RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

15 July 2025

To the Independent Board Committee and the Independent Shareholders

Dowway Holdings Limited
Room 529–533, 5/F,
Beverley Commercial Centre,
87–105 Chatham Road,
Tsim Sha Tsui,
Kowloon, Hong Kong

Dear Sir or Madam,

CONNECTED TRANSACTION — ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription by Mr. Li, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 15 July 2025 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 27 May 2025 (after trading hours), the Company entered into the Subscription Agreement with Mr. Li, pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Li has conditionally agreed to subscribe for, 6,000,000 Subscription Shares on the terms of the Subscription Agreement. With reference to the Letter from the Board, the transactions contemplated under the Subscription Agreement constitutes a connected transaction of the Company under the GEM Listing Rules, which is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Xu Shuang, Mr. Ma Lin, Mr. Tam Chak Chi, and Ms. Yau Yin Tan, has been formed to advise the Independent Shareholders in respect of the Subscription by Mr. Li. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company, Mr. Li or any other parties that could reasonably be regarded as relevant to our independence. There was no engagement between the Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or any other parties. Accordingly, we are qualified to give independent advice on the Subscription.

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; 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. We have also assumed that all the 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 all such statements of belief, opinions and intentions of the Directors and the management of the Group 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 of the Group. 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 of the Group 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 Circular.

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 of the Group, 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Subscription is fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Business and financial performance of the Group

The Company is an investment holding company and the Group principally engaged in design, planning, coordination and management of exhibitions, events and showrooms, media advertising events and e-commerce services in the PRC.

(i) Financial performance

Set out below is a summary of the consolidated statements of profit and loss for the year ended 31 December 2022 ("**FY2022**"), 2023 ("**FY2023**") and 2024 ("**FY2024**") as extracted from the annual reports of the Company for FY2023 (the "**2023 Annual Report**") and FY2024 (the "**2024 Annual Report**"):

	For the year ended 31 December		
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Revenue	177,132	117,446	140,164
Cost of sales	(171,751)	(111,584)	(123,738)
Gross profit	5,381	5,862	16,426
Other gains and losses, net	311	192	5,805
Selling expenses	(7,843)	(8,936)	(7,199)
Administrative expenses	(11,729)	(12,635)	(18,299)
Net impairment losses on financial and contract assets	(22,376)	(1,811)	(2,132)
Finance costs	(702)	(577)	(1,183)
Loss before taxation	(36,958)	(17,905)	(6,582)
Income tax credit	504	987	259
Loss for the year attributable to owners of the Company	(36,454)	(16,918)	(5,746)

FY2023 as compared to FY2022

Revenue of the Group decreased from approximately RMB177.1 million for FY2022 to approximately RMB117.4 million for FY2023, which was mainly due to the decrease in revenue generated from advertisement-related services as companies adjusted their marketing strategies and budgets in response to the challenging economic environment. Notwithstanding the decrease in revenue, gross profit of the Group slightly increased from approximately RMB5.4 million for FY2022 to approximately RMB5.9 million for FY2023, and the gross profit margin also increased from approximately 3.04% for FY2022 to approximately 4.99% for FY2023. Such increase was mainly due to the decline of sales revenue from advertisement-related services for FY2023 had lower gross margin. For FY2023, the Group recorded significant decrease in impairment loss on financial and contract from approximately RMB22.4 million FY2022 to approximately RMB1.8 million. As a result of the foregoing, loss for the year attributable to owners of the Company significantly decreased from approximately RMB36.5 million for FY2022 to approximately RMB16.9 million for FY2023, representing a decrease of approximately RMB19.6 million.

FY2024 as compared to FY2023

Revenue of the Group increased from approximately RMB117.4 million for FY2023 to approximately RMB140.2 million for FY2024, which was mainly due to the growth in revenue generated from non-automobile related exhibitions and events and the new revenue stream from one-stop value chain service as the Group strategically transition its business model, which is designed to leverage on the Group's existing capabilities and expertise, allowing the Group to maximize resources and enhance profitability. In line with the increase in revenue, gross profit of the Group increased from approximately RMB5.9 million for FY2023 to approximately RMB16.4 million, and gross profit margin also increased from approximately 4.99% for FY2023 to approximately 11.72% for FY2024. The substantial growth in gross profit was primarily driven by the rise in sales revenue for the year and the shift to business with higher gross profit margin. On the other hand, administrative expenses of the Group increased significantly from approximately RMB12.6 million for FY2023 to approximately RMB18.3 million for FY2024, which was mainly due to the expansion of the new business. As a result of the foregoing, the loss for the year attributable to owners of the Company decreased from approximately RMB16.9 million for FY2023 to approximately RMB5.7 million for FY2024.

(ii) Financial position

Set out below is an extract of the consolidated statements of financial position as at 31 December 2022, 2023 and 2024 as extracted from the 2023 Annual Report and the 2024 Annual Report, respectively:

	As at 31 December		
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Non-current assets	**7,876**	**3,578**	**1,606**
Plant and equipment	832	747	263
Right-of-use assets	6,498	2,495	1,343
Deposits	546	336	—
Current assets	**129,195**	**105,348**	**129,510**
Trade receivables	49,157	37,460	49,868
Contract assets	63,931	37,069	53,365
Deposits, prepayments and other receivables	11,856	17,380	19,066
Restricted bank balances	—	1,000	1,000
Cash and bank balances	4,251	12,439	6,211
Non-current liabilities	**6,098**	**1,956**	**2,336**
Interest-bearing borrowings	—	—	2,000
Lease liabilities	4,474	1,332	—
Deferred tax liabilities	1,624	624	336
Current liabilities	**110,480**	**103,395**	**125,091**
Trade and bills payables	77,191	64,253	73,689
Contract liabilities	4,631	4,841	2,097
Accruals and other payables	12,826	11,336	17,583
Interest-bearing borrowings	10,000	17,976	26,563
Lease liabilities	2,031	1,191	1,332
Tax payables	3,801	3,798	3,827
Net current assets	**18,715**	**1,953**	**4,419**
Net assets	**20,493**	**3,575**	**3,689**
Gearing ratio *(note)*	**48.8%**	**502.8%**	**774.3%**

Note: Calculated based on total interest-bearing borrowings divided by total equity of the Company as at the end of the year.

Current assets of the Group decreased from approximately RMB129.2 million as at 31 December 2022 to approximately RMB105.3 million as at 31 December 2023, and rebounded to RMB129.5 million as at 31 December 2024, which was mainly due to the fluctuation in trade and other receivables and contract assets. On the other hand, the Group had relatively low level of cash and bank balances, which decreased from approximately RMB12.4 million as at 31 December 2023 to approximately RMB6.2 million as at 31 December 2024.

The Group's current liabilities increased from approximately RMB110.5 million as at 31 December 2022 to approximately RMB125.1 million as at 31 December 2024, which was mainly due to the increase in interest-bearing borrowings from RMB10.0 million as at 31 December 2022 to approximately RMB26.6 million as at 31 December 2024. As at 31 December 2024, the bank borrowings bear fixed interests ranging from 2.45% to 4.00% per annum, and the other borrowings bear fixed interests ranging from 8% to 12% per annum. As at 31 December 2024, there were approximately RMB1.0 million bank balance that was pledged for bills payables.

(iii) Overall comments

The financial performance of the Group has been gradually improving from FY2022 up to FY2024. However, the Group is yet to turnaround from its loss-making position. To develop the Group's business and to implement the change in the Group's business strategy, the Group relied on borrowings to fund its working capital. In this regard, it is noted that the Group only had cash and bank balances of approximately RMB6.2 million as at 31 December 2024, while the total amount of interest-bearing borrowings amounted to approximately RMB28.6 million, of which approximately RMB26.6 million were current. As a result, the gearing ratio of the Group increased significantly from 48.8% as at 31 December 2022 to 774.3% as at 31 December 2024. Although the Company has conducted a share subscription in March 2025 to raise gross proceeds of approximately HK$9.0 million to replenish the cash level, we were advised that approximately HK$5.5 million has already been utilised and the remaining are expected to be utilised by July 2025 as working capital. With reference to the 2024 Annual Report, the Group has implemented measures to address the working capital issue, including (i) continues to monitor the progress of the exhibition and event projects and ensure that they will be completed and the service fees will be received in the expected time frame; (ii) negotiating the repayment schedules with certain of its debtors and endeavoring to request them to repay the trade receivables in accordance with the repayment schedules; (iii) taking measures to tighten cost controls; (iv) seeking for extension and renewal of its bank and other borrowings upon maturity; (v) considering various alternatives to strengthen the capital base; and (vi) obtaining confirmation from the controlling shareholder of the Company that he is willing to provide financial support to the Group. Nevertheless, in view of the very low level of cash and high level of borrowings, we consider that this financial position may limit the Group's operation scale and business growth, and the Company may not be able to timely capture expansion or diversification opportunities when they arise.

2. Information on the Subscriber

With reference to the Letter from the Board, Mr. Li is an executive Director and hence a connected person of the Company. As at the Latest Practicable Date, Mr. Li was interested in 11,000,000 Shares, representing approximately 7.43% of the total issued shares of the Company. Mr. Li has over 20 years of experience in the new metal material industry and has served in management positions at various private companies. For details on Mr. Li's background, please refer to the Company's annual report for the year ended 31 December 2024 dated 25 April 2025.

3. Principal terms of the Subscription Agreement

For details of the terms of the Subscription Agreement, please refer to the section headed "The Subscription Agreement" in the Letter from the Board. Set out below are the principal terms of the Subscription Agreement:

Date	:	27 May 2025
Parties	:	(i) The Company, as issuer; and
		(ii) Mr. Li, as subscriber
Subscription Shares	:	6,000,000 Subscription Shares
Subscription Price	:	HK$1.14 per Subscription Share

Assuming there will be no change in the share capital of the Company from the Latest Practicable Date and up to the date of Completion save for the allotment and issue of the Placing Shares and the Subscription Shares, the Subscription Shares represent: (i) approximately 4.41% of the existing issued share capital of the Company as at the date of the Subscription Agreement; (ii) approximately 4.05% of the issued share capital of the Company as at the Latest Practicable Date; and (iii) approximately 3.90% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

4. Reasons for and benefits of the Subscription

With reference to the Letter from the Board, as at 31 December 2024, the Company has cash balance of approximately RMB6.2 million, accruals and other payables of approximately RMB17.56 million and interest-bearing borrowings of approximately RMB26.56 million. Among the cash balance of approximately RMB6.2 million, approximately RMB5.5 million was kept in the Group's PRC subsidiaries and approximately RMB0.7 million was retained in Hong Kong and was available for the Company's use. Of the total borrowings of approximately RMB26.56 million, approximately 62.23% are repayable in 2025, while approximately 37.67% will be repayable by April 2026. Based on the Company's projection, it is in need of approximately HK$12 million general working capital in its ordinary course of business. The Company considered that it is not feasible to fully rely on the Company's limited cash balances, cashflow generated from its business activities, or other trade receivables to address the deficit in general working capital. This was because substantial funds had to be maintained and reinjected to cover direct business and operation costs in order to sustain the Group's level of business operations. The Company therefore resorted to external financings for other indirect general working capital needs of the Group, including but not limited to directors' and staff remuneration, professional fees and other administrative expenses. Despite the Company having conducted several subscriptions of new Shares under general mandate in the past 12 months, the unused subscription proceeds of HK$3,450,000 is expected to be fully utilised by the end of July 2025. In addition, as disclosed in the Announcements, majority of the net proceeds from the Placing would be utilized for the repayment of the Promissory Note and the R&D costs. Both of these uses are crucial and essential for the continuing development of the Group's digital technology services. As a result, the portion of Placing proceeds available for the Company's general working capital is limited. Accordingly, there remain short to medium term working capital need and the Board has resolved to allocate the remaining part of the Placing net proceeds and the entirety of the Subscription proceeds for the general working capital of the Company. The Company further considered that the Placing proceeds will be fully utilized by October 2025 and will not be sufficient to meet the projected capital needs of the Company, the Subscription is therefore necessary.

As mentioned in "1. Business and financial performance of the Group" above, the Group only had cash and bank balances of approximately RMB6.2 million as at 31 December 2024, which is significantly lower than the amount of interest-bearing borrowings of approximately RMB28.6 million, of which RMB26.6 million were current and repayable in 2025. While the Company has conducted a share subscription in March 2025, the proceeds of approximately HK$9.0 million is expected to be fully utilised as general working capital of the Group by July 2025. Although the Group is seeking for extension and renewal of its bank and other borrowings upon maturity, it cannot be guaranteed that the maturity of such bank and other borrowings could be extended. Given the financial performance of the Group which has been loss making for the last two financial years, the Group also has difficulties to generate sufficient capital through business operation. Upon our enquiry, we understand from the Company that the Group requires working capital of approximately HK$1.3 million per month on average, which are mainly utilised for staff costs as to approximately HK$0.7 million and Directors remuneration as to approximately HK$0.3 million. While the Group had significant amount of trade receivables of approximately RMB49.9 million as at 31 December 2024, we were advised that the trade receivables generally have long collection period with trade receivable turnover days reached approximately 113.9 days for the year ended 31 December 2024. On the other hand, the Group had significant trade and bills payable of approximately RMB73.7 million as at 31 December 2024, which is greater than the sum of the trade receivables of approximately RMB49.9 million and the cash and bank balances of approximately RMB6.2 million, which also posed a shortfall in operating cashflows. Hence, given the Company only has cash and bank balances of approximately HK$15.0 million as at around the end of June 2025, which is only sufficient for less than 12 months of general working capital, we concur with the Directors that the Group has imminent needs to raise additional capital to improve its cash position and the Subscription is in the interests of the Company and the Shareholders as a whole.

Suitable source of financing among other fund-raising alternatives

As stated in the Letter from the Board, the Board has considered other fund-raising methods apart from the Subscription and the Placing. Nevertheless, the Board is of the view that the Subscription is the best available fundraising option after evaluating alternative fundraising methods. With regard to debt financing, the Group's high gearing ratio of approximately 774.27% as at 31 December 2024 has posed significant challenges in securing additional debt financing. Moreover, further increasing the Group's debt level would not be beneficial due to the associated increase in finance costs. With regard to other equity financing methods, given the low liquidity of the Shares, the Directors consider that it is not feasible to garner sufficient interests from existing Shareholders and potential investors for large scale equity fundraisings such as rights issue or open offer. Additionally, the costs associated with such fundraising activities, particularly underwriting commissions, are significantly higher compared to the Subscription. The historical low liquidity of the Shares suggests that the Company may encounter difficulty in identifying new investor(s) and that there is no assurance that the trading price will remain at the current level should the Company pass on the present Subscription opportunity, particularly the trading price of the Shares in May 2025 was at a three-year high. Hence, even with a substantial discount to the prevailing market price, the Subscription Price remains higher than the average closing price of the Shares from January to March 2025 and represents only a modest discount of approximately 5% to the average closing price of the Shares in April 2025. Given the uncertainty surrounding future fundraising efforts, the Company is of the view that it is in the interest of the Company to proceed with the Subscription Agreement simultaneously with the Placing Agreement, as the Subscription provides immediate certainty to satisfy the Company's funding need. In addition, since the Subscriber is a connected person of the Company, the subscription of new Shares by the Subscriber is subject to the independent Shareholders' approval, regardless of whether the new Shares are to be issued under the general mandate or specific mandate. Therefore, the Board considers it to be in the best interest of the Company and its Shareholders to conduct the Subscription under a specific mandate. This approach helps preserve the general mandate, providing additional flexibility for the Group's future financing needs. Furthermore, the theoretical dilution effect of 0.85% is minimal and does not significantly impact the interests of existing Shareholders. Having considered the above, the Board is of the view that the Subscription is in the interest of the Company and its Shareholders as a whole.

In respect of rights issue or open offer, we concur with the Directors that rights issue or open offer may not be desirable for the following reasons:

(a) additional time would reasonably be required. According to the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Stock Exchange last updated in September 2024, (1) if general meeting is not required, an open offer will take at least 32 business days and a rights issue will take at least 28 business days from the date of announcement of the relevant proposal to the first date of dealings of the offer shares and fully-paid rights shares; and (2) if general meeting is required, both an open offer and a rights issue will take at least 40 business days from the date of announcement of the relevant proposal to the first date of dealings of the offer shares or fully-paid rights shares;

(b) additional cost would be required for rights issue and open offer, including but not limited to placing/underwriting commission (i.e. usually a percentage to the aggregated subscription price of the placing/underwritten shares) and other professional fees, including costs for engagement of reporting accountants, financial advisers and/or brokerage agent(s), as compared to the Subscription (e.g. additional cost for unaudited pro forma financial information on net tangible assets, indebtedness statement, comfort letter on working capital sufficiency of the Group to be prepared by reporting accountants or auditors of the Company); and

(c) in view of the current market conditions where there were uncertainties on the future macroeconomic condition, there is uncertainty in the amount of funds which could be raised under a rights issue or an open offer as Shareholders and potential investors may be unwilling to invest under such market condition. In particular, in order to encourage Shareholders to participate in the rights issue or open offer, the Company will need to set the offer price or issue price at a deeper discount to the market price as compared to a share placement so as to provide incentives for the Shareholders to further invest in the Company. Nevertheless, some Shareholders may still elect not to participate in the rights issue or open offer given the current market condition. In this circumstance, the deep discount of the offer price or issue price will further deteriorate the value of the Shareholders' holdings in the Company due to the lower theoretical ex-rights price.

In respect of debt financing, it would incur additional financial costs on the Group and may be subject to lengthy due diligence and negotiations with lenders. As mentioned in the section headed "1. Business and financial performance of the Group" above, the Group had substantial amount of interest-bearing borrowings of approximately RMB28.6 million as at 31 December 2024, and RMB26.6 million of which are current. The Group also does not have fixed assets of sufficient value that could be pledged as security.

Hence, we concur with the Directors that it may not be practicable to secure further financing from banks without incurring relatively high financing cost, which would result in additional interest burden to the Group.

Having taken into consideration the above factors, we concur with the Directors that the Subscription is an appropriate fund-raising method given the circumstance of the Group and is in the interest of the Company and the Shareholders as a whole.

Use of proceeds of the Subscription

The estimated gross and net proceeds of the Subscription will be HK$6.84 million and approximately HK$6.60 million, respectively, if the Subscription materializes, the Company intends to use the net proceeds from the Subscription for provision of general working capital and strengthening the financial position of the Group. Details of the intended use of proceeds and expected timeline for utilization are set out below:

Intended use of proceeds	**Amount of proceeds allocated for intended use** *HK$'000*	**Expected timeline for utilisation**
General working capital		
— Approximately 47.27% for payment of staff salary and office rents and rates	3,120	31 March 2026
— Approximately 24.24% for payment of professional fees, including but not limited to legal fees, audit fees and share registrar fees	1,600	31 March 2026
— Approximately 20.91% for annual listing fee, annual ADR expense, Cayman Islands annual fee	1,380	31 March 2026
— Approximately 7.58% for other administrative expenses	500	31 March 2026

Having considered (i) the reasons for and benefits of the Subscription as mentioned above; (ii) the Subscription is an appropriate fund raising method currently available to the Group; and (iii) the proposed use of proceeds is justifiable and in line with the reasons for the Subscription, we are of the view that although the Subscription is not conducted in the ordinary and usual course of business of the Group, the Subscription is in the interest of the Company and the Shareholders as a whole.

5. Assessment on the Subscription Price

The Subscription Price of HK$1.14 per Subscription Share represents:

(i) a discount of approximately 20.83% to the closing price of HK$1.44 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 18.57% to the closing price of HK$1.40 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement (the "**LTD Discount**");

(iii) a discount of approximately 19.61% to the average closing price of approximately HK$1.418 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately prior to the date of the Subscription Agreement (the "**Five Days Discount**");

(iv) a discount of approximately 19.09% to the average closing price of approximately HK$1.409 per Share as quoted on the Stock Exchange for the last ten (10) trading days immediately prior to the date of the Subscription Agreement (the "**10 Days Discount**");

(v) a discount of approximately 15.43% to the average closing price of approximately HK$1.348 per Share as quoted on the Stock Exchange for the last thirty (30) trading days immediately prior to the date of the Subscription Agreement (the "**30 Days Discount**");

(vi) a discount of approximately 5.47% to the average closing price of approximately HK$1.206 per Share as quoted on the Stock Exchange for the last sixty (60) trading days immediately prior to the date of the Subscription Agreement (the "**60 Days Discount**");

(vii) a premium of approximately 3,296.90% over the audited net asset value (the "**NAV**") per Share attributable to Shareholders of approximately HK$0.03356 per Share based on (a) the audited net assets attributable to Shareholders of approximately RMB4.3 million as at 31 December 2024; (b) 136,000,000 issued Shares as at the Latest Practicable Date; and (c) the exchange rate of RMB1: HK$1.07; and

(viii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules, calculated on aggregated basis with reference to the Subscription Shares) of approximately 0.85%, represented by the theoretical diluted price of approximately HK$1.406 per Share to the benchmarked price of approximately HK$1.418 per Share (as defined under 10.44A of the GEM Listing Rules, taking into account the higher of (i) the closing price as quoted on the Stock Exchange on the date of the Subscription Agreement of HK$1.40 per Share and (ii) the average of the closing prices of approximately HK$1.418 per Shares as quoted on the Stock Exchange for the five previous consecutive trading days immediately prior to the date of the Subscription Agreement).

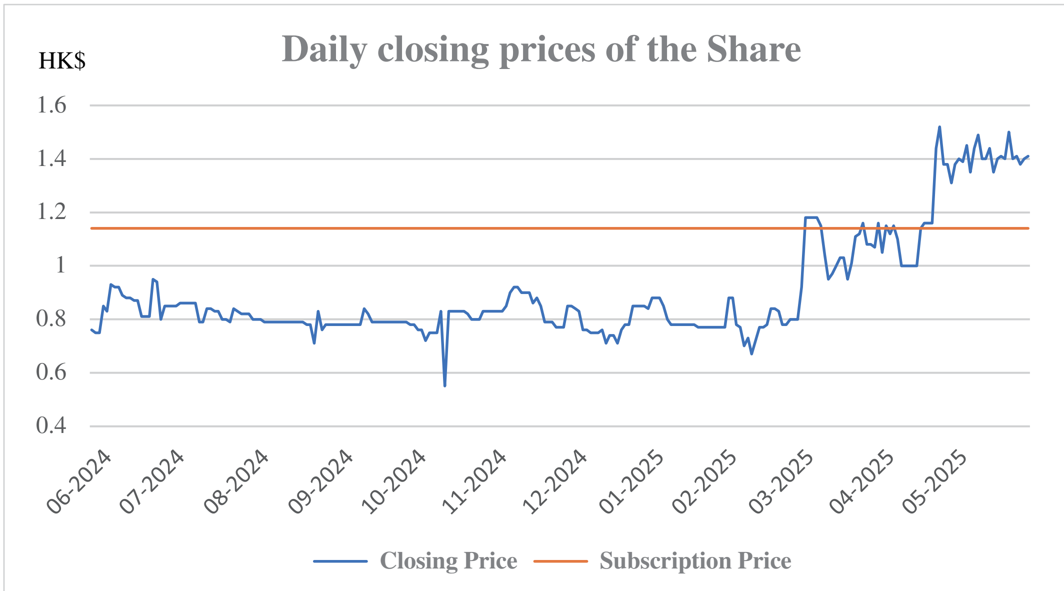
As disclosed in the Letter from the Board, in view of the ongoing cashflow constraints of the Company, the Subscriber has expressed to the Board his willingness to support the Company by subscribing for new Shares. Simultaneously, the Company has been pursuing further fundraising opportunities and in or around mid-May 2025, the Company was able to identify the Placing Agent to carry out the Placing. As the Subscriber has previously expressed his interest in undertaking Shares subscription prior to the negotiation of the Placing taking place, and taking into account the proximity of his potential Shares subscription and the Placing, the Subscriber has indicated that the Subscription shall be on similar terms as the Placing. To avoid potential conflict of interests, the Subscriber has not taken part in the negotiation of the terms of the Placing between the Company and the Placing Agent and has abstained from voting in the relevant Board resolutions for approving both the Placing and the Subscription.

Hence, the Subscription Price was based on the Placing Price which in turn was determined on arm's length basis with reference to the current market conditions, prevailing market prices and liquidity of the Shares. Specifically, the Board and the Placing Agent had taken in to account the closing price of the Shares during January 2025 to May 2025 (immediately before the date of the Placing Agreement and the Subscription Agreement). The Placing Agent noted that the Share price surged from 22 April 2025 onwards, while the average closing price in January, February, March and April 2025 were HK$0.79, HK$0.81, HK$1.07 and HK$1.20, respectively. The average daily trading volume of the Shares from January to April 2025 was approximately 80,000. The Placing Agent was also aware of the Company's historical loss-making position in 2023 and 2024. Hence, despite the increase in trading price and volume of the Shares in May 2025, the Placing Agent, taking into account the low liquidity of the Shares and the sudden surge in the trading price, requested a discount to the benchmark price. The Board considered that the Placing Price (and hence the Subscription Price), representing a discount of approximately 19.61% to the average closing price of HK$1.418 per Share for the last five trading days immediately prior to the date of the Placing Agreement, would likely attract investors while ensuring compliance with the GEM Listing Rules requirements for issuing new shares under the general mandate. After further consideration of the imminent funding needs of the Company, the business plan of the Group, and the fact that the size of the Placing and the Subscription was comparable to the aggregate size of all three Share subscriptions conducted over the past 12 months, the Company decided to proceed with both the Placing and Subscription to secure sufficient funds for the Group's general working capital. Further, since the Placing and Subscription were conducted simultaneously, the Directors consider that having an identical Placing Price and Subscription Price is fair and does not create preferential treatment to either the Placees or the Subscriber. Additionally, given that the Subscription under specific mandate would result in a minimal theoretical dilution effect of 0.85%, the Directors consider that the identical Placing Price and Subscription Price strikes a fair balance between the interest of the Placees, the Subscriber and existing Shareholders.

In assessing the fairness and reasonableness of the Subscription Price and the terms of the Subscription, the Directors considered and noted that (i) it is common to set subscription price at a discount to the prevailing market price, and with reference to the illustrative scenarios under the section headed "Subscription Price" in the Letter from the Board, the Subscription Price has been at a discount to the closing price of the Share on the date of the Subscription Agreement and to the average closing price per Share for the last five, ten, 30 and 60 trading days immediately prior to the date of the Subscription Agreement; (ii) the Shares have been generally trading at a discount to the Subscription Price for most of the time during the period from 28 May 2024 (being one year period prior to the date of the Subscription Agreement) and up to the date of the Subscription Agreement (the "**Review Period**"), until the increase in the price of the Shares from around 28 February 2025, which may not be persistent and hence setting a higher subscription price may not be able to attract investors; (iii) there has been generally low trading volume (and therefore, generally low liquidity) of the Shares; and (iv) the Subscription Price is the same as the Placing Price.

(i) Share price performance

We have performed a review on the daily closing prices of the Shares during the Review Period. As the Review Period covers a full one-year period that includes any seasonal fluctuation that have in a full year and is immediately prior to the date of the Subscription Agreement that could illustrate the recent market practice, whilst a review period longer than one year may be more likely to reflect market conditions that are already outdated. As balanced by the factors above, we consider the one-year Review Period is an adequate and reasonable period to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the daily closing prices of the Shares, which can reflect the correlation between the recent business performance of the Company and the latest market reaction in the Share price.



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

During the Review Period, the average closing price of the Shares was approximately HK$0.907 per Share (the "**Average Closing Price**"). The daily closing prices of the Shares ranged from HK$0.55 per Share (the "**Lowest Closing Price**") recorded on 10 October 2024 to HK$1.52 per Share (the "**Highest Closing Price**") recorded on 23 April 2025 during the Review Period.

The Subscription Price of HK$1.14 per Subscription Share represents (a) a premium of approximately 107.27% over the Lowest Closing Price of HK$0.55 per Share; (b) a discount of 25.00% to the Highest Closing Price of HK$1.52 per Share; and (c) a premium of approximately 25.69% over the Average Closing Price of approximately HK$0.907 per Share for the Review Period.

Since the beginning of the Review Period and up to late February in 2025, the daily closing price was relatively stable and fluctuated between HK$0.55 per Share to HK$0.92 per Share. The daily closing prices of the Shares were below the Subscription Price in 207 trading days out of 244 trading days (i.e. approximately 84.84% of total trading days) during the Review Period. During the period from 26 to 28 February 2025, there was a sudden surge in Share price from HK$0.8 per Share on the previous trading day to HK$1.18 per Share on 28 February 2025, and the price of the Shares has been trading in the range of HK$0.95 per Share to HK$1.18 per Share prior to another surge in closing price in April 2025. During the period from 11 to 23 April 2025, there was another surge in Share price from HK$1.0 per Share on the previous trading day, and reached the Highest Closing Price of HK$1.52 per Share on 23 April 2025. Subsequently, the Shares fluctuated between HK$1.05 per Share to HK$1.98 per Share up to the Latest Practicable Date. The Company was not aware of the reasons for the sudden surge in the price of the Shares during the period from 26 to 28 February 2025 and 11 to 23 April 2025, in particular that the financial performance of the Group has been unsatisfactory. In view of that there were no apparent reasons for the sudden surges in the price of the Shares, and considering that this increase is not supported by the Group's weak financial position and unsatisfactory financial performance, we consider that it may not be sustainable for the Shares to persistently trade at the relatively higher price range in the future. It is also possible that the price of the Shares may suddenly drop back to their previous lower levels. As such, we consider that it necessary to review the price of the Shares comprehensively during the Review Period. The Share price closed at HK$1.44 at the Latest Practicable Date.

Given the Shares has been trading at a discount to the Subscription Price during approximately 84.84% of the Review Period as illustrated above, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Trading volume

Apart from historical daily closing prices of the Shares, we have also reviewed the average daily trading volume of the Shares for each month during the Review Period, details of which are set out below:

	Approximate average daily trading volume of the Shares *(No. of Shares)*	**Number of trading days**	**Approximate percentage of average daily trading volume to total number of issued Shares** *(Note 1)*	**Approximate percentage of average daily trading volume to total number of issued Shares held by public Shareholders** *(Note 2)*
2024				
May (from and including 28 May)	26,250	4	0.02%	0.03%
June	53,263	19	0.04%	0.07%
July	42,909	22	0.03%	0.05%
August	4,773	22	0.00%	0.01%
September	11,789	19	0.01%	0.01%
October	30,952	21	0.02%	0.04%
November	38,524	21	0.03%	0.05%
December	21,100	20	0.02%	0.03%
2025				
January	22,211	19	0.02%	0.03%
February	73,650	20	0.05%	0.09%
March	49,048	21	0.04%	0.06%
April	190,254	19	0.14%	0.24%
1 May to the date of the Subscription Agreement	138,389	18	0.10%	0.17%

Notes:

1. Based on the total number of issued Shares of 136,000,000 Shares as at the Latest Practicable Date.

2. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by A&B Development Holding Limited, Wing Ka Yuen Company Limited and Li Huaguo from the number of total issued Shares, being 79,367,500 Shares as at the Latest Practicable Date.

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

As shown in the table above, during the Review Period and save for April and May 2025, the average daily trading volume of the Shares represented approximately 0.00% to 0.05% of the total number of issued Shares, and approximately 0.01% to 0.09% of the total number of issued Shares held by public Shareholders as at the end of the relevant months, indicating generally thin trading liquidity during the Review Period. The low liquidity of the Shares suggests that the Shareholders may face difficulties in disposing of the Shares in the market, as any trading activities could lead to significant price fluctuations. Furthermore, the low liquidity may indicate a lack of interest from potential investors at the prevailing Share price. As a result, it may be challenging for the Company to pursue other equity financing alternatives in the market without offering a substantial discount during fundraising exercises.

As confirmed by the Company, the Company was not aware of the reasons for the sudden increase in trading in the Shares in April and May 2025. Nevertheless, the trading volume of the Shares remained at low level, with the trading volume represented only approximately 0.24% and 0.17% of the total number of issued Shares held by public Shareholders at the end of April and May 2025, respectively. For illustrative purpose only, based on 6,000,000 Subscription Shares to be issued under the Subscription and the average daily trading volume of the Company for May 2025 (up to and including the Last Trading Day) of 138,389 Shares, it would take approximately 43.4 trading days to dispose of the Subscription Shares in the market, with no guarantee on the disposal price, and may require even more time to seek sufficient potential investors, if any, to generate the proceeds expected under the Subscription.

As such, given the low liquidity of the Shares as illustrated above, it is reasonable to set the Subscription Price at a discount to the prevailing market prices of the Shares as a discounted issue price will be more attractive to investor(s).

(iii) Recent subscription exercises

In order to further assess the fairness and reasonableness of the terms of the Subscription, we have further identified subscription of new shares by cash (excluding issuance of A shares as the issue price of A shares is subject to the regulations under Non-public Issuance of A Shares based on the bidding results and pursuant to the Specific Rules for Implementation of the Non-public Issuance of Shares by Listed Companies (as amended in 2020)* (《上市公司非公開發行股票實施細則》(2020年修正)) under specific mandate as announced by the companies listed on the Stock Exchange during the Review Period, and excluding issues for the purposes of (a) share award or for emolument; (b) acquisitions; (c) loan capitalization; (d) restructuring; and/or (e) general offer since the basis in determining the subscription/issue price in such transactions may subject to other factors and/or conditions which are not applicable to the Subscription. As the companies listed on the Main Board and GEM of the Stock Exchange were subject to similar Hong Kong stock market conditions and sentiment, and given the limited number of subscriptions conducted by companies listed on GEM during the aforementioned period, we did not exclude the companies listed on the Main Board of the Stock Exchange as part of our selection criteria. Based on the above, we consider the selection criteria to be fair and reasonable for compiling a set of fair and representative comparables.

Based on the aforesaid criteria, we have identified an exhaustive list of 20 transactions (the "**Comparables**"). We consider that the Comparables provide a general understanding of this type of transaction in the Hong Kong stock market under the current capital market environment. Therefore, we consider that the Review Period is adequate and appropriate and the Comparables are fair and representative for comparison purpose and to assess whether the Subscription Price is fair and reasonable as they (a) capture the recent market practice in relation to subscription of shares under the prevailing market conditions; and (b) provide a sufficient sample for comparison with the Subscription.

The details of the Comparables are set out below:

Company name (Stock code)	**Date of announcement**	**Premium/ (Discount) of the subscription price over/to the closing price per share on the date of the agreement** *(approximate %)*	**Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement** *(approximate %)*	**Premium/ (Discount) of the subscription price over/to the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement** *(approximate %)*	**Premium/ (Discount) of the subscription price over/to the average closing price per share for the last 30 consecutive trading days prior to/up to and including the date of agreement** *(approximate %)*	**Premium/ (Discount) of the subscription price over/to the average closing price per share for the last 60 consecutive trading days prior to/up to and including the date of agreement** *(approximate %)*
China Health Group Limited (673)	23 May 2025	(28.6)	(37.2)	(41.9)	(51.3)	(54.8)
Universal Health International Group Holding Limited (2211)	13 May 2025	(1.2)	2.8	(2.2)	(23.6)	(37.6)
Kingsoft Cloud Holdings Limited (3896)	17 April 2025	(8.8)	(16.8)	(15.6)	(28.0)	(28.3)
Zo Future Group (2309)	11 April 2025	(19.8)	(18.1)	(21.6)	(19.0)	(17.1)
China Silver Technology Holdings Limited (515)	7 March 2025	23.5	53.4	54.6	55.5	75.3
Zall Smart Commerce Group Limited (2098)	27 January 2025	(10.3)	(9.7)	(10.3)	(13.9)	(16.9)
CM Energy Tech Co., Ltd. (206)	30 December 2024	25.0	25.8	22.4	16.0	11.0
True Partner Capital Holding Limited (8657)	29 December 2024	(13.0)	(13.0)	(11.9)	(0.1)	3.4
MOG Digitech Holdings Limited (1942)	11 December 2024	(15.4)	(15.1)	(15.2)	(19.3)	(15.6)
DevGreat Group Limited (755)	3 December 2024	(18.8)	(17.7)	(20.2)	(35.1)	(30.0)
China Resources Power Holdings Company Limited (836)	23 October 2024	1.7	(3.5)	(4.0)	(2.4)	(6.1)
Zhi Sheng Group Holdings Limited (8370)	21 October 2024	(60.5)	(60.6)	(58.8)	(60.1)	(43.8)

Company name (Stock code)	Date of announcement	Premium/ (Discount) of the subscription price over/to the closing price per share on the date of the agreement *(approximate %)*	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement *(approximate %)*	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement *(approximate %)*	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last 30 consecutive trading days prior to/up to and including the date of agreement *(approximate %)*	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last 60 consecutive trading days prior to/up to and including the date of agreement *(approximate %)*
Honbridge Holdings Limited (8137)	17 October 2024	(75.0)	(77.0)	(73.5)	(65.8)	(63.3)
Virtual Mind Holding Company Limited (1520)	10 October 2024	13.6	38.9	47.1	60.5	63.4
CircuTech International Holdings Limited (8051) *(Note)*	4 October 2024	(2.6)	0.3	6.8	8.8	8.4
		26.6	30.3	38.9	41.4	40.9
China Hongguang Holdings Limited (8646)	4 September 2024	(42.8)	(34.3)	(22.9)	2.7	14.2
Well Link Securities Holdings Limited (8350)	2 September 2024	65.6	67.6	63.4	51.8	46.0
Winshine Science Company Limited (209)	8 July 2024	(9.1)	(9.1)	(9.9)	(19.5)	(23.8)
China Ruifeng Renewable Energy Holdings Limited (527)	21 June 2024	(21.3)	(21.4)	(29.0)	(29.0)	(27.7)
Wenye Group Holdings Limited (1802)	7 June 2024	(3.5)	(14.1)	(15.8)	(14.1)	(11.8)
	Maximum	65.6	67.6	63.4	60.5	75.3
	Minimum	(75.0)	(77.0)	(73.5)	(65.8)	(63.3)
	Average	(8.3)	(6.1)	(5.7)	(6.9)	(5.4)
	Median	(9.1)	(13.0)	(11.9)	(14.1)	(15.6)
The Company		**(18.6)**	**(19.6)**	**(19.1)**	**(15.4)**	**(5.5)**

Notes: there were two subscription prices in the subscription carried out by CircuTech International Holdings Limited (8051).

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

As illustrated in the table above, the subscription prices of the Comparables:

(a) ranged from a discount of approximately 75.0% to a premium of approximately 65.6%, with an average of a discount of approximately 8.3% and a median of a discount of approximately 9.1%, to/over their respective closing prices on/prior to the date of agreement;

(b) ranged from a discount of approximately 77.0% to a premium of approximately 67.6%, with an average of a discount of approximately 6.1% and a median of a discount of approximately 13.0%, to/over their respective average closing prices for the last five (5) consecutive trading days prior to/up to and including the date of agreement;

(c) ranged from a discount of approximately 73.5% to a premium of approximately 63.4%, with an average of a discount of approximately 5.7% and a median of a discount of approximately 11.9%, to/over their respective average closing prices for the last ten (10) consecutive trading days prior to/up to and including the date of agreement;

(d) ranged from a discount of approximately 65.8% to a premium of approximately 60.5%, with an average of a discount of approximately 6.9% and a median of a discount of approximately 14.1%, to/over their respective average closing prices for the last 30 consecutive trading days prior to/up to and including the date of agreement; and

(e) ranged from a discount of approximately 63.3% to a premium of approximately 75.3%, with an average of a discount of approximately 5.4% and a median of a discount of approximately 15.6%, to/over their respective average closing prices for the last 60 consecutive trading days prior to/up to and including the date of agreement.

Although the subscription price of the Comparables represented a wide range, we consider that it still represents the market practice of the subscription exercise and in particular the median of the Comparables would be able to demonstrate the most prevailing price of subscription exercise. As such, we consider that the the Comparables are representative to provide meaningful assessment on the fairness and reasonableness of the Subscription Price.

When comparing the Subscription Price to the Comparables as shown in the table above, it is noted that the LTD Discount, the Five Days Discount, the 10 Days Discount and the 30 Days Discount of approximately 18.6%, 19.6%, 19.1% and 15.4% respectively were below the median and mean of those of the Comparables. However, we consider that such greater discounts were primarily due to the surge in Share price in around late April 2025. When the Share prices were reviewed in a longer timeframe, it is noted that the 30 Days Discount was generally in line with the median of the Comparables and the 60 Days Discount was generally in line with the mean and has less discount than the median of the Comparables.

As the principal factors considered by Independent Shareholders in assessing the fairness and reasonableness of a share subscription includes the prospect and conditions of the Company, price trend of the Shares, trading liquidity and market practice on similar subscription transactions, we consider that we have carried out sufficient and representative work done by assessing the historical Share price performance, trading liquidity and Comparable analysis for the Review Period to conclude on our assessment on the fairness and reasonableness of the Subscription Price.

Taking into account and based on our analysis that (a) it is common to set the Subscription Price at a discount to the prevailing market prices; (b) the LTD Discount, the Five Days Discount, the 10 Days Discount and the 30 Days Discount were distorted by the surge in the price of the Shares in around late April 2025 while the 60 Days Discount were generally in line with the Comparables; (c) the Shares had generally closed below the Subscription Price during the Review Period and the Company was not aware of the reasons for the recent surge in the price of the Shares given the unsatisfactory financial performance of the Group; (d) given the low liquidity of the Shares as illustrated above, it is reasonable to set the Subscription Price at a discount to the prevailing market prices of the Share; (e) the financing needs of the Company; and (f) the Subscription Price was the same as the Placing Price, we consider the Subscription Price to be fair and reasonable.

6. Dilution effect of the Subscription on shareholding interest

With reference to the shareholding table in the section headed "Effect on shareholding structure of the Company" of the Letter from the Board, the shareholding interests held by the existing public Shareholders would be diluted by 2.4 percentage points as a result of the Subscription (assuming there being no other changes to the issued share capital of the Company between the Latest Practicable Date and the Closing Date save for the allotment and issue of the Subscription Shares). We are aware of the Subscription will incur a dilution effect on the shareholding of the existing Shareholders. In this regard, taking into account (i) the reasons for and benefits of the Subscription, in particular that the Group has imminent needs to raise additional capital to replenish its working capital; (ii) the shareholdings of both existing connected and public Shareholders would be diluted by the Subscription; (iii) the Subscription has relatively low theoretical dilution effect of only approximately 0.85%; and (iv) the terms of the Subscription being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the said level of dilution to the shareholding interests of the existing public Shareholders as a result of the Subscription is not prejudicial to their interests and thus is acceptable.

7. Potential financial impacts of the Subscription

According to the Letter from the Board, the net proceeds from the Subscription will be approximately HK$6.60 million and the Company intends to apply the proceeds for provision of general working capital of the Group. As such, it is expected that the Subscription will lead to an increase in the Company's cash and cash equivalent while its equity base will also be enlarged.

Gearing ratio

The gearing ratio of the Group as at 31 December 2024 was approximately 774.3%, calculated based on total interest-bearing borrowings divided by total equity of the Company. Upon completion of the Subscription, total assets and net assets of the Group will increase. Accordingly, the gearing level of the Group is expected to decrease.

Working capital

The cash and cash equivalents of the Group amounted to only approximately RMB6.2 million as at 31 December 2024. Save for the relevant expenses arising from the Subscription, the cash level of the Group will improve by the proceeds from the Subscription, which will help replenish the general working capital of the Group.

Net asset value per Share

As at 31 December 2024, the net assets attributable to the Shareholders was approximately RMB3.7 million. Upon completion of the Subscription, total assets and net assets of the Group will increase. Since the Subscription Price of HK$1.14 per Subscription Share is higher than the NAV attributable to Shareholders per Share of approximately HK$0.03356, the NAV attributable to Shareholders per Share will increase upon completion of the Subscription.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company following completion of the Subscription.

OPINION AND RECOMMENDATION

Having taken into consideration the above principal factors and reasons as stated above, in particular:

(i) the Group has an imminent need to raise additional fund to improve its cash position and replenish its working capital, so as to cater for any slowdown in payment collection from time to time;

(ii) the Subscription is the most preferable financing option which would provide the Group with the necessary amount of fund with certainty and is more cost effective as compared to other financing alternatives;

(iii) the Subscription Price falls within the price range of the highest and lowest closing prices of the Shares during the Review Period and the daily closing prices of the Shares were below the Subscription Price in 207 trading days out of 244 trading days (i.e. approximately 84.86% of total trading days) during the Review Period;

(iv) the 60 Days Discount is generally in line with the Comparables;

(v) the level of dilution to the shareholding interests of the existing public Shareholders as a result of the Subscription being acceptable;

(vi) the Subscription Price was the same as the Placing Price,

We are of the opinion that (i) the terms of the Subscription Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the entering into of the Subscription Agreement is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Group and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

Larry Choi

Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.