussed in the section headed "2. Financial information of the Group" above, the Group has recorded loss after taxation for FY2020 of approximately HK$100.8 million. In 9M2021, the Group was still loss making and recorded a net loss of approximately HK$4.5 million.

As stated in the Letter from the Board, the Company plans to implement a number of business strategies the Group's existing printing business with a view to improving its profitability, including but not limited to (i) enhancing the level of automation by upgrading its equipment; (ii) expanding customer base and strengthening sales and marketing coverage; and (iii) continuing to attract and retain top talent in the industry. As such, the proceeds from the Rights Issue may allow the Group to implement its business strategies on the existing printing business with a view to improving its profitability.

Liquidity pressure of the Group

With reference to the Letter from the Board and the interim report for 6M2021, as at 30 June 2021, the Group had net current assets of approximately HK$0.6 million, of which (i) pledged bank deposits and cash and cash equivalents were approximately HK$5.2 million and HK$9.6 million, respectively; and (ii) bank loans and overdrafts due within one year amounted to approximately HK$148.5 million. The auditors of the Company stated in the annual report for FY2020 that the above conditions indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. In view of such circumstances, the Directors have given careful consideration on the future liquidity, performance of the Group and its available sources of financing in assessing whether the Group will be able to finance its future working capital and financial requirements.

With reference to the annual report for FY2020 and interim report for 6M2021, we further noted that the Group had a gearing ratio of approximately 0.60 as at 31 December 2019, then the gearing ratio increased to approximately 0.96 as at 31 December 2020 and remained high with a gearing ratio of approximately 0.94 as at 30 June 2021. As such, replenishing the working capital of the Group may (i) ease the liquidity pressure of the Group; and (ii) allow the Group to cater for the repayment of bank loans as and when they fall due, which shall reduce the overall gearing ratio of the Group to improve the financial position of the Group.

Conclusion

Taking into account the factors above, we concur with the management of the Company that the Rights Issue may provide the Company with additional working capital to (i) ease the liquidity pressure to allow the Group to meet its funding needs and repay any loans as and when they fall due, while reducing gearing ratio to improve the financial position of the Group; and (ii) implement its business strategies on the Group's existing printing business with a view to improving its profitability. As such, we consider that the Rights Issue is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

4. Other fundraising alternatives

As stated in the Letter from the Board, the Directors have considered other financing alternatives apart from Rights Issue such as debt financing, placing of new shares and open offer to meet the financial needs of the Group, if appropriate, taking into consideration the financial position, capital structure and cost of funding of the Group as well as the prevailing market condition.

Debt financing

The Directors have considered financing alternatives such as debt financing. As advised by the management of the Company, debt financing may not be feasible for the Group for the following reasons:

(i) debt financing may further incur financial costs and increase the interest burden for the Group, which may further affect the financial performance of the Group;

(ii) the Group's financial risk would increase due to the increase in the leverage of the Group and the consistent loss-making performance; and

(iii) the Group may have difficulties in obtaining further loans from bank due to the high gearing ratio of the Group. Even if banks are willing to grant the Group further loans, the interest rate offered to the Group may be relatively higher which is unacceptable for the Group to bear any potential surging interest burden.

In light of the above, we are of the view that debt financing is not a favorable fundraising method for the Group.

Placing of new shares

As for placement of new Shares, it would lead to immediate dilution in the shareholding interests of existing Shareholders without offering them the opportunity to maintain their shareholding interests in the Company.

Open Offer

As for open offer, similar to a rights issue, it also offers qualifying Shareholders to participate, but it does not allow the trading of rights entitlements in the open market.

Given that an open offer does not allow the trading of rights entitlements, Shareholders who do not wish to take up their entitlements will not be offered the opportunity to sell their entitled nil-paid Rights Shares on the market as compensation. We consider that the Rights Issue would be more favorable and attractive to the Shareholders than an open offer because it would allow the Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights attaching thereto.

Other benefits of the Rights Issue

The Rights Issue is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro-rata shareholding through their participation in the Rights Issue. The Rights Issue allows the Qualifying Shareholders to (i) increase their respective interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability); or (ii) reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market.

Conclusion

Having considered the abovementioned financing alternatives and the Rights Issue allows Qualifying Shareholders to have more flexibility in dealing with the Shares and the nil-paid rights, we concur with the Directors' view that the Rights Issue is the most appropriate fundraising option over other fundraising alternatives under the current circumstances of the Group and in the best interests of the Company and the Shareholders as a whole.

5. Principal terms of the Rights Issue

The Proposed Rights Issue

The Company proposes to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date at the Subscription Price of HK$0.044 per Rights Share, to raise up to approximately HK$52.8 million (before expenses) by issuing up to 1,200,000,000 Rights Shares to the Qualifying Shareholders. Further details of the Rights Issue are set out below:

Issue statistics

Basis of the Rights Issue:	Three (3) Rights Share for every two (2) Share held at the close of business on the Record Date
Subscription Price:	HK$0.044 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	800,000,000 Shares
Number of Rights Shares:	Up to 1,200,000,000 Rights Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of Shares as enlarged by the allotment and issue of the Rights Shares:	Up to 2,000,000,000 Rights Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Amount to be raised:	Up to approximately HK$52.8 million before expenses, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the Record Date
Right of excess applications:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

The Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the date of the Announcement.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 150.00% of the Company's issued share capital as at the date of the Announcement and 60.00% of the Company's issued share capital as enlarged by the allotment and issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue.

Underwritten on a best effort basis

The Rights Issue is only underwritten on a best effort basis and there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfilment or satisfaction of the conditions precedent of the Rights Issue, the Rights Issue shall proceed regardless of its level of acceptances, and up to 1,200,000,000 Rights Shares can be subscribed subject, however, to any Scaling-down vis-a-vis the MGO Obligation or the Public Float Requirement.

In the event of under-subscription, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, and not subscribed by subscribers procured by the Underwriter will not be issued, and hence, the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

Irrevocable Undertakings

As at the Latest Practicable Date, First Tech is interested in an aggregate of 480,000,000 Shares, representing 60.00% of the existing issued share capital of the Company. Pursuant to the Irrevocable Undertakings, First Tech has unconditionally and irrevocably undertaken to the Company, among other things, that (i) it shall accept and subscribe its entitlement to the provisional allotment of 540,000,000 Rights Shares; and (ii) it shall not sell, transfer or otherwise dispose of the Shares held by it in any manner before the completion or lapse of the Rights Issue. First Tech will subscribe the Rights Shares up to a level such that the Public Float Requirement will be complied with upon completion of the Rights Issue and will not subscribe any additional Rights Shares other than the aforesaid 540,000,000 Rights Shares.

6. Assessment of the principal terms of the Rights Issue

The Subscription Price

The Subscription Price for the Rights Shares is HK$0.044 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for Excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 34.33% to the closing price of HK$0.067 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 31.25% to the average of the closing prices of approximately HK$0.064 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 approximately 25.42% to the average of the closing prices of approximately HK$0.059 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 33.33% to the average of the closing prices of approximately HK$0.066 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 8.33% to the closing price of approximately HK$0.048 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a discount of approximately 16.98% to the theoretical ex-rights price of approximately HK$0.053 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK$0.067 per Share as quoted on the Stock Exchange on the Last Trading Day;

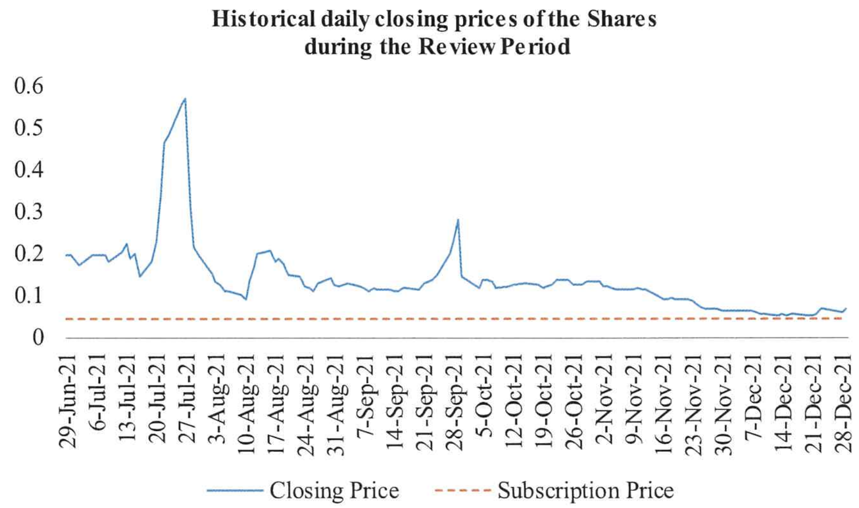
(vii) a discount of approximately 83.01% to the net asset value per Share of approximately HK$0.2590 as at 30 September 2021, based on the unaudited equity attributable to the Shareholders of approximately HK$207.2 million as at 30 September 2021 and 800,000,000 issued Shares as at the Latest Practicable Date; and

(viii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 20.60%.

We note that the Subscription Price represents a discount of approximately 83.01% to the unaudited net asset value per Share as at 30 September 2021. Having considered the following, (i) the Shares have been trading at a deep discount since the publication of the unaudited financial results for the nine months ended 30 September 2021 up to the Last Trading Day; and (ii) the prevailing market prices of the Shares have already reflected the market valuation of the Company in general, we consider it is reasonable to make reference to the market price of the Shares, rather than the unaudited net asset value per Share, in determining the Subscription Price and that the discount of the Subscription Price to the unaudited net asset value per Share is justifiable.

Historical price performance of the Shares

Set out below is a chart showing the movement of the daily closing prices of the Shares for the six-month period ended on and including the Last Trading Day (i.e. from 29 June 2021 to 29 December 2021) (the "**Review Period**") and the comparison among the daily closing prices during the Review Period, as this period is reasonably long enough to provide sufficient market data to evaluate the recent trend in closing price movement of the Shares. We consider the Review Period adequate to reflect the general market sentiment and illustrate the general trend and level of movement of the daily closing price of the Shares before the Subscription Price was determined.



Source: Stock Exchange website

During the Review Period, the average closing price was approximately HK$0.1418 per Share. The daily closing price of the Shares ranged from HK$0.053 per Share (the "**Lowest Closing Price**"), as recorded on 20 December 2021 and 21 December 2021, to HK$0.57 per Share, as recorded on 27 July 2021 during the Review Period. The Subscription Price is below the Lowest Closing Price.

We noted that from 16 July 2021, the closing price surged upwards and reached its peak at the closing price of HK$0.57 per share on 27 July 2021. We have enquired the management of the Company regarding the downward trend of the closing price of the Shares and were advised that, save for the announcement of the Company dated 22 July 2021 in relation to the Group entered into a memorandum of joint venture cooperation with 3DPRO (Shanghai) Technology Co., Ltd. for expanding the business with the 3D printing technology, they are not aware of any particular reason that may lead to the surge of the closing price of the Shares.

After reaching the highest point, the closing price then exhibited a downward trend and hit the point of HK$0.09 per share from 10 August 2021. We note that the substantial fall in Share price from 28 July 2021 to 10 August 2021 appeared to be associated with substantial trading volume of shares. We have enquired the management of the Company regarding the downward trend of the closing price of the Shares and were advised that, save for the profit warning of the Company for the six months ended 30 June 2021 published on 5 August 2021, they are not aware of any particular reason that may lead to the downward trend of the closing price of the Shares.

During the period commencing from 11 August 2021 to 21 September 2021, the closing price fluctuated within the range from HK$0.135 per Share to the closing price of HK$0.13 per Share. After that, the closing price of the Shares surged upwards again and reached its peak at the closing price of HK$0.28 per Share on 29 September 2021, finally the closing price of the Shares was back to HK$0.135 per Share on 7 October 2021. We have discussed with the Company regarding the price trend and were advised that they are not aware of any particular reason that may lead to the fluctuation of the closing price of the Shares.

Thereafter, the closing price demonstrated a downward trend until reaching the Lowest Closing Price on 20 December 2021 and 21 December 2021, and finally closed at HK$0.067 per Share on 29 December 2021.

We noted that the Subscription Price remained below the daily closing price of the Shares during the Review Period, having taken account into that (i) the Subscription Price at a discount to the closing price of the Shares can encourage the Shareholders to take up their entitlements to maintain their own shareholdings in the Company by minimizing the further investment cost on the Rights Shares; and (ii) it is common for listed issuers in Hong Kong to issue rights shares at a discount to market price in order to enhance the attractiveness of a rights issue, we are of the view that the Subscription Price is fair and reasonable in this regard.

To further assess the fairness and reasonableness of the Subscription Price, we have included a comparison with other rights issue exercises as discussed in further details in the paragraph headed "Comparison with other rights issue exercises" below.

Comparison with other rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, in selecting the comparable transactions, we have selected all rights issue exercises conducted by or announced by the companies listed on the Stock Exchange for three months up to and including the Last Trading Day (the "**Comparable Review Period**"). Based on the above criteria, we have identified a list of 20 rights issue exercises (the "**Comparable Transactions**").

While the subject companies among the Comparable Transactions may have different principal business activities, market capitalizations, profitability and financial positions as compared to those of the Company, we are of the view that the Comparable Transactions can provide a reasonable reference as to how the market generally perceived rights issues. We also consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions of companies listed on the Stock Exchange conducting rights issue.

Set out below is a summary of the Comparable Transactions:

Date of announcement	Name of company	Stock Code	Basis of entitlement	Discount of subscription price to the closing price on the last trading date prior to the release of the rights issue announcement	Discount of subscription price to the theoretical ex-rights price on the last trading date prior to the release of the rights issue announcement	Theoretical dilution effect *(Note 4)*	Underwriting/ placing commission	Whether the underwriting/ placing agreement is on a best-effort basis
				%	%	%	%	
30-Dec-2021	Bank of Qingdao Co., Ltd.	3866	3 for 10	11.50%	9.10%	3.10%	— *(Note 3)*	No
24-Dec-2021	Hanvey Group Holdings Limited	8219	1 for 2	22.81%	16.35%	7.60%	3.50%	Yes
20-Dec-2021	KNT Holdings Limited	1025	1 for 2	15.38%	10.81%	5.13%	2.50%	Yes
15-Dec-2021	Future World Holdings Limited	572	3 for 2	33.82%	16.97%	23.23%	3.50%	Yes
2-Dec-2021	Seazen Group Limited	1030	1 for 21	5.86%	5.61%	N/A *(Note 2)*	— *(Note 1)*	N/A
30-Nov-2021	Titan Invo Technology Limited	872	1 for 2	37.50%	28.60%	14.00%	— *(Note 1)*	N/A
26-Nov-2021	Vertical International Holdings Limited	8375	1 for 2	40.80%	31.60%	14.20%	4.00%	Yes
24-Nov-2021	Tongda Hong Tai Holdings Limited	2363	2 for 1	30.00%	12.50%	20.83%	2.00%	Yes
23-Nov-2021	Xinyang Maojian Group Limited	362	1 for 2	4.00%	6.98%	3.30%	3.50%	Yes
16-Nov-2021	King Stone Energy Group Limited	663	1 for 2	41.90%	32.40%	14.60%	1.00%	Yes
9-Nov-2021	CIFI Holdings (Group) Co. Ltd.	884	1 for 20	2.91%	2.77%	N/A *(Note 2)*	— *(Note 1)*	N/A
8-Nov-2021	Xinyi Electric Storage Holdings Limited	8328	1 for 10	8.07%	7.39%	5.37%	— *(Note 1)*	N/A
5-Nov-2021	Mansion International Holdings Limited	8456	3 for 1	18.60%	5.40%	14.30%	2.50%	Yes
2-Nov-2021	Grand T G Gold Holdings Limited	8299	3 for 1	16.67%	5.41%	11.90%	2.50%	Yes
1-Nov-2021	Deson Development International Holdings Limited	262	1 for 2	7.40%	5.06%	2.53%	3.50%	Yes
24-Oct-2021	Yuexiu Real Estate Investment Trust	405	37 for 100	12.80%	9.60%	3.40%	1.25%	Yes
20-Oct-2021	Jete Power Holdings Limited	8133	1 for 2	54.50%	44.40%	18.20%	1.50%	Yes
19-Oct-2021	Risecomm Group Holdings Limited	1679	1 for 2	0.50%	0.50%	N/A *(Note 2)*	1.00%	Yes
15-Oct-2021	Link-Asia International MedTech Group Limited	1143	1 for 2	7.83%	5.35%	6.93%	3.00%	Yes
7-Oct-2021	Great Wall Terroir Holdings Limited	524	1 for 5	23.70%	20.50%	N/A *(Note 2)*	— *(Note 1)*	N/A
			Average	19.83%	13.87%	10.54%	2.52%	
			Median	16.03%	9.35%	9.75%	2.50%	
			Minimum	0.50%	0.50%	2.53%	Nil	
			Maximum	54.50%	44.40%	23.23%	4.00%	
			The Company	**34.33%**	**16.98%**	**20.60%**	**1.00%**	

Source: Stock Exchange website.

Notes:

1. The respective fundraising exercise did not involve underwriters or placing agents.

2. The theoretical dilution effect is not disclosed in the respective announcement.

3. The underwriting fee is not disclosed in the respective announcement.

4. The theoretical dilution effect is calculated in according to Rule 10.44A of the GEM Listing Rules or Rule 7.27B of the Listing Rules.

Analysis on the Subscription Price

As shown in the above table, the Subscription Price of HK$0.044 per Rights Share represents (a) a discount of approximately 34.33% to the closing price of HK$0.067 per Share as quoted on the Stock Exchange on the Last Trading Day (the "**LTD Discount**"); and (b) a discount of approximately 16.98% to the theoretical ex-rights price on the Last Trading Day prior to the release of the rights issue announcement (the "**Ex-rights Prices Discount**").

We are of the view that the above ranges are meaningful for the assessment of the Subscription Price for the following reasons:

(i) the Comparable Transactions fulfil the selection requirements as indicated above; and

(ii) the Comparable Transactions from the Comparable Review Period provide us the recent and relevant information to demonstrate the prevailing market practice prior to the Last Trading Day under the prevailing market conditions.

As such, taking into account:

(i) it is common for listed issuers in Hong Kong to issue rights shares at a discount to market price in order to enhance the attractiveness of a rights issue;

(ii) the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter, taking into account, among others, (a) the prevailing market price of the Shares prior to the Last Trading Day; (b) the latest financial performance and financial position of the Group; and (c) the funding needs of the Company;

(iii) the LTD Discount and the Ex-rights Price Discount fall within the corresponding ranges of the Comparable Transactions;

(iv) the potential maximum dilution on the shareholding of the Rights Issue fall within the range of the Comparable Transactions;

(v) (a) the deteriorating financial performance of the Group since the outbreak of COVID-19 in early 2020; and (b) the prevailing market price of the Shares and the generally downward trend of the Shares during the Review Period, may have an implication on the discounts of the Subscription Price to the Last Trading Day and the theoretical ex-rights price of the Shares; and

(vi) all Qualifying Shareholders are offered an equal opportunity to subscribe for the pro-rata provisional entitlement of the Rights Shares under the Rights Issue where all Shareholders are given with the same discounts of the Subscription Price to the closing price of the Shares on the Last Trading Day and to the theoretical ex-rights price and the same potential maximum dilution;

we are of the opinion that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Analysis on the theoretical dilution effect

The theoretical dilution effect of the Comparable Transactions ranged from a discount of approximately 2.53% to a discount of approximately 23.23%, with an average discount of approximately 10.54% and a median discount of approximately 9.75%. In this regard, we noted that the theoretical dilution effect of the Rights Issue falls within the range of that of the Comparable Transactions and is in compliance with Rule 10.44A of the GEM Listing Rules as such theoretical dilution effect is less than 25%.

The Underwriting Agreement

On 29 December 2021 (after trading hours), the Company entered into the Underwriting Agreement with the Underwriter, pursuant to which the Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares up to 660,000,000 (other than those agreed to be taken up by First Tech pursuant to the Irrevocable Undertakings), subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein. Details of the Underwriting Agreement are as follows:

Date:	29 December 2021 (after trading hours)
Issuer:	The Company
Underwriter:	Sorrento Securities Limited
Number of Shares in issue as at the Latest Practicable Date:	Up to 660,000,000 Rights Shares (other than those agreed to be taken up by First Tech pursuant to the Irrevocable Undertakings) underwritten by the Underwriter on a best effort basis pursuant to the terms and conditions of the Underwriting Agreement
Underwriting Commission:	1% of the aggregate Subscription Price in respect of the Underwritten Shares actually procured by the Underwriter for subscription pursuant to the Underwriting Agreement

Analysis on the underwriting commission

Pursuant to the Underwriting Agreement, the commission is 1% of the aggregate Subscription Price in respect of the Underwritten Shares actually procured by the Underwriter for subscription (the "**Underwriting Commission**"). There is no minimum underwriting commission charged by the Underwriter.

To assess the fairness and reasonableness of the Underwriting Commission, we have identified (a) the underwriting commission for those rights issue on underwritten basis; and (b) Underwriting Commission for those rights issue on non-underwritten basis of the Comparable Transactions (the "**Comparable Commissions**"). Given that the underwriting commission is fees charged by underwriters or placing agents for procuring investors to subscribe for rights shares that are not taken up, we believe that the identified 20 Comparable Commissions as shown in the above table are reasonable and sufficient for us to form a view on the fairness and reasonableness of the Underwriting Commission.

We noted that the Underwriting Commission of the Rights Issue of 1% (conducted on a best-effort basis) falling within the range of the Comparable Commissions from nil to 4% (i) is below the average and median of the Comparable Commissions; and (ii) is below the average and median of the Comparable Commissions. As such, we are of the view that the Underwriting Commission of 1% under the Underwriting Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Potential dilution effect of the Rights Issue on shareholding interests

As at the Latest Practicable Date, the Company has 800,000,000 Shares in issue. On the assumption that there is no change in the shareholding structure of the Company from the Latest Practicable Date to completion of the Rights Issue other than the allotment and issue of Rights Shares pursuant to the Rights Issue, the table below depicts, for illustrative purposes only, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders; and (iii) immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders:

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue Provided that First Tech has taken up its Rights Share under the Irrevocable Undertakings and all other Shareholders have taken up all their entitled Rights Shares		Immediately upon completion of the Rights Issue Provided that First Tech has taken up its Rights Share under the Irrevocable Undertakings and none of the other Qualifying Shareholders have taken up any of their entitled Rights Shares with all the Underwritten Shares being subscribed for through the Underwriter		Immediately upon completion of the Rights Issue provided that First Tech has taken up its Rights Share under the Irrevocable Undertakings and none of the other Qualifying Shareholders have taken up any of their entitled Rights Shares and the Underwriter does not take up any Rights Share	
	Number of Shares	*Approx. % (Note 5)*	*Number of Shares*	*Approx. % (Note 5)*	*Number of Shares*	*Approx.% (Note 5)*	*Number of Shares*	*Approx.% (Note 5)*
Name of the shareholders								
First Tech *(Note 1)*	480,000,000	60.00%	1,020,000,000 *(Note 2)*	51.00%	1,020,000,000 *(Note 2)*	51.00%	960,000,000 *(Note 4)*	75.00%
The Underwriter and/or its subscriber(s) procured by it	–	0.00%	180,000,000 *(Note 3)*	9.00%	660,000,000 *(Note 3)*	33.00%	–	0.00%
Public Shareholders	320,000,000	40.00%	800,000,000	40.00%	320,000,000	16.00%	320,000,000	25.00%
Total	800,000,000	100.00%	2,000,000,000	100.00%	2,000,000,000	100.00%	1,280,000,000	100.00%

Notes:

1. First Tech is a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lam, an executive Director.

2. First Tech has provided the Irrevocable Undertakings to the Company to, among other things, accept and subscribe its entitlement to the provisional allotment of 540,000,000 Rights Shares. First Tech will not subscribe any additional Rights Shares other than the aforesaid 540,000,000 Rights Shares.

3. Pursuant to Rule 11.23 of the GEM Listing Rules, the Company has a responsibility to maintain the Public Float Requirement. As such, pursuant to the Underwriting Agreement, the Underwriter shall confirm with the Company the actual number of Untaken Shares as at the Latest Time for Acceptance, and shall procure for subscription therefor on a best effort basis whilst using its best endeavors to ensure that (i) each of the subscribers of the Untaken Shares procured by the Underwriter (or the Underwriter concerned, whichever shall be appropriate) shall be an Independent Third Party and not connected with the Company, any of the Directors or chief executive or substantial Shareholders or their respective associates; (ii) the Public Float Requirement be fulfilled by the Company upon completion of the Rights Issue; and (iii) the Underwriter or each subscriber procured by the Underwriter (together with parties acting in concert with the respective subscribers or any of the connected persons or associates of the respective subscribers) shall not hold in aggregate 30% or more of the voting rights of the Company immediately after the Rights Issue.

4. For illustrative purpose, if (i) First Tech has taken up its Rights Share of 540,000,000 under the Irrevocable Undertakings; (ii) none of the other Qualifying Shareholders have taken up any of their entitled Rights Shares; and (iii) the Underwriter does not take up any Rights Share, First Tech would be interested in an aggregate of 1,020,000,000 Shares, representing approximately 76.12% of the enlarged issued share capital of the Company, which would result in non-compliance with the Public Float Requirement on the part of the Company. Under such circumstance, First Tech shall reduce its subscription amount to a level which would not result in non-compliance with the Public Float Requirement on the part of the Company. As a result, First Tech shall only take up 480,000,000 Rights Shares and shall be interested in an aggregate of 960,000,000 Shares, representing approximately 75.00% of the enlarged issued share capital of the Company. After taking into account that First Tech would subscribe the Rights Shares up to a level such that the Public Float Requirement will be complied with upon completion of the Rights Issue, the Directors are of the view that the Company will fulfill its responsibility to maintain the Public Float Requirement upon completion of the Rights Issue.

5. Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

As shown in the table above, the Rights Issue will cause a dilution effect to the Shares. However, taking into account:

(i) the theoretical dilution effect of the Rights Issue falls within the range from approximately 2.53% to 23.23% of the Comparable Transactions as shown in the table under the section headed "6. Assessment of the principal terms of the Rights Issue" above;

(ii) the reasons for and benefits of the Rights Issue as stated in the section headed "3. Reasons for and benefits of the Rights Issue and use of proceeds" above;

(iii) the Rights Issue offers the Qualifying Shareholders an opportunity to subscribe for the Rights Shares for maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market prices of the Shares;

(iv) other fund raising alternatives, including debt financing, placement, issue of bonds and/or convertible bonds and open offer are not commercially feasible for the Company;

(v) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the entitlements; and

(vi) the Independent Shareholders are given the chances to express their views on the terms of the Rights Issue, the Underwriting Agreement and transactions contemplated thereunder through their votes at the GM,

we consider that the potential dilution to the shareholding interests of the existing public Shareholders in the Company, which may only arise when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares, is acceptable.

8. Conclusion

Considering (i) the benefits brought by the Rights Issue discussed under the section headed "3. Reasons for and benefits of the Rights Issue and use of proceeds" in this letter; (ii) it would be less optimal for the Group to raise funds through other means of financing as discussed under the section headed "Other fundraising alternatives" in this letter; (iii) the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned; (iv) the Underwriting Commission is fair and reasonable; and (v) the potential dilution to the existing public Shareholders is acceptable, we are of the view that the Rights Issue, the Underwriting Agreement and the transaction contemplated hereunder is in the interest of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder are on normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the GM to approve the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Donvex Capital Limited

Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible officer of Donvex Capital Limited who has around 20 years of experience in corporate finance advisory.