红日资本有限公司
RED SUN CAPITAL LIMITED

28 April 2023

To: The independent board of committee and the independent shareholders of Sandmartin International Holdings Limited

(1) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE; (2) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING AGREEMENT; (3) APPLICATION FOR WHITEWASH WAIVER; AND (4) SPECIAL DEAL

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, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 28 April 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 three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date. The Rights Shares (other than those agreed to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) will be fully underwritten by First Steamship in accordance with the terms of the Underwriting Agreement and the Company will make arrangements to dispose of the Unsubscribed Rights Shares, comprising the Rights Shares that are not subscribed by the Qualifying Shareholders and the Non-Qualifying Shareholders, by offering the Unsubscribed Rights Shares to independent placees who are not Shareholders for the

香港中环德辅道中141号中保集团大厦3楼310室
Room 310, 3/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong
Tel电话：(852) 2857 9208   Fax传真：(852) 2857 9100
E-mail电邮：info@redsunhk.com

benefit of the relevant No Action Shareholders and the Non-Qualifying Shareholders to whom they were offered under the Rights Issue. The Company will allot and issue up to 738,242,235 Rights Shares at the Subscription Price of HK$0.12 per Rights Share and raise up to an estimated net proceeds of approximately HK$84.59 million.

In this connection, on 15 March 2023, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares. The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price. The final price determination will be determined based on the demand for and market conditions of the Unsubscribed Rights Shares at the time of placement.

The Company also entered into the Underwriting Agreement with First Steamship in respect of the Rights Issue on 15 March 2023, pursuant to which First Steamship has agreed to subscribe for the Untaken Rights Shares, being all the Unsubscribed Rights Shares that are not placed by the Placing Agent or they have been placed but the placees have not paid therefor at 4:00 p.m. on the Placing Completion Date, pursuant to the terms and subject to the conditions set out in the Underwriting Agreement.

LISTING RULES IMPLICATIONS

The Rights Issue upon completion, will increase the issued share capital of the Company by more than 50%. In accordance with Rule 7.19A and Rule 7.27A of the Listing Rules, the Rights Issue is conditional on approval by the Independent Shareholders (comprising both the Qualifying Shareholders and the Non-Qualifying Shareholders) at the SGM at which the controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding 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) relating to the Rights Issue at the SGM. As such, the Directors (excluding independent non-executive Directors) and their associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, save for Mr. Hung (an executive Director) who is interested in 70,718,859 Shares, representing approximately 14.37% of the issued share capital of the Company, through Metroasset Investments Limited, a company beneficially owned as to 45.09%, 43.38% and 10.53% by Mr. Hung, Ms. Chen Mei Huei (spouse of Mr. Hung) and Mr. Hung Chih Chun (son of Mr. Hung) respectively, none of the Directors or their associates hold any Shares. As a result, Mr. Hung is required to abstain from voting the resolutions to approve the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and/or the Whitewash Waiver at the SGM pursuant to Rule 7.27A of the Listing Rules.

The Underwriter is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Underwriter and its associates shall abstain from voting in favour of the resolution(s) in relation to the Underwriting Agreement at the SGM.

Save for Mr. Kuo (a non-executive Director and a director and chairman of First Steamship and a director of the Placing Agent), no other Directors has a material interest in the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and/or the Whitewash Waiver and is required to abstain from voting at the meeting of the Board convened to consider such matters. Mr. Kuo has abstained from voting at the meeting of the Board convened to consider such matters. As at the Latest Practicable Date, Mr. Kuo does not hold any Shares.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEAL

Whitewash Waiver

As at the Latest Practicable Date, First Steamship and parties acting in concert with it (including Grand Citi) are interested in an aggregate of 142,628,902 Shares, representing approximately 28.98% of the issued share capital of the Company. First Steamship has provided the Irrevocable Undertaking to take up and pay for, and procure the taking up and payment by Grand Citi, an aggregate of 213,943,353 Rights Shares to be provisionally allotted to them respectively under the Rights Issue. Assuming no Rights Shares are taken up by the Qualifying Shareholders (other than those to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and no Unsubscribed Rights Shares are successfully placed under the Compensatory Arrangements, First Steamship, as the Underwriter, will be required to take up a maximum of 524,298,882 Rights Shares.

In such circumstances and upon completion of the Rights Issue, assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, First Steamship and parties acting in concert with it (including Grand Citi) will, in aggregate, be interested in 880,871,137 Shares, representing approximately 71.59% of the issued share capital of the Company. Accordingly, First Steamship would be required to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it (including Grand Citi), unless the Whitewash Waiver is granted.

An application has been made by First Steamship to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive is minded to grant the Whitewash Waiver, subject to approval by the Independent Shareholders (including (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder) in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive the obligations on the part of First Steamship to make a general offer which will result from taking up the Unsubscribed Rights Shares. First Steamship, its associates and parties acting in concert with it (including Grand Citi), Mr. Hung and his associates, the Lender and its associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder, and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the SGM.

If the Whitewash Waiver is granted by the Executive and approvals by the Independent Shareholders are obtained, upon completion of the Rights Issue, assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the maximum potential holding of voting rights of First Steamship and parties acting in concert with it (including Grand Citi) in the Company will exceed 50%, First Steamship may thereafter increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Special Deal

As at the Latest Practicable Date, the Lender and its associates are interested in 24,000,000 Shares (representing approximately 4.88% of the issued share capital of the Company) and the Company is indebted to the Lender the Loan (including principal of US$25 million (equivalent to approximately HK$196.21 million) and accrued interest of approximately HK$14.73 million). The Lender and its associates are not acting in concert with First Steamship and is independent to the current substantial Shareholders and the Placing Agent. Under the Takeovers Code, the use of the proceeds from the Rights Issue to repay the Loan under the Repayment Proposal would constitute a favourable condition not extended to all Shareholders and therefore a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Executive's consent, if granted, will be conditional upon (i) the Independent Financial Adviser to the Independent Board Committee publicly giving an opinion that the terms of the Special Deal are fair and reasonable; and (ii) the approval of the Independent Shareholders of the Special Deal at a shareholders' meeting by way of poll. The Company has made an application for seeking the consent of the Executive to the Special Deal under Note 5 to Rule 25 of the Takeovers Code.

The Rights Issue is conditional on, among other things, the granting of the Whitewash Waiver and the consent to the Special Deal by the Executive and the approval by the Independent Shareholders at the SGM in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver as mentioned above. If the Whitewash Waiver is not granted or the Special Deal is not consented to by the Executive and/or approvals by the Independent Shareholders are not obtained, the Rights Issue will not proceed.

The Company notes that the Executive may not grant the Whitewash Waiver or its consent to the Special Deal if the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver do not comply with other applicable rules and regulations.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising three independent non-executive Directors, namely Mr. Wu Chia Ming, Ms. Chen Wei-Hui and Mr. Lu Ming-Shiuan, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver, 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 this regard.

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 or the Underwriter or the Lender that could reasonably be regarded as relevant in assessing our independence. Save for our appointment as the Independent Financial Adviser, Red Sun Capital Limited 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 reviewed, among other things, (i) the Underwriting Agreement and its supplemental agreement; (ii) the Placing Agreement and its supplemental agreement; (iii) the Loan Agreement; (iv) the Property Valuation Report; (v) the announcement of final results of the Company for the year ended 31 December 2022 dated 30 March 2023. 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, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. 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, nor statements, information, opinions or representation provided to us to be untrue, inaccurate or misleading.

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.

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 is principally engaged in (i) trading and manufacturing of media entertainment platform related products; (ii) trading and manufacturing of components of audio and video electronic products; and (iii) trading and manufacturing of satellite TV equipment and antenna products.

Set out below is a summary of (i) the audited consolidated financial performance of the Group for each of the years ended 31 December 2021 and 2022 as extracted from the Company's annual results announcement for the year ended 31 December 2022 (the "**2022 Annual Results Announcement**").

Summary of consolidated statement of profit or loss

	For the year ended 31 December		**Year-on-year change**
	2022	**2021**	
	HK$'000	*HK$'000*	
Revenue	745,954	926,471	–19.5%
Cost of sales	(666,262)	(805,276)	–17.3%
Gross profit	79,692	121,195	–34.2%
Loss before income tax expense	(67,841)	(16,442)	312.6%
Loss for the year	(80,515)	(26,261)	206.6%
Loss for the year attributable to owners of the Company	(77,548)	(25,433)	204.9%
Segment revenue			
– Media entertainment platform related products	92,890	117,545	–21.0%
– Other multimedia products	133,311	271,886	–51.0%
– Satellite TV equipment and antenna products	519,753	537,040	–3.2%
Segment results			
– Media entertainment platform related products	(1,388)	5,645	–124.6%
– Other multimedia products	4,910	15,301	–67.9%
– Satellite TV equipment and antenna products	53,023	72,354	–26.7%

Financial performance for the year ended 31 December 2022

As set out in the 2022 Annual Results Announcement, the Group recorded revenue of approximately HK$746.0 million for the year ended 31 December 2022, representing a decrease of approximately 19.5% as compared to approximately HK$926.5 million recorded for the year ended 31 December 2021. The revenue of the Group are generated from media entertainment platform related products segment, other multimedia products segment and satellite TV equipment and antenna products segment. The Group recorded loss attributable to owners of the Company of approximately HK$77.5 million for the year ended 31 December 2022, representing an increase of approximately 204.9% as compared to approximately HK$25.4 million recorded for the year ended 31 December 2021 which was mainly attributable to the decrease in the share of profit of an associate in Nepal of approximately HK$4.5 million for the year ended 31 December 2021 to the share of loss of the associate in Nepal of approximately HK$45.4 million for the year ended 31 December 2022. The outbreak of the Pandemic had adverse impact on the revival of tourism sector and economic sentiment in Nepal which led to the decrease in number of subscribers of Dish Media Network Limited (the Company's associate and the largest satellite pay television operator in Nepal).

The media entertainment platform related products segment involved in trading and manufacturing of media entertainment platform related products, which are mainly used for satellite products equipment like TV set-top box. The Group's revenue generated from the media entertainment platform related products segment decreased by approximately HK$24.6 million or 21.0% from approximately HK$117.5 million for the year ended 31 December 2021 to approximately HK$92.9 million for the year ended 31 December 2022. The media entertainment platform related products segment recorded a segment loss for approximately HK$1.4 million in which decreased by 124.6% compare to the financial year ended 31 December 2021. It is mainly attributable to the challenging economic environment and a decline in demand of its products. Due to the continued impact of the 2019 novel coronavirus pandemic (the "**Pandemic**"), consumers turn to be more cost-oriented which may have switched to online viewing. It leads to the declining of global cable TV viewers and the consumption of hardware products is slowing down.

The other multimedia products segment involved in trading and manufacturing of components of audio and video electronic products such as cable lines. Revenue generated from the other multimedia products segment decreased by approximately HK$138.6 million or 51.0% from approximately HK$271.9 million for the year ended 31 December 2021 to approximately HK$133.3 million for the year ended 31 December 2022 which mainly due to the impact of the Pandemic and the Russian-Ukrainian war that intensify the inflation, hence, reducing consumer demand and the number of orders. The other multimedia products segment recorded a segment result for approximately HK$4.9 million for the year ended 31 December 2022 in which decreased by 67.9% from approximately HK$15.3 million for the year ended 31 December 2021. It is mainly attributable to the increase in material costs and freight charges after the outbreak of the Pandemic.

The satellite TV equipment and antenna products segment involved in trading and manufacturing of satellite TV equipment and antenna products. Revenue generated from the satellite TV equipment and antenna products segment slightly decreased by approximately HK$17.2 million or 3.2% from approximately HK$537.0 million for the year ended 31 December 2021 to approximately HK$519.8 million for the year ended 31 December 2022. The satellite TV equipment and antenna products segment recorded a segment result for approximately HK$53.0 million for the year ended 31 December 2022 in which decreased by approximately 26.7% from approximately HK$72.4 million for the year ended 31 December 2021 which mainly due to the decline of global cable TV viewers and the slowdown of the consumption of hardware of cable TV stations, however, the company is working on developing new products (i.e. 5G router) which partially net-off the impact of the slowdown of consumption.

Summary of the consolidated statement of financial position

	As at 31 December	
	2022	2021
	HK$'000	*HK$'000*
Non-current assets	**354,135**	**410,981**
Property, plant and equipment	58,809	72,712
Investment properties	231,949	230,797
Goodwill	8,772	9,597
Interest in an associate	46,722	91,443
Current assets	**512,730**	**606,091**
Inventories	137,404	205,038
Trade, bills and other receivables	229,071	225,325
Bank balances and cash	79,158	111,354
Current liabilities	**691,694**	**612,416**
Trade, bills and other payables	356,072	398,853
Bank and other borrowings	269,941	144,083
Lease liabilities	4,979	4,992
Non-current liabilities	**162,320**	**309,563**
Bank and other borrowings	81,990	225,981
Deferred tax liabilities	66,786	67,746
Lease liabilities	13,544	15,804
Net current liabilities	**(178,964)**	**(6,325)**
(Capital deficiency)/equity attributable to owners of the Company	(25,773)	55,279
Total equity	**12,851**	**95,093**

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

Financial position as at 31 December 2022

As at 31 December 2022, the Group's total assets amounted to approximately HK$866.9 million, representing a decrease of approximately 14.8% as compared to approximately HK$1,017.1 million as at 31 December 2021, which mainly comprised (i) non-current assets of approximately HK$354.1 million, representing a decrease of approximately 13.8% as compared to approximately HK$411.0 million as at 31 December 2021; and (ii) current assets of approximately HK$512.7 million, representing a decrease of approximately 15.4% as compared to approximatelyHK$606.1 million as at 31 December 2021. Current assets mainly included (i) inventories of approximately HK$137.4 million as which decrease from approximately HK$205.0 million as at 31 December 2021 that mainly due to approximately HK$4 million of inventory impairment loss; (ii) trade, bills and other receivables of approximately HK$229.1 million as compared to approximately HK$225.3 million as at 31 December 2021; and (iii) bank balances and cash of approximately HK$79.2 million as compared to approximately HK$111.4 million as at 31 December 2021.

As at 31 December 2022, the current liabilities of the Group amounted to approximately HK$691.7 million, representing an increase of 12.9% as compared to approximately HK$612.4 million as at 31 December 2021, which mainly comprised (i) bank and other borrowings of approximately HK$269.9 million, representing an increase of approximately 87.4% as compared to approximately HK$144.1 million as at 31 December 2021; and (ii) trade, bills and other payables of approximately HK$356.1 million, representing a decrease of approximately 10.7% as compared to approximately HK$398.9 million as at 31 December 2021. The net current liabilities increase by approximately HK$172.7 million or 2,729.5% from approximately HK$6.3 million as at 31 December 2021 to approximately HK$179.0 million as at 31 December 2022. The Group recorded approximately HK$162.3 million of non-current liabilities and approximately HK$854.0 million of total liabilities as at 31 December 2022. The large portion of bank and other borrowings moved from non-current liabilities to current liabilities is mainly due to maturity of the Loan within one year ended 31 December 2023.

The net capital deficiency attributable to the owners of the Company amounted to approximately HK$25.8 million as at 31 December 2022 and the Group's total equity amounted to approximately HK$12.9 million as at 31 December 2022, representing a decrease of approximately 86.5% as compared to approximately HK$95.1 million as at 31 December 2021.

Our analysis

Having considered the historical financial information of the Group, in particular, (i) the Group has recorded loss attributable to owners of the Company of approximately HK$77.5 million, for the year ended 31 December 2022; (ii) the Group has recorded net current liabilities of approximately HK$179.0 million as at 31 December 2022; (iii) as at 31 December 2022, the Group's total borrowings (excluding lease liabilities) were approximately HK$351.9 million, out of which HK$269.9 million were due within one year, however, the Group's bank balances and cash only amounted to approximately HK$79.2 million as at 31 December 2022; (iv) the total equity of the Group decrease by approximately 86.5% from approximately HK$95.1 million as at 31 December 2021 to approximately HK$12.9 million as at 31 December 2022; (v) the Group has recorded net capital deficiency attributable to the owners of the Company of approximately HK$25.8 million as at 31 December 2022; and (vi) the Group have funding need to encounter the current financial position, the Rights Issue is in the interests of the Company as a whole. For other financing alternatives, please refer details of our analysis under section headed "2. Reasons for the Rights Issue, the Underwriting Agreement and the use of proceeds – (b) fund raising alternatives".

2. Reasons for the Rights Issue, the Underwriting Agreement and the use of proceeds

(a) Reasons for the Rights Issue and the intended use of proceeds

As stated in the Letter from the Board, as disclosed in the annual results announcement of the Company for the year ended 31 December 2022 published on 30 March 2023, as at 31 December 2022, the bank and other borrowing of the Group amounts to approximately HK$351.93 million ("**Outstanding Loans**"), out of which approximately HK$269.94 million falls under current liabilities, HK$244.46 million is secured loan and HK$107.47 million is unsecured loan, and the Group has net current liabilities of approximately HK$178.96 million. The interest rates on the Outstanding Loans ranged between 1.0% and 10% per annum. For the year ended 31 December 2022, the Group incurred finance costs of approximately HK$28.16 million. As at 31 December 2022, the cash and bank balance of the Group amounted to approximately HK$79.16 million. The Outstanding Loans falls under current liabilities of approximately HK$269.94 million comprise the outstanding principal amount of the Loan of US$25 million (equivalent to approximately HK$194.94 million based on the exchange rate of US$1 to HK$7.7976 as per 2022 Results Announcement), bank borrowings of approximately HK$68.71 million and other borrowings of approximately HK$6.29 million. Other than the Loan, other borrowings of the Group of approximately HK$3.95 million has been overdue since 6 April 2023. The Company is in the course of liaising with the lender for the extension of loans and will settle such loans with internal resources of the Group if the lender declines. The Company intends to renew bank borrowings of approximately HK$68.71 million and other borrowings of approximately HK$2.34 million upon their maturity.

Amongst the Outstanding Loans, the Loan has matured on 20 April 2023 and interest payment of the Loan has been overdue to the Lender since August 2022. The Loan was granted to the Company by the Lender pursuant to the Loan Agreement dated 19 September 2016. Since entering into the Loan Agreement and up to the Latest Practicable Date, the loans in an aggregate amount of approximately US$49.29 million (equivalent to approximately HK$386.93 million) were granted by the Lender to the Company with interest rate ranging between 10% and 13% per annum, out of which approximately US$24.29 million (equivalent to approximately HK$190.68 million) has been repaid by the Company to the Lender. As at the Latest Practicable Date, the outstanding principal amount of the Loan is US$25 million (equivalent to approximately HK$196.21 million) with interest rate of 10% per annum. For obtaining the Loan, the Company has (i) created a first fixed and floating charge over the entire Company's undertaking, property and assets as securities to the Lender; and (ii) pledged all the shares owned by the Company in Pro Brand Technology Inc. (a 59.1%-owned subsidiary of the Company and principally engaged in the production and sale of satellite TV equipment and antenna products) to the Lender (the "**Loan Securities**"). The Company has fully applied the Loan as to approximately (i) US$47.29 million (equivalent to approximately HK$371.23 million) for the development and operation of satellite television broadcasting business in Middle East, Mediterranean and Africa including purchase of television contents, renting satellite transponder, purchase of set-top boxes and smart cards and other operating costs such as payment for dealers' commission, marketing and promotion expenses; and (ii) US$2 million (equivalent to approximately HK$15.7 million) for general working capital of the Group (including but not limited to operating expenses of the production plant in Zhongshan). The Company disposed its interest in the satellite television broadcasting business on 25 June 2019. As at the Latest Practicable Date, the Lender is wholly-owned by Allied Group Limited, the shares of which are listed on the Mainboard of the Stock Exchange (stock code: 373). The Lender and its associates are interested in 24,000,000 Shares, representing approximately 4.88% of the issued share capital of the Company. The Company has requested the Lender for extending the Loan for a term of two years, but was declined by the Lender unless the Company pays up the interest in arrears and makes partial repayment of the principal. During the meetings with the Lender, the Lender has not indicated the amount of partial repayment of the Loan for obtaining its agreement on the extension of the Loan but requested the Company for making a repayment proposal for its consideration. In view of the financial position of the Group, the Company has imminent needs to raise fund for repaying the Loan.

As set out in the 2022 Annual Results Announcement, the Group recorded audited cash and cash equivalents of approximately HK$79.2 million which is not sufficient to repay the Outstanding Loans amounted to approximately HK$351.9 million, out of which approximately HK$269.9 million falls under current liabilities, and the Group has net current liabilities of approximately HK$179.0 million. Based on the Group's bank and other borrowings excluding lease liabilities of approximately HK$351.9 million and total equity of approximately HK$12.9 million as at 31 December 2022, the Group's gearing ratio (calculated as dividing total borrowings by total equity) was approximately 2,738.5% as at 31 December

2022, as compared to approximately 389.2% based on the Group's bank and other borrowings excluding lease liabilities of approximately HK$370.1 million and total equity of approximately HK$95.1 million as at 31 December 2021.

We noted from the 2022 Annual Results Announcement that in the opinion of the Company's auditors, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance, however, the Company constitute material uncertainty related to going concern for the year ended 31 December 2022 and over the last five financial years.

The Group incurred a net loss of HK$77,548,000 attributable to owners of the Company during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by HK$178,964,000. There were multiple uncertainties relating going concern, among other, (i) net loss of approximately HK$77.5 million attributable to owners of the Company; net current liabilities of approximately HK$179.0 million; (ii) bank and other borrowings of approximately HK$269.9 million, which is subject to repayment or renewal in the next twelve months after the end of the reporting period; (iii) the non-repayment of interest constituted an event of default under the loan agreement; and (iv) capital deficiency attributable to owners of the Company of approximately HK$25.8 million, which indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In view of (i) the unsatisfactory financial performance of the Group as discussed in the section headed "1. Background and financial information of the group" above; (ii) deteriorating financial position and imminent funding requirements of the Group; (iii) the extension request for terms of Loan was declined by the Lender; and (iv) the Group has insufficient internal financial resources for settlement of Outstanding Loans, its operating requirements and any unforeseen capital requirements from time to time; (v) the Group is difficult to obtain loans with favourable interest rate due to its loss-making position of the Group for the year ended 31 December 2021 and 2022 and the high gearing ratio of approximately 2,738.5% as at 31 December 2022 comparing with approximately 389.2% as at 31 December 2021; and (vi) placing of new Shares would dilute the shareholding of the existing Shareholders while the Rights Issue will allow the Qualifying Shareholders to maintain their respective shareholdings in the Company on a pro rata basis, we concur that the Directors' view that has imminent needs to raise fund for repaying the Loan and it's necessary for the Group to consider and conduct fund raising activities, and as such the Rights Issue would enable the Group to have access to additional funding and improve its liquidity position.

The Company intends to apply the net proceeds of approximately HK$84.59 million from the Rights Issue (assuming no further issue of new Shares or repurchase of Shares on or before the Record Date and full subscription under the Rights Issue) as follows:

(i) approximately HK$73.61 million or 87.0% for repayment of part of the Loan (including principal amount of US$7.5 million (equivalent to approximately HK$58.88 million and representing about 30% of the outstanding principal amount of the Loan) and accrued interest of approximately HK$14.73 million, "Repayment Proposal"). It is estimated that the finance costs of the Group will be reduced by approximately HK$5.89 million per annum after repayment of such principal amount of the Loan and the financial results of the Group are expected to improve as a result. The Company considered that the repayment of about 30% of the outstanding principal amount of the Loan is considerable and would attract the Lender for its agreement on a further extension of two years and has presented the Repayment Proposal to the Lender. After reviewing the Repayment Proposal by the Lender, the Company and the Lender entered into an extension letter dated 21 March 2023 in respect of the Loan pursuant to which the Lender has agreed to extend the remaining principal amount of US$17.5 million (equivalent to approximately HK$137.38 million) of the Loan (the "**Remaining Loan**") for a term of two years to 20 April 2025 subject to the fulfilment of the repayment under the Repayment Proposal. and entering into of a supplemental agreement to the Loan Agreement. Save for the extension of the maturity date of the Remaining Loan to 20 April 2025, other terms of the Loan Agreement (including interest rate of 10% and the Loan Securities) will remain unchanged. The Company and the Lender will enter into such supplemental agreement after fulfilment of the repayment under the Repayment Proposal. If the Lender did not satisfy with the Repayment Proposal or the repayment under the Repayment Proposal is not fulfilled, it is likely that the Lender will enforce the Loan Securities which is expected to cause disruptions to the business development of the Group such as disposal of the Company's business and assets. The Company will consider the repayment of the Remaining Loan from internal resources of the Group when the financial position of the Group improves in the future.

(ii) approximately HK$10.98 million or 13.0% for the general working capital of the Group (including approximately HK$5.49 million for the working capital of the production plant in Zhongshan and HK$5.49 million for administration and operation expenses of the headquarters in Hong Kong).

Please refer to the section headed "Reasons for and benefits of the rights issue and 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.

(b) fund raising alternatives

As set out in the Letter form the Board, the Company has considered alternative fundraising methods which include debt financing or placing of new Shares or an open offer. For debt financing, in light of the loss-making position of the Group for the years ended 31 December 2021 and 2022 and the high gearing ratio of the Group, it is difficult for the Group to obtain loans with favourable interest rate. For placing of new Shares, it would dilute the shareholding of the existing Shareholders while the Rights Issue will allow the Qualifying Shareholders to maintain their respective shareholdings in the Company on a pro rata basis. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market.

Having consider that (i) debt financing is not feasible for the Group under its loss-making position without any collateral; (ii) placing would dilute the shareholding of the existing Shareholders without offering them the opportunity to maintain their shareholding interests in the Company; (iii) the open offer does not allow the trading of rights entitlements in the open market; (iv) the Rights Issue enables the Shareholders to sell the nil-paid rights in the market; (v) the Rights Issue gives the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interest in the Company and to continue to participate in the future development of the Company; (vi) the net proceeds from the Rights Issue could significantly improve the financial position and gearing ratio of the Group by decreasing the Company outstanding debts in which the gearing ratio of the Group would improve for approximately 7.58 times from 2,738.5% to approximately 361.2% as at 31 December 2022 upon completion of the Rights Issue; and (vii) the Rights Issue could facilitate the Group in reducing its future financing costs by early repayment of its outstanding debts, we concur with the Company and consider that the current fund-raising method by way of the Rights Issue is appropriate and acceptable for the Company and its Shareholders as a whole.

3. Previous fundraising exercise involving issue of securities in the prior 12-month period

The Company has not conducted any fundraising activity involving issue of equity securities in the past twelve months immediately preceding the Announcement and up to the Latest Practicable Date.

4. **Principal terms of the Rights Issue and the Underwriting Agreement**

Principal terms of the Rights Issue are summarised as below:

Basis of the Rights Issue:	Three (3) Rights Shares (in nil-paid form) for every two (2) Shares held at the close of business on the Record Date
Subscription Price:	HK$0.12 per Rights Share
Net price per Rights Share (the aggregate Subscription Price of the maximum number of Rights Shares to be issued less costs and expenses estimated to be incurred in the Rights Issue divided by the maximum number of Rights Shares to be issued):	Approximately HK$0.115 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	492,161,490 Shares
Number of Rights Shares to be issued:	738,242,235 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Aggregate nominal value of the Rights Shares:	HK$73,824,223.50 (assuming no change in the number of Shares in issue on or before the Record Date)
Number of issued Shares upon completion of the Rights Issue (assuming that the Rights Issue is fully subscribed):	1,230,403,725 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)
Gross proceeds from the Rights Issue (before expenses):	Approximately HK$88.6 million
Net proceeds from the Rights Issue:	Approximately HK$84.59 million

There are no options, warrants, derivatives or other convertible securities granted by the Company which confer rights to subscribe for, convert or exchange into Shares that are subsisting as at the Latest Practicable Date.

Assuming no change in the number of issued Shares on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the maximum of 738,242,235 Rights Shares proposed to be issued pursuant to the terms of the Rights Issue represent approximately (i) 150.0% of the existing issued share capital of the Company and (ii) 60% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

The Subscription Price

As set out in the Letter from the Board, the Subscription Price is HK$0.12 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or, where applicable, when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 10.45% to the closing price of HK$0.134 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 16.67% to the closing price of HK$0.144 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 16.67% to the average of the closing prices per Share as quoted on the Stock Exchange for the five previous consecutive trading days up to and including the Last Trading Day of HK$0.144 per Share;

(iv) a discount of approximately 17.24% to the average of the closing prices per Share as quoted on the Stock Exchange for the ten previous consecutive trading days up to and including the Last Trading Day of HK$0.145 per Share;

(v) a discount of approximately 7.41% to the ex-rights price of approximately HK$0.1296 per Share based on the closing price of HK$0.144 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a premium of approximately HK$0.172 over the net capital deficiency attributable to the owners of the Company of approximately HK$0.052 per Share calculated based on the audited consolidated net capital deficiency attributable to the owners of the Company of approximately HK$25,773,000 as at 31 December 2022 and 492,161,490 Shares in issue; and

(vii) a premium of approximately HK$0.125 over the adjusted net capital deficiency (Note) attributable to the owners of the Company of approximately HK$0.005 per Share calculated based on the adjusted consolidated net capital deficiency attributable to the owners of the Company of approximately HK$2,644,109 as at 31 December 2022 and 492,161,490 Shares in issue.

Note: The adjusted net capital deficiency attributable to the owners of the Company is calculated by deducting the surplus of approximately HK$23,128,891 between the value of the properties held by the Company located in the PRC and Taiwan (the "**Properties**") as at 31 December 2022 and the value of the Properties as set out in Appendix III – Property Valuation Report in this circular from the audited consolidated net capital deficiency attributable to the owners of the Company of approximately HK$25,773,000 as at 31 December 2022.

The Rights Issue will result in a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 10.0% to the existing Shareholders if they elect not to participate in the Rights Issue, which is calculated based on the theoretical diluted price of approximately HK$0.1296 per Share the benchmarked price (as defined under Rule 7.27B of the Listing Rules) of HK$0.144 per Share.

As stated in the Letter from the Board, the Subscription Price was determined with reference to, among other things, (i) the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.156 for the three months up to and including the Last Trading Day; (ii) the highest and lowest closing price of the Shares quoted on the Stock Exchange of HK$0.186 and HK$0.144 respectively for the three months up to and including the Last Trading Day; and (iii) the persistent loss-making position of the Company.

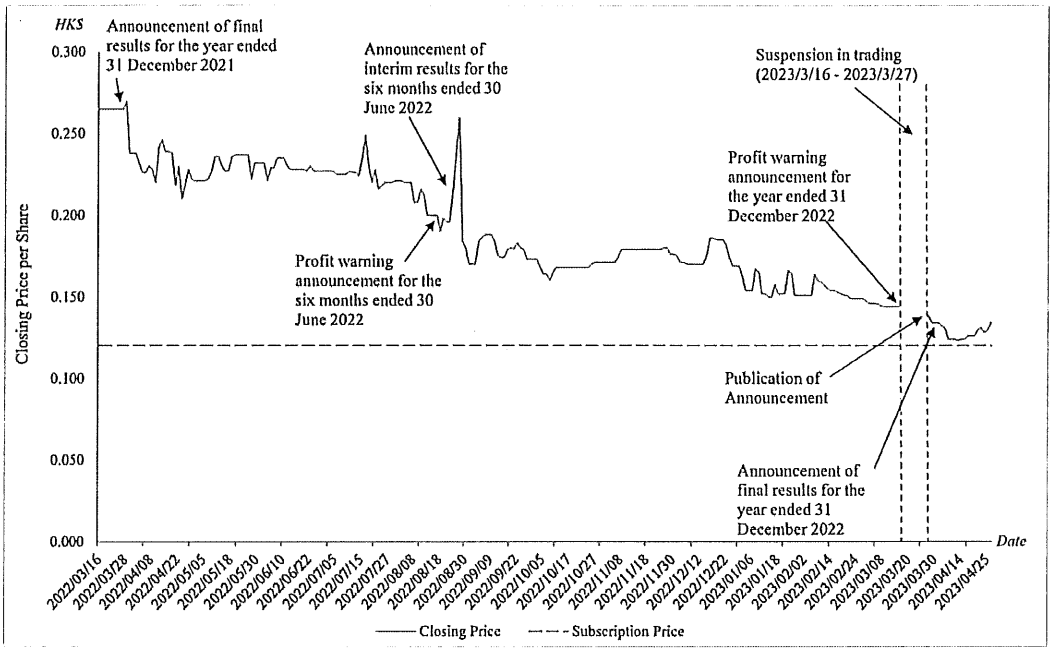
Analysis on the Subscription Price

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

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 closing price per Share during the period from 16 March 2022, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "**Share Price Review Period**"), which is commonly adopted for share price analysis. We consider that a period of 12 months is adequate and long enough to illustrate the recent price movements and covered the seasonal factors of the Shares for conducting a reasonable comparison between the Subscription Price and the closing price of the Shares for assessing the reasonableness and fairness of the Subscription Price.

Share price chart during the Share Price Review Period



Source: www.hkex.com.hk

Note: During the Share Price Review Period, the trading in the Shares had been halted on 16 March 2023 and trading was resumed on 28 March 2023.

As illustrated in the above chart, the Closing price per Share has been on a decreasing trend in general during the Share Price Review Period from the Closing price of HK$0.265 per Share on 16 March 2022 to the Closing price of HK$0.144 per Share on the Last Trading Day, with the highest and lowest Closing price per Share being HK$0.270 on 28 March 2022 and HK$0.123 on 13 April 2023, respectively.

Since the commencement of the Share Price Review Period and up to the trading day immediately before the Announcement of interim results for the six months ended 30 June 2022 dated 24 August 2022, the Closing price per Share has been fluctuated in the range of HK$0.190 (18 August 2022) and HK$0.27 (28 March 2022). The Closing price per Share reach HK$0.260 on 26 August 2022 and we have discussed with the Company regarding the such price trend and were advised that the Company are not aware of any particular reason that may lead to the fluctuation of the closing price of the Shares. Subsequently, from 29 August 2022 up to and 22 December 2022, the Closing price per Share fluctuated between HK$0.160 (7 October 2022) and HK$0.188 (7 September 2022 to 9 September 2022). From 23 December 2022 up to and including the Last Trading Day, the Closing Price per Share generally experienced a downward trend and fluctuated between HK$0.144 (8 March 2022 to 15 March 2022) and HK$0.174 (23 December 2022). The Closing price per Share was HK$0.144 and HK$0.134 as at the Last Trading Day and Latest Practicable Date, respectively.

Overall, the Closing price generally experienced a decreasing price trend over the Share Price Review Period and we have discussed with the Company regarding the such decreasing price trend and were advised that the Company are not aware of any particular reason that may lead to the decreasing price trend over the Share Price Review Period.

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 number of Shares traded	% of average daily number of Shares traded to the total number of Shares in issue *(Note 1)*	% of average daily number of Shares traded to the total number of Shares in the public hands *(Note 2)*
2022				
March *(from 16 March 2022)*	2	76,167	0.02%	0.04%
April	11	101,772	0.02%	0.05%
May	7	68,150	0.01%	0.03%
June	9	68,633	0.01%	0.03%
July	15	63,493	0.01%	0.03%
August	17	253,487	0.05%	0.13%
September	12	104,167	0.02%	0.05%
October	6	515,354	0.10%	0.25%
November	4	14,700	< 0.01%	< 0.01%
December	8	590,250	0.12%	0.29%
2023				
January	11	47,406	0.01%	0.02%
February	1	2,500	< 0.01%	< 0.01%
March	2	12,000	< 0.01%	< 0.01%
April *(up to the Latest Practicable Date)*	12	154,553	0.03%	0.08%
Average			0.03%	0.07%
Maximum			0.12%	0.29%
Minimum			< 0.01%	< 0.01%

Source: 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 percentage of average daily trading volume of the Shares by month/period were in the range of approximately less than 0.01% to approximately 0.12% with an average of approximately 0.03% as to the total number of issued Shares and approximately less than 0.01% to approximately 0.29% with an average of approximately 0.07% as to the total number of Shares held by public Shareholders, respectively.

The above statistics revealed that the trading liquidity of the Shares has been extremely low in the open market. During the Share Price Review Period, where the percentages of average daily trading volume of the Share to the total issued Shares and the total issued Shares held by the public Shareholders during the Share Price Review Period are 0.03% and 0.07% respectively. Due to the thin trading volume of the Share, we consider that the Company is unlikely to raise fund by way of placing without substantial discount. Even if the Company is able to conduct a placing of new Shares to new investors or one or few existing Shareholders with a substantial discount, it may not be able to raise a sufficient level of funds as compared to the Rights Issue. The Subscription Price represents a discount of approximately 16.67% to the closing price of HK$0.144 per Share as quoted on the Stock Exchange on the Last Trading Day. 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 Closing price would encourage the Qualifying Shareholders to subscribe for their assured entitlements under the Rights Issue and accordingly maintain their respective shareholdings in the Company. We are of the view that the discount to the Closing price as represented by the Subscription Price is justifiable.

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$200 million having considered the estimated size of gross proceeds from the Rights Issue, being up to approximately HK$88.6 million; (iii) the basis of entitlement equal to and/or over 100%, calculated as dividing the rights share(s) by issued shares of the company as at relevant date of announcement; and (iv) the proposed rights issues announced during the 6-month period (the "**Review Period**") commencing on 16 September 2022 up to and including the Last Trading Day (the "**Criteria**").

A reasonable comparison should be conducted with comparables under similar circumstances. We consider that the Criteria are fair and representative for conducting comparison due to (i) the Company is a listed company on the Stock Exchange, hence, comparables should also be listed on the Stock Exchange for conducting a reasonable comparison; (ii) based on the gross proceeds of approximately HK$88.6 million from the Rights Issue, HK$200 million has been set as a threshold such that HK$200 million is around double of the gross proceeds of the Rights Issue and we consider that rights issue transactions with gross proceeds of more than HK$200 million would be too large to consider as under similar circumstances with the Rights Issue, hence, rights issue transactions with the gross proceeds of more HK$200 million should not be appropriate for comparison; (iii) the basis of entitlement of the Rights Issue is three Rights Shares for every two Shares held on the record date (i.e. 150%), representing one Share can entitle for more than one Rights Share numerically, hence, we consider that rights issue transaction constitute basis of entitlement for more than one rights shares for every one share, which means with the basis of entitlement under 100% should not be under similar circumstance and should be excluded in the comparison; and (iv) we consider the Review Period of approximately six months is adequate and appropriate timeframe to (a) provide us with the recent and relevant information to demonstrate the prevailing market practice prior to the Last Trading Day; and (b) identify a sufficient and reasonable sample set of similar rights issue transactions which can serve as a general market reference for the purposes of our analysis.

We note that the Rights Issue Comparables may have different principal activities and none of them are engaged in manufacturing and trading of satellite TV equipment products and other electronic goods. Notwithstanding that the Rights Issue Comparables include issuers which engaged in different business or with different financial performance, we consider that the Rights Issue Comparables are acceptable to serve as reference for assessing the Subscription Price as (i) all of the Comparable Rights Issues are listed on the Stock Exchange; and (ii) our analysis is mainly focused on the comparison of the subscription price, size of gross proceeds, theoretical ex-rights price and theoretical dilution effect on the shareholding, we are of the view that the Rights Issue Comparables are fair, representative and exhaustive samples for our assessment of the Subscription Price.

Based on the Criteria, we have identified 11 rights issues (the "**Rights Issue Comparable(s)**") for the purpose of our analysis. We consider that the Rights Issue Comparables are exhaustive under the Criteria. 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.

We set out our findings in the following table:

				Premium/(Discount) of subscription price over/to						
Date of announcement	Company name (Stock code)	Basis of entitlement	Gross proceeds (*HK$, million*)	Closing price on the last trading day (%)	Theoretical ex-rights price (%)	Consolidated NAV per share (*Note 1*) (%)	Theoretical dilution effect (*Note 2*) (%)	Underwriting commission (*Note 3*) (%)	Placing commission (%)	Excess application (*Yes/No*)
6-Mar-23	CBK Holdings Limited (8428)	5 for 1	20.61	(15.87)	(2.93)	(70.62)	(13.23)	N/A	3.50	No
17-Feb-23	State Innovation Holdings Limited (8275)	3 for 2	35.30	(26.50)	(12.50)	(64.74)	(16.00)	N/A	2.50	No
10-Feb-23	WINDMILL Group Limited (1850)	2 for 1	130.56	(1.45)	0.00	(54.05)	(2.82)	N/A	1.00	No
27-Jan-23	Alco Holdings Limited (328)	4 for 1	90.69	(25.00)	(6.25)	N/A	(20.00)	N/A	0.50	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
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
18-Oct-22	China Zenith Chemical Group Limited (362)	5 for 2	79.50	(28.57)	(9.10)	N/A	(21.43)	1.00	N/A	Yes
11-Oct-22	AMCO United Holding Limited (630)	1 for 1	48.40	(16.70)	(9.10)	(48.49)	(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)	24.60	(13.69)	1.00	2.00	No
23-Sep-22	Tasty Concepts Holding Limited (8096)	5 for 2	41.30	(14.30)	(4.50)	120.41	(10.30)	N/A	2.50	No
	Maximum		188.43	(1.45)	0.00	120.41	(2.82)	1.00	3.50	
	Minimum		20.61	(39.72)	(20.86)	(90.00)	(23.83)	1.00	0.50	
	Average		81.31	(19.96)	(8.23)	(35.10)	(13.15)	1.00	1.83	
	Median		79.50	(16.70)	(6.25)	(55.96)	(13.23)	1.00	2.00	
	The Company	3 for 2	88.60	(16.67)	(7.41)	N/A	(10.00)	1.00	2.00	No

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

Notes:

1. The net asset value (the "NAV") per share is calculated based on the latest published audited/unaudited consolidated NAV attribute to owners of the Company 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.

2. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules.

3. "N/A" denotes that the rights issue was conducted on a non-underwritten basis

4. Based on our research, the underwriter of 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.

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

(i) the premium or discount of subscription price over or to the closing price on the Last Trading Day of the Rights Issue Comparables ranged from discounts of approximately 1.45% to 39.72% (the "**Comparable LTD Range**"), with the average and median of discounts of approximately 19.96% and 16.70% respectively. The Subscription Price represents a discount of approximately 16.67% to the Closing price per Share on the Last Trading Day, which is within the Comparable LTD Range, with a lower discount than the average and median;

(ii) the premium or discount of subscription price over or to the theoretical ex-rights price of the Rights Issue Comparables ranged from a discount of approximately 20.86% to same as the theoretical ex-rights price (the "**Comparable TERP Range**"), with the average and median of discounts of approximately 8.23% and 6.25%, respectively. The Subscription Price represents a discount of 7.41% to the theoretical ex-rights price per Share on the Last Trading Day which is within the Comparable TERP Range and with a lower discount than the average and slightly higher than the median by approximately 1.16%;

(iii) based on the 2022 Annual Results Announcement, the Company recorded net capital deficiency attributable to the owners of the Company of approximately HK$25.8 million as at 31 December 2022. 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;

(iv) the theoretical dilution effect of the Comparable Rights Issue ranged from approximately 2.82% to 23.83% (the "**Comparable Dilution Range**"), with average and median dilution effects of approximately 13.15% and 13.23%, respectively. The theoretical dilution effect of the Rights Issue of approximately 10.0% is within the Comparable Dilution Range, lower 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;

(v) 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 9 out of 11 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 common 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;

(vi) the Rights Issue is on an underwritten basis, which is considered to be in line with market practice, given 3 out of 11 Rights Issue Comparables are also on conducted on an underwritten basis. The Rights Issue on an underwritten basis could safeguard the Company to raise the required fund even though not all Shareholders subscribe the Rights Shares and/or not all Unsubscribed Rights Shares can be placed to independent placees.

(vii) all underwriting commission of the Rights Issue Comparables amount to 1.00%, where applicable, thus, both of the average and median would be 1.00%. Pursuant to the terms of the Underwriting Agreement, the Underwriter shall be entitled to a commission fee equal to 1.00% of the aggregate subscription amount in respect of the maximum number of 524,298,882 Rights Shares committed to be underwritten, subscribed for or procured subscription for by the Underwriter, such is same as the average and median of the Rights Issue Comparables and aligned with market practice; and

(viii) the placing commission of the Rights Issue Comparables, where applicable, ranged from 0.5% to 3.5%, with the average and median of 1.83% and 2.00%, respectively. Pursuant to the terms of the Placing Agreement, the Placing Agent shall be entitled to a commitment fee equal to 2.0% of the amount, which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement, such is within the aforesaid range and same as the median of the Rights Issue Comparables.

In determining the current subscription ratio and the Subscription Price, we understand from the Management that the Company has considered various factors, including (i) other market precedents and that a reasonable discount to the closing price of the 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 Shares that is acceptable to the market.

In view of (i) the Subscription Price represents a discount of approximately 16.67% to the Closing price per Share on the Last Trading Day which is within the Comparable LTD Range; (ii) the theoretical ex-rights price per Share on the Last Trading Day as represented by the Subscription Price is within the Comparable TERP Range; (iii) the Company recorded net capital deficiency attributable to the owners of the Company of approximately HK$25.8 million as at 31 December 2022 in which the Subscription Price is at a premium to the deficit per Share; (iv) the theoretical dilution effect of the Rights Issue is within the Comparable Dilution Range, lower than the average and median of dilution effects of the Comparable Rights Issue; (v) our analysis on the absence of excess application arrangement; and (vi) the Subscription Price is available to all Qualifying Shareholders, we consider that the principal terms of the Rights Issue (including the Subscription Price) to be fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

Principal terms of the Placing Agreement for the Unsubscribed Rights Shares

(a) *Principal terms of the Underwriting Agreement*

The Rights Shares (other than those agreed to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) will be fully underwritten by First Steamship in accordance with the terms of the Underwriting Agreement. The principal terms and conditions of the Underwriting Agreement are set out below:

Date:	15 March 2023 (after trading hours of the Stock Exchange), as supplemented on 27 March 2023
Underwriter:	First Steamship, a substantial shareholder of the Company as at the Latest Practicable Date, which complies with Rule 7.19(1)(b) of the Listing Rules. It is not in the ordinary course of business of First Steamship to underwrite securities. As at the Latest Practicable Date, the Underwriter has not entered into any sub-underwriting agreements in respect of the Rights Issue.
Number of Rights Shares to be underwritten by the Underwriter:	524,298,882 Rights Shares (assuming no new Shares will be issued or repurchased on or before the Record Date)
Underwriting Commission:	1% of the aggregate subscription amount in respect of the maximum number of 524,298,882 Rights Shares committed to be underwritten, subscribed for or procured subscription for by the Underwriter.

For further details of the terms and conditions of the Underwriting Agreement, please refer to the paragraph headed "The Underwriting Agreement" in the Letter from the Board.

Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associates.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement and provided that the Underwriting Agreement is not terminated prior to the Latest Time for Termination in accordance with the terms of the Underwriting Agreement, First Steamship has agreed to subscribe for the Untaken Rights Shares (being any Unsubscribed Rights Shares that are not placed by the Placing Agent under the Placing Agreement).

As disclosed in the Letter from the Board, the terms of the Underwriting Agreement were determined after arm's length negotiations between the Company and First Steamship with reference to the financial position of the Group, the size of the Rights Issue, the current market conditions, taking into consideration the prevailing market practices and terms for rights issue exercises undertaken by Hong Kong listed issuers in the past six months.

As at the Latest Practicable Date, the Underwriter is a substantial Shareholder and interested in 142,628,902 Shares, representing approximately 28.98% of the entire issued share capital of the Company.

Based on the table set out in the section headed "Analysis on recent rights issue market comparables" in this letter, we note that all of the commission rates received by underwriters of the Rights Issue Comparables amount to 1.0% (the "**Underwriting Commission Range**"), where applicable, thus, both of the average and median would be 1.00%. Having considered that there are only one Rights Issue Comparable which was underwritten by a connected person, we have conducted further research on the proposed rights issue transactions to understand the market practice for the connected person to act as the underwriter by extending our review period to include the twelve months period prior to the Last Trading Day, while all other selection criteria remained the same as disclosed in section "Analysis on recent rights issue market comparables " above. Based on our research, we have identified one additional comparable rights issue transaction which is underwritten by a connected person.

Pursuant to the Underwriting Agreement, the Underwriter will charge the underwriting commission of 1.0% of the aggregate subscription amount in respect of the maximum number of 524,298,882 Rights Shares committed to be underwritten, subscribed for or procured subscription for by the Underwriter, which is at the median of the Comparable Rights Issue and within the Underwriting Commission Range.

Unsubscribed Rights Shares and the NQS Unsold Rights Shares will be placed by the Placing Agent to Independent Third Parties on a best effort basis. However, if the Placing Agent is unable to place all of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares, First Steamship has agreed to subscribe for the Untaken Rights Shares (being any Unsubscribed Rights Shares that are not placed by the Placing Agent under the Placing Agreement).

Having considered that the low liquidity of the Shares as mentioned under the section headed "4. Principal terms of the Rights Issue and the Underwriting Agreement - our analysis on historical trading volume and liquidity" and the deteriorating financial position of the Group as mentioned under the section headed "Background and financial information of the Group", we are of the view that the Company is unlikely to obtain positive feedback from independent financial institutions in acting as an underwriter of the Company on fully-underwritten basis for the Rights Shares.

Besides, the Underwriter has to pay for the Subscription Price per Share if the Underwriter has to take up the Unsubscribed Rights Shares. We note that all the Rights Issue Comparables on underwritten basis, where applicable, involved a commission rate of 1.0%. We consider that 1% commission assign to underwriter is common on the market and fair and reasonable so far as the Company and the Shareholders' concern.

Although the Underwriter may obtain the control of the Company through the taking up the Unsubscribed Rights Shares, we have considered (i) the Company is unlikely to obtain positive feedback from independent financial institutions in acting as an underwriter of the Company on fully-underwritten basis for the Rights Shares; (ii) the commission of the Underwriting Agreement is on the same basis as compared with Rights Issue Comparables; and (iii) the imminent need of funds of the Company as the Loan may default if no sufficient additional funds obtained by the Company, the Underwriting Agreement is fair and reasonable.

Having considered that (i) the Company is in need of fund as discussed in the section headed "2. Reasons for the Rights Issue, the Underwriting Agreement and the use of proceeds" in this letter; (ii) the Rights Shares will be fully underwritten by First Steamship in accordance with the terms of the Underwriting Agreement regardless of the participation level from Qualifying Shareholders; and (iii) the underwriting commission of 1% under the Underwriting Agreement is within the Underwriting Commission Range and represented the median of the Rights Issue Comparables, we concur with the Directors' view that the terms of the Underwriting Agreement are fair and reasonable, and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(b) *Procedures in respect of the Unsubscribed Rights Shares and the Compensatory Arrangements*

There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules. The Underwriter is a substantial shareholder of the Company interested in 142,628,902 Shares, representing approximately 28.98% of the entire issued share capital of the Company as at the Latest Practicable Date. Pursuant to Rule 7.21(2) of the Listing Rules, the Company will make arrangements to dispose of the Unsubscribed Rights Shares by offering the Unsubscribed Rights Shares to independent placees for the benefit of the relevant No Action Shareholders to whom they were offered under the Rights Issue. As the Compensatory Arrangements are in place, there will be no excess application arrangements in relation to the Rights Issue.

As further mentioned in the Letter from the Board, the Company appointed the Placing Agent to place the Unsubscribed Rights Shares after the Latest Time for Acceptance to the Placees on a best effort basis, and any premium over the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Placing Agent (including any other related costs and expenses), that is realised from the Placing (the "**Net Gain**") will be paid to those No Action Shareholders in the manner set out below. The Placing Agent will, on a best effort basis, procure, by not later than 4:00 p.m. on Wednesday, 28 June 2023, the Placees for all (or as many as possible) of those Unsubscribed Rights Shares at a price not less than the Subscription Price. Any unsold Unsubscribed Rights Shares under the Compensatory Arrangements will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

Net Gain (if any but rounded down to the nearest cent) will be paid on a pro-rata basis to the No Action Shareholders as set out below:

(i) where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL; and

(ii) where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holder of those nil-paid rights in CCASS.

It is proposed that if the Net Gain to any of the No Action Shareholder(s) mentioned above (i) is more than HK$100, the entire amount will be paid to them; or (ii) is HK$100 or less, such amount will be retained by the Company for its own benefit.

(c) Principal terms of the Placing Agreement

Details of the Placing Agreement are summarised as follows:

Date:	15 March 2023 (after trading hours of the Stock Exchange), as supplemented on 27 March 2023
Issuer:	The Company
Placing agent:	Morton Securities Limited. First Steamship and parties acting in concert with it (including Grand Citi) are interested in approximately 29.11% of the issued shares of Da Yu Financial Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1073), which in turn wholly owns the Placing Agent and Yu Ming.
Placing period:	The period commencing from the second Business Day after the Latest Time for Acceptance and ending on the sixth Business Day after the Latest Time for Acceptance.
Commission and expenses:	Subject to completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 2% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement. For the avoidance of doubt, the Placing Agent will not receive any fee/commission if no Unsubscribed Rights Share is placed out.
Placing price of the Unsubscribed Rights Shares:	The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price and the final price determination will depend on the demand for and the market conditions of the Unsubscribed Rights Shares during the process of placement.

Placees:	The Unsubscribed Rights Shares shall only be offered by the Placing Agent to Placee(s) who and whose ultimate beneficial owner(s) are Independent Third Party(ies) and not acting in concert with First Steamship and its concert parties (including Grand Citi) and/or any of the Company's connected persons. The Company will take all appropriate steps to ensure that sufficient public float be maintained in compliance with Rule 8.08 of the Listing Rules after completion of the Placing.
Ranking of the Unsubscribed Rights Shares:	The Unsubscribed Rights Shares (when placed, allotted, issued and fully paid) shall rank pari passu in all respects among themselves and with the Shares then in issue.

For further details of the terms and conditions of the Placing Agreement, please refer to the paragraph headed "Placing Agreement for the Unsubscribed Rights Shares" in the Letter from the Board.

We understand that the Compensatory Arrangements is at the cost of the Company that would protect the interest of the Company's minority Shareholders in the Rights Issue. The placing of the Unsubscribed Rights Shares may be placed to independent placees under the Compensatory Arrangements which will expand the shareholders' base. As there will be no excess application arrangement in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules, the Company has put in place the Compensatory Arrangements as required by Rule 7.21(1)(b) of the Listing Rules. Given that the Compensatory Arrangements would (i) provide a distribution channel of the Unsubscribed Rights Shares for the Company; (ii) broaden the diversity and base of the Shareholders; (iii) potentially offer monetary benefits to the No Action Shareholders under the Net Gain arrangement; (iv) facilitate the implementation of the Rights Issue; and (v) the expenses of the Placing Agent to be incurred during the placing of the Shares are borne by the Company, we are of the view that the Compensatory Arrangements are fair and reasonable to the Independent Shareholders. Although the Placing Agent is acting with concert with the Underwriter, the Placing Agent is an Independent Third Party under the Listing Rules and the Placing will be carried out by the Responsible Officers of the Placing Agent. Having considered that (i) under the Placing Agreement, the Unsubscribed Rights Shares shall only be offered by the Placing Agent to Placee(s) who and whose ultimate beneficial owner(s) are Independent Third Party(ies) and not acting in concert with First Steamship and its concert parties (including Grand Citi) and/or any of the Company's connected persons therefore there is no potential interest will be obtained by the Underwriter through the placing the Unsubscribed Rights Shares to any parties acting in concert with the Underwriter (as this is prohibited under the Placing Agreement); and (ii) the Placing Agent is an organization licensed to carry out Type 1 (dealing in securities) regulated activities under the SFO, we are of the view that there is no material risk of conflict of interest in relation to the Placing Agreement and the term is considered as fair and reasonable.

Taking into account the principal terms of the Rights Issue as highlighted above, we consider that the terms of the Rights Issue, the Underwriting Agreement and the Placing Agreement are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned.

4.5 Potential dilution effect of the Rights Issue

The table below illustrates the shareholding structure of the Company as at the Latest Practicable Date and the possible changes upon completion of the Rights Issue.

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue (assuming full acceptance of the Rights Shares by all Qualifying Shareholders)		Immediately after completion of the Rights Issue (assuming no acceptance of the Rights Shares by the Qualifying Shareholders (other than First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and all of the Unsubscribed Rights Shares are fully placed to the Placees under the Compensatory Arrangements)		Immediately after completion of the Rights Issue (assuming no acceptance of the Rights Shares by the Qualifying Shareholders (other than First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and all of the Untaken Rights Shares are taken up by the Underwriter) *(Note 3)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
First Steamship	124,950,000	25.39	312,375,000	25.39	312,375,000	25.39	836,673,882	68.00
Grand Citi	17,678,902	3.59	44,197,255	3.59	44,197,255	3.59	44,197,255	3.59
First Steamship and parties acting in concert with it	142,628,902	28.98	356,572,255	28.98	356,572,255	28.98	880,871,137	71.59
Metroasset Investments Limited *(Note 1)*	70,718,859	14.37	176,797,147	14.37	70,718,859	5.75	70,718,859	5.75
Legacy Trust Company Limited *(Note 2)*	76,520,000	15.55	191,300,000	15.55	76,520,000	6.22	76,520,000	6.22
Placees	–	–	–	–	524,298,882	42.61	–	–
The Lender and its associates *(Note 4)*	24,000,000	4.88	60,000,000	4.88	24,000,000	1.95	24,000,000	1.95
Other public Shareholders	178,293,729	36.22	445,734,322	36.22	178,293,729	14.49	178,293,729	14.49
Public Shareholders	202,293,729	41.10	505,734,322	41.10	803,112,611	65.27	278,813,729	22.66
Total	492,161,490	100.00	1,230,403,725	100.00	1,230,403,725	100.00	1,230,403,725	100.00

Note 1: These Shares are held by Metroasset Investments Limited, 45.09%, 43.38% and 10.53% of the issued share capital of which are beneficially owned by Mr. Hung (an executive Director), Ms. Chen Mei Huei (spouse of Mr. Hung) and Mr. Hung Chih Chun (son of Mr. Hung) respectively.

Note 2: These Shares are held by Legacy Trust Company Limited, which is wholly owned by Mr. Vincent Chok, an Independent Third Party (save for his capacity of being a substantial shareholding of the Company) and not acting in concert with First Steamship.

Note 3: This scenario is for illustration purpose only. Assuming no Rights Shares are taken up by the Qualifying Shareholders (other than those to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and no Unsubscribed Rights Shares are successfully placed under the Compensatory Arrangements, 278,813,729 Shares, representing approximately 22.66% of the total number of issued Shares as enlarged by the Rights Issue, will be held by the public (as defined in the Listing Rules). To ensure the compliance of Rule 8.08(1)(a) of the Listing Rules by the Company, the Underwriter will enter into a placing agreement with Yu Ming (as placing agent), pursuant to which Yu Ming shall assist the Underwriter in placing down such number of Shares to the Independent Third Parties, such that sufficient public float could be maintained by the Company in compliance with Rule 8.08(1)(a) of the Listing Rules. The Underwriter and Yu Ming will enter into the placing agreement before the Prospectus Posting Date.

Note 4: These Shares are held by Universal Way Limited, an indirectly wholly-owned subsidiary of Allied Group Limited (the shares of which are listed on the Mainboard of the Stock Exchange (stock code: 373)) which in turn wholly owns the Lender.

Note 5: Certain figures and percentage included in the above table have been subject to rounding adjustments.

All Qualifying Shareholders are entitled to subscribe for the Rights Shares, and for those who take up their full provisional allotments under the Rights Issue, their shareholding interest in the Company remain the same after the Rights Issue. As illustrated above, if (i) no Qualifying Shareholders takes up the Rights Issue; (ii) no Unsubscribed Rights Shares can be placed to independent placees; and (iii) all the Underwritten Rights Shares are taken up by the Underwriter, save for First Steamship and parties acting in concert with it, all other Shareholders would be reduced (a) assuming no change in the issued share capital of the Company on or before the Record Date, from approximately 71.02% to 28.41%, and the shareholding of First Steamship and parties acting in concert with it would be increased from approximately 28.98% as at the Latest Practicable Date to approximately 71.59% upon the completion of the Rights Issue.

Taking into account: (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and that the Qualifying Shareholders have their choice of whether to accept the Rights Issue or not; (ii) the Rights Issue offers the Qualifying Shareholders a chance to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at the Subscription Price; (iii) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; (iv) the inherent dilutive nature of rights issue in general if the existing shareholders do not subscribe in full for their assured entitlements; (v) the Rights Issue would enable the Group to improve its financial position; and (vi) the Compensatory Arrangements will provide a compensatory mechanism at the cost of the Company that would protect the interest of the Company's minority Shareholders in the Rights Issue to address the concern that the Underwriter has the potential to increase its equity interests in the Company at a lower cost because the Subscription Price is at discounts to the recent prevailing market price, we are of the view that the potential dilution effect of the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned.

We are of the view that the implementation of the Rights Issue is beneficial to the Company and the Shareholders as a whole despite the potential dilution impact to the shareholding interests of the existing public Shareholders, who do not participate fully or partly in the Rights Issue, having regard to the potential mitigating measure such as the Compensatory Arrangements.

5. Financial effects of the Rights Issue

Net Assets

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the audited consolidated net liabilities, before any adjustments, of the Group attributable to the owners of the Company was approximately HK$25.8 million as at 31 December 2022. Assuming 738,242,235 Rights Shares are issued on the basis of three Rights Share for every two Shares in issue as at 31 December 2022 at the Subscription Price of HK$0.12 per Rights Share, upon completion of the Rights Issue, the unaudited consolidated net liabilities of the Group attributable to the owners of the Company would improve from approximately HK$25.8 million to unaudited consolidated net assets of the Group attributable to the owners of the Company of approximately HK$58.8 million as at 31 December 2022.

Liquidity

According to the 2022 Annual Results Announcement, as at 31 December 2022, the Group had cash and cash equivalents of approximately HK$79.2 million, current asset of approximately HK$512.7 million and current liabilities of approximately HK$691.7 million. Accordingly, the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 31 December 2022 was approximately 0.7 times. Assuming 738,242,235 Rights Shares are issued on the basis of three Rights Share for every two Shares on the Record Date at the Subscription Price of HK$0.12 per Rights Share, upon completion of the Rights Issue, the current liabilities of the Group will decrease by, according to the intended use of proceeds stated in the Letter from the Board, approximately HK$73.6 million will be applied for repayment of part of the Loan upon the completion of the Rights Issue. The current ratio of the Group, upon completion of the Rights Issue, would increase to approximately 0.8 times as at 31 December 2022.

Gearing ratio

According to the 2022 Annual Results Announcement, the Company recorded total borrowings with interest-bearing excluding lease liabilities of approximately HK$351.9 million and total equity of approximately HK$12.9 million as at 31 December 2022. The gearing ratio of the Company was approximately 2,738.5% (being total borrowings with interest-bearing excluding lease liabilities over total equity) as at 31 December 2022. Assuming 738,242,235 Rights Shares are issued on the basis of three Rights Share for every two Shares on the Record Date at the Subscription Price of HK$0.12 per Rights Share, upon completion of the Rights Issue, the total borrowings of the Group will decrease by, according to the intended use of proceeds stated in the Letter from the Board, approximately HK$73.6 million will be applied for repayment of part of the Loan upon the completion of the Rights Issue. The gearing ratio of the Group, upon completion of the Rights Issue, would improve to approximately 361.2% as at 31 December 2022.

Having considered that the Rights Issue will (i) improve the audited consolidated net liabilities attributable to the owners of the Company from approximately HK$25.8 million to unaudited consolidated net assets of the Group attributable to the owners of the Company of approximately HK$58.8 million as at 31 December 2022; and (ii) improve the overall liquidity position and gearing level of the Group, we are of the view that the Rights Issue are fair and reasonable as far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

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.

6. Whitewash Waiver

As at the Latest Practicable Date, First Steamship and parties acting in concert with it (including Grand Citi) are interested in an aggregate of 142,628,902 Shares, representing approximately 28.98% of the issued share capital of the Company. First Steamship has provided the Irrevocable Undertaking to take up and pay for, and procure the taking up and payment by Grand Citi, an aggregate of 213,943,353 Rights Shares to be provisionally allotted to them respectively under the Rights Issue. Assuming no Rights Shares are taken up by the Qualifying Shareholders (other than those to be taken up by First Steamship and Grand Citi pursuant to the Irrevocable Undertaking) and no Unsubscribed Rights Shares are successfully placed under the Compensatory Arrangements, First Steamship, as the Underwriter, will be required to take up a maximum of 524,298,882 Rights Shares.

In such circumstances and upon completion of the Rights Issue, assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, First Steamship and parties acting in concert with it (including Grand Citi) will, in aggregate, be interested in 880,871,137 Shares, representing approximately 71.59% of the issued share capital of the Company. Accordingly, First Steamship would be required to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by it and parties acting in concert with it (including Grand Citi), unless the Whitewash Waiver is granted.

An application has been made by First Steamship to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive is minded to grant the Whitewash Waiver, subject to approval by the Independent Shareholders (including (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder) in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive the obligations on the part of First Steamship to make a general offer which will result from taking up the Unsubscribed Rights Shares. First Steamship, its associates and parties acting in concert with it (including Grand Citi), Mr. Hung and his associates, the Lender and its associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder, and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the SGM.

If the Whitewash Waiver is granted by the Executive and approvals by the Independent Shareholders are obtained, upon completion of the Rights Issue, assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Rights Shares, the maximum potential holding of voting rights of First Steamship and parties acting in concert with it (including Grand Citi) in the Company will exceed 50%, First Steamship may thereafter increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Based on our analysis of the benefits and terms of the Rights Issue, we consider that the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not approved by the Independent Shareholders at the SGM, the Rights Issue will not proceed and the Company will lose all the benefits that are expected to be brought by the Rights Issue. Accordingly, we consider that the Whitewash Waiver, which is to facilitate the implementation of the Rights Issue, is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable as far as the Independent Shareholders are concerned for the purpose of proceeding with the Rights Issue.

7. Special Deal

As at the Latest Practicable Date, the Lender and its associates are interested in 24,000,000 Shares (representing approximately 4.88% of the issued share capital of the Company) and the Company is indebted to the Lender the Loan (including principal of US$25 million (equivalent to approximately HK$196.21 million and accrued interest of approximately HK$14.73 million). The Lender and its associates are not acting in concert with First Steamship and is independent to the current substantial Shareholders and the Placing Agent.

Under the Takeovers Code, the use of the proceeds from the Rights Issue to repay the Loan under the Repayment Proposal would constitute a favourable condition not extended to all Shareholders and therefore a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Executive's consent, if granted, will be conditional upon (i) the Independent Financial Adviser to the Independent Board Committee publicly giving an opinion that the terms of the Special Deal are fair and reasonable; and (ii) the approval of the Independent Shareholders of the Special Deal at a shareholders' meeting by way of poll. The Company has made an application for seeking the consent of the Executive to the Special Deal under Note 5 to Rule 25 of the Takeovers Code.

The Rights Issue is conditional on, among other things, the granting of the Whitewash Waiver and the consent to the Special Deal by the Executive and the approval by the Independent Shareholders at the SGM in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver as mentioned above. If the Whitewash Waiver is not granted or the Special Deal is not consented to by the Executive and/or approvals by the Independent Shareholders are not obtained, the Rights Issue will not proceed.

The Company notes that the Executive may not grant the Whitewash Waiver or its consent to the Special Deal if the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver do not comply with other applicable rules and regulations.

Taking into account that (i) the Outstanding Loans amounted to approximate HK$210.94 million (including principal of approximately HK$196.21 million and accrued interest of approximately HK$14.73 million) due from the Group to the Lender represents a significant portion of approximately 59.9% of the total bank and other borrowings of the Group as at 31 December 2022 and it has been the intention of the Board to reduce the debt level of the Group; (ii) the repayment of the Loan owed to the Lender from the proceeds of the Rights Issue could improve the financial position, the gearing ratio and lower the finance cost of the Group; (iii) the Special Deal is one of the conditions of the Rights Issue being completed and if the Rights Issue cannot be proceeded, the Company will lose all the benefits that are expected to be brought by the Rights Issue, including the availability of funds out of the net proceeds for the Group's intended use as described in the section headed "2. Reasons for the Rights Issue, the Underwriting Agreement and the use of proceeds" above; (iv) the Lender and the persons named to be parties acting in concert with the Lender in the shareholding table under the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" in the Letter from the Board, as well as persons who are involved in, or interested in, the Rights Issue, the Underwriting Agreement, the Whitewash Waiver and/or the Special Deal will abstain from voting on the resolutions to be proposed at the SGM to approve the Special Deal; and (v) all Independent Shareholders are entitled to vote for or against the resolution in respect of the Special Deal at the SGM, we are of the opinion that the Special Deal is an arm's length transaction on normal commercial terms and that the terms of the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Shareholders and prospective investors should be aware that given the liquidity of the Shares is low and the Company's financial performance was not satisfactory which may imply the lack of interest from potential investors in the Shares and as such, the Company was difficult to conduct other equity financing alternatives and the Shareholders may suffer financial loss under the circumstances that the price of Shares may further go down by participating in the Rights Issue. Notwithstanding the imbalance position of the Company as stated above, Shareholders also need to consider the factors set out as below in determination of the fairness and reasonableness of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder, and the Whitewash Waiver:

(i) the deteriorating financial position and the imminent need of capital of the Group as discussed in section headed "2. Reasons for the Rights Issue, the Underwriting Agreement and the use of proceeds" in this letter;

(ii) the Rights Issue, which the net proceeds of approximately HK$73.61 million would be contributed for repayment of part of the Loan while approximately HK$10.98 million would be contributed to general working capital of the Group, is expected to have a positive financial effect on the net assets, liquidity and gearing ratio of the Group, more specially it is expected to lower the liabilities of the Group while increase its equity capital;

(iii) taking into account the benefits and costs of each of the alternatives, the Rights Issue represents an appropriate means for fund raising to improve the Group's financial position as discussed under the section headed "2 (b) Fund raising alternatives" in this letter;

(iv) the Subscription Price, which was determined at discounts to the prevailing market prices of the Share before the Last Trading Day, ensures that the Company would raise sufficient funding from the Rights Issue to improve its overall liquidity position and fulfil its capital requirements;

(v) the Subscription Price and the dilution effects of the Rights Issue are reasonable as discussed in the section headed "4. Principal terms of the Rights Issue and the Underwriting Agreement" above;

(vi) the terms of the Underwriting Agreement are fair and reasonable as discussed in the section headed "4. Principal terms of the Rights Issue and the Underwriting Agreement" above;

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

(viii) the analysis on the fairness and reasonableness of the Whitewash Waiver as discussed in the section headed "6. Whitewash Waiver" above; and

(ix) the analysis on the fairness and reasonableness of the Special Deal as discussed in the section headed "7. Special Deal" above.

Despite the unsatisfactory financial performance of the Company, and possible further financial loss by the Shareholders, having considered the factors above in particular the imminent need of capital of the Group, we are of the opinion that (i) the terms of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder, and the Whitewash Waiver are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned; and (ii) the Underwriting Agreement, although not in the Company's ordinary and usual course of business, are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) on the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited

Robert Siu
Managing Director

Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong 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 25 years of experience in corporate finance industry.