SUNWAH KINGSWAY
新華滙富

14 April 2023

To the Independent Board Committee and
the Independent Shareholders of
CBK Holdings Limited

Dear Sirs,

PROPOSED RIGHTS ISSUE
ON THE BASIS OF FIVE (5) RIGHTS SHARES
FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE

A. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) fairness and reasonableness of the terms of the proposed Rights Issue; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions at the EGM, details of which are set out in the "LETTER FROM THE BOARD" in the circular (the "**Circular**") issued by the Company to the Shareholders dated 14 April 2023 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the Announcement, in relation to, among other things, the Rights Issue. On 6 March 2023, the Company proposes to raise gross proceeds of up to (i) approximately HK$20.61 million by issuing 77,757,995 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date); or (ii) approximately HK$20.95 million by issuing 79,049,995 Rights Shares (assuming no change in the number of Shares in issue other than the full exercise of outstanding Share Options on or before the Record Date), to the Qualifying Shareholders.

In accordance with Rule 10.29(1) of the GEM Listing Rules, as the Rights Issue will increase the number of the issued Shares by more than 50%, the Rights Issue must be made conditional on approval by Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief

Sunwah Kingsway Capital Holdings Limited
(Incorporated in Bermuda with limited liability)
7/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong
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Tel 电话 : (852) 2283 7000 Fax 传真 : (852) 2877 2665

executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue at the EGM.

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

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Chan Kwan Yung, Mr. Chong Alex Tin Yam and Ms. Lau Man Kei, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. We have been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Rights Issue. In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and make recommendations to the Independent Shareholders on how to vote at the EGM so far as the Independent Shareholders are concerned and such appointment has been approved by the Independent Board Committee.

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, we did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue of the Company. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. During the past two years, there was no engagement between the Group and Kingsway Capital Limited. Also, we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we consider that we are eligible to give independent advice on the proposed Rights Issue and the transactions contemplated thereunder of the Company.

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B. BASIS OF OUR OPINION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. 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 information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors and the management of the Company have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

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In formulating our opinion, we have not considered the taxation implications on Independent Shareholders in relation to the subscription for, holding or disposal of the Rights Shares, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Rights Shares. In particular, Independent Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

We consider that we have reviewed all currently available information and documents, among others: (i) the Placing Agreement dated 6 March 2023; (ii) the subscription agreements of the bonds with an aggregate principal amount of HK$5 million; (iii) annual report of the Company for the year ended 31 March 2022 (the "**2022 Annual Report**"); (iv) the interim report of the Company for the six months ended 30 September 2022 (the "**2022 Interim Report**"); (v) the third quarterly report of the Company for the nine months ended 31 December 2022 (the "**2022 Third Quarterly Report**"); and (vi) other information contained in the Circular, which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice.

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

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Rights Issue and the transactions contemplated thereunder, we have considered the principal factors and reasons set out below:

1. Information on the Group

The Company is an investment holding company and the Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the provision of catering services in Hong Kong and processing and sales of food in Hong Kong.

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2. Historical financial performance of the Group

Set out below is a summary of (i) the audited consolidated financial information of the Group for years ended 31 March 2022 ("**FY2022**") and 31 March 2021 ("**FY2021**"), as extracted from the 2022 Annual Report; (ii) the unaudited consolidated financial information of the Group for the six months ended 30 September 2022 ("**6M2022**") and 30 September 2021 ("**6M2021**") as extracted from the 2022 Interim Report; and (iii) the unaudited consolidated financial results of the Group for the nine months ended 31 December 2022 and 31 December 2021 ("**Q32022**" and "**Q32021**", respectively) as extracted from the 2022 Third Quarterly Report:

	FY2021 *HK$'000* (audited)	**FY2022** *HK$'000* (audited)	**Q32021** *HK$'000* (unaudited)	**Q32022** *HK$'000* (unaudited)
Continued operations				
Revenue	12,634	27,302	21,283	21,139
– Provision of catering services through restaurant operations	12,634	25,262	21,283	17,366
– Sales and processing of food	–	2,040	–	3,773
Discontinued operation				
Revenue	–	215,383	215,383	–
– Manufacturing and sales of frozen aquatic products *(Note 1)*	–	215,383	215,383	–
Total revenue for the year/period	12,634	242,685	236,666	21,139
Loss for the year/period	(10,306)	(68,515)	(27,127)	(16,950)

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	As at 30 September 2022 HK$'000 (unaudited)	As at 31 March 2021 HK$'000 (audited)	As at 31 March 2022 HK$'000 (audited)
Current assets	10,547	22,393	18,185
Total assets	30,777	37,284	36,733
Current liabilities	16,185	8,106	12,971
Total liabilities	21,046	11,075	17,052
Net current (liabilities)/assets	(5,638)	14,287	5,214
Net assets	9,731	26,209	19,681
Bank and cash balances	1,558	17,265	5,723

Note 1: As disclosed in the 2022 Annual Report, on 12 November 2021, Mr. Sun Guangping ("**Mr. Sun**") executed a mutual control agreement with the Group in relation to Zhangzhou Jintian Food Co., Limited ("**Jintian**"), a former non-wholly owned subsidiary which is principally engaged in manufacture and sales of frozen aquatic products in the PRC, pursuant to the agreement, all decisions of Jintian relating to business operations require unanimous consent from all the equity holders with no change of shareholdings, which resulting in a loss of control of Jintian by the Group. Accordingly, with effect from 12 November 2021, Jintian ceased to be a subsidiary of the Group and the investment in Jintian was reclassified as interest in a joint venture, which is jointly controlled by the Group and Mr. Sun by virtue of the contractual arrangement amongst equity holders. For details, please refer to notes 32 and 33 of the 2022 Annual Report.

FY2022

As disclosed in the 2022 Annual Report, in FY2022, setting aside the revenue contributed from discontinued operation, the revenue of the Group increased by approximately HK$14.7 million to approximately HK$27.3 million for FY2022 from approximately HK$12.6 million for FY2021. Such increase was mainly attributable to the increase in customer consumption on the Group's restaurants due to the relaxation on restriction on operation of restaurants by the Hong Kong government under the stable epidemic for the period from April 2021 to end of December 2021 and the revenue generated from new operations opened in first quarter of 2022. In addition, the Group generated revenue of HK$2.0 million from newly setup food processing business during FY2022.

In FY2022, the Group recorded net loss of approximately HK$68.5 million, representing an increase by approximately HK$58.2 million or approximately 564.8% as compared to net loss of approximately HK$10.3 million for FY2021. Such increase in net loss was mainly attributable to (i) the decrease in other revenue, other gain and loss of approximately HK$8.2 million as a result of the absence of the one-off gain on gain on lease modification of Tai Po restaurant, which was closed in November 2020, recognized in FY2021 and decrease in government subsidies; (ii) increase in employee benefit expenses of approximately HK$11.7 million as a result of one-off payment made to Mr. Chan Lap Ping (a former executive director of the Company), Mr. Kwok

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Yiu Chung (ex-chief executive officer of the Company and general manager of the Group) and Ms. Wong Wai Fong (a former director of the Company) of each HK$2.0 million as discretionary bonus and long services payment according to their respective services contracts and non-cash share-based payment of HK$1.1 million relating to share option granted to three executive directors in January 2022; (iii) increase in depreciation of approximately HK$3.1 million as a result of right-of-use assets recognized during FY2022 for the new Central restaurant; (iv) increase in administrative expenses of approximately HK$6.3 million as a result of one-off demolition work on canopies or retractable awnings of HK$1.2 million occurred in FY2022 and one-off consumable paid for new restaurants; (v) increase in impairment losses of approximately HK$2.4 million in respect of property, plant and equipment and right-of-use assets being recognized due to change in value in use of the assets during FY2022; and (vi) the recognition of an one-off loss of approximately HK$35.4 million from a discontinued operation during FY2022.

The net current assets position of the Group decreased from approximately HK$14.3 million as at 31 March 2021 to approximately HK$5.2 million as at 31 March 2022 (with bank and cash balances decreased from approximately HK$17.3 million as at 31 March 2021 to approximately HK$5.7 million as at 31 March 2022). The Group's net assets decreased from approximately HK$26.2 million as at 31 March 2021 to approximately HK$19.7 million as at 31 March 2022. As at 31 March 2022, total liabilities of the Group amounted to approximately HK$17.1 million, which mainly comprised of lease liabilities of approximately HK$8.9 million, accruals and other payables of approximately HK$5.6 million and trade payable of approximately HK$1.9 million. Current ratio of the Group decreased from approximately 2.8 times as at 31 March 2021 to approximately 1.4 times as at 31 March 2022 and the gearing ratio of the Group increased from approximately 17.9% as at 31 March 2021 to approximately 45.5% as at 31 March 2022.

Q32022

As disclosed in the 2022 Third Quarterly Report, in Q32022, setting aside the revenue contributed from discontinued operation, the revenue of the Group decreased slightly by approximately HK$0.2 million from approximately HK$21.3 million for Q32021 to approximately HK$21.1 million for Q32022.

In Q32022, the Group recorded net loss of approximately HK$16.9 million, which decreased by approximately HK$10.2 million as compared to net loss of approximately HK$27.1 million for Q32021. The decrease in net loss was mainly attributable to the combined effect of (i) absence of loss from a discontinued operation of approximately HK$12.1 million incurred in Q32022, which was one-off in nature; (ii) increase in administrative expenses of approximately HK$4.1 million due to administrative expenses paid for two new restaurants and Central Kitchen started operation on or after December 2021 and operation and management service fee for catering service operation; (iii) increase in depreciation of approximately HK$3.4

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million, which was mainly due to amortization of property, plant and equipment of two new restaurants and Central Kitchen started operation on or after December 2021; and (iv) decrease in employee benefit expenses of approximately HK$4.5 million, which was mainly due to each HK$2 million paid to Mr. Chan Lap Ping (a former executive director of the Company) and Mr. Kwok Yiu Chung (ex-chief executive officer of the Company and general manager of the Company) as discretionary bonus and long services payment according to their services contract in Q32021.

6M2022

The net current assets position of the Group deteriorated from net current assets of approximately HK$5.2 million as at 31 March 2021 to net current liabilities of approximately HK$5.6 million as at 30 September 2022 (with bank and cash balances decreased from approximately HK$5.7 million as at 31 March 2021 to approximately HK$1.6 million as at 30 September 2022). The Group's net assets decreased from approximately HK$19.7 million as at 31 March 2021 to approximately HK$9.7 million as at 30 September 2022. As at 30 September 2022, total liabilities of the Group amounted to approximately HK$21.0 million, which mainly comprised of lease liabilities of approximately HK$10.3 million, accruals and other payables of approximately HK$6.6 million, borrowing of HK$1.5 million, trade payables of approximately HK$1.4 million and amounts due to a non-controlling interests of approximately HK$1.2 million. Current ratio of the Group decreased from approximately 1.4 times as at 31 March 2022 to approximately 0.6 times as at 30 September 2022 and the gearing ratio of the Group increased from approximately 45.5% as at 31 March 2022 to approximately 121.0% as at 30 September 2022.

3. Background of Reasons for the Rights Issue and the Use of Proceeds

Reasons for the Rights Issue and the Use of Proceeds

It is estimated that the Company will raise maximum Net Proceeds of up to approximately HK$18.92 million (assuming no exercise of any outstanding Share Options and no change in the number of Shares in issue on or before the Record Date). The estimated net subscription price per Rights Share after deducting the relating expenses of the Rights Issue will be approximately HK$0.243. The Company intends to apply the Net Proceeds as to (i) approximately 58.14% (or approximately HK$11.00 million) will be used for expansion of existing food and beverage business; (ii) approximately 27.48% (or approximately HK$5.20 million) will be used for the repayment of debts; and (iii) approximately 14.38% (or approximately HK$2.72 million) will be used as the general working capital of the Group.

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Expansion of existing food and beverage business

As stated in the "LETTER FROM THE BOARD", in order to expand the Group's existing business, the Group plans to open two new restaurants. The Net Proceeds will mainly be utilised for the initial set up costs (the "**Set Up Costs**") for the New Restaurants, including but not limited to initial rental costs and deposit, renovation, staff cost, furniture and set up of IT operation system, details of which are as follows:

(i) approximately HK$5.50 million will be utilised as the Set up Costs for a new restaurant with an expected area of over 3,500 square feet to be located in Causeway Bay, Hong Kong Island ("**Restaurant A**"); and

(ii) approximately HK$5.50 million will be utilised as the Set up Costs for a new restaurant with an expected area of over 4,000 square feet to be located in Yau Tsim Mong ("**Restaurant B**").

As at Latest Practicable Date, the Company has identified two suitable premises for the new restaurants, details are set out below:

	Location	Gross floor area (approx. sq. ft.)	Expected rental per month	Expected term	Expected cuisine type	Expected Capacity	Expected Available
Restaurant A	Causeway Bay	Over 3,500	47	2 to 3 years	Japanese style cuisine	80 seats	The premise is vacant
Restaurant B	Yau Tsim Mong	Over 4,000	48	2 to 3 years	Japanese style cuisine	80 seats	The premise is vacant

The Restaurant A will be located in Causeway Bay and the Restaurant B will be located in Yau Tsim Mong (collectively, "**New Restaurants**"). New Restaurants will offer Japanese style cuisine and target customers at middle to high-end class. Considering the expected capacity of the New Restaurants, the Company plans to hire 4–7 kitchen staff (including chefs and kitchen helpers), 4–8 waiters/waitresses, and 1–3 cleaners for each of the New Restaurants. As at the Latest Practicable Date, the Company is in the process of negotiating the terms of the lease with the relevant landlords.

Since December 2022, the Hong Kong government has further relaxed the restrictions on operation of restaurants in Hong Kong, including the lifting of the requirement for members of the public to scan the "Leave Home Safe" venue QR code and vaccine pass QR code when entering premises, members of the public have gradually resumed their normal life in an orderly manner.

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In view of the latest epidemic development, the Hong Kong government has announced that the restriction on capacity of catering premises, bars, pubs and scheduled premises had been lifted on 20 December 2022 and from 6 February 2023, travellers can visit Hong Kong with no quarantine, no isolation, and no vaccination requirements. Also, quarantine orders for Covid-infected patients will be dropped starting 30 January 2023.

Furthermore, we note that from the 2023–2024 Budget announced by the Hong Kong government, to promote speedy recovery on the path to normalcy, the Hong Kong government will introduce a series of targeted measures to attract tourists and enliven Hong Kong's image. Major events such as "Gourmet Marketplace", under which large-scale food fairs will be organised in various locations across the territory, bringing together Mainland, Hong Kong and overseas gourmet food, with a view to enabling the public and visitors enjoy the good food in the city.

Taking into consideration of (i) the resumption of normal travel and further relaxing of dining restriction; and (ii) the expected positive prospects of the local catering industry due to the influx of oversea travellers and cross-border travellers from mainland China, we concur with the Director's view that the Rights Issue and the set-up of new restaurants at this moment is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Repayment of debts

As at the Latest Practicable Date, the Group has outstanding bonds of an aggregate principal amount of HK$5 million, which was applied for as the general working capital of the Group. The bonds are unsecured and carries coupon interest rate of 48%, 48%, 30% and 48% per annum respectively and are due by 2023 third and fourth quarters, details are set out below:

	Amount	**Coupon Interest Rate Per Annum**	**Date of Issuance**	**Due Date**
	HK$			
Bondholder A	1,000,000	48%	29 January 2023	28 July 2023
Bondholder A	500,000	48%	19 February 2023	18 August 2023
Bondholder B	1,500,000	30%	18 January 2023	17 October 2023
Bondholder C	2,000,000	48%	20 January 2023	19 July 2023

Note: Bondholder A, bondholder B and bondholder C are Independent Third Parties.

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As part of our due diligence, we have reviewed the subscription agreements in relation to the bonds with an aggregate principal amount of HK$5 million and noted that the implied cost of capital (being the percentage of estimated expenses in relation to the Rights Issue (e.g. professional fee and relevant expenses) to the maximum gross proceeds of the Rights Issue) of approximately 8.2% is substantially lower than the interest rates of the bonds. Taking into consideration of (i) the latest cash position of the Group as at 30 September 2022 (being approximately HK$1.6 million as disclosed in the 2022 Interim Report) was lower than the principal amount of the bonds and the Group currently does not have other better fund-raising alternatives as discussed under the section under "Fund-raising alternatives" of this letter; and (ii) the cost of capital by way of the Rights Issue was lower than that of the bonds, we consider the repayment of bond principles can enhance the Group's financial position and therefore is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As the Rights Issue will be on a non-underwritten basis, the actual amount of the Net Proceeds cannot be ascertained at this point. As stated in the "LETTER FROM THE BOARD', in the event that the Rights Issue is undersubscribed, the Net Proceeds will be adjusted by the Company accordingly and will be applied by the Company in the following order of priority:

(i) for the repayment of debts;

(ii) for the expansion of existing food and beverage business; and

(iii) for the general working capital of the Group.

In the event that the Rights Issue is voted down by the Shareholders, the Company will further explore other fundraising alternatives to meet the expected funding needs for the next 12 months. Depending on the results of such fundraising activities, the expansion of the food and beverage business may or may not proceed.

It is noted that the Directors confirmed that after due and careful enquiry and taking into consideration the financial resources presently available to the Group, including the existing cash and bank balances and available facilities without the net proceeds of the proposed Rights Issue, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this Circular.

Fund-raising alternatives

As advised by the Directors, apart from the Rights Issue, the Directors have considered various ways of raising funds and believe that the Rights Issue is the most efficient way in terms of time and costs for the Company. The Board considers it is prudent to finance the Group's long-term growth by long term financing, preferably in the form of equity which will not increase the Group's finance costs.

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The Directors has considered other fundraising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. As advised by the management of the Company, the Group has approached its main commercial banks for securing additional bank loan facilities but was unable to obtain additional banking facilities given the Group was loss-making in both FY2021 and FY2022. The Group has also approached other financial institutions as contingency plan for obtaining new credit line to meet the Group's funding needs for the next 12 months in the case that the Rights Issue is voted down by the Shareholders or under-subscribed and was given the understanding that such new credit line would be available but requires asset pledge or relatively high interest rate. In addition, given the high gearing of the Group as at 31 December 2022, (i.e. 179.2% as at 31 December 2022), the Directors consider that debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations and consider debt financing may not be achievable on favourable terms in a timely manner. As such, we concur with the view of the management of the Company that debt financing may not be a viable financing alternative.

As for equity fund raising, such as placing of new Shares, the Directors are of the view that it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. While an open offer is similar to a rights issue, offering qualifying shareholders to participate, the Directors consider that it does not allow free trading of rights entitlements in the open market. Lastly, we consider that although an open offer is similar to a rights issue which provides the Qualifying Shareholders with equal opportunity to participate in proportion to their existing shareholding interest, an open offer is less favourable to the Shareholders compared to a rights issue due to the flexibility of the shareholders being able to sell their entitled nil-paid rights when they do not wish to take up the entitlements under the rights issue.

In addition, the Company had preliminarily consulted other brokerage companies (including the Placing Agent) for underwriting the Rights Issue but has not received any favourable feedback due to the current capital market situation. As advised by the management of the Company, none of the brokerage companies shown interest in acting as an underwriter to the Rights Issue. Having considered the feedback from the brokerage companies, the Board was of the view that the terms of the Placing Agreement including the commission rate proposed by the Placing Agent was reasonable and favorable to the Company. As such, the Company subsequently decided to conduct the Rights Issue on non-underwritten basis and to adopt the Placing Arrangement simultaneously in order to ensure sufficient funds could be raised.

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(Incorporated in Bermuda with limited liability)
7/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong
新华汇富金融控股有限公司
香港金钟道89号力宝中心一座七楼
Tel 电话 : (852) 2283 7000 Fax 传真 : (852) 2877 2665

Having considered that (i) none of the brokerage companies shown interest in acting as an underwriter to the Rights Issue; and (ii) the placing commission for the Compensatory Arrangement will only be incurred if there are any Unsubscribed Rights Shares to be placed by the Placing Agent and such Unsubscribed Shares are placed successfully, we concur with the view of the Directors that conducting the Rights Issue on a non-underwritten basis is in the interests of the Company and the Shareholders as a whole.

Taking into account the benefits and potential cost of each of the fundraising alternatives as mentioned above, we concur with the view of the Directors that placing of new Shares would only be available to certain placees who are not necessarily the existing Shareholders which would result in immediate dilution in the shareholding interest of existing Shareholders is therefore less favourable to the Shareholders compared to a rights issue. We concur with the view of the management of the Company that the Rights Issue allows the Group to strengthen the capital base of the Company at a more cost-effective method, while at the same time allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company and is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Rights Issue

The Board proposed to implement the Rights Issue on the basis of five (5) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price of HK$0.265 per Rights Share to raise gross proceeds of up to (i) approximately HK$20.61 million by issuing 77,757,995 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date); or (ii) approximately HK$20.95 million by issuing 79,049,995 Rights Shares (assuming no change in the number of Shares in issue other than the full exercise of outstanding Share Options on or before the Record Date), to the Qualifying Shareholders.

Further details of the Rights Issue are set out below:

Basis of the Rights Issue	:	Five (5) Rights Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK$0.265 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	15,551,599 Shares
Number of Rights Shares	:	(a) Up to 77,757,995 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date); or

Sunwah Kingsway Capital Holdings Limited
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		(b)	Up to 79,049,995 Rights Shares (assuming no change in the number of Shares in issue other than the full exercise of the outstanding Share Options on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	(a)	Up to HK$777,579.95 (assuming no change in the number of Shares in issue on or before the Record Date); or
		(b)	Up to HK$790,499.95 (assuming no change in the number of Shares in issue other than the full exercise of the outstanding Share Options on or before the Record Date)
Number of Shares as enlarged by the allotment and issue of the Rights Shares	:	(a)	Up to 93,309,594 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued); or
		(b)	Up to 94,859,994 Shares (assuming no change in the number of Shares in issue other than the full exercise of the outstanding Share Options on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)

As at the Latest Practicable Date, there are 258,400 outstanding Share Options for subscription of an aggregate amount of 258,400 Shares under the Share Option Scheme, which are exercisable during a 10-year period from 10 January 2022 (being the date of grant of the Share Options). Save for the aforesaid, 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 Latest Practicable Date.

Assuming no exercise of any outstanding Share Options and no change in the share capital of the Company on or before the Record Date, 77,757,995 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 500% of the total number of issued Shares as at the Latest Practicable Date; and (ii) 83.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

Assuming that there is no change in the issued Shares other than the full exercise of the outstanding Share Options on or before the Record Date, 79,049,995 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 508.31% of the total

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number of issued Shares as at the Latest Practicable Date; and (ii) 83.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

Non-underwritten basis

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent placees on a best effort basis under the Compensatory Arrangements. Any Unsubscribed Rights Shares and NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue. There is no minimum amount to be raised under the Rights Issue. As the Rights Issue will proceed on a non-underwritten basis, any Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

As at the Latest Practicable Date, the Board has not received any information from any Shareholders of their intention to take up their entitlement under the Rights Issue nor any undertaking from any Shareholders that they will undertake to subscribe for the Rights Shares.

Subscription Price

The Subscription Price is HK$0.265 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of 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 15.87% to the closing price of HK$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 14.24% to the average of the closing prices of HK$0.309 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

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(iii) a discount of approximately 13.11% to the average of the closing prices of HK$0.305 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 14.79% to the average of the closing prices of HK$0.311 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 2.93% to the theoretical ex-rights price of approximately HK$0.273 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK$0.315 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 13.23%, represented by the theoretical diluted price of approximately HK$0.273 per Share to the benchmarked price of HK$0.315 per Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.315 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Last Trading Day of approximately HK$0.303 per Share);

(vii) a discount of approximately 26.39% to the closing price of HK$0.360 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(viii) a discount of approximately 79.07% to the audited net asset value per Share of approximately HK$1.266 (based on the latest published consolidated net asset value of the Group of approximately HK$19,681,000 as at 31 March 2022 as disclosed in the annual report of the Company for the year ended 31 March 2022 and 15,551,599 Shares in issue as at the Latest Practicable Date).

As stated in the "LETTER FROM THE BOARD", the Subscription Price and the subscription rate (i.e. five (5) Rights Shares for every one (1) Share held on the Record Date) was determined with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong and the impact of COVID-19 pandemic; (iii) the latest business performance and financial position of the Group; and (iv) the reasons for and benefits of Rights Issue as discussed in the section headed "REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS" in the Circular.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the theoretical closing prices of the Shares and the trading liquidity of the Shares for the period from 6 March 2022, being the 12-month period prior to the date of the Announcement, up to and including the Last Trading Day ("**Review Period**"). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Announcement and such comparison is relevant for the assessment of the fairness and

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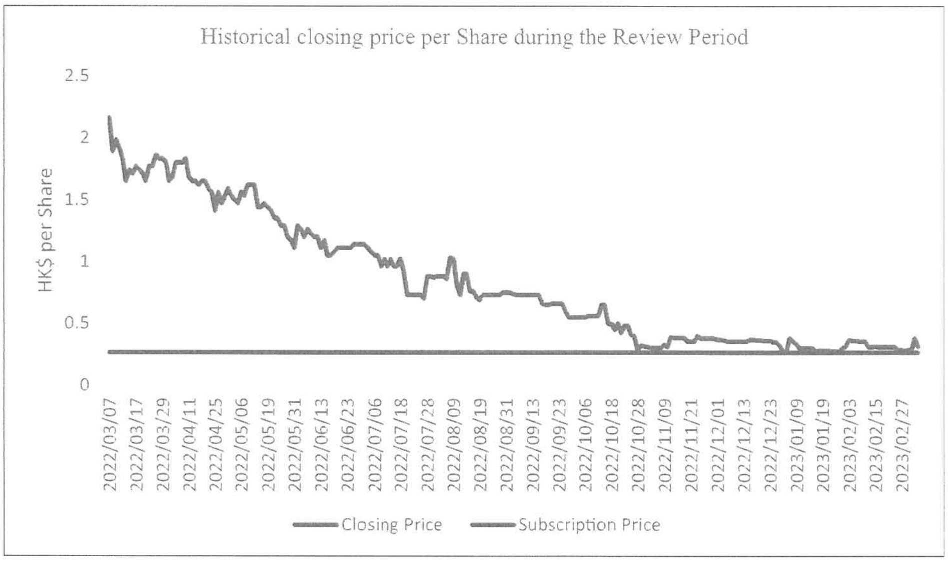
reasonableness of the Subscription Price, as the closing prices of the Shares before the Announcement represent a fair market value of the Company which the Shareholders expected, while that after the Announcement, the value may have taken into account the potential upside of the Rights Issue which may distort the analysis. The chart below illustrates the daily closing price per Share ("**Closing Price**") versus the Subscription Price of HK$0.265 per Rights Share during the Review Period:



Source: the website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the highest Closing Price was HK$2.16 recorded on 7 March 2022 and the lowest Closing Price was HK$0.27 recorded on 3, 4, 17, 27, 30 and 31 January 2023. The Subscription Price of HK$0.265 represents a discount of approximately 87.7% to the highest Closing Price during the Review Period and a discount of approximately 1.9% to the lowest Closing Price during the Review Period. The average Closing Price of the Review Period was approximately HK$0.83, which means the Subscription Price has a discount of approximately 68.2% over the average Closing Price during the Review Period.

As illustrated in the chart above, during the Review Period, the Closing Price was traded generally higher than the Subscription Price. It can be observed from the above chart that the daily Closing Price substantially decreased from HK$0.93 to HK$0.7 between 19 July 2022 to 27 July 2022, bounced back to HK$1.03 on 8 August 2022 and showed a gradual downward trend since then. As discussed with the management of the Company, they were not aware of any reason for such substantial change in the Closing Price in July 2022 and the reason for the general downward trend of the Closing Price during the Review Period. We have also reviewed the announcements published by the Company during such period and we are not aware of any information which caused the substantial change in Closing Price.

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As discussed in the section headed "Comparison to other rights issue" in this letter below, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue.

Table A

	Total trading volume of the Shares in the month *(No. of Shares)*	Number of trading days in the month	Average daily trading volume of the Shares in the month *(No. of Shares)*	Percentage of average daily trading volume to total number of Shares *(Note 1)*
2022				
March	532,400	23	23,148	0.01%
April	728,440	18	40,469	0.01%
May	599,200	20	29,960	0.01%
June	1,327,920	21	63,234	0.01%
July	347,886	20	17,394	0.11%
August	610,440	23	26,541	0.17%
September	156,000	21	7,429	0.05%
October	787,840	20	39,392	0.25%
November	143,600	22	6,527	0.04%
December	34,440	20	1,722	0.01%
2023				
January	450,920	18	25,051	0.16%
February	269,760	20	13,488	0.09%
March (up and including the Last Trading Day)	46,802	4	11,701	0.08%

We have also reviewed the trading volume of the Shares during the Review Period. We note that during the Review Period, the average daily trading volume per month of the Shares as compared with the total issued Shares at the end of the respective month/period (the "**Trading Liquidity Ratio**") ranged from approximately 0.01% to approximately 0.25% with the mean of approximately 0.08%.

In view of this, we considered the trading liquidity of the Shares were thin during the Review Period, with all months less than 1.0% to the then total number of issued Shares as at the end of their respective month/period. We anticipate that the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are

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therefore of the view that it is reasonable to set the Subscription Price at a discount to the average Closing Price to encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company.

Comparison to other rights issue

In order to assess the fairness and reasonableness of the Subscription Price, we exhaustively conducted a search of recent proposed rights issue exercises, announced by the companies listed on GEM of the Stock Exchange (excluding those terminated or lapsed or announced but not yet completed) within approximately 12 months prior to the Last Trading Day (the "**Comparison Period**") to understand the trend of the recent market practice. Based on our research, we have identified a total of 15 rights issue comparables (the "**Comparables**") during the Comparison Period.

We consider the Comparison Period of approximately 12 months is adequate and appropriate given that (i) such period would provide us with the recent and relevant information to demonstrate the prevailing market practice prior to the Announcement under the prevailing market conditions; and (ii) we are able to identify sufficient and reasonable samples size for selection of Comparables within the Comparison Period. We note that the terms of the rights issue announced by the Comparables may not be directly comparable to the terms of the Rights Issue announced by the Group due to the differences in business activities and performances. We note that the business activities of the Comparables may not be directly comparable to the business activities carried out by the Group. We consider that despite the terms of the rights issue depend on various factors, including the dilution effect to shareholding, funding needs and use of proceeds, discounts to share price, etc., they are often influenced by the recent market trends for rights issue. Although the Comparables included rights issue on different basis of entitlement, and involved issuers which engaged in different business or with different financial performance and funding needs from the Company, we consider that the Comparables are suitable to serve as a general reference for the purpose of an assessment on the Subscription Price, as (i) all of the Comparables and the Company are listed on GEM of the Stock Exchange which are similar in size of operation as GEM is positioned as a market designed to accommodate small and mid sized companies; (ii) our analysis is mainly concerned with the comparison of subscription price to closing price, theoretical ex-rights price, maximum dilution on the shareholding and theoretical dilution effect; and (iii) the Comparables were included without any artificial selection or filtering on our part thus they represented a true and fair view of the recent market trends for rights issue.

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Table B

Date of announcement	Company (stock code)	Basis of entitlement	Maximum amount of funds to be raised from the rights issue *HK$' million*	Discount of subscription price over the closing price per share on the respective last trading day *(Approximately %)*	Discount of the subscription price over the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective rights issue *(Approximately %)*	Maximum dilution on the shareholding *(Approximately %)*	Theoretical dilution effect *(Note 2)* *(Approximately %)*	Excess Application/ Placing *(Note 3)*	Underwriting arrangement	Placing Commission (%)	Underwriting commission (%)
10/1/2023	Kinetix Systems Holdings Limited (8606)	1 for 2	31.3	(29.4)	(21.7)	33.3	(9.8)	Placing	Underwritten on a best effort basis	1.3	N/A
6/1/2023	SDM Education Group Holdings Limited (8363)	1 for 2	23.8	nil	nil	33.3	nil	Excess application	Fully-underwritten	N/A	4
29/12/2022	New Amante Group Limited (8412)	1 for 2	12.6	(10.6)	(7.3)	33.3	(5.6)	Excess application	Underwritten on a best effort basis	N/A	1.5
21/10/2022	C&N Holdings Limited (8430)	3 for 1	32.5	(13.3)	(3.7)	75.0	(10.0)	Placing	Non-underwritten	1.5	N/A
23/9/2022	Tasty Concepts Holding Limited (8096)	5 for 2	41.3	(14.3)	(4.5)	71.4	(10.3)	Placing	Non-underwritten	2.5	N/A
10/8/2022	Easy Repay Finance & Investment Limited (8079)	1 for 2	14.4	(45.0)	(35.1)	33.3	(16.1)	Placing	Non-underwritten	7.1	N/A
4/8/2022	Xinyi Electric Storage Holdings Limited (8328)	1 for 10	393.9	(18.8)	(17.4)	9.1	(1.7)	Excess application	Non-underwritten	N/A	N/A
14/7/2022	Wan Cheng Metal Packaging Company Limited (8291)	1 for 1	24.0	(25.0)	(14.3)	50.0	(16.5)	Placing	Non-underwritten	2.5	N/A
17/6/2022	Ocean Star Technology Group Limited (8297)	1 for 2	31.5	(41.2)	(32.0)	33.3	(13.9)	Excess application	Underwritten on a best effort basis	N/A	1
10/6/2022	Gameone Holdings Limited (8282)	1 for 2	22.4	(40.4)	(31.2)	33.3	(13.5)	Excess application	Underwritten on a best effort basis	N/A	1.5
25/5/2022	F8 Enterprises (Holdings) Group Limited (8347)	1 for 2	17.1	(5.6)	(3.7)	33.3	(1.9)	Excess application	Underwritten on a best effort basis	N/A	5
18/5/2022	K Group Holdings Limited (8475)	2 for 1	50.2	(28.8)	(12.3)	66.7	(20.4)	Excess application	Underwritten on a best effort basis	N/A	3

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Date of announcement	Company (stock code)	Basis of entitlement	Maximum amount of funds to be raised from the rights issue *HK$' million*	Discount of subscription price over the closing price per share on the respective last trading day *(Approximately %)*	Discount of the subscription price over the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective rights issue *(Approximately %)*	Maximum dilution on the shareholding *(Approximately %)*	Theoretical dilution effect *(Note 2)* *(Approximately %)*	Excess Application/ Placing *(Note 3)*	Underwriting arrangement	Placing Commission (%)	Underwriting commission (%)
12/5/2022	KOALA Financial Group Limited (8226)	2 for 1	83.5	(4.8)	(1.6)	66.7	(4.7)	Excess application	Underwritten on a best effort basis	N/A	3
28/4/2022	Palinda Group Holdings Limited (8179)	1 for 2	29.3	(39.8)	(30.6)	33.3	(13.3)	Excess application	Fully-underwritten	N/A	7.1
28/4/2022	Life Concepts Holdings Limited (8056)	3 for 2	48.6	(7.0)	(2.9)	60.0	(9.3)	Excess application	Underwritten on a best effort basis	N/A	1
		Maximum		(4.8)	nil	75.0	nil				
		Minimum		(45.0)	(35.1)	9.1	(20.4)				
		Average		(23.1)	(15.6)	44.4	(10.5)				
6/3/2023	**The Group**	**5 for 1**	**18.92**	**(15.9)**	**(2.9)**	**83.3**	**(13.2)**	**Placing**	**Non-underwritten**	**3.5**	**N/A**

Notes:

1. In order to calculate the average, minimum and maximum percentage of the placing commission of the Comparables, we have excluded the minimum placing commissions and absolute placing commissions.

2. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Rules Governing the Listing of Securities on the Stock Exchange or Rule 10.44A of the GEM Listing Rules.

3. Pursuant to Rule 10.31(1) of the GEM Listing Rule.

4. N/A represents the respective fundraising exercise did not involve underwriters nor placing agents.

Based on the Table B, we note that (i) the subscription prices to the closing price on the Last Trading Day prior to the announcement of the Comparables ranged from nil to a discount of approximately 45.0%, with an average discount of approximately 23.1%. The discount of the Subscription Price to the closing price per Share as at the Last Trading Day of approximately 15.9% is within the range; (ii) the theoretical ex-rights price per Share based on the closing price per share on the last trading day prior to announcement in relation to the respective Comparables ranged from nil to a discount of approximately 35.1%, with an average discount of approximately 15.6%. The discount of the Subscription Price to the theoretical ex- rights price per Share on the Last Trading Day of approximately 2.9% is within the range; (iii) the theoretical dilution effect of the Comparables ranged from nil to approximately 20.4% with an average discount of approximately 10.5%. The theoretical dilution effect represented by the Rights Issue of approximately 13.2% is within the range of the theoretical dilution effect of the Comparables. Having considered that (i) the net proceeds from the Rights Issue would improve the Group's financial condition; and (ii) the Subscription Price favors the Qualifying Shareholders to subscribe for the Rights Shares and maintain their respective pro-rata shareholding interests in the Company, we consider that the theoretical dilution effect represented by the Rights Issue is acceptable so far as the Independent Shareholders are concerned.

Taking into consideration that, (i) the Subscription Price of the Rights Issue has a discount of approximately 68.2% to the average Closing Price of HK$0.83 during the Review Period; (ii) the trading liquidity of the Shares were generally thin during the Review Period and the Subscription Price at a discount may enhance the attractiveness of the Shares among the thin trading liquidity; (iii) the discount of the Subscription Price is within range of the Comparables; (iv) a review period of 12 months prior to the Announcement to be exhaustive for a representation of proposed rights issue in the recent market; and (v) the discount of the Subscription Price to the recent market price of the Share is necessary to encourage the Qualifying Shareholders to participate the Rights Issue under recent market uncertainties, we are of the view that the setting of the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Change in the shareholding structure of the Company arising from the rights issue

Set out below is the shareholding structure of the Company (i) as at Latest Practicable Date; (ii) immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders; and (iii) immediately upon completion of the Rights Issue assuming no acceptance by any Qualifying Shareholder and all Unsubscribed Rights Shares have been placed by the Placing Agent:

(a) assuming no exercise of any outstanding Share Options and no change in the shareholding structure of the Company on or before completion of the Rights Issue:

	(i) As at the Latest Practicable Date		**(ii) Immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders**		**(iii) Immediately upon completion of the Rights Issue assuming no acceptance by any Qualifying Shareholder and all Unsubscribed Rights Shares have been placed by the Placing Agent**	
	Number of issued Shares	*%*	*Number of issued Shares*	*%*	*Number of issued Shares*	*Approx. %*
Other public Shareholders	15,551,599	100.00	93,309,594	100.00	15,551,599	16.67
Independent placees	–	–	–	–	77,757,995	83.33
Total	15,551,599	100.00	93,309,594	100.00	93,309,594	100.00

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(b) assuming all the outstanding Share Options being exercised on or before the Record Date and there is no other change in the shareholding structure of the Company before completion of the Rights Issue:

	(i) As at the Latest Practicable Date		(ii) Immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders		(iii) Immediately upon completion of the Rights Issue assuming no acceptance by any Qualifying Shareholder and all Unsubscribed Rights Shares have been placed by the Placing Agent	
	Number of issued Shares	*%*	*Number of issued Shares*	*%*	*Number of issued Shares*	*Approx. %*
Public Shareholders	15,551,599	100.00	93,309,594	98.36	15,551,599	16.39
Independent placees	–	–	–	–	79,049,995	83.33
Directors						
Mr. Chow Yik *(Note 1)*	–	–	775,200	0.82	129,200	0.14
Mr. Tsui Wing Tak *(Note 2)*	–	–	775,200	0.82	129,200	0.14
Total	15,551,599	100.00	94,859,994	100.00	94,859,994	100.00

Notes:

1. Mr. Chow Yik is an executive Director and chairman of the Company and hence a connected person of the Company under Chapter 20 of the GEM Listing Rules.

2. Mr. Tsui Wing Tak is an executive Director of the Company and hence a connected person of the Company under Chapter 20 of the GEM Listing Rules.

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新华汇富金融控股有限公司
香港金钟道89号力宝中心一座七楼
Tel 电话 : (852) 2283 7000 Fax 传真 : (852) 2877 2665

The Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future business development of the Company should they wish to do so. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. Details of the changes in shareholding structure of the Company resulting from completion of the Rights Issue are set out in the table above.

Assuming there will be no exercise of any outstanding Share Options and no change in the shareholding structure of the Company before completion of the Rights Issue, if (i) all Rights Shares are subscribed for by the Qualifying Shareholders, the shareholding of the public Shareholders will remain at 100%; and (ii) assuming none of the Qualifying Shareholders takes up any of the Rights Shares and all Unsubscribed Rights Shares have been placed by the Placing Agent, the shareholding of the public Shareholders will decrease from approximately 100% as at the Latest Practicable Date to approximately 16.67% upon completion of the Rights Issue. The possible maximum dilution effect to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 83.3%. The above scenario is for illustrative purpose 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.

Assuming all the outstanding Share Options being exercised on or before the Record Date and there is no other change in the shareholding structure of the Company before completion of the Rights Issue, if (i) all Rights Shares are subscribed for by the Qualifying Shareholders, the shareholding of the public Shareholders will remain at 98.36%; and (ii) assuming none of the Qualifying Shareholders takes up any of the Rights Shares and all Unsubscribed Rights Shares have been placed by the Placing Agent, the shareholding of the public Shareholders will decrease from approximately 100% as at the Latest Practicable Date to approximately 16.39% upon completion of the Rights Issue. The possible maximum dilution effect to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 81.97%. The above scenario is for illustrative purpose 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.

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We are aware of the potential maximum dilution effect as a result of the Rights Issue. However, having taken into account that (i) all Qualifying Shareholders are offered an equal opportunity to maintain their shareholding interests in the Company and allowed to participate in the business growth of the Company; (ii) the theoretical dilution effect of 13.2% of the Rights Issue is within the range of that of the Comparables; (iii) the shareholding of the Qualifying Shareholders would not be diluted if they choose to subscribe for their entitled Rights Shares in full; and (iv) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the markets if they do not want to take up the rights entitlement, we are of the opinion that the potential dilution effect of the Rights Issue is justifiable.

Excess application

As stated in the "LETTER FROM THE BOARD", the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. We have reviewed the Comparables and noted that 4 out of 15 Comparables did not offer excess application to their shareholders and 5 out of 15 Comparables were conducted on non-underwritten basis. Therefore, we consider that the absence of excess application arrangement is not an uncommon market practice. As such, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

Placing price

Pursuant to the Placing Agreement, the placing price (the "**Placing Price**") of each of the Unsubscribed Rights Share and/or the NQS Unsold Rights Share shall be not less than the Subscription Price. The final price determination is depends on the demand and market conditions of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares during the process of the Placing.

Given that (i) the Placing Price shall be not less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraph headed "Subscription Price" in this letter above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

Placing commission

As set out in the "LETTER FROM THE BOARD", the terms of the Placing Agreement, including the commission payable, were determined after arm's length negotiation between the Company and the Placing Agents with reference to (i) the market comparables including the placing commissions of the recent proposed rights issue announced by the companies listed on GEM of the Stock Exchange within 12 months prior to the Last Trading Day which are ranged from 1% to 7.07%; (ii) the loss of the Company of approximately HK$16.95 million for the nine months ended 31

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December 2022; (iii) the gross proceeds of the Rights Issue of HK$20.61 million (assuming no change in the number of Shares on or before the Record Date); and (iv) the downward trend of the daily closing price of the Shares of the Company during the Relevant Period and the Placing Agent to the Company will receive 3.5% of the placing price.

According to the Comparables as set out in Table B, the placing commission rate of the Comparables ranged from approximately 1.3% to approximately 7.1%, with an average placing commission rate of approximately 3.0%. As the placing commission rate of approximately 3.5% is slightly above the average placing commission of the Comparables but falls within the range of the Comparables, we are of the view that the placing commission rate charged by the Placing Agent is not unreasonable and is in the interests of the Company and Independent Shareholders as a whole.

5. Financial effects of the Rights Issue

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible assets attributable to owners of the Company as at 30 September 2022 was approximately HK$14.0 million.

Net assets

Assuming no further issuance of Shares on or before the Record Date, (i) the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company would increase to approximately HK$32.9 million as at 30 September 2022 upon completion of the Rights Issue; and (ii) the unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company would be approximately HK$0.9 before the completion of the Rights Issue and approximately HK$0.35 upon completion of the Rights Issue as at 30 September 2022.

Liquidity

According to the 2022 Interim Report, as at 30 September 2022, the cash and cash equivalents of the Group was approximately HK$1.6 million and the Group had current assets of approximately HK$10.5 million, current liabilities of approximately HK$16.2 million. Accordingly, (i) the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 September 2022 was approximately 0.65 times; and (ii) the gearing ratio of the Group (being the total debts divided by the total equity of the Group) as at 30 September 2022 was approximately 121.0%. Immediately upon completion of the Rights Issue, the cash and cash equivalents of the Group is expected to increase by the expected net proceeds from the Rights Issue of approximately HK$18.92 million.

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Upon completion of the Rights Issue and assuming that the Rights Shares are fully subscribed, it is expected that (i) the current ratio of the Group will be increased from approximately 0.65 times to approximately 1.82 times; and (ii) the gearing ratio of the Group will be decreased from approximately 121.0% to approximately 41.1%. As such, the current ratio, the gearing ratio and the liquidity of the Group will be improved upon the completion of the Rights Issue before utilising the net proceeds.

As the Rights Issue will improve the liquidity position of the Group, we are of the view that the Rights Issue are in the interests of the Company and the Shareholders as a whole.

Shareholders should note that the aforesaid analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon completion of the Rights Issue and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of (i) the financial position of the Company as at 30 September 2022 or any future date; or (ii) the net assets per Share of the Company as at 30 September 2022 or any future date.

C. RECOMMENDATION

Having taken into consideration of the following principal factors and reasons regarding the major terms of the Rights Issue including:

(a) the proceeds from the Rights Issue will enable the Group to expand its existing food and beverage business and the Group is expected to be benefited from the speedy recovery of Hong Kong after the relaxation of COVID-19 restrictions on restaurants in Hong Kong;

(b) the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are therefore of the view that setting the Subscription Price at a discount to the average Closing Price would encourage the Qualifying Shareholders to participate in the Rights Issue, and to maintain their respective shareholding interests in the Company as stated under the paragraph headed "Subscription Price" in this letter;

(c) the Subscription Price is fair and reasonable in our view for the reasons set out in earlier sections headed "Subscription Price" and "Comparison to other rights issue" in this letter; and

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(d) Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportionate interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company, and the maximum dilution effect will only occur when the Qualifying Shareholders do not subscribe for their proportionate Rights Shares,

we are of the view that the terms of the Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue including the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue.

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Yours faithfully

For and on behalf of
Kingsway Capital Limited

Karen Wong
Managing Director
Head of Advisory, Corporate Finance

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Tel 电话 : (852) 2283 7000 Fax 传真 : (852) 2877 2665

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