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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Alco Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank manager, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular is for information only and does not constitute an invitation or offer to Shareholders or any other persons to acquire, purchase, or subscribe for securities of Alco Holdings Limited.

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## ALCO HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

Website: <http://www.alco.com.hk>

(Stock Code: 328)

**(1) PROPOSED CAPITAL REORGANISATION;  
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES  
FOR EVERY ONE (1) ADJUSTED SHARE HELD  
ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS;  
AND  
(3) NOTICE OF SGM**

Financial Adviser to the Company

Placing Agent

Independent Financial Adviser to  
the Independent Board Committee  
and Independent Shareholders



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Capitalised terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 12 to 40 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 41 to 42 of this circular. A letter from the Independent Financial Adviser, containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 67 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Tuesday, 18 April 2023. Dealings in the Rights Shares in nil paid form are expected to take place from Tuesday, 2 May 2023 to Tuesday, 9 May 2023 (both days inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Tuesday, 2 May 2023 to Tuesday, 9 May 2023 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares, the Adjusted Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its own professional advisers.

A notice convening the SGM to be held at 11/F, Metropole Square, 2 On Yiu Street, Sha Tin, New Territories, Hong Kong, on Thursday, 13 April 2023 at 11:00 a.m. is set out on pages 92 to 96 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Registrar as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or the adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares and is subject to the fulfilment of conditions. Please refer to the section headed "Letter from the Board – Conditions of the Rights Issue" in this circular. In the event that the Rights Issue is not fully subscribed, any Unsubscribed Shares together with the NQS Unsold Shares will be placed to independent places on a best effort basis under the Placing. Any Unsubscribed Shares or NQS Unsold Shares which are not placed under the Placing 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. The Bermuda legal adviser of the Company has confirmed that there is no minimum subscription amount required to be raised from the Rights Issue under Bermuda law. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, the Adjusted Shares and/or the nil-paid Rights Shares up to the date when all the conditions to which the Rights Issue is subject are fulfilled.

17 March 2023

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:*

“Adjusted Share(s)”	the ordinary share(s) of par value of HK\$0.01 each in the share capital of the Company immediately upon the Capital Reorganisation becoming effective
“Announcement”	the announcement of the Company dated 27 January 2023 in relation to, among other things, the Capital Reorganisation, the Rights Issue and the Placing
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding a Saturday, a Sunday, a public holiday and any day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business in Hong Kong throughout their normal business hours
“Bye-Laws”	the bye-laws of the Company as amended from time to time
“Capital Reduction”	the proposed reduction of the issued share capital of the Company by reducing the par value of each issued Consolidated Share from HK\$5.00 to HK\$0.01 by cancelling the paid-up share capital to the extent of HK\$4.99 on each issued Consolidated Share and the cancellation of any fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation immediately after the Share Consolidation

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## DEFINITIONS

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“Capital Reorganisation”	the proposed capital reorganisation of the share capital of the Company involving (i) the Share Consolidation, (ii) the Capital Reduction, (iii) the Share Subdivision, (iv) the Share Premium Reduction, and (v) the transfer of all the credits arising from the Capital Reduction and Share Premium Reduction to the contributed surplus account of the Company within the meaning of the Companies Act which will be applied to reduce the accumulated losses of the Company and be applied by the Board in any other manner in accordance with the Bye-Laws and all applicable laws of Bermuda from time to time without further authorisation from the Shareholders
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda, as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Alco Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 328)
“Compensatory Arrangements”	the compensatory arrangements pursuant to Rule 7.21(1)(b) of the Listing Rules as described in the paragraph headed “Procedures in respect of the Unsubscribed Shares and the NQS Unsold Shares and the Compensatory Arrangements” in this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Share(s)”	the ordinary share(s) of par value of HK\$5.00 each in the share capital of the Company immediately after the Share Consolidation but prior to the Capital Reduction and the Share Subdivision
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Director(s)”	the director(s) of the Company
“Existing Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company prior to the Capital Reorganisation having become effective
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. CHU Hoi Kan, Mr. LAM Chi Wing and Mr. TANG Sher Kin, which has been established to advise the Independent Shareholders in respect of the Rights Issue
“Independent Financial Adviser”	Red Sun Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
“Independent Shareholders”	Shareholders other than (i) all executive Directors and their respective associates; (ii) those who are involved in or interested in the Rights Issue; and (iii) those who are required under the Listing Rules to abstain from voting at the SGM
“Independent Third Parties”	third party(ies) who are not connected persons of the Company and its subsidiaries and who are independent of the Company and connected persons of the Company
“Last Trading Day”	Friday, 27 January 2023, being the last full trading day before the release of the Announcement
“Latest Practicable Date”	13 March 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“Latest Time for Acceptance”	4:00 p.m. on Friday, 12 May 2023 (or such other time and date as may be determined by the Company), being the latest time for the acceptance of, and payment for, the Rights Shares
“Listing Committee”	the listing committee of the Stock Exchange for considering application for listing and the granting of listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Net Gain”	the aggregate of any premiums (being the aggregate amount paid by the placees) after deducting the aggregate amount of the Subscription Price for the Placing Shares placed by the Placing Agent under the Placing Agreement
“No Action Shareholders”	Qualifying Shareholder(s) or renouncee(s) or transferee(s) of nil-paid rights under PAL(s) during the Rights Issue who do not subscribe for the Rights Shares (whether partially or fully) under the PAL(s), or such persons who hold any nil-paid rights at the time such nil-paid rights lapse
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) whom the Board, after making enquiries, consider it necessary or expedient not to offer the Rights Issue to such Shareholder(s) on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“NQS Unsold Shares”	the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form that have not been sold by the Company
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at close of business on the Record Date and whose address(es) as shown on such register at that time is(are) in (a) place(s) outside Hong Kong

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## DEFINITIONS

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“PAL(s)”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Placing”	arrangements to place the Unsubscribed Shares and the NQS Unsold Shares by the Placing Agent on a best effort basis to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties during the Placing Period on the terms and subject to the conditions set out in the Placing Agreement
“Placing Agent”	Innovax Securities Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as defined under the SFO
“Placing Agreement”	the placing agreement dated 27 January 2023 entered into between the Company and the Placing Agent in relation to the placing of the Placing Shares
“Placing End Date”	Thursday, 1 June 2023 or such other date as the Company may announce
“Placing Long Stop Date”	4:10 p.m. on Friday, 2 June 2023 (being the next Business Day after the Placing End Date) or such later date as the Company may announce
“Placing Period”	the period commencing from the sixth Business Day after the Latest Time for Acceptance and ending on 6:00 p.m. on the thirteenth Business Day after the Latest Time for Acceptance
“Placing Share(s)”	Unsubscribed Share(s) and the NQS Unsold Share(s)
“Posting Date”	Thursday, 27 April 2023 (or such other date as may be determined by the Company), being the date of despatch of Prospectus Documents to the Qualifying Shareholders and the Prospectus for information only to the Non-Qualifying Shareholders

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## DEFINITIONS

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“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Prospectus Documents”	the Prospectus and the PAL(s)
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders whose name(s) appear on the register of members of the Company on the Record Date
“Record Date”	Wednesday, 26 April 2023 or such other date as the Company may determine, for the determination of the entitlements under the Rights Issue
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong
“Rights Issue”	The proposed issue of the Rights Shares on the basis of four (4) Rights Shares for every one (1) Adjusted Share held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Prospectus Documents
“Rights Issue Completion”	completion of the Rights Issue
“Right Issue Settlement Date”	Friday, 9 June 2023
“Rights Share(s)”	up to 63,645,492 Shares to be allotted and issued pursuant to the Rights Issue (assuming there is no change in the number of Shares in issue on or before Record Date other than the Capital Reorganisation becoming effective)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened to consider and, if thought fit, to approve, among other things, the Capital Reorganisation, the Rights Issue, the Placing and the transactions contemplated thereunder



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## DEFINITIONS

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“Share(s)”	ordinary share(s) with par value of HK\$0.10 each in the share capital of the Company
“Share Consolidation”	the proposed consolidation of every fifty (50) Existing Shares of par value of HK\$0.10 each into one (1) Consolidated Share of par value of HK\$5.00 each in the share capital of the Company
“Share Premium Account”	the share premium account of the Company
“Share Premium Reduction”	the proposed reduction of the entire amount standing to the credit of the Share Premium Account of the Company to nil
“Share Subdivision”	the proposed subdivision of each authorised but unissued Consolidated Share of par value of HK\$5.00 into five hundred (500) Adjusted Shares of par value of HK\$0.01 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$1.425 per Rights Share
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC (as may be amended from time to time)
“Unsubscribed Share(s)”	the number of unsubscribed Rights Share(s) not taken up by Qualifying Shareholder(s) or renounee(s) or transferee(s) of nil-paid rights under PAL(s) during the Rights Issue
“%”	per cent

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## EXPECTED TIMETABLE

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The expected timetable for the proposed Capital Reorganisation, the Rights Issue and the Placing and the associated trading arrangement is set out below. The expected timetable is subject to the results of the SGM and satisfaction of the conditions and is therefore for indicative purpose only. Any change to the expected timetable will be announced in a separate announcement by the Company as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.

Latest time for lodging transfers of Shares to qualify for attendance and voting at the SGM . . . . .	4:30 p.m. on Monday, 3 April 2023
Closure of register of members of the Company to determine entitlement to attend and vote at the SGM . . . . .	Tuesday, 4 April 2023 to Thursday, 13 April 2023 (both days inclusive)
Latest time for lodging proxy forms for the SGM . . . . .	11:00 a.m. on Tuesday, 11 April 2023
Record date for determining attendance and voting at the SGM . . . . .	Thursday, 13 April 2023
Expected date and time of the SGM . . . . .	11:00 a.m. on Thursday, 13 April 2023
Announcement of poll results of the SGM . . . . .	Thursday, 13 April 2023
Re-opening of the register of members of the Company . . . . .	Friday, 14 April 2023
Effective date of the Capital Reorganisation . . . . .	Monday, 17 April 2023
Commencement of dealings in the Adjusted Shares . . . . .	9:00 a.m. on Monday, 17 April 2023
Original counter for trading in Existing Shares in board lots of 2,000 Existing Shares temporarily closes . . . . .	9:00 a.m. on Monday, 17 April 2023
Temporary counter for trading in the Adjusted Shares in board lots of 40 Adjusted Shares (in the form of existing share certificates) opens . . . . .	9:00 a.m. on Monday, 17 April 2023
First day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Adjusted Shares . . . . .	Monday, 17 April 2023

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## EXPECTED TIMETABLE

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Last day of dealings in the Adjusted Shares on a cum-rights basis . . . . .	Monday, 17 April 2023
First day of dealings in the Adjusted Shares on an ex-rights basis . . . . .	Tuesday, 18 April 2023
Latest time for lodging transfers of the Adjusted Shares in order for the transferees to qualify for the Rights Issue . . . . .	4:30 p.m. on Wednesday, 19 April 2023
Closure of register of members to determine the entitlements to the Rights Issue . . . . .	Thursday, 20 April 2023 to Wednesday, 26 April 2023 (both days inclusive)
Record Date for the Rights Issue . . . . .	Wednesday, 26 April 2023
Re-opening of the register of members of the Company . . . . .	Thursday, 27 April 2023
Despatch of Prospectus Documents (in the case of the Non-Qualifying Shareholders, the Prospectus only) . . . . .	Thursday, 27 April 2023
Designated broker starts to stand in the market to provide matching services for odd lots of the Adjusted Shares . . . . .	9:00 a.m. on Tuesday, 2 May 2023
Original counter for trading in the Adjusted Shares in board lots of 2,000 Adjusted Shares (in the form of new share certificates) re-opens . . . . .	9:00 a.m. on Tuesday, 2 May 2023
Parallel trading in Adjusted Shares (in the form of new shares certificates for the Adjusted Shares and existing share certificate) commences . . . . .	9:00 a.m. on Tuesday, 2 May 2023
First day of dealings in nil-paid Rights Shares . . . . .	Tuesday, 2 May 2023
Latest time for splitting nil-paid Rights Shares . . . . .	4:00 p.m. on Thursday, 4 May 2023

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## EXPECTED TIMETABLE

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Last day of dealings in nil-paid Rights Shares . . . . .	Tuesday, 9 May 2023
Latest Time for Acceptance . . . . .	4:00 p.m. on Friday, 12 May 2023
Announcement of the number of the Unsubscribed Shares and NQS Unsold Shares subject to the Placing . . . . .	Friday, 19 May 2023
Designated broker ceases to provide matching services for odd lots of the Adjusted Shares . . . . .	4:00 p.m. on Monday, 22 May 2023
Temporary counter for trading in board lots of 40 Adjusted Shares (in the form of existing share certificates) closes . . . . .	4:10 p.m. on Monday, 22 May 2023
Parallel trading in the Adjusted Shares (in the form of new share certificates for the Adjusted Shares and existing share certificates) ends . . . . .	4:10 p.m. on Monday, 22 May 2023
Commencement of the Placing Period (if there are any Unsubscribed Shares and NQS Unsold Shares available) . . . . .	Monday, 22 May 2023
Last day for free exchange of existing share certificates for the Existing Shares into new share certificates for the Adjusted Shares . . . . .	Wednesday, 24 May 2023
Placing End Date for the Placing . . . . .	4:00 p.m. on Thursday, 1 June 2023
Latest time for the Rights Issue to become unconditional and the Placing Long Stop Date . . . . .	4:10 p.m. on Friday, 2 June 2023
Rights Issue Settlement Date and Placing completion date . . . . .	Friday, 9 June 2023
Announcement of the results of the Rights Issue (including the results of the Placing and the Net Gain) . . . . .	Monday, 12 June 2023
Despatch of share certificates for the Rights Shares and/or refund cheques . . . . .	Tuesday, 13 June 2023

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## EXPECTED TIMETABLE

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First day of dealings in the fully-paid Rights Shares . . . . . Wednesday, 14 June 2023

Payment of Net Gain to relevant No Action Shareholders (if any)  
or Non-Qualifying Shareholders (if any) . . . . . 11:00 a.m. on  
Wednesday, 28 June 2023

*Notes:*

- (1) Shareholders should note that the dates and deadlines specified in the above timetable, and in other parts of this circular are indicative only and subject to change. Further announcement(s) will be made if there is any change to the expected timetable.
- (2) All references to times and dates are references to Hong Kong times and dates.

All time and dates in this circular refer to Hong Kong local time and dates. The dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied. Should there be any changes to the above expected timetable, the Company will notify the Shareholders by way of announcement as and when appropriate.

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE**

The Latest Time for Acceptance will not take place as scheduled if there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning or “extreme conditions” caused by super typhoons issued by the Hong Kong Observatory:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Time for Acceptance falls. Instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warning in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place on the currently scheduled date, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. The Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

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## LETTER FROM THE BOARD

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### ALCO HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

Website: <http://www.alco.com.hk>

**(Stock Code: 328)**

*Executive Directors:*

Mr. Lei Kam Chao (*Chairman*)  
Mr. Ho Chak Yu

*Independent non-executive Directors:*

Mr. Chu Hoi Kan  
Mr. Lam Chi Wing  
Mr. Tang Sher Kin

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head Office and Principal Place of Business:*

11/F, Metropole Square  
2 On Yiu Road  
Sha Tin  
New Territories  
Hong Kong

17 March 2023

*To the Qualifying Shareholders, and for information only,  
to the Non-Qualifying Shareholders,*

Dear Sir or Madam,

**(1) PROPOSED CAPITAL REORGANISATION;  
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES  
FOR EVERY ONE (1) ADJUSTED SHARE HELD  
ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS;  
AND  
(3) NOTICE OF SGM**

#### INTRODUCTION

Reference is made to the Announcement. The purpose of this circular is to provide you with, among other things, (i) details of the Capital Reorganisation; (ii) further information regarding the Rights Issue, the Placing Agreement and the transactions contemplated thereunder; (iii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue; (v) other information required under the Listing Rules; and (vi) the notice of the SGM.

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## LETTER FROM THE BOARD

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### PROPOSED CAPITAL REORGANISATION

The Board proposes to implement the Capital Reorganisation which will involve the following:

- (i) the Share Consolidation whereby every fifty (50) issued and unissued Existing Shares of par value of HK\$0.10 each will be consolidated into one (1) Consolidated Share of par value of HK\$5.00 each (any fraction in the issued share capital of the Company which may arise from the Share Consolidation will be cancelled);
- (ii) the Capital Reduction whereby the issued share capital of the Company will be reduced by (a) rounding down the total number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid-up share capital of the Company to the extent of HK\$4.99 on each of the then issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK\$5.00 to HK\$0.01;
- (iii) the Share Subdivision whereby each of the authorised but unissued Consolidated Shares of par value of HK\$5.00 each in the authorised share capital of the Company will be subdivided into five hundred (500) authorised but unissued Adjusted Shares of par value of HK\$0.01 each;
- (iv) the Share Premium Reduction whereby the entire amount standing to the credit of the Share Premium Account will be reduced to nil; and
- (v) the transfer of all the credits arising from the Capital Reduction and the Share Premium Reduction of the contributed surplus account of the Company within the meaning of the Companies Act to then be applied in full to set off the accumulated losses of the Company or be applied by the Board in any other manner as may be permitted under the Bye-Laws and all applicable laws of Bermuda from time to time without further authorisation from the Shareholders.

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## LETTER FROM THE BOARD

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### Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$300,000,000.00 divided into 3,000,000,000 Existing Shares of par value of HK\$0.10 each, and there are 795,568,650 Existing Shares in issue which are fully paid or credited as fully paid. Upon the Share Consolidation becoming effective and on the basis that no further Shares will be allotted, issued or repurchased prior thereto, the issued share capital of the Company will be HK\$79,556,865.00 divided into 15,911,373 Consolidated Shares of par value of HK\$5.00 each.

Any fractional Consolidated Share to which an individual Shareholder is entitled to will not be issued by the Company to such Shareholder, but will be aggregated, sold and retained for the benefit of the Company. Any fractional Consolidated Share in the issued share capital of the Company arising from the Share Consolidation shall be cancelled.

Shareholders concerned about losing out on any fractional entitlement are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser and may wish to consider the possibility of buying or selling Existing Shares in a number sufficient to make up an entitlement to receive a whole number of Adjusted Shares.

Upon the Capital Reduction becoming effective, the par value of all the issued Consolidated Shares shall be reduced from HK\$5.00 each to HK\$0.01 each by cancelling the paid-up share capital to the extent of HK\$4.99 per Consolidated Share in issue, and any fractional Consolidated Shares in the issued share capital of the Company arising from the Share Consolidation will be cancelled.

Upon the Share Subdivision becoming effective, each of the authorised but unissued Consolidated Shares of par value of HK\$5.00 each will be subdivided into five hundred (500) authorised but unissued Adjusted Shares of par value of HK\$0.01 each.

The Adjusted Shares will rank *pari passu* in all respects with each other in accordance with the Bye-Laws. The issued share capital will be reduced to HK\$159,113.73 divided into 15,911,373 Adjusted Shares of par value of HK\$0.01 each.

Based on 795,568,650 Existing Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$79,397,751.27 arising as a result of the Capital Reduction becoming effective after the Capital Reorganisation. As at the Latest Practicable Date, the Company has a credit balance of approximately HK\$417,678,944 standing in the Share Premium Account. The credits arising from the Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and be applied in full to set off the accumulated losses of the Company or be applied by the Board in any other manner as may be permitted under the Bye-Laws and all applicable laws of Bermuda from time to time without further authorisation from the Shareholders.



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## LETTER FROM THE BOARD

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Other than the relevant expenses incurred and to be incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management of financial position of the Company.

The Capital Reorganisation will not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any unpaid capital of the Company nor will it result in any change in the relative rights of the Shareholders.

The following table set out the effect of the Capital Reorganisation on the share capital of the Company before and after the implementation of the Capital Reorganisation, assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation.

	<b>As at the Latest Practicable Date</b>	<b>Immediately after the Share Consolidation becomes effective</b>	<b>Immediately after the Capital Reorganisation becomes effective</b>
Par value	HK\$0.10 per Existing Share	HK\$5.00 per Consolidated Share	HK\$0.01 per Adjusted Share
Authorised share capital	HK\$300,000,000.00 divided into 3,000,000,000 Existing Shares	HK\$300,000,000.00 divided into 60,000,000 Consolidated Shares	HK\$300,000,000.00 divided into 30,000,000,000 Adjusted Shares
Issued and fully paid-up or credited as fully paid-up share capital	HK\$79,556,865.00 divided into 795,568,650 Existing Shares	HK\$79,556,865.00 divided into 15,911,373 Adjusted Shares	HK\$159,113.73 divided into 15,911,373 Adjusted Shares
Unissued share capital	HK\$220,443,135.00 divided into 2,204,431,350 Existing Shares	HK\$220,443,135.00 divided into 44,088,627 Consolidated Shares	HK\$299,840,886.27 divided into 29,984,088,627 Adjusted Shares

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## LETTER FROM THE BOARD

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### Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

- (i) the passing of a special resolution to approve the Capital Reorganisation by the Shareholders at the SGM;
- (ii) the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation;
- (iii) the compliance with the relevant procedures and requirements under the laws of Bermuda, which include publication of a notice in relation to the Capital Reduction in Bermuda in accordance with the Companies Act and the Directors being satisfied that on the date the Capital Reorganisation is to take effect, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due, and the Listing Rules to effect the Capital Reorganisation; and
- (iv) obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

### Application for listing and dealings

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### Status of the Adjusted Shares

The Adjusted Shares will be identical in all respects and rank *pari passu* in all respects with each other. All necessary arrangements will be made for the Adjusted Shares to be admitted into CCASS.

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## LETTER FROM THE BOARD

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### **Free exchange of share certificates**

Subject to the Capital Reorganisation becoming effective, the Shareholders may, on or after Monday, 17 April 2023 until Wednesday, 24 May 2023 (both days inclusive), submit share certificates for the Existing Shares (in green colour) to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, to exchange, at the expense of the Company, for new share certificates for the Adjusted Shares (in red colour) (on the basis of fifty (50) Existing Shares for one (1) Adjusted Share). Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be specified by the Stock Exchange) by the Shareholders for each share certificate for the Existing Shares submitted for cancellation or each new share certificate issued for the Adjusted Shares, whichever the number of certificates cancelled/issued is higher. The existing share certificates will only be valid for delivery, trading and settlement purposes for the period up to 4:10 p.m. on Monday, 22 May 2023 (or such other date which may be announced by the Company) and will continue to be good evidence of legal title and may be exchanged for share certificates of the Adjusted Shares at any time in accordance with the foregoing.

### **No change in board lot size**

As at the Latest Practicable Date, the Existing Shares are traded on the Stock Exchange in board lots of 2,000 Existing Shares. Upon the Capital Reorganisation becoming effective, the Adjusted Shares will continue to be traded in the board lot size of 2,000 Adjusted Shares.

### **Arrangement on odd lot trading**

In order to facilitate the trading of odd lots (if any) of the Adjusted Shares arising from the Capital Reorganisation, the Company has appointed Innovax Securities Limited as the designated broker to provide matching services, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Adjusted Shares to make up a full board lot, or to dispose of their holding of odd lots of the Adjusted Shares during the period from 9:00 a.m. on Tuesday, 2 May 2023 to 4:00 p.m. on Monday, 22 May 2023 (both dates inclusive). Shareholders who wish to take advantage of this service should contact Mr. Edward Lam of Innovax Securities Limited at Unit A-C, 20/F, Neich Tower, 128 Gloucester Road, Wan Chai, Hong Kong or at telephone number (852) 2311 3828 during office hours of such period. Holders of odd lots of the Adjusted Shares should note that the matching of the sale and purchase of odd lots of the Adjusted Shares is not guaranteed. Shareholders who are in any doubt about the odd lots matching arrangement are recommended to consult their own professional advisers.

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## LETTER FROM THE BOARD

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### REASONS FOR THE CAPITAL REORGANISATION

Under Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities. Further, pursuant to the requirements set out in “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by Hong Kong Exchanges and Clearing Limited, the expected board lot value per board lot should be greater than HK\$2,000 taking into account the minimum transaction costs for a securities trade. In view of the fact that the Shares had been traded below HK\$0.10 on average and the Shares were trading at under HK\$2,000 per board lot over the past eight months (based on the closing price per Share as quoted on the Stock Exchange), the Board proposes to implement the Share Consolidation in order to comply with the trading requirements of the Listing Rules. The Share Consolidation will reduce the total number of Shares currently in issue. As such, it is expected that the Share Consolidation will bring about a corresponding upward adjustment in the trading price of the Shares and value per board lot. Based on the closing price of HK\$0.036 per Existing Share as quoted on the Stock Exchange as at the Latest Practicable Date, the value of each board lot of the Existing Shares is HK\$72 and the theoretical value of each board lot of the Adjusted Shares, assuming the Capital Reorganisation has become effective, would be HK\$3,600.

Upon the Share Consolidation becoming effective but before implementation of the Capital Reduction, the par value of the Existing Shares will be consolidated from HK\$0.10 into HK\$5.00 per Consolidated Share.

Meanwhile, the Capital Reorganisation also involves the Capital Reduction which will reduce the par value of the issued Consolidated Shares from HK\$5.00 per Consolidated Share to HK\$0.01 per Adjusted Share. Under the laws of Bermuda, a company may not issue shares at a discount to the par value of such shares. Accordingly, the Capital Reduction will allow greater flexibility in the pricing for any issue of new Shares in the future.

Further, the credit in the contributed surplus account arising from the Capital Reorganisation will enable the Company to reduce its accumulated losses. As such, the Board proposes to implement the Capital Reorganisation.

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## LETTER FROM THE BOARD

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The Board considers that (i) the Share Consolidation will reduce the overall transaction and handling costs of dealings in the Existing Share as a proportion of the market value of each board lot, since most of the banks/securities houses will charge minimum transaction costs for each securities transaction; (ii) the Capital Reduction will reduce the par value of the Consolidated Shares, which will provide the Company with greater flexibility in possible fundraisings in the future; and (iii) the credits in the contributed surplus account of the Company arising from the Capital Reduction and the Share Premium Reduction, which will enable the Company to set off against its accumulated losses (if any) in full or by the amount of such credits and may facilitate or be applied in any future distribution to the Shareholders or be applied in any other manner as the Board may deem fit as may be permitted under the applicable laws and the Bye-Laws. As at the Latest Practicable Date, the Company has no intention to carry out other corporate action in the next 12 months which may have an effect of undermining or negating the intended purpose of the Capital Reorganisation.

As such, the Board is of the view that the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole.

### PROPOSED RIGHTS ISSUE

The Board proposes, subject to the Capital Reorganisation becoming effective, to conduct the Rights Issue on the basis of four (4) Rights Shares for every one (1) Adjusted Share held as at the Record Date. Set out below are the details of the Rights Issue statistics.

#### Rights Issue statistics

Basis of the Rights Issue	:	Four (4) Rights Shares for every one (1) Adjusted Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$1.425 per Rights Share
Net price per Rights Shares (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK\$1.406 per Rights Share (on the basis that all the Rights Shares will be taken up)
Number of Shares in issue as at the Latest Practicable Date	:	795,568,650 Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	:	15,911,373 Adjusted Shares (assuming there is no change in number of Shares in issue up to the effective date of the Capital Reorganisation)

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## LETTER FROM THE BOARD

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Number of Rights Shares : Up to 63,645,492 Rights Shares (assuming there is no change in the number of Shares in issue on or before the Record Date other than the Capital Reorganisation becoming effective, representing (i) 400% of the total issued Adjusted Shares upon the Capital Reorganisation having become effective; and (ii) approximately 80% of the total number of issued Adjusted Shares as enlarged immediately upon completion of the Rights Issue)

The aggregate nominal value of the Rights Shares will be HK\$636,454.92

Total number of Adjusted Shares in issue upon completion of the Rights Issue : Up to 79,556,865 Adjusted Shares (assuming no change in the number of Shares in issue on or before the Record Date other than from the Capital Reorganisation becoming effective)

Gross proceeds from the Rights Issue : Approximately HK\$90.69 million before expenses (assuming no change in the number of Shares in issue on or before the Record Date other than from the Capital Reorganisation becoming effective and all Rights Shares will be taken up)

The Company has no outstanding warrants, options or convertible securities in issue or other similar rights entitling holders thereof to convert into or exchange into or subscribe for new Shares as at the Latest Practicable Date.

Assuming no change in the number of Shares in issue on or before the Record Date, other than from the Capital Reorganisation becoming effective, the aggregate 63,645,492 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 400% of the total number of issued Adjusted Shares upon the Capital Reorganisation becoming effective and approximately 80% of the total number of issued Adjusted Shares as enlarged by the issue of the Rights Shares (assuming full acceptance by the Qualifying Shareholders).

As at the Latest Practicable Date, the Board has not received any information from any Shareholders of their intention to take up the Rights Shares to be provisionally allotted to them under the Rights Issue.

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## LETTER FROM THE BOARD

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### The Subscription Price

The Subscription Price is HK\$1.425 per Rights Share, which shall be payable in full by Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares. According to the relevant Bermuda laws, the Company shall not issue Shares at a price below its par value.

The Subscription Price represents:

- (i) a discount of approximately 25.0% to the adjusted closing price of HK\$1.900 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK\$0.038 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 22.1% to the adjusted average closing price of HK\$1.830 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of HK\$0.0366 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 20.2% to the adjusted average closing price of HK\$1.785 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of approximately HK\$0.0357 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of 20.8% to the adjusted closing price of HK\$1.800 per Adjusted Share (based on the closing price of HK\$0.036 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation); and
- (v) theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 20.0%, represented by the theoretical diluted price of HK\$1.520 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) to the benchmarked price of approximately HK\$1.900 per Adjusted share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of the Adjusted Shares as quoted on the Stock Exchange on the Last Trading Day and (ii) the average of the five (5) previous consecutive trading days prior to the date of Announcement and taking into account the effect of the Capital Reorganisation) (after taking into account the effect of the Capital Reorganisation).

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## LETTER FROM THE BOARD

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The Subscription Price was determined with reference to, among other things, (i) the market price of the Shares under the prevailing market conditions; (ii) the current business performance and financial position of the Group; and (iii) the reasons for and benefits of proposed Rights Issue as discussed in the section head “Reasons for the Rights Issue, the Placing and the Use of Proceeds”, and the amount of funds the Company intends to raise under the Rights Issue.

Under the Rights Issue, each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Company considers that the discount of the Subscription Price to the current market price (taking into account the effect of the Capital Reorganisation) will encourage them to participate in the Rights Issue.

The Directors (excluding the members of the Independent Board Committee, whose opinion will be provided after taking into account the advice of the independent financial adviser) consider that the terms of the Rights Issue, including the Subscription Price, are fair, reasonable and in the interests of the Company and the Shareholders as a whole.

### **Non-underwritten basis**

Subject to the fulfilment of 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 of an undersubscription of the Rights Issue, any Unsubscribed Shares together with the NQS Unsold Shares will be placed on a best effort basis by the Placing Agent to independent placees under the Placing. Any Unsubscribed Shares or NQS Unsold Shares remain not placed under the Placing 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. The Bermuda legal adviser of the Company has confirmed that there is no minimum subscription amount required to be raised from the Rights Issue under Bermuda law.

As the Rights Issue will proceed on a non-underwritten basis, Shareholder who applies to take up all or part of his/her/its entitlement under the PAL 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 (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder 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 7.19(5)(b) of the Listing Rules.



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## LETTER FROM THE BOARD

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### Conditions of the Rights Issue

The Rights Issue is conditional upon each of the following conditions being fulfilled:

- (i) the Capital Reorganisation having become effective;
- (ii) the passing by more than 50% of the votes cast by the Independent Shareholders by way of poll of all necessary resolutions to be proposed at the SGM for the transactions contemplated under the Rights Issue to be effective in compliance with the Listing Rules, including but not limited to approving, confirming and/or ratifying the Rights Issue, including the allotment and issue of the Rights Shares in their nil-paid and fully-paid forms;
- (iii) the delivery of the Prospectus Documents to the Stock Exchange and the issue by the Stock Exchange on or before the Posting Date of a certificate authorising registration of the Prospectus Documents with the Registrar of Companies in Hong Kong;
- (iv) following registration, the posting of the Prospectus Documents to the Qualifying Shareholders and the publication of the Prospectus on the website of the Stock Exchange on or before the Posting Date;
- (v) the grant of listing of the Rights Shares (in both nil-paid and fully paid forms) by the Stock Exchange (either unconditionally or subject only to the allotment and despatch of the share certificates in respect thereof) and the grant of permission to deal in the nil-paid Rights Shares and the fully-paid Rights Shares by the Stock Exchange (and such permission and listing not subsequently having been withdrawn or revoked); and
- (vi) all other necessary waivers, consent and approvals (if required) from the relevant governmental or regulatory authorities for the Rights Issue and the transaction contemplated thereunder having been obtained and fulfilled.

None of the above conditions precedent can be waived. If any of the above conditions are not satisfied at or before 4:10 p.m. on Friday, 2 June 2023 (or such later date as the Company may determine), the Rights Issue will not proceed.

**As the proposed Rights Issue is subject to the above conditions, it may or may not proceed.**

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## LETTER FROM THE BOARD

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### **Status of the Rights Shares**

The Rights Shares (when allotted, fully-paid or credited as fully paid and issued) will rank *pari passu* in all respects among themselves and with the Adjusted Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully paid Rights Shares. Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

### **Qualifying Shareholders**

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, Shareholder must be registered as a member of the Company on the Record Date and not be a Non-Qualifying Shareholder.

In order to be registered as members of the Company prior to the closing of business on the Record Date, all transfers of Adjusted Shares (together with the relevant share certificates and instruments of transfer) must be lodged with the Registrar, Tricor Abacus Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4:30 p.m. on Wednesday, 19 April 2023.

### **Closure of register of members**

The register of members of the Company will be closed from Thursday, 20 April 2023 to Wednesday, 26 April 2023 (both days inclusive) for determining the entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

### **Basis of provisional allotment**

The basis of the provisional allotment shall be four (4) Rights Shares (in nil-paid form) for every one (1) Adjusted Share held by the Qualifying Shareholders as at close of business on the Record Date. There will be no excess application arrangements in relation to the Rights Issue.

Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made only by lodging a duly completed PAL with a remittance for the Rights Shares being accepted with the Registrar by the Latest Time for Acceptance.

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## LETTER FROM THE BOARD

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### **Rights of Overseas Shareholders (if any)**

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 13.36(2) (a) of the Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Issue to Overseas Shareholders, if any. If, based on the legal advice to be provided by the legal adviser of the Company, the Board considers that it would be necessary or expedient not to offer the Rights Shares to Overseas Shareholders on account of either the legal restrictions under the laws of the relevant jurisdiction or the requirements of the relevant regulatory body or stock exchange in such relevant jurisdiction, the Rights Issue will not be extended to such Overseas Shareholders. In such circumstances, the Rights Issue will not be extended to the Non-Qualifying Shareholders. The basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Prospectus to be issued.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the Rights Shares in their nil-paid form commence and before dealings in the Rights Shares in their nil-paid form end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses and stamp duty, of more than HK\$100 will be paid to the Non-Qualifying Shareholders pro rata to their shareholdings held on the Record Date. In light of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

**Overseas Shareholders should note that they may or may not be entitled to participate in the Rights Issue, subject to the results of the enquiries to be made by the Board pursuant to Rule 13.36(2)(a) of the Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.**

### **Procedures in respect of the Unsubscribed Shares and the NQS Unsold Shares and the Compensatory Arrangements**

The Company will make arrangements described in Rule 7.21(1)(b) of the Listing Rule to dispose of the Unsubscribed Shares and the NQS Unsold Shares by offering the Unsubscribed Shares and the NQS Unsold Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue. On 27 January 2023, the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of Unsubscribed Shares and the NQS Unsold Shares to independent placees on a best effort basis.

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## LETTER FROM THE BOARD

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Pursuant to the Placing Agreement, the Company appointed the Placing Agent to place the Placing Shares during the Placing Period to independent placees on a best effort basis, any premium over the Subscription Price for those Rights Shares that is realised will be paid to those No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis. The Placing Agent will on a best effort basis, procure, by not later than 4:00 p.m., on the Placing End Date, placees to subscribe for all (or as many as possible) of those Unsubscribed Shares and the NQS Unsold Shares. Any Unsubscribed Shares and the NQS Unsold Shares remain not placed after completion of the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

Net Gain (if any) will be paid (without interest) to the No Action Shareholders and Non-Qualifying Shareholders as set out below on a pro rata basis (but rounded down to the nearest cent):

- A. the relevant No Action Shareholders (or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed) whose nil-paid rights are not validly applied for in full, by reference to the extent that Shares in his/her/its nil-paid rights are not validly applied for; and
- B. the relevant Non-Qualifying Shareholders with reference to their shareholdings in the Company on the Record Date.

If and to the extent in respect of any Net Gain, any No Action Shareholders and Non-Qualifying Shareholders become entitled on the basis described above to an amount of HK\$100 or more, such amount will be paid to the relevant No Action Shareholder(s) and Non-Qualifying Shareholders in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit.

### **Placing Agreement for Unsubscribed Shares and the NQS Unsold Shares**

Details of the Placing Agreement are summarised below:

Date	:	27 January 2023 (after trading hours)
Issuer	:	The Company
Placing Agent	:	Innovax Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, was appointed as the Placing Agent to procure, on the best effort basis, placees to subscribe for the Unsubscribed Shares and NQS Unsold Shares during the Placing Period.

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## LETTER FROM THE BOARD

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The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not Shareholder(s); and (ii) they are Independent Third Party(ies).

Placing Period : The period commencing from the sixth Business Day after the Latest Time for Acceptance and end at 6:00 p.m. on the thirteenth Business Day after the Latest Time for Acceptance.

Commission and expenses : The Placing Agent shall be entitled to a commitment fee equal to 0.5% of the amount which is equal to the Placing price multiplied by the Placing Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.

The commission is not payable by the Company to the Placing Agent if the obligations under the Placing Agreement has not become unconditional or the Placing Agreement is otherwise terminated in accordance with its terms.

Placing price : The placing price of each of the Placing Shares shall be not less than the Subscription Price. The final price determination will be dependent on the demand and market conditions of the Placing Shares during the process of placement.

Placees : The Placing Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies).

For the avoidance of doubt, no placee shall become a substantial shareholder of the Company.

Ranking of the Placing Shares : The Placing Shares (when placed, allotted, issued and fully paid), shall rank *pari passu* in all respects among themselves and with the Adjusted Shares in issue at the date of completion of the Placing.

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## LETTER FROM THE BOARD

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Condition Precedent : The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable):

- (i) the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Rights Shares
- (ii) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstances having arisen and nothing having been done or omitted to be done which would render any of such undertaking, representations or warranties untrue or inaccurate in any material respect of it was repeated as at the time of completion; and
- (iii) the Placing Agreement not having been terminated in accordance with the provisions thereof.

The Placing Agent may, in its absolute discretion, waive the fulfillment of all or any part of the conditions precedent to the Placing Agreement (other than those set out in paragraph (i) above) by notice in writing to the Company.

Termination : The Placing Agreement shall end on 9 June 2023 or any other date by mutual written agreement between the Placing Agent and the Company.

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## LETTER FROM THE BOARD

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The engagement of the Placing Agent may also be terminated by the Placing Agent in case of force majeure resulting in the Company and the Placing Agent being unable to fulfill its duties and responsibilities under the engagement. However, if during the course of the engagement it has come to the Placing Agent's knowledge that there is any material adverse change in the business and operational environment in the Company which, in the sole opinion of the Placing Agent, may make it inadvisable to continue the engagement, the Placing Agent shall have the right to terminate the engagement by written notice to the Company with immediate effect.

Placing completion : Completion is expected to take place within fourteen Business Days after publication of an announcement by the Company of the number of the Unsubscribed Shares and NQS Unsold Shares under the Compensatory Arrangements and upon fulfillment or waiver (as the case may be) of the conditions precedent to the Placing Agreement or such other date as the Company and the Placing Agent may agree in writing.

The Company shall use its best endeavours to procure the fulfillment of such conditions precedent to the Placing Agreement by the Placing Long Stop Date. If any of the conditions precedent to the Placing Agreement have not been fulfilled by the Placing Long Stop Date or become incapable of being fulfilled (subject to the Placing Agent not exercising its rights to waive or extend the time for fulfillment of such conditions), then the Placing will lapse and all rights, obligations and liabilities of the Company and the Placing Agent in relation to the Placing shall cease and determine, save in respect of any accrued rights or obligations under the Placing Agreement or antecedent breach thereof.

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## LETTER FROM THE BOARD

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The engagement between the Company and the Placing Agent in respect of the Placing Shares (including the commission and expenses payable) was determined after arm's length negotiation between the Placing Agent and the Company and is on normal commercial terms with reference to the market comparables, the existing financial position of the Group, the size of the Rights Issue, and the current and expected market conditions. The Board considers that the terms of Placing Agreement in respect of the Placing Shares (including the commission and expenses payable) are on normal commercial terms.

As explained above, the Unsubscribed Shares and NQS Unsold Shares will be placed by the Placing Agent to Independent Third Parties on a best effort basis for the benefits of the No Action Shareholders and Non-Qualifying Shareholders. If all or any of the Unsubscribed Shares and NQS Unsold Shares are successfully placed, any premium over the Subscription Price will be distributed to the relevant No Action Shareholders and Non-Qualifying Shareholders.

The Board considered that the Compensatory Arrangements are fair and reasonable and provide adequate safeguard to protect the interests of the Company's minority Shareholders since the Compensatory Arrangements would provide (i) a distribution channel of the Placing Shares to the Company; (ii) an additional channel of participation in the Rights Issue for the Qualifying Shareholders and the Non-Qualifying Shareholders; and (iii) a compensatory mechanism for the No Action Shareholders and the Non-Qualifying Shareholders.

### **Share certificates and refund cheques for the Rights Issue**

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be posted on or before Tuesday, 13 June 2023 to those entitled thereto at their registered addresses by ordinary post at their own risk. If the Rights Issue does not become unconditional, refund cheques without interest are expected to be posted on or before Tuesday, 13 June 2023 by ordinary post to the respective applicants, at their own risk, to their registered addresses.

### **No Fractional Entitlement**

The Company will not provisionally allot fractions of Rights Shares. All fractions of the Rights Shares will be aggregated (and rounded down to the nearest whole number) and sold by the Company in the open market if a premium (net of expense) can be obtained. Any of these Rights Shares remain not sold in the market will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.



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## LETTER FROM THE BOARD

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### **Application for listing of the Rights Shares**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

The nil-paid and fully-paid Rights Shares will be traded in board lots of 2,000 Shares.

### **RIGHTS SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### **WARNING OF THE RISKS OF DEALING IN THE SHARES, THE ADJUSTED SHARES AND/OR THE NIL-PAID RIGHTS SHARES**

**Shareholders and potential investors of the Company should note that the Capital Reorganisation is conditional upon satisfaction of conditions set out in the paragraph headed “Conditions of the Capital Reorganisation” in this circular. Therefore, the Capital Reorganisation may or may not proceed.**

**The Rights Issue is subject to the fulfilment of conditions including, among other things, the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid Rights Shares. Please refer to the section headed “Proposed Rights Issue – Conditions of the Rights Issue” in this circular.**

**Shareholders and potential investors of the Company should note that each of the Rights Issue and the Placing is subject to the fulfilment of certain conditions. If any of the conditions of the Rights Issue and/or the Placing are not fulfilled, the Rights Issue and/or the Placing will not proceed.**

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## LETTER FROM THE BOARD

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**Any Shareholder or other person contemplating transferring, selling, or purchasing Shares is advised to exercise caution when dealing in the Shares, the Adjusted Shares and/or the nil-paid Rights Shares. Any person who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s).**

**Any Shareholder or other person dealing in the Shares, the Adjusted Shares and/or the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled or the Placing Long Stop Date, which is expected to be 4:10 p.m. on Friday, 2 June 2023, will accordingly bear the risk that the Rights Issue and/or the Placing may not proceed.**

### **REASONS FOR THE RIGHTS ISSUE, THE PLACING AND THE USE OF PROCEEDS**

The Group mainly operates in Hong Kong and Taiwan and is principally engaged in designing and distribution of consumer electronic products including notebook products.

Assuming the maximum gross and net proceeds (after deducting the related expenses) from the Rights Issue are estimated to be approximately HK\$90.69 million and HK\$89.50 million, respectively. The Company currently intends to apply the net proceeds from the Rights Issue primarily for repayment of bank loans and other borrowings, and for general working capital of the Group.

The Group intends to apply the net proceeds from the proposed Rights Issue as follows:

- (i) approximately HK\$39.00 million for repayment of bank and other borrowings owed by the Group;
- (ii) approximately HK\$37.08 million for settlement of external debts; and
- (iii) approximately HK\$13.42 million for the general working capital of the Group.

In the event that there is an under subscription of the Rights Issue, the net proceeds will be prioritised and utilised as follows:

- (i) approximately HK\$26.0 million for the repayment of unsecured borrowings owed by the Group;
- (ii) to settle outstanding sums of bank and other borrowings and other external debts to the greatest extent taking into account of the respective maturity dates, interest rates and the amount overdue; and
- (iii) any remaining amount (if any) shall be applied to the general working capital of the Group.

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## LETTER FROM THE BOARD

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The Board considers fund-raising for additional general working capital is essential although, on 23 September 2022, a total of 72,324,000 new shares of the Company at nominal value of HK\$0.1 each were successfully placed at the placing price of HK\$0.1 per placing share (the “**September Placing**”). The net proceeds from the September Placing, after deducting the placing commission and other related expenses of the September Placing, amounted to approximately HK\$6.98 million, of which was intended for the use for general working capital. As at the Latest Practicable Date, the net proceeds from the September Placing had been fully utilised.

Based on the published annual report for the year ended 31 March 2022, dated 29 July 2022, of the Company, the Group incurred a loss attributable to the owners of the Company of approximately HK\$564.6 million. As at 31 March 2022, the Company had current liabilities of approximately HK\$1,093.6 million mainly comprising of (i) trade and other payables of approximately HK\$337.4 million; (ii) bank and other borrowings of approximately HK\$285.0 million; and (iii) loans from shareholders of approximately HK\$402.0 million.

As disclosed in the Company’s interim results announcement for the six months ended 30 September 2022 dated 28 November 2022, the Group incurred a loss attributable to the owners of the Company from the continuing operations of approximately HK\$48.6 million. As at 30 September 2022, the Company had current liabilities of approximately HK\$1,028.9 million mainly comprising of (i) trade and other payables of approximately HK\$347.1 million; (ii) bank and other borrowings of approximately HK\$242.9 million; and (iii) loans from shareholders of approximately HK\$432.7 million.

As further disclosed in the supplemental announcement of the Company in relation to interim report for the period ended 30 September 2022, dated 13 January 2023, the Company is experiencing (i) dropping in revenue primarily due to the sudden pass away of our ex-chairman and change of market condition; (ii) gross loss position primarily due to instability in souring of raw materials and high purchase cost of raw materials due to small quantity of purchase; and (iii) impairment loss in relation to the discontinued operation. However, the Board is of the view that (i) the appointment of the new chairman; (ii) the implementation of the subcontracting model; and (iii) fund raising as described in this circular, the loss-making financial position would gradually improve.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, (i) bank borrowings of approximately HK\$28.0 million included in the current liabilities of the Company as at 31 March 2022 were settled; (ii) other borrowings of approximately HK\$48.9 million included in the current liabilities of the Company as at 31 March 2022 were settled; and (iii) approximately HK\$69.9 million of loans from shareholders were obtained subsequent to 31 March 2022 to facilitate the Group's existing principal business. The increase in shareholder loans was entirely attributed to the proceeds from the sale of properties owed by the family members of the ex-chairman of the Company. These properties were used as collateral to obtain loans from banks and other financial institutions for the purpose of financing the Group. The proceeds from the sale of these properties were borrowed into the Group and used to repay the outstanding loans to provide financial support to the Group.

Details of the above-mentioned short-term liabilities to be repaid within the next twelve months from 31 January 2023 and details of the short-term liabilities to be settled via proceeds from the Rights Issue and/or the Placings are as follows:

Nature	Total outstanding amount (HK\$'000)	Terms	Amount to be settled via proceeds from the Rights Issue and/or the Placing (HK\$'000)
Bank and other borrowings, secured, bearing interest rate of 5.65%-6.1% p.a.	176,210	Overdue from over 5 months to over 15 months	13,920
Bank borrowings, unsecured, bearing interest rate of 6.1% p.a.	24,126	Overdue from over 14 months to over 15 months	24,126
Loans from shareholders	471,894	Overdue for over 2 months	Nil
Trade and other payables	355,526	Overdue from over 1 month to over 27 months	37,078
	<u>1,027,756</u>		<u>75,124</u>

The Company confirmed that any default of the above short-term liabilities will not cause cross default under the terms of the above short-term liabilities.

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## LETTER FROM THE BOARD

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As at 31 January 2023, the Group had bank balances and cash of approximately HK\$11.4 million. Given that there are short-term liabilities in the aggregate amount of approximately HK\$1,094 million which are required to be satisfied within the next twelve months from 31 January 2023, current available financial resources of the Group is not sufficient to satisfy the aforementioned liabilities and the Company has imminent need to further raise funds to satisfy the aforementioned liabilities.

Taking into account that the Group had a bank balance and cash of approximately HK\$11.4 million as at 31 January 2023, and the net proceeds from the September Placing has been fully utilised by the Group, the Board considers it is prudent and in the interest of the Company and the Shareholders as a whole to raise additional funds to (i) repay bank and other borrowings; (ii) settle external debts; and (iii) for general working capital purposes, so that the Group has sufficient financial resources to meet the financial obligations when they fall due in the following 12 months from the date of this circular.

### **Alternative fund-raising methods considered**

The Directors (excluding the independent non-executive Directors) have considered other financing alternatives to raise funds including (i) additional debt financing; and (ii) equity fund raising such as placement of shares and open offer.

#### ***(i) Debt financing***

The availability of debt financing is usually subject to the Group's existing financial positions. As at 30 September 2022, the unaudited consolidated net liabilities value of the Company was approximately HK\$0.929 per Share. Given that (a) the Group was in net liabilities position as at 30 September 2022 and has a considerable amount of outstanding bank and other borrowings and external debts; (b) the Group has a loss making financial performance; and (c) the amount of funds required for settling the outstanding sums of the Group, the Company is of the view that it is not commercially feasible for the Company to obtain further debt financing from financial institutions. Moreover, debt financing would increase the interest burden as well as driven up the gearing ratio of the Group.

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## LETTER FROM THE BOARD

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### *(ii) Other equity fund raising*

As for other fund raising, such as placement of shares, it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company. Furthermore, to raise fund from placing, substantial amount of securities must be issued and it is not uncommon that the subscriber(s) request for a relatively deeper discount to the trading price of the Shares in view of the substantial amount of securities involved. As for open offer, it is similar to a rights issue, it also offers qualifying shareholders to participate but it does not provide the Shareholders with an option to trade their rights entitlement in the open market.

Having considered the above-mentioned alternatives, the Directors (excluding the independent non-executive Directors) are of the view that the Rights Issue provides a better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing its financial position without incurring additional interest expenses, and also offers all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid dilution from those Shareholders who take up their entitlement under the Rights Issue in full, and thus in the interests of the Company and the Shareholders as a whole.

### **EQUITY FUNDRAISING ACTIVITIES IN THE PAST 12 MONTHS**

The Company had conducted the following equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date:

<b>Date of relevant announcement</b>	<b>Event</b>	<b>Net proceeds</b>	<b>Intended use of proceeds</b>	<b>Actual use of proceeds as at the Latest Practicable Date</b>
29 August 2022	Placing of new shares under general mandate	Approximately HK\$6.98 million	For general working capital of the Group	For general working capital of the Group

Save as disclosed above, the Company had not conducted any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

### **TAXATION**

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

## LETTER FROM THE BOARD

### EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Capital Reorganisation; and (iii) immediately after the Capital Reorganisation and the Rights Issue Completion, assuming there is no change in the issued share capital of the Company, other than as a result of the Capital Reorganisation, from the Latest Practicable Date up to and including the Record Date:

Shareholder	As at the Latest Practicable Date		Immediately after the Capital Reorganisation		Immediately after the Capital Reorganisation and upon the Rights Issue Completion assuming full acceptance by all Qualifying Shareholders under Rights Issue		Immediately after the Capital Reorganisation and upon the Rights Issue Completion assuming (a) no subscription by the Qualifying Shareholders; and (b) all the Placing Shares are placed to Independent Third Parties under the Placing	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Mr. Leung Wai Sing, Wilson (Note 1)	76,706,986	9.64	1,534,140	9.64	7,670,700	9.64	1,534,140	1.93
Mr. Webb David Michael	68,790,884	8.65	1,375,818	8.65	6,879,090	8.65	1,375,818	1.73
Ms. Lee Wing Yin	45,584,000	5.73	911,680	5.73	4,558,400	5.73	911,680	1.15
Preferable Situation Assets Limited	42,479,041	5.34	849,580	5.34	4,247,900	5.34	849,580	1.07
Placées (Note 2)	-	-	-	-	-	-	63,645,492	80.00
Other public Shareholders	562,007,739	70.64	11,240,155	70.64	56,200,775	70.64	11,240,155	14.12
	<u>795,568,650</u>	<u>100.00</u>	<u>15,911,373</u>	<u>100.00</u>	<u>79,556,865</u>	<u>100.00</u>	<u>79,556,865</u>	<u>100.00</u>

If a Qualifying Shareholder does not accept the Rights Shares provisionally allotted to him/her/it in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.

*Notes:*

1. Ex-chairman (deceased) of the Company.
2. Pursuant to the terms of the Placing Agreement, none of the placées will become a substantial shareholder of the Company immediately following the Placing.

### LISTING RULES IMPLICATIONS

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares of the Company by more than 50% within 12 months period immediately preceding the date of Announcement (taking into account the effect of the Capital Reorganisation), the Rights Issue is conditional upon the minority Shareholders' approval of at the SGM, and any controlling shareholders of the Company and their 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 SGM.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Company has no Controlling Shareholder as defined under the Listing Rules and none of the Directors and the chief executive of the Company and their respective associates holds any Share. Accordingly, no other Shareholder is required to abstain from voting at the SGM. No Shareholder has informed the Company that he/she/it intends to vote in favour of or against the proposed resolutions in connection with the Capital Reorganisation and the Rights Issue as at the Latest Practicable Date.

### **ESTABLISHMENT OF THE INDEPENDENT BOARD COMMITTEE**

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chu Hoi Kan, Mr. Lam Chi Wing and Mr. Tang Sher Kin, to advise the Independent Shareholders in respect of the Rights Issue and the transactions contemplated thereunder and as to the voting action therefor.

### **DESPATCH OF PROSPECTUS DOCUMENTS**

The Prospectus containing further information in relation to the Rights Issue and financial and other information relating to the Group is expected to be despatched by the Company together with the PAL on or before Thursday, 27 April 2023. A copy of the Prospectus will also be made available on the websites of the Company ([www.alco.com.hk](http://www.alco.com.hk)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). To the extent reasonably practicable and subject to the advice of legal advisers in the relevant jurisdictions in respect of applicable local laws and regulations, the Company will send copies of the Prospectus to Non-Qualifying Shareholders for their information only but will not send the PAL to them.

### **GENERAL**

The SGM will be convened and held at which resolutions will be proposed to consider, and, if thought fit, to approve, among other things, the Capital Reorganisation, the Rights Issue and the Placing Agreement. The register of members of the Company will be closed from Tuesday, 4 April 2023 to Thursday, 13 April 2023 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM.

In order to be registered as members of the Company on the record date for attendance and voting at the SGM, a Shareholder must lodge the relevant transfer(s) of Share(s) (with the relevant share certificates) with the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on Monday, 3 April 2023.

The notice convening the SGM to be held at 11/F, Metropole Square, 2 On Yiu Street, Sha Tin, New Territories, Hong Kong on Thursday, 13 April 2023 at 11:00 a.m. is set out on pages 92 to 96 of this circular.



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## LETTER FROM THE BOARD

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A form of proxy for use at the SGM is also enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Tricor Abacus Limited, the branch share registrar of the Company in Hong Kong, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 48 hours before the time appointed for holding the SGM (i.e. 11:00 a.m. on Thursday, 13 April 2023, Hong Kong time) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

In compliance with the Listing Rules, all the resolutions to be proposed at the SGM will be voted on by way of poll at the SGM.

### RECOMMENDATION

The Independent Board Committee, which comprises all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM on the relevant resolutions. Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee set out on pages 41 to 42 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages 43 to 69 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors consider that the terms of the Capital Reorganisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Further, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Shareholders and the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board  
**Alco Holdings Limited**  
**LEI Kam Chao**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue and the transactions contemplated thereunder.*



### **ALCO HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

Website: <http://www.alco.com.hk>

**(Stock Code: 328)**

17 March 2023

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) PROPOSED CAPITAL REORGANISATION;  
(2) PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES  
FOR EVERY ONE (1) ADJUSTED SHARE HELD  
ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS;  
AND  
(3) NOTICE OF SGM**

We refer to the circular of the Company dated 17 March 2023 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The Independent Financial Adviser has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect. Having taken into account the terms of the Rights Issue and the Placing Agreement, and the advice from the Independent Financial Adviser, we are of the opinion that the terms of the Rights Issue and the Placing Agreement, and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Placing Agreement, and the transactions contemplated thereunder.

Yours faithfully,  
the Independent Board Committee

**Mr. CHU Hoi Kan**  
*Independent non-executive  
Director*

**Mr. LAM Chi Wing**  
*Independent non-executive  
Director*

**Mr. TANG Sher Kin**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue and the transactions as contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.*



**红日资本有限公司**  
**RED SUN CAPITAL LIMITED**

Room 310, 3/F.,  
China Insurance Group Building,  
141 Des Voeux Road Central,  
Hong Kong

Tel: (852) 2857 9208

Fax: (852) 2857 9100

17 March 2023

*To: The independent board of committee and the independent  
shareholders of Alco Holdings Limited*

**PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR  
(4) RIGHTS SHARES FOR EVERY ONE  
(1) ADJUSTED SHARE HELD ON THE RECORD DATE ON  
A NON-UNDERWRITTEN BASIS**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 17 March 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised 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 Letter from the Board, the Board proposed to conduct the Rights Issue on the basis of four (4) Rights Shares for every one (1) Adjusted Share held by the Qualifying Shareholders as at the Record Date. 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 of an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly. The Company, subject to, where applicable, the level of acceptances by the Qualifying Shareholders and the results of the placing of the Placing Shares (i.e. the Unsubscribed Shares and the NQS Unsold Shares) by the Placing Agent on a best effort basis, the Company will allot and issue up to 63,645,492 Rights Shares at the Subscription Price of HK\$1.425 per Rights Share and raise up to an estimated net proceeds of approximately HK\$89.5 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In this connection, on 27 January 2023, the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of Unsubscribed Shares and the NQS Unsold Shares to independent placees on a best effort basis. Pursuant to the Placing Agreement, the placing price of each of the Placing Shares shall be not less than the Subscription Price. The final price determination will be dependent on the demand and market conditions of the Placing Shares during the process of placement. On the other hand, any premium over the Subscription Price for those Rights Shares that is realised will be paid to those No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis. Any Unsubscribed Shares and the NQS Unsold Shares remain not placed after completion of the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares of the Company by more than 50% within 12 months period immediately preceding the Latest Practicable Date (taking into account the effect of the Capital Reorganisation), the Rights Issue is conditional upon the minority Shareholders' approval of at the SGM, and any controlling shareholders of the Company and their 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 SGM. As set out in the Letter from the Board, the Company has no Controlling Shareholder as defined under the Listing Rules and none of the Directors and the chief executive of the Company and their respective associates holds any Share. Accordingly, no other Shareholder is required to abstain from voting at the SGM as at the Latest Practicable Date.

### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising three independent non-executive Directors, namely Mr. Chu Hoi Kan, Mr. Lam Chi Wing and Mr. Tang Sher Kin, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, and the transactions contemplated thereunder, are entered into in the usual and ordinary course of business, on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole and to advise the Independent Shareholders on how to vote at the SGM.

We have been appointed as the Independent Financial Adviser and approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in these regards.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with or interest in the Company or the Placing Agent that could reasonably be regarded as relevant in assessing our independence. Save for our appointment as the Independent Financial Adviser, Red Sun Capital did not act as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

### BASIS OF OUR ADVICE

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group or its respective history, experience and track records, or the prospects of the markets in which it operates.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the transactions as contemplated under 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. BACKGROUND AND FINANCIAL INFORMATION OF THE GROUP

As set out in the Letter from the Board, the Group mainly operates in Hong Kong and Taiwan and is principally engaged in designing and distribution of consumer electronic products including notebook products.

Set out below is a summary of (i) the audited consolidated financial performance of the Group for each of the years ended 31 March 2021 and 2022 as extracted from the Company's annual report for the year ended 31 March 2022 (the "2022 Annual Report"); and (ii) the unaudited consolidated financial performance and positions of the Group for the six months ended 30 September 2021 and 2022, respectively, as extracted from the interim report of the Group for the six months ended 30 September 2022 (the "2022 Interim Report").

#### Summary of the Group's consolidated statement of profit or loss

	For the year ended 31 March		Year- on-year change %	For the six months ended 30 September		Period- on-period change %
	2022 (audited) HK\$'000	2021 (audited) HK\$'000		2022 (unaudited) HK\$'000	2021 (unaudited) HK\$'000	
Revenue	591,292	1,278,686	(53.8)	51,977	353,347	(85.3)
Cost of good sold	(887,290)	(1,340,994)	(33.8)	(53,315)	(343,038)	(84.5)
Gross loss	(295,998)	(62,308)	375.1	(1,338)	10,309	(113.0)
Loss for the year/period from continuing operations	(594,594)	(360,440)	65.0	(48,571)	(132,827)	(63.4)
Loss for the year/period from discontinued operation, net of tax	-	-	-	(417,120)	(39,037)	968.5
Loss for the year/period – Attributable to Owners of the Company	(594,594)	(360,440)	65.0	(465,691)	(171,864)	171.0
	(594,575)	(360,463)	64.9	(465,691)	(171,858)	171.0



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Financial performance for the year ended 31 March 2022**

As set out in the 2022 Annual Report, for the year ended 31 March 2022, the Group recorded revenue of approximately HK\$591.3 million, representing a decrease of approximately 53.8% as compared to approximately HK\$1,278.7 million recorded for the year ended 31 March 2021. Such decrease was mainly due to the strategy of the Group over the last few years of focusing on developing its own brand of notebook business instead of on the traditional OEM/ODM business on audio visual products, which requires more working capital to transact. With more resources spent on its own brand notebook business, the Group gave up orders from sizeable retailers, including those from the U.S. market.

For the year ended 31 March 2022, the Group recorded a loss attributable to owners of the Company of approximately HK\$594.6 million, representing an increase of approximately 64.9% as compared to the loss attributable to owners of the Company of approximately HK\$360.5 million recorded for the year ended 31 March 2021. Based on the 2022 Annual Report, such increase was mainly attributable to the decrease in revenue in light of the Group's strategy as set out above.

### **Financial performance for the six months ended 30 September 2022**

As set out in the 2022 Interim Report, the Group recorded revenue of approximately HK\$52.0 million for the six months ended 30 September 2022, representing a decrease of approximately 85.3% as compared to approximately HK\$353.3 million recorded for the six months ended 30 September 2021. Such decrease was mainly attributable to the decrease in revenue of the Group's own brand of notebook computers by approximately 84.6% to approximately HK\$52.0 million during the subject period attributable to the weak demand.

The Group recorded a loss for the period from continuing operations of approximately HK\$48.6 million for the six months ended 30 September 2022 compared to approximately HK\$132.8 million for the six months ended 30 September 2021, which was mainly attributable to the decrease in selling expenses, administrative expenses and research and development expenses. However, the Group recorded a loss attributable to owners of the Company of approximately HK\$465.7 million for the six months ended 30 September 2022 compared to a loss attributable to owners of the Company of approximately HK\$171.9 million recorded for the six months ended 30 September 2021. Based on the 2022 Interim Report, the increase in loss attributable to owners of the Company was mainly attributable to the loss from discontinued operation of approximately HK\$417.1 million for the six months ended 30 September 2022 in relation to the strategic decision to cease the operation of the production line in Dongguan in order to free up the resources and redirect its resources to other business segments with greater growth potentials with a view to maximise Shareholders' return.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**Summary of the Group's consolidated statement of financial position**

	As at 30 September 2022 (unaudited) HK\$'000	As at 31 March 2022 (audited) HK\$'000	2021 (audited) HK\$'000
Non-current assets	164,450	264,545	275,055
– Property, plant and equipment	53,703	133,963	130,882
– Investment properties	48,567	53,430	46,788
– Right-of-use assets	61,060	71,582	63,631
– Prepayments, deposits and other receivables	1,120	5,570	33,754
Current assets	136,651	569,232	1,088,058
– Inventories	89,024	353,939	623,877
– Trade and other receivables	35,869	203,068	381,089
– Bank balances and cash	9,864	10,202	98,149
Current liabilities	1,028,946	1,093,552	753,847
– Trade and other payables	347,099	337,414	398,137
– Lease liabilities	–	62,352	47,407
– Bank and other borrowings	242,897	284,967	288,661
– Loans from shareholders	432,692	401,966	13,000
Non-current liabilities	11,385	13,148	279,080
Other payables	11,385	11,455	6,766
Bank and other borrowings	–	1,693	4,845
Loans from shareholders	–	–	265,000
<b>Total (deficit)/equity</b>	<b>(739,230)</b>	<b>(272,923)</b>	<b>330,186</b>

*Note: For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Financial position as at 31 March 2022**

As at 31 March 2022, the Group's total assets amounted to approximately HK\$833.8 million, representing a decrease of approximately 38.8% as compared to approximately HK\$1,363.1 million as at 31 March 2021, which mainly comprised (i) non-current assets of approximately HK\$264.5 million, representing a decrease of approximately 3.8% as compared to approximately HK\$275.1 million as at 31 March 2021; and (ii) current assets of approximately HK\$569.2 million, representing a decrease of approximately 47.7% as compared to approximately HK\$1,088.1 million as at 31 March 2021, which included inventories of approximately HK\$353.9 million as compared to approximately HK\$1,088.1 million as at 31 March 2021, trade and other receivables of approximately HK\$203.1 million as compared to approximately HK\$381.1 million as at 31 March 2021, and bank balances and cash of approximately HK\$10.2 million as compared to approximately HK\$98.1 million as at 31 March 2021.

As at 31 March 2022, the Group's total liabilities amounted to approximately HK\$1,106.7 million, as compared to approximately HK\$1,032.9 million as at 31 March 2021, which comprised (i) trade and other payables of approximately HK\$337.4 million, representing a decrease of approximately 15.3% as compared to approximately HK\$398.1 million as at 31 March 2021; (ii) bank and other borrowings (non-current and current portion) of approximately HK\$286.7 million, representing a decrease of approximately 2.3% as compared to approximately HK\$293.5 million as at 31 March 2021; and (iii) loans from shareholders (non-current and current portion) of approximately HK\$402.0 million, representing an increase of approximately 44.5% as compared to approximately HK\$278.2 million as at 31 March 2021. As at 31 March 2022, the Group's total deficit amounted to approximately HK\$272.9 million, as compared to total equity of approximately HK\$330.2 million as at 31 March 2021.

### **Financial position as at 30 September 2022**

As at 30 September 2022, the Group's total assets amounted to approximately HK\$301.1 million, representing a decrease of approximately 63.9% as compared to approximately HK\$833.8 million as at 31 March 2022, which mainly comprised (i) non-current assets of approximately HK\$164.5 million, representing a decrease of approximately 37.8% as compared to approximately HK\$265.5 million as at 31 March 2022; and (ii) current assets of approximately HK\$136.7 million, representing a decrease of approximately 76.0% as compared to approximately HK\$569.2 million as at 31 March 2022, which included inventories of approximately HK\$89.0 million as compared to approximately HK\$353.9 million as at 31 March 2022, trade and other receivables of approximately HK\$35.9 million as compared to approximately HK\$203.1 million as at 31 March 2022, and bank balances and cash of approximately HK\$9.9 million as compared to approximately HK\$10.2 million as at 31 March 2022.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at 30 September 2022, the Group's total liabilities amounted to approximately HK\$1,040.3 million, as compared to approximately HK\$1,006.7 million as at 31 March 2022, which mainly comprised (i) trade and other payables of approximately HK\$347.1 million, representing an increase of approximately 2.9% as compared to approximately HK\$337.4 million as at 31 March 2022; (ii) bank and other borrowings (non-current and current portion) amounted to approximately HK\$242.9 million, representing a decrease of approximately 15.3% as compared to approximately HK\$286.7 million as at 31 March 2022; and (iii) loans from shareholders (non-current and current portion) amounted to approximately HK\$432.7 million, representing an increase of approximately 7.6% as compared to approximately HK\$402.0 million as at 31 March 2021. As at 31 March 2022, the Group's total deficit amounted to approximately HK\$739.2 million, representing an increase of approximately 170.9% as compared to approximately HK\$272.9 million as at 31 March 2021.

### **Our analysis**

Having considered the historical financial information of the Group, in particular, (i) the Group has recorded losses attributable to owners of the Company of approximately HK\$360.6 million, HK\$594.6 million and HK\$465.7 million for the year ended 31 March 2021 and 2022 and the six months ended 30 September 2022, respectively; (ii) the Group's total borrowings, including bank and other borrowings, and loans from Shareholders, amounted to approximately HK\$675.6 million, and the Group's bank balances and cash only amounted to approximately HK\$9.9 million as at 30 September 2022; (iii) the Group's total deficit amounted to approximately HK\$739.2 million as at 30 September 2022; (iv) the published information of the Company up to the Latest Practicable Date and (v) the Group needs to maintain a sufficient level of working capital for its ongoing operations, the Rights Issue is in the interests of the Company as a whole.

## **2. RIGHTS ISSUE**

### **Reasons for the Rights Issue and Use of Proceeds**

As stated in the Letter from the Board, the maximum gross and net proceeds (after deducting the related expenses) from the Rights Issue are estimated to be approximately HK\$90.69 million and HK\$89.50 million, respectively. The Company currently intends to apply the net proceeds from the Rights Issue primarily for repayment of bank loans and other borrowings, and for general working capital of the Group. Please refer to the section headed "Reasons for the Rights Issue, the Placing and the Use of Proceeds" in the Letter from the Board in relation to more details of intended application of the net proceeds from the Rights Issue.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We noted from the 2022 Annual Report that the auditors of the Company expressed multiple uncertainties relating going concern, among other, (i) net loss of approximately HK\$594.6 million; (ii) net cash outflows from operating activities of approximately HK\$139.0 million for the year ended 31 March 2022; (iii) as at 31 March 2022, the Group had total deficit of approximately HK\$272.0 million; (iv) net current liabilities of approximately HK\$524.3 million which included bank and other borrowings of approximately HK\$285.0 million, of which approximately HK\$214.4 million were in default and the lenders have the right to demand for immediate repayment of the entire outstanding balances; and (v) as at 31 March 2022, the Group's bank balances and cash amounted to approximately HK\$10.2 million only, which indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In addition, we also considered the recent financial performance and positions of the Company, in particular (i) loss attributable to the owners of the Company of approximately HK\$564.6 million for the year ended 31 March 2022 and a loss attributable to the owners of the Company from the continuing operations of approximately HK\$48.6 million for the six months ended 30 September 2022; (ii) net current liabilities of approximately HK\$892.3 million and total deficit of approximately HK\$739.2 million as at 30 September 2022; (iii) bank balance and cash of approximately HK\$9.9 million as at 30 September 2022 and the net proceeds from the September Placing has been fully utilised by the Group, and the Board is of the view that it is prudent and in the interests of the Company and the Shareholders as a whole to raise additional funds to (i) repay bank and other borrowings; (ii) settle external debts; and (iii) for general working capital purposes, so that the Group has additional financial resources to meet the financial obligations when they fall due in the following 18 months from the Latest Practicable Date.

Based on the foregoing and the fact that the Rights Issue will give all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company without diluting their corresponding shareholdings and to participate in the long-term development of the Company at a price lower than the current market level, we concur with the view of the Board that it is in the interests of the Company to conduct the Rights Issue to support the capital needs of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Alternative fund-raising methods considered by the Group**

As set out in the Letter from the Board, the Directors (excluding the independent non-executive Directors) have considered other financing alternatives to raise funds including (i) additional debt financing; and (ii) equity fund raising such as placement of shares and open offer.

In relation to debt financing, with reference to the Letter from the Board, the Company is of the view that it is not commercially feasible for the Company to obtain further debt financing from financial institutions given the Group's existing financial positions. Moreover, debt financing would increase the interest burden as well as driven up the gearing ratio of the Group. We have discussed with the Management and understand that, the Management has contacted not less than four financial institutions regarding the possibilities of debt financing. However, based on the relevant feedback, the Management is of the view that there are uncertainties around the terms of the debt financing, such as, duration of financing, financial covenant, interest rate, and the amount to be raised, as well as the timing of the approval in relation to such credit lines/facilities, if at all, and the possible increase in the interest rates in the foreseeable future, in particular given the level of existing outstanding loan of the Group. Addition debt financing will further increase the Group's gearing ratio and financial burden due to potential increase in the finance costs. In this connection, the Directors considered that debt financing is a less preferable option for fund raising currently.

As for other equity fund raising, such as placement of Shares, with reference to the Letter from the Board, such may be relatively smaller in scale as compared to fund raising through the Rights Issue and it would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company. Furthermore, to raise fund from placing, substantial amount of securities must be issued and it is not uncommon that the subscriber(s) request for a relatively deeper discount to the trading price of the Shares in view of the substantial amount of securities involved. As for open offer, it is similar to a rights issue, it also offers qualifying shareholders to participate but it does not provide the Shareholders with an option to trade their rights entitlement in the open market.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have discussed with the Management and understand that, the Management has contacted not less than four financial institutions regarding the possibilities of equity fund raising other than rights issue. However, based on the relevant feedback, the Management is of the view that there are uncertainties around the terms of such equity fund raising exercise, such as duration, costs, the amount to be raised, interests from the market and commitment to underwriting (if any), in particular with the Shares' relatively low historical trading volume. In this connection, the Directors considered that other equity fund raising is a less preferable option for fund raising currently.

Having taken into account the above, including, (i) the Rights Issue will strengthen the capital base of the Company, thus enhancing its financial position without incurring additional interest expenses, and also offers all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid dilution from those Shareholders who take up their entitlement under the Rights Issue in full, although Shareholder(s) who does not take up their provisional allotments under the Rights Issue will subject to dilution on their respective shareholding in the Company; (ii) the Rights Issue is the preferred option over the other alternatives since it would strengthen the capital base of the Company, enhance its cash position without the ongoing burden of interest expenses while allows the Qualifying Shareholders, who take up their entitlement under the Rights Issue in full, to maintain their respective pro-rata shareholdings in the Company; and (iii) the reasons for the Rights Issue as discussed above, we concur with the Directors that the Rights Issue are in the interests of the Company and the Independent Shareholders as a whole.

### **Principal terms of the Rights Issue**

Principal terms of the Rights Issue are summarised as below:

Basis of the Rights Issue:	Four (4) Rights Shares for every one (1) Adjusted Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price:	HK\$1.425 per Rights Share
Net price per Rights Shares (i.e. Subscription Price less cost and expenses incurred in the Rights Issue):	Approximately HK\$1.406 per Rights Share (on the basis that all the Rights Shares will be taken up)
Number of Shares in issue as at the Latest Practicable Date:	795,568,650 Existing Shares

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective:	15,911,373 Adjusted Shares (assuming there is no change in number of Shares in issue up to the effective date of the Capital Reorganisation)
Number of Rights Shares (Shares to be issued pursuant to the Rights Issue)	Up to 63,645,492 Rights Shares (assuming there is no change in the number of Shares in issue on or before the Record date other than the Capital Reorganisation becoming effective, representing (i) 400% of the total issued Adjusted Shares upon the Capital Reorganisation having become effective; and (ii) approximately 80% of the total number of issued Adjusted Shares as enlarged immediately upon completion of the Rights Issue)
	The aggregate nominal value of the Rights Shares will be HK\$636,454.92
Total number of Adjusted Shares in issue upon completion of the Rights Issue	Up to 79,556,865 Adjusted Shares (assuming no change in the number of Shares in issue on or before the Record Date other than from the Capital Reorganisation becoming effective)
Gross proceeds from the Rights Issue	Approximately HK\$90.69 million before expenses (assuming no change in the number of Shares in issue on or before the Record Date other than from the Capital Reorganisation becoming effective and all Rights Shares will be taken up)

The Company has no outstanding warrants, options or convertible securities in issue or other similar rights entitling holders thereof to convert into or exchange into or subscribe for new Shares as at the Latest Practicable Date.

Assuming no change in the number of Shares in issue on or before the Record Date, other than from the Capital Reorganisation becoming effective, the aggregate 63,645,492 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 400% of the total number of issued Adjusted Shares upon the Capital Reorganisation becoming effective and approximately 80% of the total number of issued Adjusted Shares as enlarged by the issue of the Rights Shares (assuming full acceptance by the Qualifying Shareholders).



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### The Subscription Price

As set out in the Letter from the Board, the Subscription Price is HK\$1.425 per Rights Share, which shall be payable in full by Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares. According to the relevant Bermuda laws, the Company shall not issue Shares at a price below its par value.

The Subscription Price represents:

- (i) a discount of approximately 20.8% to the adjusted closing price of HK\$1.800 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK\$0.036 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 25.0% to the adjusted closing price of HK\$1.900 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK\$0.038 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 22.1% to the adjusted average closing price of HK\$1.830 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of HK\$0.0366 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 20.2% to the adjusted average closing price of HK\$1.785 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of approximately HK\$0.0357 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and
- (v) theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 20.0%, represented by the theoretical diluted price of HK\$1.520 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) to the benchmarked price of approximately HK\$1.900 per Adjusted share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of the Adjusted Shares as quoted on the Stock Exchange on the Last Trading Day and (ii) the average of the five (5) previous consecutive trading days prior to the date of the Announcement and taking into account the effect of the Capital Reorganisation) (after taking into account the effect of the Capital Reorganisation).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As stated in the Letter from the Board, the Subscription Price was determined with reference to, among other things, (i) the market price of the Shares under the prevailing market conditions; (ii) the current business performance and financial position of the Group; and (iii) the reasons for and benefits of proposed Rights Issue as discussed in the section headed “Reasons for the Rights Issue, the Placing and the Use of Proceeds” in the Letter from the Board, and the amount of funds the Company intends to raise under the Rights Issue. Pursuant to the Rights Issue, each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Company considers that the discount of the Subscription Price to the current market price (taking into account the effect of the Capital Reorganisation) will encourage them to participate in the Rights Issue.

### **Our analysis on the Subscription Price**

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following analysis for illustrative purposes:

#### *Our analysis on historical Share price performance*

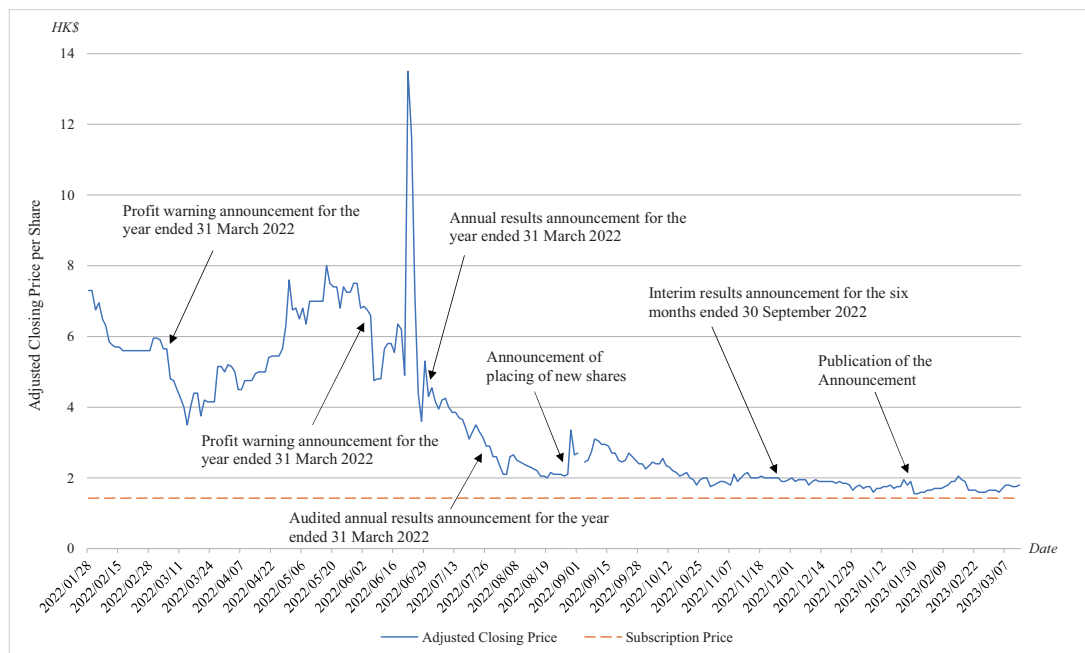
In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the adjusted closing price per Consolidated Share during the period from 28 January 2022, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the “**Share Price Review Period**”). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the Subscription Price and the theoretical adjusted closing price of the Shares, calculated by aggregating the relevant closing price of 50 Shares with a view to providing a meaningful comparison to the Subscription Price under the Rights Issue, which is conditional upon, among others, the completion of the Share Consolidation (the “**Adjusted Closing Price**”). It should be noted that the analysis on the Adjusted Closing Price is for illustration purposes only.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Share price chart during the Share Price Review Period*



Source: [www.hkex.com.hk](http://www.hkex.com.hk)

Note: During the Share Price Review Period, the trading in the Shares had been halted on 1 September 2022 and trading was resumed on 5 September 2022.

As illustrated in the above chart, the Adjusted Closing Price per Share has been on a decreasing trend in general during the Share Price Review Period from the Adjusted Closing Price of HK\$7.3 per Share on 28 January 2022 to the Adjusted Closing Price of HK\$1.9 per Share on the Last Trading Day, with the highest and lowest Adjusted Closing Price per Share being HK\$13.5 on 22 June 2022 and HK\$1.55 on 30 and 31 January 2023, respectively.

Since the commencement of the Share Price Review Price and up to the trading day immediately after the profit warning announcement for the year ended 31 March 2022 on 7 March 2022, the Adjusted Closing Price per Share has been largely fluctuated in the range of HK\$3.5 (15 March 2022) and HK\$8.0 (18 May 2022), save for during the period between 22 June 2022 to 23 June 2022, which the Adjusted Closing Price per Share has been above the abovementioned HK\$8.0 level before decreasing back to below the HK\$4.0 level around the first half of July 2022. Such may be attributable to the market reactions of the then development of the Company at the relevant time, which included, among others, the announcement on the postponement of board meeting, the disposal of Shares by a controlling Shareholder and the annual results announcement for the year ended 31 March 2022.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Subsequently, from second half of July 2022 up to and including the Last Trading Day, the Adjusted Closing Price per Share generally experienced a downward trend and fluctuated between HK\$3.5 (21 July 2022) and HK\$1.65 (29 December 2022). The Adjusted Closing Price per Share was HK\$1.9 and HK\$1.8 as at the Last Trading Day and Latest Practicable Date, respectively.

Overview, the Adjusted Closing Price generally experienced a decreasing price trend over the Share Price Review Period which should have reflected the financial performance/position and development of the Group at the relevant time as such information were published to the public.

### **Our analysis on historical trading volume and liquidity**

We have also reviewed the historical trading volume of the Shares during the Share Price Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Share Price Review Period are shown in the table below.

Month/period	Number of trading days	Average daily trading volume	% of average daily trading volume to the total number of Shares in issue (Note 1)	% of average daily trading volume to the total number of Shares in the public hands (Note 2)
<b>2022</b>				
January (from 28 January 2022)	1	23,000	0.0032%	0.0041%
February	8	67,686	0.0094%	0.0120%
March	16	228,454	0.0316%	0.0406%
April	13	285,833	0.0395%	0.0509%
May	14	182,200	0.0252%	0.0324%
June	20	84,032,999	11.6189%	14.9523%
July	20	27,507,204	3.8033%	4.8945%
August	23	24,441,159	3.3794%	4.3489%
September	20	10,246,030	1.2879%	1.8231%
October	20	1,571,683	0.1976%	0.2797%
November	22	4,625,182	0.5814%	0.8230%
December	20	1,706,100	0.2145%	0.3036%

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Month/period	Number of trading days	Average daily trading volume	% of average daily trading volume to the total number of Shares in issue (Note 1)	% of average daily trading volume to the total number of Shares in the public hands (Note 2)
<b>2023</b>				
January	18	4,152,649	0.5220%	0.7389%
February	20	5,136,264	0.6456%	0.9139%
March (up to the Latest Practicable Date)	9	2,029,722	0.2551%	0.3612%
<b>Average</b>			1.5076%	1.9719%
<b>Maximum</b>			11.6189%	14.9523%
<b>Minimum</b>			0.0032%	0.0041%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

*Notes:*

1. Calculated based on the total number of the Shares in issue at the end of month/period.
2. Calculated based on the total number of the Shares held by public shareholders as set out in the Letter from the Board as at the Latest Practicable Date.

As set out in the table above, during the Share Price Review Period, the average daily trading volume of the Shares by month/period were in the range of approximately less than 0.01% to approximately 11.62% as to the total number of issued Shares and approximately less than 0.01% to approximately 14.95% as to the total number of Shares held by public Shareholders, respectively.

The trading volume of the Shares was notably higher in June 2022 than other months during the Share Price Review Period, which may be attributable to the market reaction of the various announcements of the Company published in June 2022, including, among others, resignation of an independent non-executive Director, profit warning and litigation (in relation to three writs of summons) and outstanding bank loans with two banks on 7 June 2022, appointment of an executive Director and chief executive officer of the Company on 9 June 2022, resignation and appointment of independent non-executive Directors and appointment of a non-executive Director on 16 June 2022, change of company secretary, authorized representative and process agent on 17 June 2022, and disposal of Shares by a controlling Shareholder on 30 June 2022.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Given the above, with a view to assess the general trading volume during the Share Price Review Period, we have excluded the trading volume of June 2022 to minimise distortion to our analysis. The average daily trading volume of the Shares by month/period were in the range of approximately less than 0.01% to 3.80% as to the total number of issued Shares and approximately less than 0.01% to 4.89% as to the total number of Shares held by the public Shareholders, respectively. The above statistics revealed that the trading liquidity of the Shares has been relatively low in the open market. On this basis and having considered the financial performance and financial conditions of the Group as analysed under the section headed “1. Background and financial information of the Group” in this letter above, and the closing price of the Shares generally showed a decreasing trend during the Share Price Review Period, we concur with the Directors that the Subscription Price, which represents a discount to the Adjusted Closing Price as analysed above, would encourage Shareholders to participate in the Rights Issue and accordingly maintain their respective shareholdings in the Company. For this reason, we are of the view that the discount to the Adjusted Closing Price as represented by the Subscription Price is justifiable.

### **Our analysis on recent rights issue market comparables**

With a view to assess the fairness and reasonableness of the terms of the Rights Issue, we have conducted market research on recent proposed rights issue transactions based on the following selection criteria: (i) the shares of the company are listed on the Stock Exchange; (ii) the rights issue transaction with gross proceeds less than HK\$300 million having considered the estimated size of gross proceeds from the Rights Issue, being up to approximately HK\$90.7 million; (iii) the exclusion of rights issue transactions of A-Shares and H-Shares; and (iv) the proposed rights issues announced during the 6-month period (the “**Review Period**”) commencing on 28 July 2022 up to and including the Last Trading Day (the “**Criteria**”).

Based on the Criteria, we have identified 22 rights issues (the “**Rights Issue Comparable(s)**”) for the purpose of our analysis. Although the Rights Issue Comparables may be different from the Group in terms of business nature, financial performance, financial position and fund raising purposes, we considered that the Rights Issue Comparables to be a representative sample and can serve as a useful general market reference for recent market practice in relation to terms of other rights issues in the market during the Review Period for the purpose of our analysis.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We set out our findings in the following table:

Date of announcement	Company name (Stock code)	Basis of entitlement	Gross proceeds (HK\$, million)	Premium/(Discount) of subscription price over/to			Theoretical dilution effect (Note 2) (%)	Underwriting commission (Note 3) (%)	Placing commission (%)	Excess application (Yes/No)
				the closing price on the last trading day (%)	Theoretical ex-rights price (%)	Consolidated NAV per share (Note 1) (%)				
11-Jan-23	Add New Energy Investment Holdings Group Limited (2623) (Note 4)	1 for 3	99.85	(13.60)	(10.90)	(10.50)	(3.40)	N/A	1.00	No
10-Jan-23	Kinetix Systems Holdings Limited (8606)	1 for 2	31.30	(29.35)	(21.69)	(47.01)	(9.78)	N/A	1.30	No
06-Jan-23	SDM Education Group Holdings Limited (8363)	1 for 2	23.84	-	-	N/A	-	4.00	N/A	Yes
28-Dec-22	New Amante Group Limited (8412)	1 for 2	12.60	(10.60)	(7.30)	N/A	(4.20)	1.50	N/A	Yes
28-Dec-22	Jiading International Group Holdings Limited (8153)	1 for 2	51.00	(50.00)	(40.12)	77.30	(17.28)	N/A	3.50	No
09-Dec-22	Hope Life International Holdings Limited (1683)	2 for 1	120.96	(16.67)	(6.04)	(77.00)	(11.11)	N/A	0.50	No
29-Nov-22	Enterprise Development Holdings Limited (1808)	3 for 2	106.16	(39.72)	(20.86)	(55.96)	(23.83)	1.00	N/A	Yes
28-Nov-22	CCIAM Future Energy Limited (145)	1 for 2	31.40	(21.88)	(15.97)	66.70	(7.63)	2.50	N/A	Yes
14-Nov-22	Contel Technology Company Limited (1912)	2 for 5	20.20	(23.20)	(18.20)	(80.90)	(7.10)	N/A	3.50	No
21-Oct-22	C&N Holdings Limited (8430)	3 for 1	32.50	(13.30)	(3.70)	(90.00)	(3.70)	N/A	1.50	No
21-Oct-22	E. Bon Holdings Limited (599)	1 for 4	28.80	(20.00)	(17.60)	(75.48)	(4.12)	2.50	N/A	Yes
20-Oct-22	Crocodile Garments Limited (122)	1 for 2	47.40	(66.10)	(56.50)	(93.70)	(22.80)	N/A	N/A	Yes
18-Oct-22	Cherish Sunshine International Limited (1094) (Note 4)	5 for 8	119.60	(13.70)	(11.27)	12.90	(6.64)	N/A	0.50	No
18-Oct-22	China Zenith Chemical Group Limited (362)	5 for 2	79.50	(28.57)	(9.10)	N/A	(21.43)	1.0	N/A	Yes
13-Oct-22	Great Wall Terroir Holdings Limited (524)	1 for 4	17.70	(6.30)	(5.10)	28.60	-	N/A	N/A	Yes
11-Oct-22	AMCO United Holding Limited (630)	1 for 1	48.40	(16.70)	(9.10)	(57.90)	(8.33)	N/A	2.50	No
26-Sep-22	Endurance RP Limited (575) (Note 4)	1 for 1	188.43	(21.50)	(15.59)	(38.19)	(13.89)	1.00	2.00	No
23-Sep-22	Tasty Concepts Holding Limited (8096)	5 for 2	41.30	(14.30)	(4.50)	200.00	(10.30)	N/A	2.50	No
10-Aug-22	Easy Repay Finance & Investment Limited (8079)	1 for 2	14.42	(44.95)	(35.14)	(85.82)	(16.09)	N/A	7.07	No

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name (Stock code)	Basis of entitlement	Gross proceeds (HK\$, million)	Premium/(Discount) of subscription price over/to			Theoretical dilution effect (Note 2) (%)	Underwriting commission (Note 3) (%)	Placing commission (%)	Excess application (Yes/No)
				the closing price on the last trading day (%)	Theoretical ex-rights price (%)	Consolidated NAV per share (Note 1) (%)				
05-Aug-22	Jia Yao Holdings Limited (1626)	1 for 1	180.00	(14.29)	(7.69)	(4.76)	(7.14)	5.00	N/A	Yes
03-Aug-22	Kwan On Holdings Limited (1559)	1 for 4	59.40	-	-	(44.44)	(0.13)	N/A	N/A	Yes
28-Jul-22	China Financial Leasing Group Limited (2312)	2 for 1	43.90	(29.10)	(12.10)	(33.00)	(19.60)	1.00	N/A	Yes
	Maximum		188.43	0.00	0.00	200.00	0.00	5.00	7.07	
	Minimum		12.60	(66.10)	(56.50)	(93.70)	(23.83)	0.00	0.50	
	Average		63.58	(22.45)	(14.93)	(21.53)	(9.93)	1.77	2.35	
	Median		45.65	(18.35)	(11.27)	(44.44)	(7.98)	1.00	2.00	
	The Company	4 for 1	90.69	(25.00)	(6.25)	N/A	(20.00)	N/A (Note 5)	0.50	No

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

**Notes:**

- The net asset value (the “NAV”) per share is calculated based on the latest published audited/unaudited consolidated NAV and total number of shares in issue as at the date of the respective announcements. “N/A” denotes that the NAV of the rights issue comparable company that has net liabilities according to their respective latest published audited/unaudited consolidated financial statements.
- The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules.
- “N/A” denotes that the rights issue was conducted on a non-underwritten basis or no commission shall be received by the underwriter(s).
- Based on our research, the underwriter of Add New Energy Investment Holdings Group Limited, Cherish Sunshine International Limited and Endurance RP Limited were connected parties to the subject listed company, respectively, whereas the underwriters of the other Rights Issue Comparables were independent third parties to the subject listed company.
- The Right Issue is conducted on a non-underwritten basis and therefore the underwriting commission is not applicable. However, the Placing Agent shall be entitled to a commitment fee equal to 0.5% of the amount, which is equal to the Placing price multiplied by the Placing Shares that have been successfully placed by the Placing Agent, pursuant to the terms of the Placing Agreement.



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As set out in the table above, we noted that:

- (i) the discount of subscription price to the closing price on the Last Trading Day of the Rights Issue Comparables ranged from a discount of nil% to approximately 66.10% (the “**Comparable LTD Range**”), with the average and median of discounts of approximately 22.45% and 18.35%, respectively. The Subscription Price represents a discount of approximately 25.0% to the adjusted closing price per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing per Existing Shares on the Last Trading Day, which is within the Comparable LTD Range and higher than the average and median;
- (ii) the discount of subscription price to the theoretical ex-rights price of the Rights Issue Comparables ranged from a discount of approximately nil% to 56.50% (the “**Comparable TERP Range**”), with the average and median of discounts of approximately 14.93% and 11.27%, respectively. The Subscription Price represents a discount of 6.25% to the theoretical ex-rights price per Consolidated Share on the Last Trading Day which is within the Comparable TERP Range and lower than the average and median;
- (iii) the discount of 6.25% to the theoretical ex-rights price per Consolidated Share on the Last Trading Day as represented by the Subscription Price is within the Comparable TERP Range, lower than the average and median discount of the Comparable Rights Issue, of which is considered justifiable as (a) the gearing ratio of the Group reached approximately 241.4% as at 31 March 2022, which is further analysed under section headed “Possible financial effects of the Rights Issue – Effect on net gearing ratio”; (b) the Group’s net liabilities position of approximately HK\$739.2 million as at 30 September 2022; and (c) the limited capacity to take on additional borrowings as the interest burden of the Group will further increase;
- (iv) based on the 2022 Interim Report, the Company recorded a total deficit attributable to the owners of the Company of approximately HK\$738.6 million as at 30 September 2022. For the avoidance of doubt, such has not reflected the effects of the Capital Reorganisation. On this basis, the Subscription Price is at a premium to the deficit per Share, compared to the majority of the subscription price under the Rights Issue Comparables being at a discount to the respective net asset value per share;

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- (v) the theoretical dilution effect of the Comparable Rights Issue ranged from approximately nil% to 23.83% (the “**Comparable Dilution Range**”), with average and median dilution effects of approximately 9.93% and 7.98%, respectively. The theoretical dilution effect of the Rights Issue of approximately 20.0% is within the Comparable Dilution Range, higher than the average and median dilution effects of the Comparable Rights Issue. As the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 7.27B of the Listing Rules;
- (vi) it is noted from the Letter from the Board that the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. Based on our analysis on the Rights Issue Comparables, we noted that 11 out of 22 Rights Issue Comparables, did not offer excess application as part of the rights issue. On this basis, we considered the absence of excess application to be not uncommon market practice. Furthermore, the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company, for Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full, they would be able to maintain their respective existing shareholdings in the Company after completion of the Rights Issue. As such, we considered that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned;
- (vii) the Rights Issue is on a non-underwritten basis, which is considered to be in line with market practice, given 11 out of 22 Rights Issue Comparables are also on conducted on a non-underwritten basis. Furthermore, under the Compensatory Arrangements, the Company entered into the Placing Agreement with the Placing Agent to place the Placing Shares during the Placing Period to independent places on a best effort basis; and
- (viii) the placing commission of the Rights Issue Comparables, where applicable, ranged from 0.5% to 7.07%, with the average and median of 2.35% and 2.00%, respectively. Pursuant to the terms of the Placing Agreement, the Placing Agent shall be entitled to a commitment fee equal to 0.5% of the amount which is equal to the Placing price multiplied by the Placing Shares that have been successfully placed by the Placing Agent, such is within the aforesaid range of the Rights Issue Comparables.

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In determining the current subscription ratio and the Subscription Price, we understand from the Management that the Company has considered various factors, including (i) as in other market precedents, that a reasonable discount to the closing price of the Adjusted Shares is necessary to attract the Qualifying Shareholders to participate in the Rights Issue; (ii) the funding needs of the Group; and (iii) the Subscription Price has to be set at a discount to the closing price of the Adjusted Shares that is acceptable to the market.

In view of (i) the Subscription Price represents a discount of approximately 25.0% to the adjusted closing price per Consolidated Share on the Last Trading Day which is within the Comparable LTD Range and lower than the average and median; (ii) the theoretical ex-rights price per Consolidated Share on the Last Trading Day as represented by the Subscription Price is within the Comparable TERP Range; (iii) the theoretical dilution effect of the Rights Issue is within the Comparable Dilution Range, lower than the average and median dilution effects of the Comparable Rights Issue, as it is noted that the Gearing Ratio (as defined hereafter) of the Group of approximately 241.4% as at 31 March 2022 is considered to be high, its net liabilities position and the limited capacity to take on additional borrowings as the interest burden of the Group will further increase; (iv) our analysis on the absence of excess application arrangement and the Rights Issue is on a non-underwritten basis with Compensatory Arrangements; and (v) the Subscription Price is available to all Qualifying Shareholders without any prejudice or favoritism towards any particular party, we consider that the principal terms of the Rights Issue (including the Subscription Price) and potential dilution of the Rights Issue are fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

### **Possible financial effects of the Rights Issue**

#### *Effect on net assets*

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, assuming that the Rights Issue had been completed and subscribed in full on 30 September 2022, the consolidated net tangible liabilities attributable to equity holders of the Company would have decreased from approximately HK\$738.6 million as at 30 September 2022 to an unaudited proforma adjusted consolidated net tangible liabilities attributable to equity holders of the Company of approximately HK\$649.1 million immediately after the completion of the Rights Issue.

#### *Effect on working capital*

Upon completion of the Rights Issue and assuming it is subscribed in full and before the repayment of bank and other borrowings owed by the Group and settlement of external debts, the bank balances of the Company is expected to increase by an amount equivalent to the net proceeds from the Rights Issue, which is estimated to be approximately HK\$89.5 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Effect on net gearing ratio*

According to the 2022 Annual Report, the gearing ratio of the Company (the “**Gearing Ratio**”), as expressed as the ratio of total borrowings net of bank balances and cash divided by total equity, was approximately 241.4% as at 31 March 2022. Since most of the net proceeds from the Rights Issue are intended to be used to repay the liabilities of the Company, the total liabilities of the Company are expected to decrease as a result of the Rights Issue.

It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

Taking into account that the aforesaid possible financial effects, including the expected increase in NAV and NAV per Share, the improvement in working capital and that the Group shall improve its Gearing Ratio as a result of the Rights Issue (assuming all other factors remained the same), we are of the view that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

### **RECOMMENDATION**

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, having considered the above principal factors and reasons, in particular, the following:

- (i) our analysis on the financial results and position of the Group as set out under the section headed “1. Background and financial information of the Group” in this letter;
- (ii) our analysis on the trading volume and liquidity of the Shares as set out under the section headed “Our analysis on historical trading volume and liquidity” in this letter;
- (iii) our analysis on the Rights Issue Comparables, including our findings on the Subscription Price and the respective discounts it represent are in line with market practice based on our analysis, as set out under the section headed “Our analysis on recent rights issue market comparables” in this letter;
- (iv) the expected financial effects attributable to the Rights Issue, including the improvement in working capital and Gearing Ratio, under the prevailing challenging financial situation faced by the Company; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (v) the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares, while those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market.

We are of the view that the terms of the Rights Issue, including the Subscription Price, basis of the Rights Issue (i.e. four (4) Rights Shares for every one (1) Adjusted Shares held on the Record Date), are in the interests of the Company and the Shareholders as a whole, although the Rights Issue are not entered into in the ordinary and usual course of business of the Company, but are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

Having also taken into consideration the reasons for and possible benefits of the Rights Issue, we recommend the Independent Board Committee to advise, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Rights Issue and the underlying transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**  
**Lewis Lai**  
*Managing Director*

*Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in the corporate finance industry.*

**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three financial years ended 31 March 2020, 2021 and 2022 and the interim report for the period ended 30 September 2022 were disclosed in the following documents which have been published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company's website ([www.alco.com.hk](http://www.alco.com.hk)):

- annual report of the Company for the year ended 31 March 2020 published on 27 July 2020 (pages 59 to 140);  
  
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0727/2020072701507.pdf>)
- annual report of the Company for the year ended 31 March 2021 published on 29 July 2021 (pages 56 to 132);  
  
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0729/2021072900666.pdf>)
- annual report of the Company for the year ended 31 March 2022 published on 29 July 2022 (pages 33 to 108);  
  
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0729/2022072902194.pdf>)
- interim report of the Company for six months ended 30 September 2022 published on 28 December 2022 (pages 1 to 21).  
  
(<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/1228/2022122800195.pdf>)

## 2. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 January 2023, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

	<i>Notes</i>	<b>As at 31 January 2023 HK\$'000</b>
<b>Current liabilities</b>		
Lease liabilities – unsecured and unguaranteed		941
Bank loans – secured and guaranteed	<i>(a)</i>	154,453
Bank loans – unsecured and guaranteed	<i>(b)</i>	24,126
Other borrowings – secured and guaranteed	<i>(c)</i>	20,000
Other borrowings – secured and unguaranteed	<i>(d)</i>	1,757
Loans from Shareholders – unsecured and unguaranteed		<u>471,894</u>
		673,171
<b>Non-current liabilities</b>		
Lease liabilities – unsecured and unguaranteed		<u>1,646</u>
<b>Total</b>		<u><u>674,817</u></u>

*Notes:*

- (a) As at 31 January 2023, bank loans of approximately HK\$154,453,000 were secured by the Group's leasehold buildings, right-of-use assets, investment properties and a shareholder's personal properties and guaranteed by a shareholder, the Company and certain subsidiaries.
- (b) As at 31 January 2023, bank loans of approximately HK\$24,126,000 were guaranteed by the Company.
- (c) As at 31 January 2023, other borrowings of approximately HK\$20,000,000 were secured by a shareholder's personal properties and guaranteed by a shareholder and the Company.
- (d) As at 31 January 2023, other borrowings of approximately HK\$1,757,000 were secured by the Group's equipment and machineries.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal payables and accruals in the ordinary course of business, the Group did not have any bank overdrafts or loans, or other similar indebtedness, debentures, mortgages, charges, other recognised lease liabilities, finance lease, hire purchase or lease commitments, guarantees, material capital commitment or other material contingent liabilities outstanding as at the close of business on 31 January 2023.

### 3. WORKING CAPITAL STATEMENT

As at 30 September 2022, the Group had net current liabilities of approximately HK\$892 million. Total bank and other borrowings and loans from shareholders amounted to approximately HK\$243 million and HK\$433 million, respectively, which were repayable on demand or within 12 months from 30 September 2022. Among the bank and other borrowings, approximately HK\$184 million were overdue, as at 30 September 2022 as the Group had breached certain financial covenants in respect of the loan in the principal amount of HK\$184 million.

In view of the circumstances, major assumptions, measures and plans taken into account by the Directors in preparing the working capital forecast include:

- (i) The Rights Issue will be completed in June 2023;
- (ii) The disposal of further pledged assets owned by the Leung's family as repayment of certain other borrowing will be completed in May 2023;
- (iii) Administrative expenses are expected to grow with the annual inflation rate of 1.50%;
- (iv) Core business operation and asset base (including real assets, financial assets and any other forms of assets and/or liabilities and contingent liabilities) of the Group and the market conditions in which the Group operates and/or invests in will not differ materially from those of present, including no acquisition or disposal and/or intended acquisition or disposal (save for the Disposal) with concrete terms would be proposed, conducted and/or completed by the Group during the Forecast Period;
- (v) Extension agreement of shareholder's loan can be signed upon the official appointment of Mrs. Leung, the wife of Mr. Leung Wai Sing, Wilson ("**Wilson**") as the estate administrator of Wilson; and
- (vi) Restructuring trade payables amounted to approximately HK\$190 million. The Group will negotiate with certain creditors to further extend the repayment and agree a repayment schedule.

In order to improve the Group's working capital, the Directors intend to seek medium-term financing (i.e. 3 to 5 years) from other bank to refinance, in particular, the major loans not covered by the proposed repayment by the net proceeds from the Rights Issue. Alternatively, the Board will devote its best effort to negotiate for extension and/or revision of repayment terms. In addition, the Directors would ensure the extension of shareholder's loan to be completed as soon as practicable.



Taking into account the financial resources available to the Group including the estimated net proceeds from the Rights Issue of approximately HK\$89.50 million, cash and cash equivalents on hand, cash flows from operating activities, available banking facilities, the indebtedness which has already been overdue, and the successful implementation of abovementioned measures and plans, and realisation of those assumptions mentioned above, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

Shareholders should note that the validity of the statement of the working capital sufficiency of the Group as mentioned above depends on the outcome of the plans and measures undertaken/ being undertaken by the Group, which are subject to multiple uncertainties.

Should the Group be unable to successfully implement the plans and measures and realise the assumptions as mentioned above, the Group may not have sufficient working capital for its requirements within the next twelve months from the date of this circular.

#### **4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm there is no material adverse changes in the financial or trading position of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Group had developed a number of valuable intellectual properties, patents and trademarks (i.e. Venturer tablet and Avita notebook computer). The Group also retained well established distribution channels world-wide. Leveraging on these valuable assets, the Board had been actively seeking new business opportunities during the reporting period.

As disclosed in the interim report, the Group has secured direct investment from a strategic investor as well as bank facilities to issue letter of credit and payment to suppliers. The Group received the continuing financial support from family members of late ex-Chairman. The Group will continue to preserve and strive for more financial assets to survive through the hard time. Despite the challenges, the Group is pursuing the following:

- To leverage the OEM/ODM business model to maintain cost efficiency and flexibility;
- To minimize its operational fixed cost in all functions;
- To seek cooperation opportunities with business partners through the supply chain to share the financial obligation for operating our business;
- To dispose its investment properties, production equipment, lands and offices to generate positive cash flows for operation and to reduce the gearing of the Group;

- To leverage on its track record and explore different commercially viable and profitmaking business opportunities;
- To raise funds through capital markets.

Based on the published annual report for the year ended 31 March 2022, dated 29 July 2022, of the Company, the Group incurred a loss attributable to the owners of the Company of approximately HK\$564.6 million. As at 31 March 2022, the Company had current liabilities of approximately HK\$1,093.6 million comprising of (i) trade and other payables of approximately HK\$337.4 million; (ii) bank and other borrowings of approximately HK\$285.0 million; and (iii) loans from shareholders of approximately HK\$402.0 million.

As disclosed in the interim results announcement for the six months ended 30 September 2022, the Company dated 28 November 2022, the Group incurred a loss attributable to the owners of the Company from the continuing operations of approximately HK\$48.6 million. As at 30 September 2022, the Company had current liabilities of approximately HK\$1,028.9 million comprising of (i) trade and other payables of approximately HK\$347.1 million; (ii) bank and other borrowings of approximately HK\$242.9 million; and (iii) loans from shareholders of approximately HK\$432.7 million.

As further disclosed in the supplemental announcement of the Company in relation to interim report for the period ended 30 September 2022, dated 13 January 2023, the Company is experiencing (i) dropping in revenue primarily due to the sudden pass away of our ex-chairman and change of market condition; (ii) gross loss position primarily due to instability in souring of raw materials and high purchase cost of raw materials due to small quantity of purchase; and (iii) impairment loss in relation to the discontinued operation. However, the Board is of the view that (i) the appointment of the new chairman; (ii) the implementation of the subcontracting model; and (iii) fund raising as described in this circular, the loss-making financial position would gradually improve.

Taking into account that the Group had a bank balance and cash of approximately HK\$9.9 million as at 30 September 2022, and the net proceeds from the September Placing has been fully utilised by the Group, the Board considers it is prudent and in the interest of the Company and the Shareholders as a whole to raise additional funds to (i) repay bank borrowings; (ii) settle external debts; and (iii) for general working capital purposes, so that the Group has sufficient financial resources to meet the financial obligations when they fall due in the following 12 months from the Latest Practicable Date.

**(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE LIABILITIES**

The following is the unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group (the “**Unaudited Proforma Financial Information**”) which has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on the consolidated net tangible liabilities of the Group attributable to equity holders of the Company as if the Rights Issue had been completed on 30 September 2022. As it is prepared for illustrative purpose only, and because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible liabilities of the Group attributable to equity holders of the Company had of the Rights Issue been completed as at 30 September 2022 or at any future date.

The Unaudited Pro Forma Information is prepared based on the unaudited consolidated net tangible liabilities of the Group attributable to equity holders of the Company as at 30 September 2022 as derived from the Group’s published interim report for the six months ended 30 September 2022, and is adjusted for the effect of the Rights Issue as if the Rights Issue had been completed as at 30 September 2022.

Unaudited consolidated net tangible liabilities of the Group attributable to equity holders of the Company as at 30 September 2022 <i>(Note 1)</i> HK\$'000	Estimated net proceeds from the Rights Issue <i>(Note 2)</i> HK\$'000	Unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to equity holders of the Company as at 30 September 2022 immediately after completion of the Rights Issue HK\$'000	Unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to equity holders of the Company as at 30 September 2022 per Share immediately after the Completion of the Rights Issue <i>(Note 3)</i> HK\$
Based on 63,645,492 Rights Shares to be issued at the Subscription Price of HK\$1.425 per Rights Share	(738,580)	89,503	(649,077)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>

*Notes:*

1. The unaudited consolidated net tangible liabilities of the Group attributable to equity holders of the Company of HK\$738,580,000 as at 30 September 2022 is extracted from the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2022 set out in the published interim report of the Company.
2. The estimated net proceeds from the Rights Issue are based on 63,645,492 Rights Shares (calculated on the basis of four Rights Shares for every one adjusted share held as at 30 September 2022, details as disclosed in note 3) to be issued at the subscription price of HK\$1.425 per Rights Share, after deducting the estimated related expenses of HK\$1,191,000 to be incurred by the Group.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

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3. The unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to equity holders of the Company as at 30 September 2022 per Share immediately after the completion of the Rights Issue is calculated based on the unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to equity holders of the Company as at 30 September 2022 of HK\$649,077,000 divided by 79,556,865 shares in issue upon completion of the Rights Issue, which comprises 15,911,373 adjusted shares in issue before the Rights Issue and 63,645,492 Rights Shares to be issued under the Rights Issue.

The 15,911,373 adjusted shares in issue is calculated based on the shares in issue of 795,568,650 as at 30 September 2022 which are adjusted for (i) share consolidation whereby every fifty issued and unissued existing shares would be consolidated into one consolidated share and (ii) capital reduction, as stipulated in the section “Proposed Capital Reorganisation” in the Letter from the Board of this circular.

4. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2022.

**(B) REPORTING ACCOUNTANTS' REPORT ON PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the independent reporting accountants' assurance report received from SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*



SHINEWING (HK) CPA Limited  
17/F, Chubb Tower, Windsor House,  
311 Gloucester Road,  
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司  
香港銅鑼灣告士打道311號  
皇室大廈安達人壽大樓17樓

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The Board of Directors of Alco Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Alco Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group attributable to equity holders of the Company as at 30 September 2022 and related notes as set out on in appendix II of the circular issued by the Company dated 17 March 2023 (the “**Circular**”) issued in connection with the proposed rights issue of the Company. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in appendix II of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the proposed rights issue of the Company on the basis of four rights shares for every one adjusted share held on the record date on a non-underwritten basis (the “**Rights Issue**”) on the Group's financial position as at 30 September 2022 as if the Rights Issue had taken place at 30 September 2022. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's consolidated financial statements for the six months ended 30 September 2022, on which no audit or review report has been published.

**Directors' Responsibility for the Unaudited pro forma Financial Information**

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

**Our Independence and Quality Management**

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management (“**HKSQM**”) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of the Rights Issue on unadjusted financial information of the Group as if the Rights Issue had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Rights Issue at 30 September 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Kwan Chi Fung**

Practising Certificate Number P06614

Hong Kong

17 March 2023

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. NUMBER OF SHARES IN ISSUE**

The authorised and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately following the completion of the Capital Reorganisation but before the completion of the Rights Issue; and (iii) immediately following the completion of the Rights Issue (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date other than as a result of the Capital Reorganisation) are as follows:

**As at the Latest Practicable Date:**

<i>Authorised:</i>		<i>HK\$</i>
<u>3,000,000,000</u>	Existing Shares of HK\$0.10 each	<u>300,000,000.00</u>

*Issued and fully paid:*

<u>795,568,650</u>	Existing Shares of HK\$0.10 each	<u>79,556,865.00</u>
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**Immediately after Share Consolidation becomes effective:**

<i>Authorised:</i>		<i>HK\$</i>
<u>60,000,000</u>	Consolidated Shares of HK\$5.00 each	<u>300,000,000.00</u>

*Issued and fully paid:*

<u>15,911,373</u>	Consolidated Shares of HK\$5.00 each	<u>79,556,865.00</u>
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**Immediately after Capital Reorganisation becomes effective:**

*Authorised:* *HK\$*

30,000,000,000 Adjusted Shares of HK\$0.01 each 300,000,000.00

*Issued and fully paid:*

15,911,373 Adjusted Shares of HK\$0.01 each 159,113.73

The Rights Shares, when issued and fully-paid, will be free from all liens, charges, encumbrances and third-party rights, interests or claims of any nature whatsoever and shall rank *pari passu* in all respects with the Shares then in issue, including as to the right to receive all dividends and distributions which may be declared, made or paid on or after the date of allotment of the fully-paid Rights Shares.

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

The Rights Shares to be issued will be listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

## 3. DISCLOSURE OF INTERESTS

## (a) Directors' and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein (the “**Register**”), or (c) pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”) to be notified to the Company and the Stock Exchange were as follows:

Name	Capacity in which the shares were held	Number of shares – long position	Percentage of the issued share capital of the Company
Mr. LEUNG Wai Sing, Wilson (deceased)	Beneficial owner	76,706,986 (note ii)	9.64%
Mr. Webb David Michael	Beneficial owner	68,790,884 (note i)	8.65%
Ms. Lee Wing Yin	Beneficial owner	45,584,000	5.73%
Preferable Situations Assets Limited	Beneficial owner	42,479,041 (note i)	5.34%

## Notes:

- (i) Mr. Webb David Michael beneficially owned 26,311,843 shares, and in addition he held 42,479,041 shares through Preferable Situation Assets Limited, which was 100% directly owned by him.
- (ii) Mr. Leung Wai Sing, Wilson (deceased) beneficially owned 76,706,986 Shares. Mr. Leung Wai Sing, Wilson's interests are now undergoing probate.

Save as disclosed above, as at Latest Practicable Date, according to the register of interests required to be kept by the Company under Section 336 of Part XV of the SFO, there was no person, other than the directors of the Company, whose interests are set out in the section headed “Directors’ and chief executives’ interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation” above, who had any interest or short position in the shares or underlying shares of the Company.

**(b) Substantial shareholders and other persons’ interests in Shares and underlying Shares**

As at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

**4. DIRECTORS’ INTERESTS IN CONTRACTS AND ASSETS**

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2022, being the date to which the latest published audited consolidated accounts of the Group were made up.

**5. DIRECTORS’ SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or controlling shareholders or their respective associates had any business or interest which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

## 7. LITIGATION

As disclosed in the announcement titled “Inside Information Litigation Proceedings and Outstanding Bank Loans of the Company” on 7 June 2022 and “Litigation Update” in the annual report 2022, the Group:

- a) received the writ of summons issued by Seoul Alloy Metal (Huizhou) Co., Ltd.\* (首邇合金(惠州)有限公司) against Alco Electronics (Dongguan) Limited\* (愛高電業(東莞)有限公司) (indirectly wholly own subsidiary of the Company) in Zhongkai District People’s Court of Huizhou, PRC on 14 April 2022 to recover the amount HK\$65,882.00 plus interest and costs. As at the Latest Practicable Date, there is no further legal action;
- b) received the writ of summons issued by Ching Kung Metal Products Manufactory Limited (“**Ching Kung**”) against Alco Electronics Limited (indirectly wholly own subsidiary of the Company) (“**AEL**”) in Court of First Instance of the High Court of Hong Kong on 22 April 2022 to recover the amount HK\$9,386,954.55 plus interest and costs. On 11 October 2022, AEL received the sealed judgment entered against AEL in the sum of HK\$9,386,954.55 with 8% interest per annum from the date of judgment. On 10 November 2022, Ching Kung applied for the Garnish nisi order and the bank accounts of AEL were frozen. On 15 February 2023, Ching Kung presented a winding up petition against AEL. The hearing for the Petition is scheduled to be heard on 26 April 2023. As at the Latest Practicable Date, there is no further legal action by Ching Kung;
- c) received the writ of summons issued by Shenzhen Tianjiang Electronics Company Limited\* (深圳市天將電子有限公司) (“**Tianjiang**”) against AEL in District Court of Hong Kong on 28 April 2022 to recover the amount HK\$537,767.96 plus interest and costs. On 11 November 2022, AEL received the sealed judgment against AEL in the sum of HK\$537,767.96 together with interest thereon at judgment rate from the date hereof until payment plus HK\$6,000.00 fixed cost. On 2 December 2022, Tianjiang issued the statutory demand against AEL which was expired 21 days from the date of issuance. As at the Latest Practicable Date, there is no further legal action by Tianjiang;

- d) received the statutory demand by World Crown Investments Limited (“**World Crown**”) against the Company on 9 June 2022 in respect of a claim of RMB3,700,000 and HK\$652,174 being a purported loan from World Crown. On 22 November 2022, the Company received the judgment against the Company in the sum of RMB3,700,000 and HK\$652,174 plus cost. On 6 December 2022, World Crown and the Company agreed on the payment schedule on the said amount. As at the Latest Practicable Date, the case is closed;
- e) received the writ of summons issued by Sunwell Science & Technology Co. Limited (“**Sunwell**”) against AEL on 15 July 2022 to recover the amount US\$709,868.21 and HK\$172,401.43 under High Court Action No. 876 of 2022. On 20 December 2022, AEL received the sealed judgment against AEL in the sum of US\$709,868.21 and HK\$172,401.43 together with interest thereon at judgment rate from the date hereof until payment plus cost. As at the Latest Practicable Date, there is no further legal action by Sunwell;
- f) received the writ of summons issued by Forever Products Company (“**Forever Products**”) against AEL in District Court of Hong Kong on 03 October 2022 to recover the amount HK\$2,363,250.00 plus interest and costs. On 14 November 2022, AEL received the sealed judgment against AEL in the sum of HK\$2,363,250.00 together with interest thereon at 8% per annum from the date hereof until payment plus HK\$7,130.00 fixed cost. On 14 December 2022, Forever Products issued the statutory demand against AEL which was expired 21 days from the date of issuance. As at the Latest Practicable Date, there is no further legal action by Forever Products; and
- g) received the writ of summons issued by Eurboln Mold and Molding Co. Ltd (“**Eurboln**”) against AEL on 31 August 2022 to recover the amount HK\$5,585,160.00 plus interest and costs under High Court Action No. 1113 of 2022. On 02 February 2023, AEL received the sealed judgment against AEL in the sum of HK\$5,585,160.00 together with interest thereon at judgment rate from the date hereof until payment plus HK\$11,045.00 fixed cost. As at the Latest Practicable Date, there is no further legal action by Eurboln.

\* *For identification purposes only*

As at the Latest Practicable Date, save as disclosed above, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any member of the Group.

## 8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm there is no material adverse change in the financial or trading position of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by the members of the Group during two years preceding the date of this circular and are or may be material:

- (i) the subscription agreement dated 20 August 2021 (the “**Subscription Agreement**”) entered into between the Company (as issuer) and Growing Capital Group Limited (as subscriber) in relation to the subscription of 70,000,000 Shares at a subscription price of HK\$0.2434 per subscription share;
- (ii) the supplemental agreement to the Subscription Agreement dated 7 September 2021 entered into between the Company (as issuer) and Growing Capital Group Limited (as subscriber) in relation to the revision of certain terms under the Subscription Agreement;
- (iii) the placing agreement dated 29 August 2022 (the “**2022 Placing Agreement**”) entered into between the Company (as issuer) and Space Securities Limited (as placing agent) in relation to the placing of up to 72,324,465 Shares at a placing price of HK\$0.1 per placing share;
- (iv) the supplemental agreement to the 2022 Placing Agreement dated 7 September 2022 entered into between the Company (as issuer) and Space Securities Limited (as placing agent) in relation to the revision of certain terms under the 2022 Placing Agreement;
- (v) the second supplemental agreement to the 2022 Placing Agreement dated 19 September 2022 entered into between the Company (as issuer) and Space Securities Limited (as placing agent) in relation to the revision of certain terms under the 2022 Placing Agreement;
- (vi) the shareholders’ agreement dated 26 September 2022 (the “**Shareholders’ Agreement**”) entered into among Nexstgo Link Company Limited, Wong Wing Chun, Jasmy Incorporated (collectively as shareholders) and Avita Technologies International Company Limited (“**Avita Tech**”) (as target company) in relation to the shareholders’ investments in Avita Tech;
- (vii) the loan agreement dated 26 September 2022 entered into among Nexstgo Link Company Limited (as guarantor), Wong Wing Chun (as guarantor), Jasmy Incorporated (as lender) and Avita Tech (as borrower) in relation to the loan arrangement under the Shareholders’ Agreement; and
- (viii) the Placing Agreement.

**10. EXPERTS AND CONSENTS**

The following are the qualifications of the experts who have given their opinions, letters or advices which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
SHINEWING (HK) CPA Limited	Certified Public Accountants
Red Sun Capital Limited	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, (i) each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name and/or its advice in the form and context in which they respectively appear; (ii) each of the above experts was not beneficially interested in any share of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (iii) each of the above experts did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Group, or are proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

**11. CORPORATE INFORMATION**

Directors	Mr. LEI Kam Chao ( <i>Chairman</i> ) Mr. HO Chak Yu Mr. CHU Hoi Kan* Mr. LAM Chi Wing* Mr. TANG Sher Kin*
	* <i>Independent non-executive director</i>
Company Secretary	Mr. LAI Ka Fung
Authorised Representatives	Mr. LEI Kam Chao Mr. LAI Ka Fung
Principal Bankers	Hang Seng Bank Limited Shanghai Commercial Bank Limited

Registered Office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head Office and Principal Place of Business	11/F, Metropole Square 2 On Yiu Street Sha Tin New Territories Hong Kong
Principal Registrars	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM11 Bermuda
Registrars in Hong Kong	Tricor Abacus Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong

## 12. PARTIES INVOLVED IN THE RIGHTS ISSUE

The Company	Alco Holdings Limited 11/F, Metropole Square 2 On Yiu Street Sha Tin New Territories Hong Kong
Legal Advisers to the Company	<i>As to Hong Kong law</i> ZM Lawyers 20th Floor, Central 88 Nos. 88-98 Des Voeux Road Central Central Hong Kong  <i>As to Bermuda law</i> Conyers Dill & Pearman 29th Floor, One Exchange Square 8 Connaught Place Central Hong Kong



Financial adviser to the Company	Innovax Capital Limited Room B, 13/F, Neich Tower 128 Gloucester Road Wan Chai Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Red Sun Capital Limited Room 310, 3/F, China Insurance Group Building 141 Des Voeux Road Central Hong Kong
Reporting accountant of the Company	SHINEWING (HK) CPA Limited <i>Registered Public Interest Entity Auditor</i> 17/F, Chubb Tower Windsor House, 311 Gloucester Road Causeway Bay Hong Kong
Placing agent	Innovax Securities Limited Unit A-C, 20/F, Neich Tower 128 Gloucester Road Wan Chai Hong Kong

**13. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT****Executive Directors**

**Mr. LEI Kam Chao** (“**Mr. Lei**”), aged 66, has over 40 years of business experience. He was an executive director of Diamond Square Investment & Management Company Limited, a company incorporated in Hong Kong, and was primarily responsible for the overall management and supervision of the company’s resources and administrative functions. Mr. Lei had been the executive director and vice chairman of Century Entertainment International Holdings Limited (formerly known as Amax Holdings Limited) (stock code: 959). In addition, Mr. Lei is also the President Honorario of MaKuoc-Mio-Macau (澳門媽閣廟) Development Committee and the President Honorario of Macau Yacht Club. In general, Mr. Lei has extensive experiences in business and as executive director and vice chairman of listed company, and he is also active in public benefit activities.

**Mr. HO Chak Yu** (“**Mr. Ho**”) aged 35, is appointed as executive director of the Company with effect from 27 January 2023. Mr. Ho has over 12 years of business experience. He is currently a director of Gloadvise SDN BHD, a company incorporated in Malaysia since December 2020. Mr. Ho also works as an oversea business development manager in Stellar Capital since August 2019 and mainly focus on exploring oversea market. In addition, Mr. Ho was director of Sensethere SDN BHD from November 2020 to June 2022. In general, Mr. Ho has extensive experiences in multi-national business.

**Independent Non-executive Directors**

**Mr. CHU Hoi Kan** (“**Mr. Chu**”) aged 35, has over 10 years of experience in the accounting and corporate finance industries. He is currently an associate director in Honestum International Limited performing corporate finance advisory work since January 2019. Prior to that, he was mainly engaged in corporate finance advisory work at CLC International Limited from December 2012 to January 2019 with his last position as a manager. He also gained accounting experience from Deloitte Touche Tohmatsu from October 2010 to November 2012, with his last position as an audit senior in the audit function. Mr. Chu obtained a degree of Bachelor of Business Administration in Finance and Professional Accounting with first class honors from the Hong Kong University of Science and Technology in November 2010. He has been certified as a member of the Hong Kong Institute of Certified Public Accountants since September 2014.

**Mr. LAM Chi Wing** (“**Mr. Lam**”), aged 43, obtained a Bachelor of Business Administration degree in Accounting and Finance at the University of Hong Kong in 2003, a Master of Science degree in Knowledge Management at the Hong Kong Polytechnic University in 2006 and a Master of Business Administration degree at the Chinese University of Hong Kong in 2010. Mr. Lam joined Li & Fung Group in September 2003, where he served as the Group Chief Representative and General Manager, Southern China of Li & Fung Development (China) Limited prior to his departure in July 2015. Mr. Lam is the fourteenth deputy to the National People’s Congress\* (第十四屆全國人大代表), a member of the Twelfth & thirteenth Guangdong Committee of the Chinese People’s Political Consultative Conference\* (中國人民政治協商會議第十二、十三屆廣東省委員) and the Eleventh & Twelfth Zhongshan Committee of the Chinese People’s Political Consultative Conference\* (中國人民政治協商會議第十一屆、十二屆中山市委員). Mr. Lam served as a part-time member of the Central Policy Unit of the HK Government from 2011 to 2012, and currently serves as an advisory committee of the Sustainable Agricultural Development Fund of the HK Government, and a committee member of the Appeal Panel (Housing) of the HK Government. Mr. Lam is currently the vice chairman of the Guangdong Society of Commercial Economy (廣東省商業經濟學會) and an Adjunct Professor at the School of Business of the Renmin University of China (中國人民大學商學院). From July 2020 to December 2020, Mr. Lam was an executive director of Bonjour Holdings Limited (listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 653). Currently, Mr. Lam serves as an independent non-executive director of Wai Hung Group Holdings Limited (a company listed on the Stock Exchange of Hong Kong Limited, stock code: 3321) and MTT Group Holdings Limited (a company listed on the Stock Exchange of Hong Kong Limited, stock code: 2350). Mr. Lam has also served as an independent non-executive director of Aidigong Maternal & Child Health Limited (a company listed on the Stock Exchange of Hong Kong Limited, stock code: 0286) and resigned in December 2022.

**Mr. TANG Sher Kin** (“**Mr. Tang**”), aged 53, has about 30 years of experience in the engineering industry and project management. Mr. Tang obtained a bachelor’s degree of engineering in mechanical engineering from the Oxford Polytechnic (now known as the Oxford Brookes University) in the United Kingdom in July 1992 and a master’s degree of arts in global business management from the City University of Hong Kong in November 2006. Mr. Tang was admitted as a chartered engineer of the Engineering Council in December 2004, a registered professional engineer of the Engineer Registration Board in April 2009, a BEAM professional of the Hong Kong Green Building Council in July 2010 and a registered energy assessor of the Electrical and Mechanical Services Department of the Government in August 2012. Mr. Tang is a council member of The Hong Kong Institution of Engineers (HKIE) and also a fellow member of HKIE in five disciplines including (i) building services; (ii) control, automation and instrumentation; (iii) environmental; (iv) energy; and (v) mechanical. He is currently an independent non-executive director of Kwong Luen Engineering Holdings Limited, a company listed on the Stock Exchange (stock code: 1413).

**Senior Management**

**Mr. LAI Ka Fung** (“**Mr. Lai**”), aged 31, joined Advance Packaging Limited (“**APL**”), one of the major subsidiaries of the Company, as its financial controller in October 2022. Before joining APL, Mr. Lai has over 8 years of experience in auditing, accounting and finance field. Mr. Lai is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lai holds a degree of Bachelor of Business Administration granted by The Hong Kong University of Science and Technology.

**Business address of the Directors and senior management**

The business address of the Directors and the senior management is the same as the Company’s head office and principal place of business in Hong Kong at 11/F, Metropole Square, 2 On Yiu Street, Sha Tin, New Territories, Hong Kong.

**14. EXPENSES**

The expenses in connection with the Rights Issue, including financial advisory fees, placing commission (assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and the placing of all Unsubscribed Shares and the NQS Unsold Shares by the Placing Agent), printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$1,191,000, which are payable by the Company.

**15. DOCUMENTS ON DISPLAY**

Copies of the following documents will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.alco.com.hk](http://www.alco.com.hk)) for 14 days from the date of this circular:

- (i) the letter from the Independent Financial Adviser, the text of which is set out on pages 43 to 67 of this circular;
- (ii) the letter issued by the reporting accountants regarding the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;
- (iii) the material contracts referred to in the paragraph headed “9. Material contracts” in this appendix; and
- (iv) the written consent from the Experts as referred to in the paragraph headed “10. Experts and consents” in this appendix.

**16. MISCELLANEOUS**

- (a) As at the Latest Practicable Date, to the best knowledge of the Directors, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
  
- (b) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

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## NOTICE OF THE SGM

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### ALCO HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

Website: <http://www.alco.com.hk>

(Stock Code: 328)

### NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting (the “**Meeting**”) of Alco Holdings Limited will be held at 11/F, Metropole Square, 2 On Yiu Street, Sha Tin, New Territories, Hong Kong, on Thursday, 13 April 2023 at 11:00 a.m. for the following purposes:

#### SPECIAL RESOLUTION

“**THAT** subject to and conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Adjusted Shares (as defined below) arising from the Capital Reorganisation (as defined below); and (ii) the compliance by the Company with section 46(2) of the Companies Act 1981 of Bermuda and the Listing Rules to effect the Share Consolidation (as defined below), Capital Reduction (as defined below) and the Share Subdivision (as defined below), with effect from the second business day immediately following the day of passing of this resolution, being a day on which the shares of the Company are traded on the Stock Exchange:

- (a) every fifty (50) issued and unissued existing Shares of par value of HK\$0.01 each in the authorised share capital of the Company be consolidated (the “**Share Consolidation**”) into one (1) ordinary share of par value of HK\$5.00 each (the “**Consolidated Share(s)**”);
- (b) immediately following the Share Consolidation becoming effective, the issued share capital of the Company be reduced by (a) rounding down the number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid-up share capital to the extent of HK\$4.99 on each issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK\$5.00 to HK\$0.01 (the “**Capital Reduction**”);

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- (c) the credit arising from the Capital Reduction be applied to set off against the accumulated losses of the Company or be applied in any other manner as may be permitted under the bye-laws of the Company and all applicable laws of Bermuda;
- (d) immediately following the Capital Reduction becoming effective, each of the then authorised but unissued Consolidated Shares of par value of HK\$5.00 each in the share capital of the Company be subdivided into five hundred (500) authorised but unissued shares of par value of HK\$0.01 each in the share capital of the Company (the “**Adjusted Share(s)**”) such that the authorised share capital of the Company will be HK\$299,940,886.27 divided into 29,984,088,627 Adjusted Shares of par value of HK\$0.01 each (the “**Share Subdivision**”, together with the Share Consolidation and the Capital Reduction, the “**Capital Reorganisation**”) immediately following the Share Subdivision becoming effective and such Adjusted Share(s) shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the bye-laws of the Company; and
- (e) any one of the Directors be and are hereby authorised to do all such acts and things and execute and deliver all such documents, which are ancillary to the Capital Reorganisation, on behalf of the Company, including under common seal where applicable, as they may consider necessary, desirable or expedient to carry out or give effect to any or all of the foregoing arrangements in respect of the Capital Reorganisation.”

### ORDINARY RESOLUTION

“**THAT** subject to and conditional upon the passing of the resolutions numbered 1, and the fulfilment of all conditions as set out in the section headed “Letter from the Board – Proposed Rights Issue – Conditions of the Rights Issue” in the circular of the Company dated 17 March 2023:

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- (a) the issue of up to 63,645,492 new Shares (assuming no further issue and repurchase of the shares of the Company up to the Record Date (as defined below)) (the “**Rights Shares**”) pursuant to an offer by way of rights to the shareholders of the Company (the “**Shareholders**”) at the subscription price of HK\$1.425 per Rights Share (the “**Subscription Price**”) on the basis of four (4) Rights Shares for every one (1) Adjusted Share held by the Shareholders (“**Qualifying Shareholders**”) whose names appear on the register of members of the Company on Wednesday, 26 April 2023, or such other date as may be determined by the Company for determining entitlements of the Shareholders to participate in the Rights Issue (as defined below) (the “**Record Date**”), save for the Shareholders whose addresses as of the Record Date are outside of Hong Kong (if any) to whom the Directors, based on legal opinions to be provided by the legal advisers to the Company, consider it necessary or expedient not to offer the Rights Shares on account either of the legal restrictions under the laws of the relevant place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s) (the “**Non-Qualifying Shareholders**”), and on and subject to such terms and conditions as may be determined by the Directors (the “**Rights Issue**”), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the placing agreement dated 27 January 2023 entered into between the Company and Innovax Securities Limited (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), in relation to the placing of the Rights Shares not subscribed by the Qualifying Shareholders and/or the Rights Share(s) which would otherwise has/have been provisionally allotted to the Non-Qualifying Shareholder(s) in nil-paid form that has/have not been sold by the Company at the placing price of not less than the Subscription Price on a best effort basis, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) the board of Directors or a committee thereof be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the Rights Shares may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, any Directors be and is hereby authorised to make such exclusions or other arrangements in relation to any Non-Qualifying Shareholders, and to do all such acts and things or make such arrangements as he/she considers necessary, desirable or expedient having regard any restrictions under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong to give effect to any or all other transactions contemplated in this resolution; and



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- (d) the Directors be and are hereby authorised to do all such acts and things and execute and deliver all such documents, which are ancillary to the Rights Issue and the Placing Agreement, on behalf of the Company, including under common seal where applicable, as they may consider necessary, desirable or expedient to implement or give effect to any matters in connection with the Rights Issue, the Placing Agreement, and the transactions contemplated thereunder.”

By order of the Board  
**Alco Holdings Limited**  
**LEI Kam Chao**  
*Chairman*

Hong Kong, 17 March 2023

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Head Office and Principal Place of  
Business in Hong Kong:*  
11/F, Metropole Square  
2 On Yiu Street  
Sha Tin  
New Territories  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. Proxy forms must be lodged with the Company's share registrar in Hong Kong at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
2. Where there are joint holders of any share of the Company, any one of such joint holders may vote at the Meeting or its adjourned meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
3. A form of proxy for use at the Meeting or its adjourned meeting is enclosed.
4. To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding the Meeting or its adjourned meeting. Completion and return of the form of proxy will not preclude a Member from attending and voting in person at the Meeting or its adjourned meeting and in such event, the form of proxy shall be deemed to be revoked.

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5. The voting at the Meeting or its adjourned meeting will be taken by poll.
6. If tropical cyclone warning signal No. 8 or above, or a “black” rainstorm warning or “extreme conditions after super typhoons” announced by the Government of Hong Kong is/are in effect any time after 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the website of the Company at [www.alco.com.hk](http://www.alco.com.hk) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) to notify the Shareholders of the date, time and place of the re-scheduled Meeting.

If a tropical cyclone warning signal No. 8 or above or a “black” rainstorm warning signal is lowered or cancelled at or before 7:00 a.m. on the date of the Meeting and where conditions permit, the Meeting will be held as scheduled.

The Meeting will be held as scheduled when an “amber” or “red” rainstorm warning signal is in force.

*As at the date of this notice, the executive directors of the Company are Mr. LEI Kam Chao, Mr. Ho Chak Yu. The independent non-executive directors of the Company are Mr. CHU Hoi Kan, Mr. LAM Chi Wing and Mr. TANG Sher Kin.*