普頓資本有限公司
PROTON CAPITAL LIMITED

31 May 2023

To: *The Independent Board Committee and the Independent Shareholders*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF THE MACHINERY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition, the details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 31 May 2023 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 16 May 2023 (after trading hours), the Purchaser, the Vendor and the Foreign Trade Agent entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, the Vendor has conditionally agreed to sell, and the Foreign Trade Agent has conditionally agreed to provide import/export services in relation to the sale of, the Machinery at the Consideration of HK$18,700,000.

As part of the Consideration will be financed under the hire purchase facility to be provided by BEA, which is an Independent Third Party, the Purchaser (as hirer), BEA (as owner) and the Company (as guarantor) will enter into the Hire Purchase Agreement for a facility of HK$16,830,000 after obtainment of the Independent Shareholders' approval at the EGM.

GEM LISTING RULES IMPLICATIONS

As disclosed in the Board Letter, as the highest applicable percentage ratio in respect of the Proposed Acquisition (after taking into account the Finance Lease) exceeds 25% but is less than 100%, the Proposed Acquisition constitutes a major transaction.

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Although the Vendor, Mr. Zhang, the Foreign Trade Agent and Mr. Li are not associate of Mr. Lam under the GEM Listing Rules and Mr. Lam does not have any existing or proposed agreement, arrangement, understanding or undertaking with the aforesaid parties in relation to the Proposed Acquisition under Rule 20.18(1) of the GEM Listing Rules, (i) Mr. Lam has voluntarily abstained from voting on the relevant resolutions of the Board; and (ii) New Metro (being a controlling shareholder of the Company and a company beneficially wholly owned by Mr. Lam) also intends to voluntarily abstain from voting on the relevant resolutions at the EGM for avoidance of any potential conflict of interests in view of Mr. Lam's association with Mr. Zhang and Mr. Li (please refer to the paragraph headed "Information on the parties" in the Board Letter for details) and the Board has decided to take a more stringent corporate governance approach and the Company will fulfil the connected transaction requirements under Chapter 20 of the GEM Listing Rules, i.e. circular (including independent financial advice) and Independent Shareholders' approval requirements.

As at the Latest Practicable Date, (i) New Metro (a company beneficially wholly owned by Mr. Lam, the chairman of the Board and an executive Director) was beneficially interested in 354,659,000 Shares, representing approximately 35.54% of the total issued capital of the Company; (ii) Mr. Chau was beneficially interested in 41,366,000 Shares, representing approximately 4.14% of the total issued capital of the Company; and (iii) Mr. Hsu was beneficially interested in 110,500,000 Shares, representing approximately 11.07% of the total issued capital of the Company. Pursuant to the Deed of Acting in Concert Undertaking, each of New Metro, Mr. Lam, Mr. Chau and Mr. Hsu are deemed to be interested in the Shares held by the others and each of them was therefore interested in 506,525,000 Shares as at the Latest Practicable Date. Given Mr. Chau and Mr. Hsu are both parties acting in concert with Mr. Lam and New Metro pursuant to the Deed of Acting in Concert Undertaking, they will also voluntarily abstain from voting on the relevant resolutions at the EGM approving the Acquisition Agreement, the Hire Purchase Agreement and the transactions contemplated thereunder. Mr. Chau and Mr. Hsu have also voluntarily abstained from voting on the relevant resolutions of the Board.

Since none of the Directors have a material interest in the transactions contemplated under the Acquisition Agreement and the Hire Purchase Agreement, none of the Directors are required to abstain from voting on the relevant resolutions of the Board. Mr. Lam. Mr. Chau and Mr. Hsu have voluntarily abstained from voting on the relevant resolutions of the Board as disclosed above.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wong Chun Kwok, Mr. Ho Kar Ming and Ms. So Shuk Wan, has been formed to advise the Independent Shareholders on the Proposed Acquisition.

We, Proton Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

We are not connected with the directors, chief executive and controlling shareholders of the Company or the Vendor or the Foreign Trade Agent or any of their respective subsidiaries or their respective associates and do 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 as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Shareholders. During the last two years, save for our engagement as an independent financial adviser in respect of the mandatory unconditional cash offer made by New Metro in respect of the Company, the details of which were set out in the composite document of the Company and New Metro dated 27 April 2022, there was no engagement between the Company or the Vendor or the Foreign Trade Agent and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and controlling shareholders of the Company or the Vendor or the Foreign Trade Agent or any of its subsidiaries or their respective associates that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Proposed Acquisition pursuant to Rule 17.96 of the GEM Listing Rules.

BASIS OF OUR OPINION

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

The Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, 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 other matters the omission of which would make any statement herein or the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group, or their respective subsidiaries or associates. We have not considered the taxation implication on the Group or the Shareholders as a result of the Acquisition Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background

Information of the Group

The Company is an investment holding company. The Group is principally engaged in providing printing services to customers in Hong Kong. The printing services of the Group include offset printing, ink-jet printing and toner-based digital printing.

The Purchaser, namely Universe Printing Holdings Limited, is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. The principal business activities of the Purchaser are provision of general printing services and trading of printing products in Hong Kong.

Historical financial information of the Group

Financial performance of the Group

Set out below is a summary of the consolidated financial information of the Group for (i) the two years ended 31 March 2021 ("**FY2021**") and 2022 ("**FY2022**") as extracted from the Company's annual report for FY2022 ("**Annual Report**"); and (ii) the nine months ended 31 December 2021 ("**3Q 2021**") and 2022 ("**3Q 2022**") as extracted from the Company's third quarterly report for 3Q 2022 (the "**3Q 2022 Report**"):

	FY2022 *HK$'000* (audited)	%	FY2021 *HK$'000* (audited)	%	3Q 2022 *HK$'000* (unaudited)	%	3Q 2021 *HK$'000* (unaudited)	%
Revenue								
- Offset printing	81,992	72.2%	76,445	74.1%	59,685	76.7%	68,977	73.2%
- Toner-based digital printing	8,413	7.4%	7,101	6.9%	5,457	7.0%	7,213	7.7%
- Ink-jet printing	19,369	17.0%	13,736	13.3%	11,545	14.9%	14,442	15.3%
- Other printing related products	3,878	3.4%	5,851	5.7%	1,085	1.4%	3,542	3.8%
	113,652	100.0%	103,133	100.0%	77,772	100.0%	94,174	100.0%
Gross profit	24,396	-	20,298	-	12,551	-	22,750	-
Gross profit margin	-	21.5%	-	19.7%	-	16.1%	-	24.2%
(Loss)/Profit and total comprehensive income for the year/period attributable to owners of the Company	(4,447)	-	(12,536)	-	(13,088)	-	1,956	-

(a) FY2022 as compared to FY2021

The Group derived its revenue primarily from printing services which accounted for approximately 96.6% of its total revenue for FY2022 (FY2021: 94.3%), in which approximately 72.2% (FY2021: 74.1%) was generated from offset printing.

Total revenue of the Group in FY2022 was approximately HK$113.7 million, representing a growth of approximately 10.2% as compared to the revenue of approximately HK$103.1 million for the FY2021. The increase was mainly due to the increase in demand for the Group's printing services as a result of the improved market sentiment, according to the Annual Report.

Gross profit of the Group increased from approximately HK$20.3 million for FY2021 to approximately HK$24.4 million for FY2022, which was in tandem with the increase in revenue and costs of sales. The gross profit margin was approximately 21.5% for FY2022 (FY2021: approximately 19.7%).

The loss and total comprehensive income attributable to owners of the Company was approximately HK$4.4 million in FY2022 as compared to approximately HK$12.5 million recorded in FY2021. Excluding the impact of one-off items in the respective financial years, there was a net operating loss of approximately HK$4.6 million recorded in FY2022 as compared to approximately HK$9.4 million in FY2021.

(b) 3Q 2022 as compared to 3Q 2021

The Group continued derived its revenue primarily from printing services with accounted for approximately 98.6% of its total revenue for 3Q 2022 (3Q 2021: approximately 96.2%), in which approximately 76.7% (3Q 2021: approximately 73.2%) was generated from offset printing.

The total revenue of the Group for Q3 2022 decreased by approximately HK$16.4 million or approximately 17.4% to approximately HK$77.8 million as compared to approximately HK$94.2 million for Q3 2021. According to the Q3 2022 Report, the decrease in total revenue was mainly contributed by the decline in the demand for printing services activities resulting from the persistence outbreak of COVID-19 in Hong Kong during the period under review.

The gross profit of the Group decreased from approximately HK$22.8 million for Q3 2021 to approximately HK$12.6 million for Q3 2022, which was in tandem with the decrease in revenue. The gross profit margin decreased from approximately 24.2% for Q3 2021 to approximately 16.1% for Q3 2022 mainly due to the increase in per unit fixed cost as a result of the decrease in production volume of the Group's printing services.

The loss and total comprehensive income attributable to owners of the Company was approximately HK$13.1 million in Q3 2022 as compared to a profit and total comprehensive income attributable to owners of the Company of approximately HK$2.0 million recorded in Q3 2021. This change was mainly due to (i) decrease in gross profit margin as a result of increase in per unit fixed cost as production volume decreased; and (ii) increase in selling and administrative expenses as a result of (a) the one-off legal and professional fees in relation to mandatory unconditional cash offer; (b) the increase in salary costs; and (c) the increase in lease payments due to the opening of flagship stores.

Excluding the impact of one-off items in the respective financial periods, there was a loss attributable to owners of the Company of approximately HK$15.4 million recorded in Q3 2022 as compared to a profit attributable to owners of the Company of approximately HK$1.7 million in Q3 2021.

Financial position of the Group

Set out below is a summary of the major information of the consolidated financial position of the Group as at 31 March 2022 and 30 September 2022 as extracted from the Company's interim report for the six months ended 30 September 2022 ("**Interim Report**"):

	As at 31 March 2022	**As at 30 September 2022**
	HK$'000	*HK$'000*
	(audited)	(unaudited)
Non-current assets	20,127	24,712
Current assets	29,231	15,863
Total assets	49,358	40,575
Current liabilities	25,065	23,446
Non-current liabilities	4,471	6,552
Total liabilities	29,536	29,998
Net current assets/(liabilities)	4,166	(7,583)
Net assets	19,822	10,577
Cash and cash equivalents	19,113	5,105

In tandem with the loss of the Group recorded for the six months period 30 September 2022, net assets of the Group decreased by approximately HK$9.2 million from approximately HK$19.8 million as at 31 March 2022 to approximately HK$10.6 million as at 30 September 2022.

As at 30 September 2022, the total assets of the Group mainly comprised of property, plant and equipment, right-of-use assets, inventories, trade and other receivables, prepayments and deposits, and cash and cash equivalents, in aggregate amounted to approximately HK$36.9 million, which represented approximately 90.9% of the total assets. The total liabilities of the Group mainly comprise of trade and other payables and accruals, contract liabilities and lease liabilities of approximately HK$29.3 million in aggregate, which represented approximately 97.7% of the total liabilities.

2. Information of the Vendor and the Foreign Trade Agent

(a) The Vendor

The Vendor, namely 素位科技(深圳)有限公司 (transliterated as Suwei Technology (Shenzhen) Co., Ltd. for identification purposes), is a limited liability company established under the laws of the PRC. The business scope of the Vendor includes, among others, development of internet-of-things technology, provision of supply chain and three dimensional (3D) printing services and sales, installation and maintenance of machinery. The Vendor is also an authorised seller of FUJIFILM (China) Investment Co., Ltd. in respect of the Machinery in the PRC and Hong Kong. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is owned as to 99% by 張少勇 (Zhang Shaoyong) ("**Mr. Zhang**") and 1% by 任莉 (Ren Li) ("**Ms. Ren**"). As at the Latest Practicable Date, Mr. Zhang was shareholder, legal representative and/or director of various companies indirectly owned by Mr. Lam and/or his close associate, and Ms. Ren was an Independent Third Party.

(b) The Foreign Trade Agent

The Foreign Trade Agent, namely 重慶保晟國際貿易有限公司 (transliterated as Chongqing Polysun International Trade Co., Ltd. for identification purposes), is a limited liability company established under the laws of the PRC. The business scope of the Foreign Trade Agent includes, among others, provision of agency services for international shipment of goods and import and export of goods and technologies. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Foreign Trade Agent is owned as to 70% by 李栗 (Li Li) ("**Mr. Li**") and 30% by 傅博 (Fu Bo) ("**Ms. Fu**"). As at the Latest Practicable Date, Mr. Li was a supervisor of a company indirectly owned by Mr. Lam, and Ms. Fu was an Independent Third Party.

As advised in the Board Letter, although the Vendor, Mr. Zhang, the Foreign Trade Agent and Mr. Li are not associate of Mr. Lam under the GEM Listing Rules and Mr. Lam does not have any existing or proposed agreement, arrangement, understanding or undertaking with the aforesaid parties in relation to the Proposed Acquisition under Rule 20.18(1) of the GEM Listing Rules, for the avoidance of any potential conflict of interests in view of Mr. Lam's association with Mr. Zhang and Mr. Li:

(i) Mr. Lam has voluntarily abstained from voting on the relevant resolutions of the Board;

(ii) New Metro (being a controlling shareholder of the Company and a company beneficially wholly owned by Mr. Lam) also intends to voluntarily abstain from voting on the relevant resolutions at the EGM; and

(iii) the Board has decided to take a more stringent corporate governance approach and the Company will fulfil the connected transaction requirements under Chapter 20 of the GEM Listing Rules.

3. Reasons for and benefits from the Proposed Acquisition

The Company is an investment holding company and the Group is principally engaged in providing printing services to customers in Hong Kong. The printing services of the Group include offset printing, ink-jet printing and toner-based digital printing. Generally, offset printing offers consistently high image quality for products and is relatively cost-efficient for large volume print orders. As explained in the Board Letter, as pre-press setting and plate-making are required for offset printing, it may not be as economical or time efficient for low volume or urgent printing orders as compared to digital printing. Digital printing provides solutions for low volume printing and allows for more flexibility since texts and images can be changed from one copy to the next without stopping or slowing the printing process. In view of the facts that (i) the recent decrease in printing volume per order will lead to lower profit margin due to incurrence of fixed costs regardless of printing volume such as plate-making costs and labour costs and digital printing provides solutions and flexibility to the Group for adjusting printing contents and volume to reduce unit fixed costs; and (ii) the increasing customers' demand on the printing quality and shorter delivery time can be met by using digital printing since while the quality of ink-jet digital printing is comparable to that of offset printing, the Group can change texts and images of printouts if required by customers without any need to stop/slow down the Machinery and the Group can save time for product transportation as compared with sub-contracting to external service providers, the Company considers that expansion of the Group's digital printing services might fit the business needs of the Group and the types, features and specification of machinery which the Group possesses are crucial factors to maintain its edge in, among others, production capability and efficiency as well as cost efficiency and support the Group's long term development.

The Machinery to be acquired pursuant to the Acquisition Agreement comprise two sets of brand new four-colour digital inkjet printing machines manufactured by FUJIFILM (model: Jet Press 750S) accompanied with servers and FUJIFILM XMF Workflow system which enhance printing management for higher efficiency and consistency. Each of Jet Press 750S has a high productivity of 3,600 B2 sheets per hour and resolution up to 1200 x 1200 dot per inch (dpi).

As disclosed in the announcement of the Company dated 18 April 2023, the performance of the Group's traditional printing business in the past years was unsatisfactory and the Board has decided to optimise the Group's production in Hong Kong by balancing the proportion of offset printing which is mainly sub-contracted to external service providers and internal digital printing to cope with the current challenging operating environment. The Company believes that by investing in advanced printing machinery with forefront of technology, the Company could (i) further undertake the production process on its own whilst saving per unit fixed manufacturing costs such as labour costs and plate-making costs and hence would improve the Group's profit margin (after taking into account the interests under the Finance Lease); (ii) maintain its competitiveness by offering more printing options with higher quality and consistency to meet customers' needs; and (iii) follow the industry trend on technological advancement since the Machinery belongs to the flagship series of commercial use digital inkjet press launched by FUJIFILM in past few years for industry-leading print quality.

We have reviewed the product specifications and information of the Machinery and noted that the intended use of the Machinery is in line with the existing principal business of the Group. As analysed in the section headed "Historical financial information of the Group" above, among the three printing services provided by the Group, offset printing is the most popular method used by the Group's customers, which accounted for more than approximately 70% of the Group's revenue for FY2021, FY2022 and 3Q 2022. This signified that the Group's customers used to opt for products with high image quality but, as we understood from the Management, the delivery time for offset printing orders is longer because additional time is required for pre-press setting and plate-making. Also, the per unit fixed cost for offset printing will be higher if the production volume is low and this can materially affect the Group's profitability and competitiveness in the commercial printing industry. According to the 3Q 2022 Report, the major factor attributable to the material decrease in the gross profit margin of the Group from approximately 24.2% in 3Q 2021 to approximately 16.1% in 3Q 2022 was the increase in per unit fixed cost as a result of the decrease in production volume.

Based on our discussion with the Management and review of the information of the Machinery, we understand that the Machinery uses the ink-jet digital printing technology and the quality of its printed products is comparable to those produced from offset printing. Nonetheless, no pre-press setting and plate-making are required for the Machinery, this can effectively lower the per unit fixed cost of printing, make low volume printing much more economical and shorten the product delivery time. As the printing process of the Machinery is fully computerised, change of texts and images are possible without any need to stop/slow down the Machinery for making adjustment, this can significantly enhance the printing efficiency. We also understand from the Management that the two new flagship stores opened by the Group under the brand 'Print Shop' in Kwun Tong and Wan Chai in Q3 2022 allowed the Group to reach out more potential customers. The Management observed that in view of the rapid changing business environment in Hong Kong, there have been decrease in printing volume per order while at the same time, customers demand for shorter delivery time with high printing quality. The Management believes the Proposed Acquisition will allow the Group to provide better printing solutions to its customers at a much more competitive price and with high efficiency and therefore, increase the competitiveness of the Group in the commercial printing industry.

We have enquired with the Management the difference between the Machinery which uses digital inkjet printing technology and the toner-based digital printing. We understand that toner-based digital printing is traditional printing method using toner (i.e. powders) as printing materials. Printing quality of products from toner-based digital printing is lower than offset printing and therefore, this printing method is less preferred by customers.

On the basis of the Company's reasons for the Proposed Acquisition as aforesaid, the intended use of the Machinery is in line with the existing principal business of the Group and the expected benefits of the Machinery, we consider that the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Terms of the Acquisition Agreement

Below are the principal terms of the Acquisition Agreement:

Date:	16 May 2023 (after trading hours)
Parties:	the Purchaser (as purchaser); the Vendor (as vendor); and the Foreign Trade Agent (as an agent to facilitate import and export of the Machinery)

Machinery to be acquired:	Two sets of brand new four-colour digital ink-jet printing machines manufactured by FUJIFILM (model: Jet Press 750S)
Expected date of delivery:	Within 90 days from the date of approval of the Independent Shareholders at the EGM in respect of the transactions contemplated under the Acquisition Agreement.
Consideration and payment terms:	The unit price is HK$9,350,000 per set of the printing machine and the total Consideration for two sets of the printing machines is HK$18,700,000, which shall be paid in the following manner: (i) 10% of the Consideration, being HK$1,870,000 (the "**Deposit**") shall be paid by the Purchaser in cash to the Foreign Trade Agent for the Vendor within five Business Days after signing the Acquisition Agreement; and (ii) 90% of the Consideration, being HK$16,830,000 shall be paid by the Purchaser in cash to the Foreign Trade Agent for the Vendor when installation and testing of the Machinery and training of relevant staff for the operation of the Machinery are completed.
Conditions:	The Acquisition Agreement shall be conditional upon the obtaining of the approval of the Independent Shareholders at the EGM in respect of the transactions contemplated under the Acquisition Agreement and the obtainment of relevant hire purchase facility by the Purchaser from bank (the "**Condition(s)**") within three (3) months from the date of the Acquisition Agreement (the "**Long Stop Date**").

If the Conditions are not fulfilled at or before 5:00 p.m. (Hong Kong time) on the Long Stop Date, the Vendor, the Foreign Trade Agent and the Purchaser may agree in writing to postpone the Long Stop Date by up to three (3) months. If the Long Stop Date is not postponed or the Conditions remain to be fulfilled by 5:00 p.m. (Hong Kong time) on the postponed Long Stop Date, (i) the Vendor and/or the Purchaser may terminate the Acquisition Agreement by written notice to the other parties; (ii) the Foreign Trade Agent for the Vendor and/or the Vendor shall return the Deposit in full to the Purchaser in cash within five (5) calendar days after the Long Stop Date or the postponed Long Stop Date (as the case may be); and (iii) all obligations of the parties to the Acquisition Agreement shall cease except customary surviving provisions and save for rights and liabilities of the parties which have already accrued before termination, such as the Foreign Trade Agent's responsibility in ensuring compliance with relevant laws and regulations relating to the import and export of the Machinery, the Foreign Trade Agent's avoidance of conflict of interest with the Vendor and confidentiality.

The warranty provided by the Vendor in the Acquisition Agreement is set out in the Board Letter.

5. Basis of Determination of the Consideration

The Company advised that the Consideration was determined after arm's length negotiations between the Purchaser and the Vendor after considering the official recommended price from FUJIFLIM (China) Investment Co., Ltd. and five historical transaction prices of FUJIFILM Jet Press 750S in past five years that are available to the Board.

We have compared the Consideration per set of the printing machine with the aforesaid official recommended price from FUJIFLIM (China) Investment Co., Ltd. and the aforesaid five historical transaction prices *(Note)* and noted that the Consideration is lower than the aforesaid prices. According to the Acquisition Agreement, no additional cost/service fee is payable by the Group for the shipment of the Machinery from the PRC to Hong Kong via the Foreign Trade Agent and installation and setting up of the Machinery at the Group's factory in Hong Kong.

Note: These historical transaction prices were denominated in RMB but in view that the Consideration is in HK$, we have converted the RMB historical transaction prices into HK$ based on the prevailing exchange rate as at the date of the Acquisition Agreement for comparison purpose.

To further assess the fairness and reasonableness of the Consideration, we have searched for the selling price of Jet Press 750S in Hong Kong and the PRC but the result of our research was not fruitful and we could only source one historical indicative selling price, which was before value added tax, in European Union. It seems that Jet Press 750S is a high-end large scale printing machine for commercial/industrial use and thus retail selling price is not readily available from the internet. As such, we have made a direct enquiry with the official sales office of FUJIFILM in Hong Kong for quotation on the selling prices of Jet Press 750S. The result of our comparison of the Consideration (being HK$9.35 million per unit) with the selling price and quotation obtained by us shows that the Consideration (being HK$9.35 million per unit) is lower and thus more competitive.

In light of (i) the Consideration was determined after arm's length negotiations among the Vendor and the Purchaser; and (ii) that the Consideration is lower than the official recommended price, the historical transaction prices, the historical indicative selling price (before value added tax) in European Union and the official selling prices obtained by us directly in Hong Kong, we consider that the Consideration of the Proposed Acquisition is fair and reasonable so far as the Independent Shareholders are concerned.

6. Possible financial impacts of the Proposed Acquisition and the Finance Lease

According to the Board Letter, out of the Consideration of HK$18,700,000, the Deposit of HK$1,870,000 will be funded by internal resources of the Group whilst the balance of HK$16,830,000 will be financed by BEA pursuant to the Hire Purchase Agreement.

Please refer to the Board Letter for a summary of the terms of the Hire Purchase Agreement to be entered into between the Group and BEA subject to the Independent Shareholders' approval on the Proposed Acquisition at the EGM.

The Company has confirmed with us that the Group has already settled the Deposit from its internal resources according to the terms of the Acquisition Agreement. As such, the Group's available cash has been decreased by an amount equivalent to the Deposit of HK$1,870,000.

According to the Interim Report, the Group's cash and cash equivalents as at 30 September 2022 was approximately HK$5.1 million only. Nonetheless, we noted that the Company had raised net proceeds of approximately HK$3.7 million from a placement of new shares completed on 3 May 2023 and disposed of an equipment at the total consideration of HK$5.2 million in cash in April 2023. Information of the aforesaid fund raising exercises were set out in the Company's announcements dated 18 April 2023, 19 April 2023 and 3 May 2023, respectively. Further, according to appendix I to the Circular, the Directors, taking into account of (i) the internal resources of the Group; (ii) expected cash flows from the Group's operations; and (iii) the cash flow impact of the Proposed Acquisition (after taking into account the available banking facilities to the Group pursuant to the Hire Purchase Agreement), and in the absence of unforeseen circumstances, are of the opinion that the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of publication of the Circular.

As further advised by the Company, pursuant to HKFRS 16, the entering into of the Acquisition Agreement and the Hire Purchase Agreement will require the Group to recognise a right-of-use asset. The aggregate value of the right-of-use assets to be recognised by the Group at the respective lease commencement date in its consolidated financial statements under the Proposed Acquisition and the Finance Lease is approximately HK$18.8 million, which is calculated based on the aggregated present values of lease payments discounted using the interest rate implicit in the lease of 6.81667% per annum (i.e. the one month HIBOR of 4.31667% as at the date of the Acquisition Agreement plus 2.50%) assuming there will be no change in such one month HIBOR during the lease term and lease payments made at or before the lease commencement date (e.g. the Deposit). Along with the recognition of the right-of-use asset, the lease liabilities in the same amount are expected to be recognised. Since the Machinery will be used in production by the Group, the expenses of the Group in relation to the Finance Lease, being depreciation of right-of-use assets and finance costs in the consolidated financial statements of the Group, are expected to increase after entering into the Hire Purchase Agreement.

Apart from the aforesaid, the Company expects to incur professional fee of approximately HK$0.6 million for advisory, legal, accounting services etc. in connection with the Proposed Acquisition and the Finance Lease which would be treated as current liabilities of the Group and affect the earnings of the Group upon settlement.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated in this letter, we are of the opinion that (i) the terms of the Acquisition Agreement are on normal commercial terms; (ii) the terms of the Proposed Acquisition are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the proposed resolutions in this regard.

Yours faithfully,
For and on behalf of
Proton Capital Limited

Josephine Lau
Director – Corporate Finance

Note: Ms. Josephine Lau has been a responsible officer of Type 6 (advising on corporate finance) regulated activity since 2007. Ms. Lau has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions conducted by companies listed on the Stock Exchange.