24 April 2024

To the Independent Board Committee and the Independent Shareholders of Basetrophy Group Holdings Limited

Dear Sirs or Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Rights Issue and the transactions contemplated thereunder, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 24 April 2024 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.

Reference is made to the Announcement, in relation to, among other things, the Rights Issue. The Company proposes to raise gross proceeds of up to approximately HK$41.4 million by way of the issue of up to 345,000,000 Rights Shares at the Subscription Price of HK$0.12 per Rights Share on the basis of three (3) Rights Shares for every one (1) existing Share held on the Record Date. The Rights Issue is not underwritten and is only available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders.

Assuming full subscription of the Rights Issue, the net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK$39.0 million (assuming no change in the issued Shares on or before the Record Date), but otherwise no other change in the issued Shares on or before the Record Date).

GEM LISTING RULES IMPLICATIONS

In accordance with Rule 10.29(1) of the GEM Listing Rules, as the Rights Issue will increase the total number of issued Shares by more than 50% within a 12-month period immediately preceding the Latest Practicable Date (after taking into account the effect of the Share Consolidation), the Rights Issue is conditional upon the Shareholders' approval at the EGM, and any controlling shareholders of the Company and their respective associates, or where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the EGM.

As at the Latest Practicable Date, Brightly Ahead Limited, being a controlling shareholder of the Company, directly holds 51,000,000 Shares (representing approximately 44.35% of the issued share capital of the Company as at the Latest Practicable Date) and Mr. Lau Ching Ho directly holds 750,000 Shares (representing approximately 0.65% of the issued share capital of the Company as at the Latest Practicable Date). Brightly Ahead Limited is a company wholly owned by Mr. Lau Chung Ho who is an executive Director and Chief Executive Officer of the Company. Accordingly, Brightly Ahead Limited and Mr. Lau Chung Ho shall abstain from voting in favour of the Rights Issue in accordance with Rule 10.29(1) of the GEM Listing Rules.

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

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

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Lam Chee-yau Timothy, Mr. Ngok Ho Wai and Mr. Li Dewen, all being independent non-executive Directors, has been established to advise the Independent Shareholders regarding 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 interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendations of the Independent Financial Adviser. We, Alpha Financial Group Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

OUR INDEPENDENCE

In the last two years, prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Group and its associates that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence as defined under Rule 17.96 of the GEM Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information.

We have assumed that all the information provided, and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon and continue to be so up to the date of the EGM. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and continue to be so up to the date of the EGM and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM. Independent Shareholders will be informed of any material change of information and the representations made or referred to in the Circular as soon as possible up to the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. In formulating our recommendation in relation to the Rights Issue and pursuant to Rule 17.92 of the GEM Listing Rules, we have obtained and reviewed the relevant information in relation to the Rights Issue, among others, (i) the annual report for the year ended 31 December 2022 of the Company (the "**2022 Annual Report**"); (ii) the annual results announcement for the year ended 31 December 2023 of the Company (the "**2023 Annual Results**"); (iii) the recent announcements of the Company; and (iv) the information set out in the Circular.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made, or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1 BACKGROUND AND FINANCIAL INFORMATION OF THE GROUP

1.1 INFORMATION ON THE GROUP

The Company is an investment holding company. The Group is (i) a contractor of foundation works in Hong Kong capable of foundation jobs, which mainly include excavation and lateral support (ELS) works, sheet piling, pipe piling, preboring, pre-bored H-piling, mini-piling, and bored piling; (ii) a subcontractor for site formation works and other geotechnical engineering works such as slope works and other minor geotechnical works such as shotcreting; and (iii) a trader of alcoholic beverages in the People's Republic of China ("**PRC**").

1.2 FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated financial results of the Group for the three years ended 31 December 2023, 2022 and 2021 ("**FY2023**", "**FY2022**" and "**FY2021**", respectively) as extracted from the 2023 Annual Results and the 2022 Annual Report:

	FY2023 *HK$'000* (audited)	**FY2022** *HK$'000* (audited)	**FY2021** *HK$'000* (audited)
Revenue	97,150	86,480	88,812
Cost of sales	(83,831)	(70,216)	(77,899)
Gross profit	13,319	16,264	10,913
(Loss)/profit for the year attributable to owners of the Company	(19,773)	(6,518)	586

	As at 31 December 2023 HK$'000 (audited)	As at 31 December 2022 HK$'000 (audited)	As at 31 December 2021 HK$'000 (audited)
Non-current assets	29,868	19,195	16,601
Current assets	74,437	86,309	86,556
Total assets	104,305	105,504	103,157
Non-current liabilities	5,947	5,254	1,508
Current liabilities	56,382	38,643	35,400
Total liabilities	62,329	43,897	36,908
Cash and bank balances	4,837	4,147	4,352
Net current assets	18,055	47,666	51,156
Equity attributable to owners of the Company	41,512	61,284	66,249

FY2022 vs FY2021

The Group's revenue decreased by approximately HK$2.3 million or 2.6% from approximately HK$88.8 million for FY2021 to approximately HK$86.5 million for FY2022, mainly due to delay in progress of certain projects as a result of the outbreak of the COVID-19 pandemic. For FY2022, the Group recorded a loss attributable to owners of the Company of approximately HK$6.5 million as compared to a profit attributable to owners of the Company of approximately HK$0.6 million for FY2021. The loss during the year was mainly attributed to (i) delay in progress of certain projects as a result of the outbreak of the COVID-19 epidemic; and (ii) the provision for impairment of trade receivables and contract assets. It is also worth noting that the Group recorded a one-off gain of approximately HK$2.5 million related to disposal of property, plant and equipment which contributed to its revenue for FY2021.

As at 31 December 2022, the Group recorded cash and bank balances amounting to approximately HK$4.1 million (31 December 2021: approximately HK$4.4 million) and the net current assets value was approximately HK$47.7 million (31 December 2021: approximately HK$51.2 million).

As at 31 December 2022, the gearing ratio of the Group, calculated as the total interest-bearing liabilities divided by the total equity, was approximately 28.0% (31 December 2021: approximately 17.1%).

FY2023 vs FY2022

The Group's revenue increased by approximately HK$10.7 million or 12.4% from approximately HK$86.5 million for FY2022 to approximately HK$97.2 million for FY2023, mainly due to business growth in the segment of foundation and related works. For FY2023, the Group recorded a loss attributable to owners of the Company of approximately HK$19.8 million as compared to approximately HK$6.5 million for FY2022. The loss during the year was mainly attributed to (i) increase of impairment losses on financial and contract assets; (ii) increase in depreciation of right-of-use assets; and (iii) increase in other expenses.

As at 31 December 2023, the Group recorded cash and bank balances amounting to approximately HK$4.8 million (31 December 2022: approximately HK$4.1 million) and the net current assets value was approximately HK$18.1 million (31 December 2022: approximately HK$47.7 million).

As at 31 December 2023, the gearing ratio of the Group, calculated as the total interest-bearing liabilities divided by the total equity, was approximately 61.6% (31 December 2022: approximately 28.0%).

2 REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

As disclosed in the Letter from the Board, assuming full subscription under the Rights Issue, the expected gross proceeds of the Rights Issue will be up to approximately HK$41.4 million and the relevant expenses would be approximately HK$2.4 million, which includes placing commission and professional fees payable to financial adviser, legal advisers and other parties involved in the Rights Issue. Accordingly, the estimated net proceeds of the Rights Issue, after deducting the related expense, will be up to approximately HK$39.0 million.

With reference to the Letter from the Board, as disclosed in the announcement of the Company dated 16 December 2022, (i) Sandi Supply Chain Management (Chengdu) Co., Ltd.* (三嘀供應鏈管理(成都)有限公司) ("**Sandi**"), an indirect wholly-owned PRC subsidiary of the Company; and (ii) Jiude Jiupin (Chengdu) Wine Co., Ltd.* (九德玖品(成都)酒業有限公司) ("**Jiude Jiupin**"), a company established in the PRC with limited liability and is 51% held by Sandi have started the business of liquor and food and target to achieve business growth in the coming year. In particular, Sandi is carrying out three aspects of business operations in the coming future: (i) liquor supply chain, (ii) new food retail and (iii) comprehensive property management. With a view to support the future development direction of creating its own wine brands, we understand the Directors perceive the Rights Issue as a favourable opportunity to raise additional funding to provide substantial support for Sandi's development endeavors, particularly in the realm of creating its own wine brands without any interest burden.

Further, with reference to the Letter from the Board, assuming full subscription under the Rights Issue, the Company intends to apply the net proceeds of approximately HK$39.0 million from the Rights Issue (assuming no other change in the number of Shares in issue on or before the Record Date) for the following purposes:

(i) approximately HK$26.0 million, representing approximately 66.8% of the new proceeds, will be used for the development in the business of liquor supply chain and new food retail, among which (a) approximately HK$14.0 million, representing approximately 35.9% of the net proceeds, will be used for the procurement of the stock; (b) approximately HK$7.0 million, representing approximately 18.0% of the net proceeds, will be used for the promotion and advertisement of the business of liquor supply chain and new food retail of the Group; and (c) approximately HK$5.0 million, representing approximately 12.8% of the net proceeds, will be used for the negotiation of exclusive distributorship; and

(ii) approximately HK$13.0 million, representing approximately 33.2% of the net proceeds, will be used for general working capital of the Group, including but not limited of the staff cost expenses, leasing expense and rental expense.

With reference to the 2023 Annual Results, the cash and bank balances of the Group amounted to only approximately HK$4.8 million as at 31 December 2023, which is less than the amount the Company intended to allocate and estimated to be needed for the development in the business of liquor supply chain and new food retail of approximately HK$26.0 million. Accordingly, the Company does not have enough internal resources to satisfy the need for the above proposed.

We understand from the Management that the allocation of approximately HK$26.0 million to be used for the development in the business of liquor supply chain and new food business will mainly be investing towards the liquor supply chain business, which is focusing on the Chinese Baijiu (中國白酒) market in the PRC.

With reference to a market research report on the Chinese Baijiu industry published by Leadleo Research Institute (頭豹研究院) in October 2023 (the "**Market Report**")[Note], driven by the economic recovery in the PRC and the increasing demand from new consumers of the younger generation, the Chinese Baijiu market is expected to grow at a CAGR of approximately 5.9% from 2023 and reach approximately RMB822.7 billion in 2027. In addition, as quoted from the Market Report, the growth in Chinese Baijiu market in 2023 was mainly driven by the increase in selling price of Chinese Baijiu and, in turn, the Chinese Baijiu market has a high gross profit margin. Also, according to the Market Report, new consumers of the younger generation has a low brand loyalty towards Chinese Baijiu, of which approximately 53% of the young consumers wish to try new Chinese Baijiu brands. As such, we are of the view that the

Note: https://www.leadleo.com/wiki/brief?id=64b568f78c30aa70353473da outlook of the Chinese Baijiu market that the Company is looking to apply the proceeds from the Rights Issue to is positive and the Company has the opportunity to capture the market share by tapping into the market with its own brand of Chinese Baijiu.

We understand from the Letter from the Board that, apart from the Rights Issue, the Board has considered various fund-raising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing of new shares and open offer and the Directors are of the view that the Rights Issue is in the best interests of the Company and the Shareholders as a whole, and that it is an appropriate fund-raising method to strengthen the capital base of the Company and support the Company's continuing business development and growth.

We understand that the Board noted that bank borrowings, if available, would result in additional interest burden of the Company and create pressure to the liquidity of the Company and accordingly, the Board did not consider it to be beneficial to the Company. We noted that the gearing ratio of the Company has been increasing from approximately 17.1% as at 31 December 2021, to approximately 28.0% as at 31 December 2022 and further to approximately 61.6% as at 31 December 2023. With the increasing gearing ratio of the Company, which represents that the Company has increased reliance on debt financing in its portfolio arising from the higher borrowings in its financial position, we are of the view that the Company may not be able to secure favourable terms for debt financing during negotiations with financial institutions and such may not be beneficial to the Company and the Shareholders.

As to other equity financing such as placing of new Shares and open offer, we are of the view that placing of new shares does not provide the option for existing Shareholders to participate and maintain their respective existing shareholding interests and open offer does not facilitate a trading arrangement of rights entitlement for Qualifying Shareholders to realise a gain on the disposal of rights entitlement without participating. Accordingly, we are of the view that rights issue provides an equal opportunity to maintain their proportional interests in the Company and allow flexibility for Qualifying Shareholders to decide whether to participate or realise the rights entitlement. Hence, we concur with the Directors' view that the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

For further details of the proposed use of proceeds as well as the expected timetable for the respective utilization, please refer to the section headed "REASONS FOR THE RIGHTS ISSUE AND THE USE OF PROCEEDS" in the Letter from the Board.

3 THE PROPOSED RIGHTS ISSUE

Subject to the Increase in Authorised Share Capital having become effective, the Company proposes to raise gross proceeds of up to approximately HK$41.4 million by way of the issue of up to 345,000,000 Rights Shares at the Subscription Price of HK$0.12 per Rights Share on the basis of three (3) Rights Shares for every one (1) existing Share held at the close of business on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders.

Further details of the Rights Issue are set out below:

3.1 RIGHTS ISSUE STATISTICS

Basis of the Rights Issue:	Three (3) Rights Shares for every one (1) existing Share held by the Shareholders on the Record Date
Subscription Price:	HK$0.12 per Rights Share
Net subscription price per Rights Share (i.e. Subscription Price less Rights Issue expenses):	Approximately HK$0.113 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	115,000,000 Shares
Number of Rights Shares to be issued under the Rights Issue:	Up to 345,000,000 Rights Shares (assuming no further issue or repurchase of the Shares on or before the Record Date)
Total number of issued Shares as enlarged by the allotment and issue of the Rights Shares:	Up to 460,000,000 Shares (assuming no further issue or repurchase of the Shares on or before the Record Date)
Maximum amount to be raised before expenses (assuming the Rights Issue is fully subscribed):	Up to approximately HK$41.4 million before expenses (assuming there is no change to the total number of Shares in issue on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)
Aggregate nominal value of the Rights Shares:	HK$34.5 million (assuming there is no change to the total number of Shares in issue on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)

As at the Latest Practicable Date, the Company has no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange into Shares. The Company has no intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date.

Assuming there is no change in the total number of New Ordinary Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the 345,000,000 Rights Shares to be issued pursuant to the terms of the proposed Rights Issue represents (i) 300.0% of the issued share capital of the Company immediately upon the Increase in Authorised Share Capital becoming effective; and (ii) 75% of the issued share capital of the Company upon the Increase in Authorised Share Capital becoming effective and as enlarged by the allotment and issue of the Rights Shares.

3.2 SUBSCRIPTION PRICE

The Subscription Price of HK$0.12 per Rights Share is payable by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, and where applicable, when a transferee of the nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 31.82% to the closing price of HK$0.1760 per Share as quoted on the Stock Exchange on the Last Trading Day (the "**LTD Discount**");

(ii) a discount of approximately 26.38% to the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to the Last Trading Day of approximately HK$0.1630 per Share (the "**5 Day Discount**");

(iii) a discount of approximately 24.95% to the average closing price per Share as quoted on the Stock Exchange for the last 10 consecutive trading days prior to the Last Trading Day of approximately HK$0.1599 per Share;

(iv) a discount of approximately 10.45% to the theoretical ex-rights price of approximately HK$0.1340 per Share based on the closing price of HK$0.1760 per Share as quoted on the Stock Exchange on the Last Trading Day and number of Shares in issue as at the Latest Practicable Date (the "**TERP Discount**");

(v) a discount of approximately 77.60% to the published audited consolidated net asset value per Share as at 31 December 2022 of approximately HK$0.5357 (based on the annual report of the Company published on 31 March 2023 in relation to, among others, the annual results of the Company for the year ended 31 December 2022);

(vi) a discount of approximately 77.61% to the latest published unaudited consolidated net asset value per Share as at 30 June 2023 of approximately HK$0.5359 (based on the interim report of the Company published on 14 August 2023 in relation to, among others, the interim results of the Company for the six months ended 30 June 2023) (the "**NAV Discount**");

(vii) a discount of approximately 67.12% to the latest published audited consolidated net asset value per Share as at 31 December 2023 of approximately HK$0.3650 (based on the annual results announcement of the Company published on 28 March 2024 in relation to, among others, the annual results of the Company for the year ended 31 December 2023); and

(viii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 23.86%, represented by the theoretical diluted price of approximately HK$0.1340 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.1760 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$0.1630 per Share) of approximately HK$0.1760 per Share.

According to the Letter from the Board, the Subscription Price was determined by the Company with reference to, among others, (i) the recent market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong; (iii) the financial position of the Group; and (iv) the amount of funds the Company intends to raise under the Rights Issue as discussed in the section headed "REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS OF THE RIGHTS ISSUE" in the Letter from the Board.

3.3 NON-UNDERWRITTEN BASIS

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will be placed to independent Placees under the Compensatory Arrangements. Any Unsubscribed Rights Shares or ES Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue. There are no applicable statutory requirements regarding minimum subscription levels in respect of the Rights Issue.

As the Rights Issue will proceed on a non-underwritten basis, the Shareholders who apply 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.

Despite the Rights Issue is conducted on a non-underwritten basis, any Rights Shares not subscribed by the Qualifying Shareholders (i.e. the Unsubscribed Rights Shares), including the NQS Unsold Rights Shares (if any) will be placed by the Placing Agent a price not less than the Subscription Price on the market to independent placees on a best effort basis. We are of the view that the Subscription Price, being set at a discount to the prevailing market prices of the Shares, shall encourage independent placees to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (if any) and, in turn, to raise the necessary proceeds for the Company.

We also understand that the Company has reached out to other potential placing agents and none has committed to conduct the Rights Issue on a fully underwritten basis. With reference to the paragraphs headed "COMPARATIVE ANALYSIS ON THE PROPOSED TERMS OF THE RIGHTS ISSUE" below, we noted that it is a common market practice that rights issue is conducted on a non-underwritten basis. Based on the above, we are of the view that such is in line with the general market practice and is acceptable.

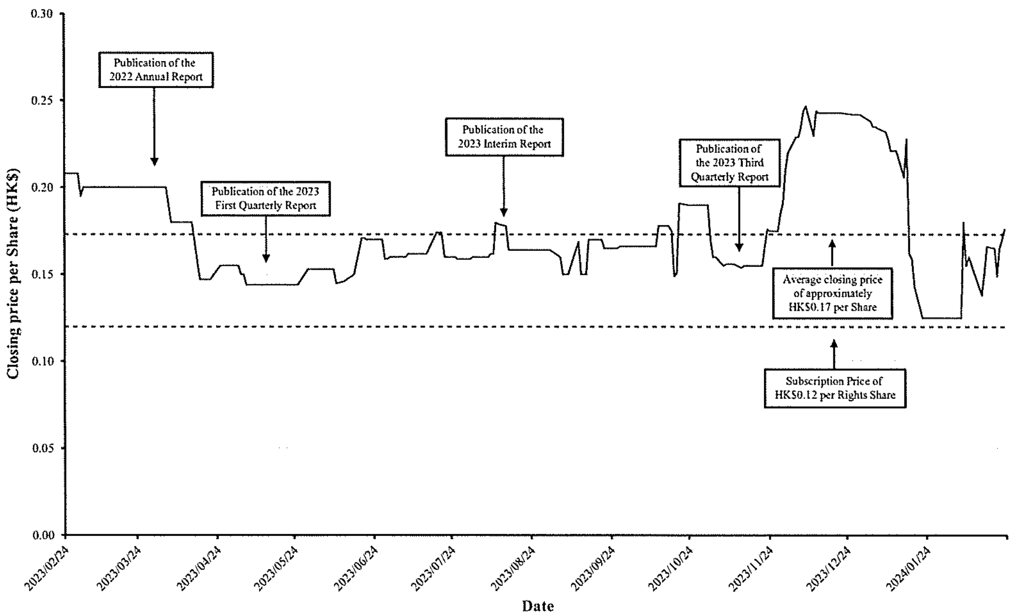
As at the Latest Practicable Date, the Company has not received any information or irrevocable undertaking from any Shareholder of their intention as to whether such Shareholder will take up his/her entitlements under the Rights Issue (or otherwise).

4 HISTORICAL PRICE AND TRADING PERFORMANCE OF THE SHARES

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 24 February 2023 up to and including the Last Trading Day (the "**Review Period**") (being a period of approximately 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider that the Review Period is adequate and representative 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 reasonableness of the Subscription Price, as the share price before the Announcement represent a fair market value of the Company the Shareholders had expected, while that after the Announcement, the value may have taken into account the potential effect of the Rights Issue which may distort the analysis.

(i) Share prices

The chart below shows the daily closing prices of the Shares as quoted on the Stock Exchange during the Review Period:



Source: the website of the Stock Exchange

During the Review Period, the closing prices of the Shares were between a low of HK$0.125 per Share from 22 January 2024 to 6 February 2024 and a high of HK$0.247 per Share on 8 December 2023, with an average closing price of approximately HK$0.17 per Share.

We noted that, the closing price of the Shares remained generally stable during the Review Period, save for (i) the period subsequent to the publication of the 2023 Third Quarterly Report, on 11 November 2023, the closing price of the Shares experienced a sharp increase from the end of November 2023 and reaching HK$0.247 per Share on 8 December 2023; and (ii) in January 2024, the closing price of the Shares experienced a sharp downturn on 17 January 2024 and reaching HK$0.125 per Share from 22 January 2024 to 6 February 2024. Subsequently, the closing price of the Shares fluctuated between HK$0.149 to HK$0.18 per Share up to and including the Last Trading Day.

After reviewing the announcements of the Company disclosed during such period, we are not aware of any information which caused the aforementioned change in closing prices of the Shares and we are unable to point out the definitive reason for such fluctuations in our capacity as the Independent Financial Adviser. We have made inquiry to the Management which is also not aware of any other reasons for the aforementioned sharp decline in the closing price of the Shares.

We noted that the Subscription Price of HK$0.12 per Rights Share is generally below the closing prices of the Shares throughout the Review Period. The Subscription Price represents (i) a discount of approximately 51.4% to the highest closing price of the Shares during the Review Period of HK$0.247; (ii) a discount of approximately 4.0% to the lowest closing price of the Shares during the Review Period of HK$0.125; and (iii) a discount of approximately 30.7% to the average closing price of the Shares during the Review Period of approximately HK$0.173. With reference to the paragraphs headed "COMPARATIVE ANALYSIS ON THE PROPOSED TERMS OF THE RIGHTS ISSUE" below, we noted that it is a common market practice that the subscription price of a rights issue represents a discount to the prevailing market closing prices to encourage the existing shareholders to participate in a rights issue as to meet the need of the fund raising. Accordingly, we are of the view that the Subscription Price being set at a discount to the prevailing market prices of the Shares is in line with the general market practice and is acceptable.

(ii) Trading volumes

Set out below is the average daily trading volume of the Shares per relevant month/period, and the respective percentage of the average daily trading volume of the Shares to the total number of issued Shares as at the end of relevant month/period, in the Review Period:

Month/period	Total trading volume of the Shares	Number of trading days	Average daily trading volume of the Shares	Percentage of average daily trading volume of total issued Shares as at the end of relevant month/period
2023				
February (from 24 February)	–	3	–	0.0000%
March	325,000	23	14,130	0.0123%
April	3,099,000	17	182,294	0.1585%
May	472,000	21	22,476	0.0195%
June	197,000	21	9,381	0.0082%
July	670,000	20	33,500	0.0291%
August	479,780	23	20,860	0.0181%
September	1,471,000	19	77,421	0.0673%
October	1,381,000	20	69,050	0.0600%
November	411,000	22	18,682	0.0162%
December	530,000	19	27,895	0.0243%
2024				
January	1,185,000	22	53,864	0.0468%
February (until the Last Trading Day)	3,070,000	15	204,667	0.1780%

Source: the website of the Stock Exchange

It is noted that the average daily trading volume of the Shares per relevant month/period accounted for only a small portion of the total number of issued Shares as at the end of the relevant month/period, which ranges from approximately nil to approximately 0.1780% per month/period during the Review Period. We are of the view that the Shares were generally illiquid in the open market given (i) there were 156 days with nil trading volume of the Shares during the Review Period; and (ii) the average daily trading volume of the Shares during the Review Period on days with trading recorded of approximately 149,335 Shares, represented only approximately 0.1299% of the total issued Shares as at the Latest Practicable Date.

Having considered the thin trading volume of the Shares, we are of the view that the Company is unlikely to be able to raise equity funds from third parties without a substantial discount to the prevailing Share price as they may experience difficulty in disposing the Shares at a fixed price within a short period of time and any sale of a significant number of the Shares on the market may result in downward pressure on the market price of Shares. It is also difficult to attract the existing Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at discount to the historical closing prices of the Shares given the proposed Rights Issue represents 300.0% of the issued share capital of the Company immediately upon the Increase in Authorised Share Capital becoming effective and may further affect the opportunities to liquidate the shares at the prevailing trading price of the Shares. To attract the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the development of the Group, we consider that the Subscription Price being set at discount to the prevailing market price of the Shares is reasonable and acceptable.

After taking into consideration the aforementioned reasons, we consider the terms of the Rights Issue, including the Subscription Price, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5 COMPARATIVE ANALYSIS ON THE PROPOSED TERMS OF THE RIGHTS ISSUE

In order to assess the fairness and reasonableness of the proposed terms of the Rights Issue, we have identified a list of 19 companies (the "**Comparable(s)**") listed on the Main Board or GEM of the Stock Exchange which announced a rights issue during 3-month period ended on the date of the Announcement, i.e. 23 February 2024, which we believe is exhaustive.

Although the Comparables include rights issues in different scale, engaged in different business or have different financial performance and funding needs from the Company, having considered (i) all of the Comparables and the Group are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issues; (iii) including transactions conducted by the Comparables with different funding needs and business represents a more comprehensive overall market sentiment in our comparable analysis; (iv) a 3-month period for the selection of the Comparables has generated a reasonable and meaningful number of sample size of Hong Kong listed issuers to reflect the market practice regarding recent rights issue, whereas if a longer period (e.g. 6 months) is used, that would have generated way too many comparable rights issues making the analysis less meaningful with a wider range of premium and discount of the relevant subscription prices; and (v) save for the rights issues of Goldstone Capital Group Limited (stock code: 1160) which has been terminated on 14 March 2024 and Sun Kong Holdings Limited (stock code: 8631) which has been terminated on 27 March 2024 that we have excluded from our analysis, the Comparables identified during the aforementioned period were exhaustively included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers, we consider that the Comparables are fair and representative samples.

Based on the above, we are of the view that our comparable analysis based on the above criteria is meaningful for us to form our view regarding the fairness and reasonableness of the Subscription Price. To the best of our knowledge and as far as we are aware of, the Comparables represent an exhaustive list of all relevant companies fitting our search criterion as mentioned above, and we consider that such Comparables can provide a reference on the recent rights issues given the sufficient number of transactions in such period resulting in a reasonable sample size.

It should be noted that all the subject companies constituting the Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the rights issues may also be different from that of the Company.

Company name (Stock code)	Announcement date	Basis of entitlement	(Discount)/Premium of subscription price (to)/over Closing price (%)	5-day average (%)	the theoretical ex-rights/ entitlement price (%)	consolidated net asset value per share [3] (%)	Potential maximum dilution of shareholding (%)	Theoretical dilution effect (%)	Excess application (Y/N)	Fully underwritten[5]	Underwriting commission (%)	Placing commission (%)
Lapco Holdings Limited (8472)	24/11/2023	3-for-1	(30.2)	(19.4)	(9.8)	(84.8)	75.0	(22.7)	N	N	N/A	2.5
IBO Technology Company Limited (2708)	28/11/2023	3-for-1	(25.2)	(25.7)	(7.6)	(83.3)	75.0	(18.9)	Y	Best effort	2.0	N/A
China Financial Leasing Group Limited (2312)	01/12/2023	1-for-1	(32.6)	(32.4)	(19.5)	(63.6)[4]	50.0	(16.3)	Y	Yes	1.0	N/A
Finsoft Financial Investment Holdings Limited (8018)	05/12/2023	3-for-1	(28.2)	(26.0)	(8.6)	(83.1)	75.0	(21.4)	N	N	N/A	3.5
Imperium Financial Group Limited (8029)	08/12/2023	1-for-2	(11.1)	(7.4)	(7.6)	Net liability[1]	33.3	(3.8)	N	N	N/A	2.0
Major Holdings Limited (1389)	14/12/2023	2-for-3	(53.1)	(51.8)	(40.4)	(57.0)	40.0	(21.4)	N	N	N/A	3.0
Elife Holdings Limited (223)	28/12/2023	1-for-5	3.5	4.0	2.9	279.0[7]	16.7	Premium	Y	Best effort	2.5	N/A
Huasheng International Holding Limited (1323)	28/12/2023	1-for-2	(12.2)	(11.5)	(8.7)	(48.7)	33.3	(3.8)	N	N	N/A	3.0
Teamway International Group Holdings Limited (1239)	10/01/2024	1-for-1	(32.8)	(32.8)	(19.6)	Net liability[1]	50.0	(32.8)	N	N	N/A	0.5
Tongda Hong Tia Holdings Limited (2363)	12/01/2024	2-for-1	(1.7)	0.0	0.0	Net liability[1]	66.7	(1.7)	N	N	N/A	2.0
China Oriented International Holdings Limited (1871)	16/01/2024	1-for-2	(18.4)	(14.8)	(12.0)	(58.9)	33.3	(63.3)	N	N	N/A	3.0
CCIAM Future Energy Limited (145)	18/01/2024	1-for-2	(12.5)	(11.2)	(10.5)	(4.9)	33.3	(4.2)	N	N	N/A	5.0
Singasia Holdings Limited (8293)	30/01/2024	2-for-1	(11.5)	(18.7)	(3.8)	(67.3)	66.7	(14.2)	N	N	N/A	1.5 or HK$100,000[6]
Wuxi Life International Holdings Group Limited (8148)	09/02/2024	2-for-1	(20.0)	(25.9)	(10.4)	381.0[7]	66.7	(17.3)	Y	N	N/A[2]	N/A[2]
Ta Yang Group Holdings Limited (1991)	19/02/2024	1-for-2	(9.8)	(11.8)	(13.0)	26.4	33.3	(3.7)	Y	N	N/A[2]	N/A[2]
Green Economy Development Limited (1315)	21/02/2024	1-for-2	(15.3)	(15.7)	(10.6)	(25.3)	33.3	(5.3)	Y	N	N/A[2]	N/A[2]
Guoen Holdings Limited (8121)	21/02/2024	2-for-1	(33.3)	(35.3)	(14.3)	(60.9)	66.7	(23.6)	Y	Yes	7.07	N/A
		Highest	3.5	4.0	2.9	26.4						
		Upper quartile	(11.5)	(11.5)	(7.6)	(42.8)						
		Lower quartile	(30.2)	(26.0)	(13.0)	(71.3)						
		Lowest	(53.1)	(51.8)	(40.4)	(84.8)						
		Average	(20.3)	(19.8)	(11.4)	(51.0)						
The Company (8460)	23/02/2024	3-for-1	(31.8)	(26.4)	(10.4)	(77.4)	75.0	(23.9)	N	N	N/A	3.5

Source: the website of the Stock Exchange

Notes: Information has been extracted from the relevant announcements or circulars of the rights issue of the respective Comparables.

(1) denotes that comparison to net asset value is not applicable due to the net liabilities position of the respective Comparable, and has been excluded from the analysis.

(2) denotes that the respective Comparable did not involve underwriter/placing agent for its right issue.

(3) calculated based on the latest audited or unaudited consolidated net assets of the Comparables as announced prior to the relevant announcements of the rights issues as set out in their respective annual/ interim reports.

(4) calculated based on the unaudited net asset value per share of approximately HK$0.33 as at 31 October 2023, which was the latest available information announced in accordance with rule 2.07C of the Listing Rules prior to the announcement of its right issue, as China Financial Leasing Group Limited (2312) is an investment company listed under chapter 21 of the Listing Rules.

(5) N refers to the rights issue being conducted on a non-underwritten basis.

(6) according to its announcement, the placing commission is equivalent to (i) a fixed fee of HK$100,000; or (ii) 1.5% of the amount successfully placed by the placing agent, whichever is higher.

(7) considered as outlier(s), and has been excluded from the analysis.

As shown by the above table, the premium/discount as represented by the subscription prices of Comparables to (i) the respective closing price per share on last trading day immediately prior to publication of announcement in relation to the respective rights issue ranged from discount of approximately 53.1% to premium of approximately 3.5%; (ii) the average closing price per share for the last five consecutive trading days immediately prior to publication of announcement in relation to the respective rights issue ranged from discount of approximately 51.8% to premium of approximately 4.0%; (iii) the respective theoretical ex-rights price per share based on the benchmarked price in relation to the respective rights issue ranged from discount of approximately 40.4% to premium of approximately 2.9%; and (iv) the respective net asset value per share based on the latest financial information prior to publication of announcement in relation to the respective rights issue ranged from discount of approximately 84.8% to premium of approximately 26.4%.

We noted that:

(i) the TERP Discount represented lesser discount to the average of the Comparables; and

(ii) although each of the LTD Discount, the 5 Days Discount and NAV Discount represented deeper discount to the respective average of the Comparables, the TERP Discount falls within the interquartile range of the Comparables (i.e. between the upper quartile and lower quartile limits, which implies being within the middle 50% of the Comparables) and the LTD Discount, the 5 Days Discount and the NAV Discount fall just off the first quartile of the Comparables (i.e. just below the lower quartile limit, which implies being just below the middle 50% of the Comparables),

which indicates the discount of Subscription Price is within the market norm.

Having considered that:

(i) it is reasonable to offer discount for the Subscription Price to promote the attractiveness of the Rights Shares (or the Unsubscribed Rights Shares and the NQS Unsold Rights Shares) given the generally thin liquidity of the Shares during the Review Period and encourage the Qualifying Shareholders to participate in the Rights Issue as to meet the need of the fund raising;

(ii) it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices prior to the announcement of the rights issue;

(iii) the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares;

(iv) the further analysis of the Comparables as set out above,

we consider the Subscription Price to be fair and reasonable.

6 PLACING COMMISSION AND PLACING PRICE

Pursuant to the Placing Agreement, the Company shall pay to the Placing Agent a placing commission (the "**Placing Commission Rate**") of 3.5% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares and NQS Unsold Rights Shares successfully placed by the Placing Agent and/or its subplacing agent(s) pursuant to the terms of the Placing Agreement. As advised by the Company, the terms of the Placing Agreement (including the Placing Commission Rate) were determined after arm's length negotiation between the Company and the Placing Agent by reference to the financial position of the Group, the size of the Rights Issue and the prevailing market conditions.

For detailed terms of the Placing Agreement, please refer to the section headed "The Placing Agreement" in the Letter of the Board.

From the Comparables table as set out above, we noted that the commission rates payable to underwriters or placing agents of the Comparables (excluding those with fixed commission) ranged from 0.5% to 7.07%. The Placing Commission Rate of 3.5% is slightly above the average commission rates payable of the Comparables is approximately 2.8%. We noted that (i) the Comparables listed on GEM, which has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached, and (ii) the Comparables with maximum dilution effect of over 50%, which represents the number of new rights shares to be issued under the basis of entitlement exceeds the number of existing shares in issue, and thus implying higher investment risk may be involved with the amount of new rights shares to be made available, have generally higher commission rates payable with an average of approximately 3.6%, which are also the characteristics of the Company and the Rights Issue. We also understand that the Company has reached out to other potential placing agents and none has offered more favourable terms than the Placing Commission Rate of 3.5%. Accordingly, we are of the opinion that the Placing Commission Rate of 3.5% (which is within the aforesaid range) is fair and reasonable.

According to the Placing Agreement, the placing price of each of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be) shall be not less than the Subscription Price and the determination of the final price is dependent on the demand and market conditions for the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares during the process of Placing. We noted that the similar arrangements were also made for the Comparables with placing arrangements. As such, we consider that such arrangement for the placing price in a rights issue is in line with the market practice and is fair and reasonable.

Taking into account the principal terms of the Rights Issue as highlighted above, we consider that the terms of the Rights Issue (including the Placing Price and the Placing Commission Rate) are on normal commercial terms and are fair and reasonable.

7 DILUTION EFFECT OF THE RIGHTS ISSUE ON SHAREHOLDING INTERESTS

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Referring to the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Letter from the Board, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and their aggregate shareholding interests in the Company may be reduced by a maximum of approximately 75%. It should be noted that the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including but not limited to the results of acceptance of the Rights Issue.

Having taken into account (i) all Qualifying Shareholders are provided an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company; (ii) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the Rights Issue entitlements; and (iii) shareholding dilution is generally inherent in rights issue with new shares being issued, we are of the view that the potential dilution effect on the shareholding is acceptable.

8 POTENTIAL EFFECT ON THE SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company, assuming there is no further issue or repurchase of Shares before completion of the Rights Issue other than the allotment and issue of the Rights Shares pursuant to the Rights Issue, (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue, assuming full acceptance of the Rights Shares by the Qualifying Shareholders; and (iii) immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent:

	As at the Latest Practicable Date		Immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the Qualifying Shareholders		Immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and NQS Unsold Rights Shares have been placed by the Placing Agent	
	No. of Shares	*Approx %*	*No. of Shares*	*Approx %*	*No. of Shares*	*Approx %*
Mr. Lau *(Note 1)*	51,750,000	45.00	207,000,000	45.00	51,750,000	11.25
Independent Placees *(Note 2)*	–	–	–	–	345,000,000	75.00
Other Public Shareholders	63,250,000	55.00	253,000,000	55.00	63,250,000	13.75
Total	**115,000,000**	**100.00**	**460,000,000**	**100.00**	**460,000,000**	**100.00**

Notes:

(1) Mr. Lau is directly interested in 750,000 Shares. Mr. Lau beneficially own the entire issued share capital of Brightly Ahead Limited. Therefore, Mr. Lau is deemed, or taken to be, interested in all the 51,000,000 Shares held by Brightly Ahead Limited for the purpose of the SFO. Mr. Lau is the sole director of Brightly Ahead.

(2) Pursuant to the Placing Agreement, the Placing Agent shall ensure each of such Placees, who and whose ultimate beneficial owner(s) (as the case may be) (i) shall be Independent Third Parties; (ii) shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with it, upon completion of the Rights Issue, own 10.00% or more of the voting rights of the Company; and (iii) shall not, together with any party acting in concert with it/them (within the meaning of the Takeovers Code), will hold 30% (or such percentage which will trigger an obligation to make a mandatory general offer to the other Shareholders under the Takeovers Code) or more of the voting rights of the Company.

9 POTENTIAL FINANCIAL EFFECT OF THE RIGHTS ISSUE

The unaudited pro forma statement of unaudited consolidated net tangible assets of the Group attributable to the owners of the Company (the "**Pro Forma Statement**") adjusted for the effect of the Rights Issue as at 31 December 2023, which is prepared as if the Rights Issue had taken place on 31 December 2023, is set out under Appendix II to the Circular.

According to the Pro Forma Statement, the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2023 was approximately HK$38.7 million and would be approximately HK$77.7 million (based on 345,000,000 Rights Shares to be issued) as if the Rights Issue had taken place on 31 December 2023.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

OPINION AND RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue (including the Subscription Price and the potential dilution effect) are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) proposed at the EGM thereby approving the Rights Issue. However, we do not envisage our role as to opine on, and our opinion herein does not in any manner address to or imply, whether Qualifying Shareholders should or should not accept the Rights Shares.

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited

Cheng Chi Ming, Andrew
Managing Director

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited

Irene Ho
Vice President

Mr. Cheng Chi Ming, Andrew is the Managing Director of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheng has over 19 years of experience in the corporate finance industry in Hong Kong.

Ms. Irene Ho is the Vice President of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Ms. Ho has over 9 years of experience in the corporate finance industry in Hong Kong.