SORRENTO CAPITAL LIMITED
擎天資本有限公司

5 May 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) CONSOLIDATED SHARES HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed offer for subscription of up to 432,000,000 Rights Shares by way of the Rights Issue at the Subscription Price of HK$0.67 each to be made by the Company to the Qualifying Shareholders on the basis of three (3) Rights Shares for every two (2) Consolidated Shares held on the Record Date, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 5 May 2023 (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 otherwise requires.

As stated in the Letter from the Board, on 3 March 2023, the Company and CNI Securities Group Limited (the "**Placing Agent**") entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, placees to subscribe for the Placing Shares (i.e. the Untaken Shares and/or the NQS Unsold Shares during the Rights Issue) on the terms and subject to the conditions set out in the Placing Agreement. Pursuant to the Rights Issue, the Company will offer up to 432,000,000 Rights Shares to the Qualifying Shareholders whose names shall appear on the register of members of the Company at the close of business on the Record Date on the basis of three (3) Rights Shares for every two (2) Consolidated Shares held on the Record Date. Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue through the PAL(s), the Placing will not proceed. The maximum gross proceeds from the Rights Issue will be approximately HK$289.44 million and the expected maximum net proceeds (i.e. after deducting all relevant expenses relating to the Rights Issue) will be approximately HK$286.55 million which applied towards (i) the development of the Group's Chinese liquor business; and the support of the Group's faux leather chemical business.

Rm. 1208, 12/F, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong
香港上環干諾道中111號永安中心12樓1208室
Tel : 852-3959 9800
Fax: 852-3959 9801

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares by more than 50% within a 12 months period immediately preceding the date of the announcement of the company (the "**Announcement**") dated 3 March 2023 in relation to, among others, the Rights Issue (after taking into account the effect of the Share Consolidation), the Rights Issue is conditional upon the minority Shareholders' approval at the EGM, and any Controlling Shareholders and their respective associates, or where there are no Controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the EGM. As at the Latest Practicable Date, the Company had no controlling shareholders (has the meaning ascribed thereto under the Listing Rules). Sunlight Global Investment Limited (a corporation interested in 18,002,000 Shares, representing approximately 1.25% of the total issued share capital of the Company as at the Latest Practicable Date and is controlled by Mr. Chen Hua, an executive Director and Ms. Zhu Jianqin, a former executive Director who had resigned on 3 March 2023) and Lilian Global Investment Limited (a corporation interested in and 12,002,000 Shares, representing approximately 0.83% of the total issued share capital of the Company as at the Latest Practicable Date and is wholly owned by Ms. Liu Jing, the spouse of Mr. Chen Hua) and their respective associates shall abstain from voting in respect of the resolution(s) relating to the Rights Issue at the EGM.

The Independent Board Committee comprising Mr. Au Hei Ching, Mr. Ho Ho Tung Armen, Mr. Lee Cheung Yuet Horace, Mr. Zheng Yu and Ms. Zhou Xiaochun (i.e. all the independent non-executive Directors) has been established by the Board to consider the terms of the Rights Issue and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Rights Issue are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) whether to vote in favour of the Rights Issue at the EGM.

We are independent from and not connected with the Group, its substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules or connected persons. During the last two years, we have not been engaged as any financial adviser to the Company and we are not aware of any relationship or interest between us and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Shareholders in respect of the Right Issue. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Rights Issue.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, documents, opinions and representations expressed to us by the Directors and management of the Company, e.g. annual reports, latest unaudited financial information, indebtedness, agreements relating to fund-raising (i.e. bank loan agreements and the Placing Agreement), sample invoices of the sub-contractor relating to the baijiu products, budget of bistro development and trading statistics of the Shares on the Stock Exchange. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the EGM, we will inform the Shareholders as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONCERNED

In considering whether the terms of the Rights Issue are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group is principally engaged in (i) the research and development, manufacturing and sale of coating agents and synthetic resins (the "**Faux Leather Chemicals Business**"); and (ii) the manufacture and sale of Chinese liquor products (the "**Chinese Liquor Business**"). As at the Latest Practicable Date, the authorised share capital of the Company is US$1,000,000 divided into 2,000,000,000 Existing Shares of which 1,440,000,000 Existing Shares with par value of US$0.0005 each were in issue. As set out in the Letter from the Board, the Company proposed to increase the authorised share capital of the Company from US$1,000,000 divided into 2,000,000,000 Existing Shares to US$5,000,000 divided into 10,000,000,000 Existing Shares (or 2,000,000,000 Consolidated Shares upon the Share Consolidation becoming effective) and conduct the Share Consolidation whereby every five (5) issued and unissued Existing Shares of US$0.0005 each will be consolidated into one (1) Consolidated Share of US$0.0025 each.

The audited consolidated financial information of the Group for each of the three years ended 31 December 2022, as extracted from the annual report of the Company for the year ended 31 December 2021 and 31 December 2022 (the "**Annual Reports**"), are summarised as follows:

	For the year ended 31 December		
	2022	**2021**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Revenue	501,437	233,945	134,441
Cost of sales	(307,739)	(195,070)	(102,842)
Gross Profit	193,698	38,875	31,599
Other income	1,392	2,824	4,234
Other gains and losses	(703)	2,945	965
Impairment losses under expected credit loss model, net of reversed	(2,239)	(481)	(2,352)
Loss on disposal/fair value change of financial assets at fair value through profit or loss	(21,001)	(13,462)	–
Selling and distribution expenses	(77,100)	(8,252)	(7,128)
Administrative and general expenses	(30,900)	(23,889)	(19,374)
Share of result of an associate	(77)	(36)	–
Finance costs	(403)	–	(486)
Listing expenses	–	–	(10,246)
Profit/(loss) before taxation	62,667	(1,476)	(2,788)
Income tax expenses	(23,049)	(1,124)	(369)
Profit/(loss) for the year	39,618	(2,600)	(3,157)
Profit/(loss) for the year attributable to owners of the Company	21,851	(2,600)	(3,157)
Profit/(loss) for the year attributable to non-controlling interests	17,767	–	–

Comparison between the years ended 31 December 2022 and 31 December 2021

The Company recorded a revenue of approximately RMB501.44 million for the year ended 31 December 2022 representing an increase of approximately 114.34% as compared with approximately RMB233.95 million for the previous year mainly due to the revenue contribution of the newly commenced Chinese Liquor Business of approximately RMB241.19 million and the increase in revenue contribution of the Faux Leather Chemicals Business by approximately RMB26.30 million during the year.

Gross profit margin of the Company increased from approximately 16.62% for the year ended 31 December 2021 to approximately 38.63% for the year ended 31 December 2022 mainly due to the higher gross profit margin of the Chinese Liquor Business which offset the decrease in gross profit margin of the Faux Leather Chemicals Business during the year.

Selling and distribution expenses of the Company increased significantly from approximately RMB8.25 million for the year ended 31 December 2021 to approximately RMB77.10 million for the year ended 31 December 2022 mainly due to additional expenses for the newly commenced Chinese Liquor Business and increase in sales and marketing activities of the Faux Leather Chemicals Business by approximately RMB1.18 million during the year.

Administrative and general expenses of the Company increased from approximately RMB23.89 million for the year ended 31 December 2021 to approximately RMB30.90 million for the year ended 31 December 2022 mainly due to the increase in staff costs, director emoluments and legal and professional expenses during the year.

As a result of the abovementioned, the Company recorded a profit before taxation of approximately RMB62.67 million for the year ended 31 December 2022 as compared with a loss before tax of approximately RMB1.48 million for the year ended 31 December 2021. The profit for the year of the Company was approximately RMB39.62 million for the year ended 31 December 2022 and the loss for the year of the Company was approximately RMB2.60 million for the year ended 31 December 2021 respectively.

Comparison between the years ended 31 December 2021 and 2020

The Company recorded a revenue of approximately RMB233.95 million for the year ended 31 December 2021 representing an increase of approximately 74.02% as compared with approximately RMB134.44 million for the year ended 31 December 2020 mainly due to the increase in revenue from various products, among which, both price and volume sold from colour paste, colour chips and synthetic resin products were increased as the downstream industries and consumer demand among various industries has been recovered.

Gross profit margin of the Company decreased from approximately 23.50% for the year ended 31 December 2020 to approximately 16.62% for the year ended 31 December 2021 mainly due to the increase in raw material costs.

Selling and distribution expenses of the Company was stable as to approximately RMB7.13 million for the year ended 31 December 2020 and approximately RMB8.25 million for the year ended 31 December 2021 respectively.

Administrative and general expenses of the Company increased from approximately RMB19.37 for the year ended 31 December 2020 to approximately RMB23.89 million for the year ended 31 December 2021 mainly due to the increase in professional services fees for engaging intermediaries after the listing of the Company on the Stock Exchange.

The Company recorded no listing expenses for the year ended 31 December 2021 as compared with that approximately RMB10.25 million for the year ended 31 December 2020.

As a result of the abovementioned, the Company recorded a loss before taxation of approximately RMB1.48 million for the year ended 31 December 2021 as compared with approximately RMB2.79 million for the year ended 31 December 2020. The loss for the year of the Company was approximately RMB2.6 million for the year ended 31 December 2021 and approximately RMB3.16 million for the year ended 31 December 2020 respectively.

	As at 31 December 2022 *RMB'000* *(audited)*	**As at 31 December 2021** *RMB'000* *(audited)*
Non-current assets	138,457	119,101
Current assets	307,921	194,073
Total assets	446,378	313,174
Non-current liabilities	410	547
Current liabilities	95,585	43,048
Total liabilities	95,995	43,595
Net current assets	212,336	151,025
Equity attributable to owners of the Company	331,141	269,579
Non-controlling interests	19,242	–
Total equity/Net assets	350,383	269,579

The non-current assets of the Company increased from approximately RMB119.10 million as at 31 December 2021 to approximately RMB138.46 million as at 31 December 2022 mainly due to acquisition of certain plant and machinery and the completion of the construction of the production plant in Jiande County, Hangzhou City, Zhejiang Province for the Faux Leather Chemicals Business during the year ended 31 December 2022.

The current assets of the Company increased from approximately RMB194.07 million as at 31 December 2021 to approximately RMB307.92 million as at 31 December 2022 mainly due to (i) increase in trade and bills receivables from approximately RMB90.36 to approximately RMB144.77 million; (ii) increase in prepayments, deposits and other receivables from approximately RMB2.45 million to approximately RMB6.61 million; and (iii) increase in inventories from approximately RMB31.28 million to approximately RMB98.24 million during the year ended 31 December 2022. Bank balances and cash of the Company increased significantly from approximately RMB28.45 million as at 31 December 2021 to approximately RMB48.11 million as at 31 December 2022 mainly due to the operating cashflow from the Chinese Liquor Business and the unutilised proceeds received from placing of Shares under general mandate (the "**2022 Placing**") which was completed on 29 August 2022. Pledged bank deposits of the Company decreased from approximately RMB5.28 million as at 31 December 2021 to approximately RMB2.43 million as at 31 December 2022.

The current liabilities of the Company increased from approximately RMB43.05 million as at 31 December 2021 to approximately RMB95.59 million as at 31 December 2022 mainly due to (i) obtainment of interest-bearing bank borrowing approximately RMB10.00 million; (ii) increase in trade and bills payables from approximately RMB38.01 million to approximately RMB68.66 million; and (iii) increase in other payables and accruals from approximately RMB4.85 million to approximately RMB8.49 million during the year.

On 29 August 2022, the Company completed the 2022 Placing pursuant to which 240,000,000 Shares at HK$0.180 each were placed and raised a net proceeds of approximately HK$42.58 million for general working capital of the Group and business development of the Chinese Liquor Business.

Save as the above, the Company has not conducted any other equity financing activity in the 12 months immediately preceding the date of the Announcement.

2. Reasons for the Rights Issue and proposed use of net proceeds

The Group is principally engaged in the Faux Leather Chemicals Business and the Chinese Liquor Business.

Among the net proceeds from the 2022 Placing, approximately HK$1.40 million remains unutilised as at the Latest Practicable Date and is intended to be applied towards general working capital of the Company by August 2023. As advised by the Company, the Company intends to apply the net proceeds from the Rights Issue towards (i) its business development in the PRC including setting up four bistros in the PRC, working capital of bistros, advertisement and procurement of raw materials for baijiu production; and (ii) its Faux Leather Chemicals Business by repayment of bank borrowings and investment in new automation system and facilities of production and research and development. Given the Company has already utilised over 90% of net proceeds from the 2022 Placing and new proceeds from the Rights Issue will be mainly applied towards production automation and enhancement for of the existing Faux Leather Chemicals Business and development of the Chinese Liquor Business such as rental, salary and marketing activities for baijiu production and bistros, we consider that the Rights Issue would enable to Group to raise additional capital for operation improvement and business expansion and thus is in the interest of the Company and its Shareholders as a whole.

Assuming a maximum of 432,000,000 Rights Shares will be issued under the Rights Issue, the estimated gross proceeds of the Rights Issue will be approximately HK$289.44 million. The estimated expenses in relation to the Rights Issue will amount to approximately HK$2.89 million and the estimated maximum net proceeds of the Rights Issue will be approximately HK$286.55 million. The net subscription price per Rights Share is expected to be approximately HK$0.663.

The Company intends to apply the net proceeds from the proposed Rights Issue as follows: (a) approximately HK$228.55 million for the development of the Chinese Liquor Business of which (i) approximately HK$20 million in setting up four bistros in the PRC; (ii) approximately HK$8.55 million for the working capital in operating the above-mentioned four bistros upon their opening; (iii) approximately HK$100 million for building the brand of the Group's Chinese baijiu products by launching sizeable advertising campaigns across different districts in the PRC; and (iv) approximately HK$100 million in payment of manufacturing costs for the production of the Group's Chinese baijiu products; and (b) approximately HK$58 million to support the Faux Leather Chemicals Business of which (i) approximately HK$11.5 million for repayment of bank borrowings; (ii) approximately HK$11 million for investment in automation information platform; (iii) approximately HK$17 million for procurement of new production facilities; (iv) approximately HK$3.5 million for research and development; (v) approximately HK$9.2 million for purchase of raw materials; and (vi) approximately HK$5.8 million for potential prepayments to suppliers.

For the Chinese Liquor Business, according to the Letter from the Board, the Company plans to open four bistros in Jiangxi province, Fujian province and Jiangsu province within the first six months from the Rights Issue Completion and each of these bistros is expected to serve a maximum of around 100 customers at one time slot and will require around 20 to 25 staff. The Company expects to incur (i) approximately HK$20.93 million on renovation and furniture etc.; (ii) approximately HK$2.33 million on procurement; (iii) approximately HK$2.09 million on marketing activities; and (iv) approximately HK$3.20 million on other working capital such as wages. We consider that the proposed bistros in three provinces may broaden the sales channel of and help to promote the Group's baijiu products which is in line with the recent business expansion strategy of the Group in respect of product diversification and advertisement across different districts in the PRC and the abovementioned cost items are necessary for setting up bistro business

According to the Letter from the Board, Guizhou Dichiwang, a non-wholly-owned subsidiary of the Company, procures necessary raw materials via the material procurement services provided by an independent wine factory in accordance with the specification requested by Guizhou Dichiwang in producing the Chinese baijiu products and outsources the manufacturing process to such factory to produce the Chinese baijiu products via an original equipment manufacturer arrangement. As advised by the Company, the Chinese Liquor Business commenced in May 2022 and during the ten months ended 28 February 2023, the Group sold approximately 299,000 liters of baijiu products and recorded relevant purchase of approximately RMB128.40 million. We have also reviewed 112 sample invoices for the period from May 2022 to February 2023 on bi-monthly basis with their total invoice amount represents over 50% of the total purchase amount to the wine factory for the same ten month period and noted that the unit manufacturing cost of baijiu products payable by the Group to wine factory ranged from approximately RMB300 to RMB660 per liter depends on the type of baijiu products. As advised by the Company, the Group expects to replenish approximately 200,000 liter of its baijiu products for 2023 onwards. Having considered the unit manufacturing costs of baijiu products of the Group and historical sales volume of the Group's baijiu products during the ten months ended 28 February 2023, we consider that the intended utilisation of approximately HK$100 million from the net proceeds of the Rights Issue for payment of manufacturing costs for baijiu products is justifiable.

As regards the advertising campaigns for the Chinese Liquor Business, we have reviewed a contract of the Group dated 18 June 2022 in relation to advertisement of products and brand of Guizhou Dichiwang in media platforms (e.g. airports) for a term of three years and the total contract amount is RMB350 million (tax inclusive). We have also reviewed a schedule of advertisement in various airports and shopping centres for 2023 and noted that the estimated budget is approximately RMB100 million. As the Company considers that the performance of the Chinese Liquor Business in 2022 was attributable to the extensive advertising campaigns, the Company considers that it is necessary to continue the existing advertising campaigns, particularly in the early stage of business, to build its brand and gain the market recognition of its products. In light of the historical performance of the Chinese Liquor Business and existing agreement on schedule and budget of advertising campaigns, we consider that the intended utilisation of approximately HK$100 million from the net proceeds of the Rights Issue for advertising campaigns is justifiable.

As part of our work done, we have conducted independent research on the general economic conditions of the PRC, particularly Jiangxi province, Fujian province and Jiangsu province, based on the information from websites of National Bureau of Statistics, Provincial People's Government and Provincial Bureau of Statistics of the PRC. We noted that (i) the per capital gross domestic product of the PRC increased by approximately 5.3% in 2022 as compared with 2021 and per capita disposal income of urban residents increased by approximately 3.9% in 2022 as compared with 2021; (ii) the per capita disposal income of urban residents in Jiangxi province increased by approximately 4.8% in 2022 as compared with 2021; (iii) the per capita disposal income of urban residents in Fujian province increased by approximately 5.2% in 2022 as compared with 2021; and (iv) the per capita disposal income of urban residents in Jiangsu province increased by approximately 4.2% in 2022 as compared with 2021.

Based on the above, we concur with the Company that there is commercial reason for the Company to allocate approximately HK$228.55 million from the net proceeds of the Rights Issue to the development of the Chinese Liquor Business.

For the Faux Leather Chemicals Business, the Company plans to apply approximately HK$11.5 million of the net proceeds from the Rights Issue for repayment of the bank borrowings. As part of our due diligence, we have reviewed the agreement of the Group in relation to a bank loan in the principal amount of RMB10 million for a term of 12 months from January 2023 and noted that the interest rate is one year loan prime rate (LPR) less 45 basis points which is currently 3.2% per annum and early repayment is subject to application of the Group to the bank with no compensation amount required. We have also independently calculated the implied cost of capital for the Rights Issue (being the percentage of estimated expenses in relation to the Rights Issue (e.g. professional fee and relevant expenses) to the maximum gross proceeds of the Rights Issue), and noted that the implied cost of capital of approximately 1.00% is significantly lower than the aforesaid interest rate. Given the significant difference between interest rate of the loan agreement and implied cost of capital of the Rights Issue, the Company could save finance costs. Therefore, we consider that it is reasonable for the Company to obtain lower cost of capital by way of the Rights Issue to repay the interest bearing bank loan with higher interest rate.

As set out in the Letter from the Board, the Company plans to apply approximately HK$11 million of the net proceeds from the Rights Issue to further advance the automation information platform with an aim to improve industrial safety and production efficiency of the Faux Leather Chemicals Business and approximately HK$17 million of the net proceeds from the Rights Issue to procure new production facilities with an aim to increase productivity to cope with the expected increase in sales orders. According to the Annual Reports, revenue generated from the Faux Leather Chemicals Business increased by approximately 11.24% for the year ended 31 December 2022 as compared with prior year. Nevertheless, segment profit of this business decreased by approximately 4.65% for the year ended 31 December 2022 mainly due to the increase in raw material costs and selling and distribution expenses. Therefore, it is reasonable for the Company to prepare extra production capacity to cope with the potential business growth and reduce its operating costs to by investment in the aforesaid system and facilities. We have reviewed the relevant supplier quotations obtained by the Company for (i) implementation of Distributed Control System (DCS), a system designed to enable the Company to real-time monitor the production process for safety and efficient resource utilisation, which costs from RMB8 million to RMB13 million; and (ii) setup of of additional production facilities of colour chips for leather products which costs around RMB15 million. Furthermore, the Company plans to (i) replenish its inventory of major raw materials, e.g. titanium dioxide which is mainly applied in producing colour pastes and colour chips, and apply approximately HK$9.2 million of the net proceeds from the Rights Issue for procurement; and (ii) capture the growth of the PRC electric vehicle market by developing colour pastes and colour chips for interior leather products of electric vehicles and incur approximately RMB3.5 million on research and development comprising relevant staff costs for the first six months, procurement of relevant facilities and raw materials.

In light of (i) the historical growth of the Faux Leather Chemicals Business; (ii) the recovery of the PRC general economy and release of epidemic control measures; (iii) the relatively low inventory level of titanium dioxide of approximately 200 tonnes as at 31 March 2023 when compared with the consumption of over 2,000 tonnes in 2022; and (iv) the need of the Company to equipment itself with automation system and extra production capacity and inventory to maintain its competitiveness, we concur with the Company that there is commercial reason for the Company to allocate approximately HK$58 million from the net proceeds of the Rights Issue to the Faux Leather Chemicals Business.

Since the Rights Issue will give all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company without diluting their corresponding shareholdings and to participate in the long-term growth of the Company, we concur with the view of the Company that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole to conduct the Rights Issue to support the capital need of the Group and the intended use of proceeds are reasonable and commercially justifiable.

3. Alternative financing methods

As stated in the Letter from the Board, other financing alternatives were considered, including, among other things, (i) debt financing such as bank borrowings; and (ii) equity financing such as placing of new shares and open offer. The Company had contacted certain banks for securing bank loan facilities but the Company could not reach favourable financing terms with the banks for loan size comparable to the net proceeds of the Rights Issue upon discussion in light of the business performance and assets of the Group. As such, the Board considers that debt financing will result in an additional interest burden and a higher gearing ratio of the Group and could not be achievable on favourable terms or may require pledge of other kind of assets or securities which may reduce the Group's flexibility. Furthermore, as debt financing is normally for fixed term and the success and timing of renewal would materially affect the liquidity of the Company, the Company did not consider it appropriate to the Group.

The Company had also contacted certain securities houses for the feasibility of conducting underwritten fund raising exercise but had received negative feedbacks from those securities houses for conducting such fundraising activities in view of the volatile price performance of the Shares and size of equity financing. As for equity fund-raising, such as placing of new Shares, it is relatively smaller in scale as compared to fund-raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market.

Having considered other fundraising alternatives for the Company as disclosed above, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) are of the view that the Rights Issue is more appropriate to the Company as the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position for future development, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and thus, in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Rights Issue

4.1 Issue statistics

Basis of the Rights Issue	:	Three (3) Rights Shares for every two (2) Consolidated Shares held by the Qualifying Shareholders on the Record Date
Subscription price	:	HK$0.67 per Rights Share
Number of Existing Shares in issue as at the Latest Practicable Date	:	1,440,000,000 Existing Shares

Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	288,000,000 Consolidated Shares (assuming there is no further allotment and issue or repurchase of Shares up to the effective date of the Share Consolidation)
Maximum number of Rights Shares	:	432,000,000 Rights Shares (assuming there is no other change in the total number of issued Shares on or before the Record Date), representing (i) 150% of the total issued Consolidated Shares upon the Share Consolidation becoming effective; and (ii) 60% of the total number of issued Shares as enlarged immediately upon completion of the Rights Issue
Number of Shares in issue upon completion of the Rights Issue	:	720,000,000 Shares

The Company adopted a share option scheme on 10 February 2020 pursuant to which the total number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 100,000,000 Existing Shares (equivalent to 20,000,000 Consolidated Shares assuming the Share Consolidation has become effective). The scheme mandate limit had not been refreshed and no options were granted since the date of adoption of the Share Option Scheme. As at the Latest Practicable Date, the Company did not have any other derivatives, options, warrants, other securities or conversion rights or other similar rights which are convertible or exchangeable into, any Existing Shares or Consolidated Shares, as the case may be.

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, any Untaken Shares together with the NQS Unsold Shares will be placed on a best efforts basis by the Placing Agent to independent placees under the Placing. Any Untaken Shares and/or NQS Unsold Shares remain not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

As the Rights Issue will proceed on a non-underwritten basis, a Shareholder who applies to take up all or part of his/her/its entitlement under the PAL may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders (other than HKSCC Nominees Limited) to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules.

4.2 Subscription Price

In order to access the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose only.

Historical price movement analysis

As set out in the Letter from the Board, the Subscription Price of HK$0.67 per Rights Share, which will be payable in full upon application, represents:

(i) a premium of approximately 27.62% over the adjusted closing price of HK$0.525 per Consolidated Share (based on the closing price of HK$0.105 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation);

(ii) a premium of approximately 1.52% over the adjusted closing price of HK$0.66 per Consolidated Share (based on the closing price of HK$0.132 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation);

(iii) a discount of approximately 6.94% to the adjusted average closing price of HK$0.72 per Consolidated Share (based on the average closing price of approximately HK$0.144 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation);

(iv) a discount of approximately 12.42% to the adjusted average closing price of HK$0.765 per Consolidated Share (based on the average closing price of approximately HK$0.153 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation);

(v) a premium of approximately 0.60% over the theoretical ex-rights price of approximately HK$0.666 per Consolidated Share (based on the closing price of HK$0.132 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares and adjusted for the effect of the Share Consolidation);

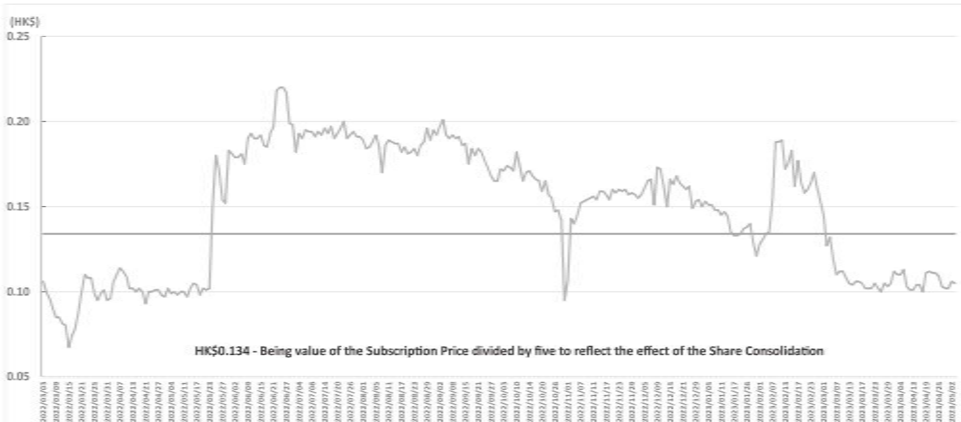
(vi) theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 6.76%, represented by the theoretical diluted price of approximately HK$0.704 per Share to the benchmarked price of approximately HK$0.755 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of the Existing Shares as quoted on the Stock Exchange on the Last Trading Day and (ii) the average of the closing prices of the Existing Shares as quoted on the Stock Exchange for the previous five consecutive trading days prior to the date of the Announcement and adjusted for the effect of the Share Consolidation);

(vii) a discount of approximately 37.44% to the adjusted consolidated net asset value per Consolidated Share attributable to the Shareholders as at 30 June 2022 of approximately HK$1.071 per Consolidated Share calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately RMB271,429,000 (equivalent to approximately HK$308,442,045) as at 30 June 2022 as set out in the interim report of the Company for the six months ended 30 June 2022 and 288,000,000 Consolidated Shares in issue as at the date of the Announcement and the Latest Practicable Date after adjustment for the effect of the Share Consolidation; and

(viii) discount of approximately 48.85% to the adjusted consolidated net asset value per Consolidated Share (the "**NAV per Share**") attributable to the Shareholders as at 31 December 2022 of approximately HK$1.31 per Consolidated Share calculated based on the audited consolidated net assets of the Group attributable to the owners of the Company of approximately RMB331,141,000 (equivalent to approximately HK$376,296,591) as at 31 December 2022 as set out in the Annual Reports and 288,000,000 Consolidated Shares in issue as at the date of the Announcement and the Latest Practicable Date after adjustment for the effect of the Share Consolidation.

According to the Letter from the Board, the Subscription Price was determined with reference to (i) the recent fluctuated downward trend of the prevailing market prices of the Existing Shares; (ii) the latest financial position of the Group; and (iii) the reasons for the Rights Issue, the Placing and the use of proceeds as set out in the section headed "Reasons for the Rights Issue and the Use of Proceeds" in the Letter from the Board.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price of the Shares during the period from 3 March 2022, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "**Price Review Period**"). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.



Source: The Stock Exchange

Although the Subscription Price (taking into account the effect of the Share Consolidation) appears to be at a substantial discount to the NAV per Share of approximately HK$1.31 per Share as at 31 December 2022, we consider that the NAV per Share is not meaningful benchmarks to assess the Subscription Price as the Shares have been protractedly traded at significant discount to the NAV per Share in the open market during the Price Review Period and the Subscription Price was determined with reference to, among others, the recent fluctuated downward trend of the prevailing market prices of the Shares, the latest financial position of the Group and the funding need to cope with the Group's business plan. Given the recent market price of the Shares have already reflected the expectation of the investors to the Company such as financial results and corporate actions of the Company and the recent market sentiment, we consider that recent market price of the Shares to be relevant for our assessment to the fairness and reasonableness of the Subscription Price.

As illustrated in the above chart, the closing prices of the Shares were below the Subscription Price (taking into account the effect of the Share Consolidation) and fluctuated around HK$0.10 per Share from 3 March 2022 to 23 May 2022. During this period, the Company announced (i) its audited financial results for the year ended 31 December 29 March 2022; (ii) the change of its company name on 6 May 2022; (iii) resignation of an executive director on 16 May 2022; and (iv) the strategic cooperation with an independent third party to jointly establish a company for its business in big health industry combining the health industry and the sales and promotion of food and beverage on 23 May 2022.

The closing price of the Shares surged to HK$0.15 per Share on 24 May 2022 and the Company announced the resignation of chairman of the Board and changes of executive directors on the same day. Since then, the closing prices of the Shares have been generally on increasing trend and reached the highest of HK$0.22 per Share on 23 June 2022 and 24 June 2022.

Then the closing prices of the Shares have been generally on decreasing trend and reached the lowest of HK$0.095 per Share on 31 October 2022. During this period, the Company announced (i) the 2022 Placing on 28 June 2022; (ii) the extension/delay of the 2022 Placing on 18 July 2022, 27 July 2022, 5 August 2022 and 24 August 2022; (iii) completion of the 2022 Placing on 29 August 2022; and (iv) its unaudited interim financial results for the six months ended 30 June 2022 on 31 August 2022.

The Company announced the placing of bonds on 11 November 2022 and closing prices of the Shares surged to HK$0.173 per Share on 9 December 2022 and further to HK$0.189 per Share on 10 February 2023. The Company announced the Share Consolidation and the Rights Issue together with resignation of executive directors on 3 March 2023 and its annual results for the year ended 31 December 2022 on 31 March 2023 respectively. Since the publication of the Announcement, the closing prices of the Shares have been fluctuating below the Subscription Price (after adjustment to the effect of the Share Consolidation) between HK$0.100 and HK$0.119 per Share and reached HK$0.105 per Share as at the Latest Practicable Date.

In the Price Review Period, the highest closing price of the Shares was HK$0.22 per Share on 31 October 2022 and the lowest closing price of the Shares was HK$0.067 per Share on 15 March 2022 respectively. The Subscription Price (after adjustment to the effect of the Share Consolidation) represents a premium of 100% over the lowest closing price of the Shares and a discount of approximately 39.09% to the highest closing price of the Shares in the Price Review Period respectively. Notwithstanding the aforesaid discount has been up to approximately 39.09%, the closing prices of the Share have been generally on downward trend during the Price Review Period.

We consider that the closing prices and general decreasing price trend of the Shares during the Price Review Period should have reflected market evaluation on the recent financial performance/position and development of the Group. Hence, we consider it is fair and reasonable for the Company to determine the Subscription Price with reference the prevailing market prices, particularly the more recent closing prices, of the Shares and a discount (which will be analysed below) to enhance the attractiveness of the Rights Issue given the diverging performance between the Share price and the general stock market.

Historical trading volume and liquidity analysis

We have also reviewed the historical trading volume of the Shares during the 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 Price Review Period are shown in the table below.

Month/period	**Number of trading days**	**Average daily trading volume**	**% of average daily trading volume to the total number of Shares in issue** *(Note 1)*	**% of average daily trading volume to the total number of Shares in the public hands** *(Note 2)*
2022				
March *(Note 3)*	21	2,442,095	0.2035	0.2684
April	18	2,306,667	0.1922	0.2535
May	20	31,975,000	2.6646	3.5138
June	21	14,090,286	1.1742	1.5484
July	20	2,278,600	0.1899	0.2504
August	23	2,909,565	0.2021	0.2530
September	21	2,684,190	0.1864	0.2334
October	20	1,398,900	0.0971	0.1216
November	22	3,023,455	0.2100	0.2629
December	20	3,084,200	0.2142	0.2682
2023				
January	18	2,905,333	0.2018	0.2526
February	20	10,917,350	0.7581	0.9493
March	23	5,376,913	0.3734	0.4676
April	17	3,148,471	0.2186	0.2738
May *(Note 4)*	2	2,173,000	0.1509	0.1890

Source: The Stock Exchange

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 in public hands at the end of month/period according to the public information on the Stock Exchange.
3. Represents number of trading days and trading volume for the period from 3 March 2022 to 31 March 2022, both days inclusive.
4. Represents number of trading days and trading volume for the period from 2 May 2023 to the Latest Practicable Date, both days inclusive.

As demonstrated in the table above, during the Price Review Period, the average daily trading volume of the Shares by month/period were in the range of approximately 0.0971% to 2.6646% as to the total number of issued Shares and approximately 0.1216% to 3.5138% as to the total number of Shares held in public hands respectively. The above statistics revealed that the liquidity of the Shares was relatively low in the open market. On this basis and the closing price of the Shares generally showed a decreasing trend during the Price Review Period, we concur with the Directors that the discount to the Share price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company. For this reason, we are of the view that the discount to the Share price as represented by the Subscription Price is justifiable.

Rights Issue comparable analysis

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified an exhaustive list of 38 rights issue transactions announced by other companies listed on the Stock Exchange (except those terminated or lapsed) for the period from six months immediately prior to the Last Trading Day (the "**Comparable Review Period**") and up to the Latest Practicable Date. Shareholders should note that the subject companies in these rights issue transactions comparables may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company. As one rights issue transaction, being 華泰證券股份有限公司 Huatai Securities Co., Ltd.* (stock code: 6886.HK), did not disclose its discounts of subscription price to its prevailing share prices (i.e. price as at last trading day or the five previous consecutive trading days up to and including the last trading day), we have excluded it from our comparison. We have further analysed the remaining 37 rights issue transactions by dividing them into classes with price discounts (i.e. price as at last trading day and/or the five previous consecutive trading days up to and including the last trading day) of 10% each (e.g. nil to 10% discount as the first class and over 10% but not more than 20% as the second class). We noted that majority (i.e. over two-thirds) of the remaining 37 rights issue transactions, (i) over two-thirds have price discounts belong to the first three classes (i.e. ranging from nil to 30%) and each of other classes has one to five rights issue transactions. However, we noted that there is only one rights issue transaction belongs to the last class with price discount over 70% and this only rights issue transaction represents less than 3% of the total number of rights issue transactions. As such we consider this rights issue transaction, being Kingland Group Holdings Limited (stock code: 1751.HK), as ourlier, and exclude it from our comparison.

Although the circumstances surrounding such remaining 36 comparable rights issue transactions (the "**Comparables**") may be different from those relating to the Company, we consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions in relation to rights issue transactions which the Comparables, for illustrative purpose only, serve as a general reference for prevailing market practices in relation to rights issue transactions conducted by the companies listed in the Stock Exchange.

Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the share price on the last trading day (%)	Premium/ (Discount) of the subscription price over/to the average share price for the five previous consecutive trading days up to and including the last trading day (%)	Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price (%)	Underwriting/ placing related commission, as the case may be (%)	Fully underwritten Yes/No	Excess application Yes/No	Maximum dilution effect (%) *(Note 1)*	Cumulative theoretical dilution impact *(Note 2)*
23 September 2022	Tasty Concepts Holding Limited	8096	5 for 2	(14.30)	(14.30)	(4.50)	2.50	No	No	71.43	10.30
26 September 2022	Endurance RP Limited	575	1 for 1	(21.50)	(25.24)	(15.59)	2.00	No	No	50.00	13.89
11 October 2022	AMCO United Holding Limited	630	1 for 1	(16.70)	(16.70)	(9.10)	2.50	No	No	50.00	8.33
13 October 2022	Great Wall Terroir Holdings Limited	524	1 for 4	(6.30)	(15.70)	(5.10)	N/A	No	Yes	20.00	6.49
18 October 2022	China Zenith Chemical Group Limited	362	5 for 2	(28.57)	(25.93)	(9.10)	1.00	No	Yes	71.43	21.80
18 October 2022	Cherish Sunshine International Limited	1094	5 for 8	(13.70)	(17.11)	(11.27)	Minimum 0.50 *(Placing fee)* Nil *(underwritten by connected person)*	Yes	No	38.46	6.64
20 October 2022	Crocodile Garments Limited	122	1 for 2	(66.10)	(66.40)	(56.50)	N/A	No	Yes	33.33	22.80
21 October 2022	E. Bon Holdings Limited	599	1 for 4	(20.00)	(20.99)	(17.60)	2.50	No	Yes	20.00	4.42
21 October 2022	C&N Holdings Limited	8430	3 for 1	(13.30)	(13.30)	(3.70)	1.50	No	No	75.00	10.00
10 November 2022	Lai Sun Garment (International) Limited	191	1 for 2	(50.00)	(50.80)	(40.80)	2.00	Yes	No	33.33	17.10
10 November 2022	Lai Sun Development Company Limited	488	1 for 2	(50.20)	(51.90)	(42.10)	2.00	Yes	No	33.33	17.40
14 November 2022	Comtel Technology Company Limited	1912	2 for 5	(23.20)	(25.00)	(18.20)	3.50	No	No	28.57	7.10
28 November 2022	CCIAM Future Energy Limited	145	1 for 2	(21.88)	(23.31)	(15.97)	2.50	No	Yes	33.33	7.63
29 November 2022	Enterprise Development Holdings Limited	1808	3 for 2	(39.72)	(39.37)	(20.86)	1.00	No	Yes	60.00	23.83
2 December 2022	Tibet Water Resources Ltd.	1115	1 for 3	(12.50)	(9.84)	(9.68)	1.00	No	No	25.00	3.13
28 December 2022	Jiading International Group Holdings Limited	8153	1 for 2	(50.00)	(51.55)	(40.12)	3.50	No	No	33.33	17.28
28 December 2022	New Amante Group Limited	8412	1 for 2	(10.60)	(12.10)	(7.30)	1.50	No	Yes	33.33	4.20

Announcement date	Company name	Stock code	Basis of entitlement	Premium/(Discount) of the subscription price over/to the share price on the last trading day (%)	Premium/(Discount) of the subscription price over/to the average share price for the five previous consecutive trading days up to and including the last trading day (%)	Premium/(Discount) of the subscription price over/to the theoretical ex-right share price (%)	Underwriting/placing related commission, as the case may be (%)	Fully underwritten Yes/No	Excess application Yes/No	Maximum dilution effect (%) *(Note 1)*	Cumulative theoretical dilution impact *(Note 2)*
30 December 2022	華泰證券股份有限公司 (Huatai Securities Co., Ltd.*) *(Note 3)*	6886	3 for 10	N/A	N/A	N/A	N/A	No	No	23.08	N/A
6 January 2023	SDM Education Group Holdings Limited	8363	1 for 2	0.00	0.00	0.00	4.00	Yes	Yes	33.33	0.00
10 January 2023	Kinetix Systems Holdings Limited	8606	1 for 2	(29.35)	(29.35)	(21.69)	1.30	No	No	33.33	9.78
11 January 2023	Add New Energy Investment Holdings Group Limited	2623	1 for 3	(13.60)	(13.00)	(10.90)	1.00 *(Placing fee)* Nil *(Underwritten by connected person)*	No	No	25.00	3.40
27 January 2023	Alco Holdings Limited	328	4 for 1	(25.00)	(22.10)	(6.25)	0.50	No	No	80.00	20.00
10 February 2023	Link Real Estate Investment Trust	823	1 for 5	(29.60)	(30.20)	(26.00)	1.50	Yes	Yes	16.67	5.00
10 February 2023	Windmill Group Limited	1850	2 for 1	(1.45)	(3.68)	0.00	1.00	No	No	66.67	2.82
17 February 2023	State Innovation Holdings Limited	8275	3 for 2	(26.50)	(26.50)	(12.50)	2.50	No	No	60.00	22.17
24 February 2023	Bossini International Holdings Limited	592	1 for 2	(21.28)	(25.55)	(3.19)	1.50	No	Yes	33.33	8.45
6 March 2023	CBK Holdings Limited	8428	5 for 1	(15.87)	(14.24)	(2.93)	3.50	No	No	83.33	13.23
16 March 2023	Golden Power Group Holdings Limited	3919	1 for 2	(19.71)	(24.24)	(6.60)	4.00	Yes	Yes	33.33	8.98
27 March 2023	Sandmartin International Holdings Limited	482	3 for 2	(16.67)	(16.67)	(7.41)	2.00 *(Placing fee)* 1.00 *(Underwritten by connected person)*	Yes	No	60.00	10.00
28 March 2023	Haitong International Securities Group Limited	665	3 for 10	0.00	(0.31)	0.00	N/A	No	Yes	23.08	0.07
6 April 2023	Kingland Group Holdings Limited *(Note 3)*	1751	1 for 2	(70.40)	(69.92)	(61.30)	3.50	No	No	33.33	23.47
6 April 2023	Luk Hing Entertainment Group Holdings Limited	8052	1 for 1	(5.88)	(4.76)	(6.43)	3.00	Yes	No	50.00	2.94
11 April 2023	China Wantian Holdings Limited	1854	1 for 5	(41.94)	(40.00)	(37.61)	7.07	Yes	Yes	16.67	6.99
13 April 2023	Pinestone Capital Limited	804	1 for 2	(40.79)	(39.68)	(31.47)	1.50	No	No	33.33	13.60

Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the share price on the last trading day (%)	Premium/ (Discount) of the subscription price over/to the average share price for the five previous consecutive trading days up to and including the last trading day (%)	Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price (%)	Underwriting/ placing related commission, as the case may be (%)	Fully underwritten Yes/No	Excess application Yes/No	Maximum dilution effect (%) *(Note 1)*	Cumulative theoretical dilution impact *(Note 2)*
13 April 2023	Finet Group Limited	8317	1 for 2	(52.40)	(52.40)	(42.20)	0.06 *(Placing fee)* Nil *(Underwritten by connected person)*	Yes	No	33.33	17.97
14 April 2023	Xinyi Energy Holdings Limited	3868	1 for 10	(9.90)	(8.40)	(9.10)	N/A	No	Yes	9.09	0.80
20 April 2023	Yuexiu Property Company Limited	123	30 for 100	(28.30)	(30.90)	(23.30)	2.00	Yes	Yes	23.08	7.20
28 April 2023	PT International Development Corporation Limited	372	1 for 2	(69.20)	(67.90)	(60.00)	0.2 *(Placing fee)* 0.5 *(Underwriting fee)*	Yes	No	33.33	23.10
			Min	(69.20)	(67.90)	(60.00)	0.06			9.09	0.00
			Max	0.00	0.00	0.00	7.07			83.33	23.83
			Median	(21.39)	(23.78)	(11.09)	2.00			33.33	8.39
			Mean	(25.17)	(25.82)	(17.64)	2.08			40.89	9.79
	The Company		3 for 2	1.52	(6.94)	0.60	0.50	No	No	60.00	6.76

Source: The Stock Exchange

Notes:

1. The potential maximum dilution effect of each rights issue is calculated as number of rights shares issued or to be issued under the basis of entitlement divided by the total number of shares as enlarged by the rights issue according to their respective basis of entitlements and assuming all rights shares have been/will be allotted and issued times 100%.

2. Being the cumulative (where applicable) theoretical dilution impact (as defined under Rule 7.27B of the Listing Rules or Rule 10.44A of the Rules Governing the Listing of Securities on GEM of the Stock Exchange) as disclosed in the relevant announcements, circulars and/or listing documents.

3. These rights issue transactions are excluded from comparison.

We noted from the above table that almost all of the Comparables had set the subscription price of their rights issue at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the rights issue were made except two Comparables, being SDM Education Group Holdings Limited (8363.HK) and Haitong International Securities Group Limited (0665.HK), with nil discount of their subscription prices to the closing price on their respective last trading days and/or average share price for the five previous consecutive trading days up to and including their respective last trading days. Therefore we consider it is a normal market practice for listed companies to set the subscription price of rights issue at a discount to the prevailing market price of the relevant shares so as to encourage the shareholders' participation but it is not uncommon to set subscription price with nil discount to prevailing price.

The discount represented by the subscription prices to the closing price of shares of the Comparables on respective last trading day ranges from a discount of approximately 69.20% to nil discount with mean and median discount of approximately 25.17% and 21.39% respectively. The premium of approximately 1.52% of the Subscription Price over the closing price of the Shares on the Last Trading Day is above the range of those of the Comparables but slightly above nil discount represented by the two abovementioned Comparables. Nevertheless the Subscription Price was determined by the Company with reference to, among others, the recent fluctuated downward trend of the prevailing market prices of the Existing Shares, the Company has taken into account the closing prices of the Existing Shares prior to the Last Trading Day, e.g. average closing price of the Shares over the five trading days up to the Last Trading Day, which the Company considered to be more representative in reflecting the prevailing share prices performance of the Shares. In fact, the discount of the Subscription Price to the average closing price of the Shares on the five trading days up to the Last Trading Day of approximately 6.94% is within the range of discount, being approximately 67.90% to nil discount, represented by the subscription prices to the average closing price of shares of the Comparables on respective last five trading days.

The subscription prices of the Comparables represent a range from a discount of approximately 60.00% to nil discount relative to their respective theoretical ex-rights prices (which is calculated based on the recent market price of share, subscription price and entitlement per share) as disclosed in relevant announcements. The premium of approximately 0.60% of the Subscription Price over the theoretical ex-rights prices of the Shares on the Last Trading Day is above the range of the Comparables but slightly above nil discount represented by the two abovementioned Comparables.

Due to the fluctuation of the price of the Shares post the publication of the Announcement which is currently between HK$0.100 and HK$0.119 per Share, the Subscription Price (after adjustment to the effect of the Share Consolidation) represents a premium of approximately 27.62% over the closing price of the Shares as at the Latest Practicable Date. Given (i) the Subscription Price was determined by the Company with reference to, among others, the reasons for the Rights Issue and the capital need of the Company as disclosed in the Letter from the Board; (ii) the Rights Issue gives all Qualifying Shareholders an equal opportunity to subscribe and participate in this fund raising exercise and the potential development of the Company; (iii) the Qualifying Shareholders may subscribe for all or part of the Rights Shares under their PALs subject to their investment objectives; and (iv) less theoretical value dilution to the No Action Shareholders if discount of the Subscription Price to the prevailing price of the Shares is smaller and particularly if there is a premium over the prevailing price of the Shares, we consider that the Subscription Price is fair and reasonable.

Based on the above analysis and the facts that (i) the Shares were traded above the Subscription Price (taking into account the effect of the Share Consolidation) throughout majority of the Comparable Review Period and notwithstanding the premium of the Subscription Price over the closing price of the Shares as at the Latest Practicable Date (after adjustment to the effect of the Share Consolidation); (ii) the liquidity in trading of the Shares was thin during the Comparable Review Period; (iii) it is common for the listed companies in Hong Kong to set the subscription price of rights issue at a discount to the market price of the listed shares in order to enhance the attractiveness of the rights issue transactions; (iv) the discount of the Subscription Price to the average closing price of the Shares on the five trading days up to the Last Trading Day falls within the range of the Comparables; (v) the premium of the Subscription Price to the closing price of the Shares on the Last Trading Day is slightly above nil discount represented by two Comparables; (vi) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; and (vii) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market, we consider that the Subscription Price is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Application for excess Rights Shares

As stated in the Letter from the Board, the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. We have reviewed the Comparables, and noted that 21 out of 36 Comparables did not offer excess application to their shareholders. Furthermore, 24 out of 36 Comparables were not fully underwritten, among which 14 of them did not offer excess application to their shareholders. Therefore, we consider that the absence of excess application arrangement is not an uncommon market practice.

After having considered the facts that (i) the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company; (ii) the Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full can maintain their respective existing shareholdings in the Company after completion of the Rights Issue; and (iii) the absence of excess application arrangement is not an uncommon market practice, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

5. Compensatory Arrangements

According to the Letter from Board, the Company would make arrangements described in Rule 7.21(1)(b) of the Listing Rule to dispose of the Untaken Shares and the NQS Unsold Shares by offering the Untaken Shares and the NQS Unsold Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the Rights Issue (i.e. the Compensatory Arrangements). Therefore, on 3 March 2023, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Untaken Shares and the NQS Unsold Shares. Please refer to the paragraph headed "The Placing Agreement" in the Letter from the Board for the details of the Placing Agreement.

5.1 Placing Price

Pursuant to the Placing Agreement, the placing price (the "**Placing Price**") of each of the Untaken Share and/or the NQS Unsold Share shall be not less than the Subscription Price. The final price determination is depends on the demand and market conditions of the Untaken Shares and/or the NQS Unsold Shares during the process of the Placing.

Given that (i) the Placing Price shall be not less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraph headed "4.2 Subscription Price" above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

5.2 Placing Commission

Pursuant to the Placing Agreement, the Company shall pay the Placing Agent a placing commission (the "**Placing Commission**") of 0.5% of the amount which is equal to the Placing Price multiplied by the Untaken Shares and NQS Unsold Shares that have been successfully placed by the Placing Agent. As advised by the Company, the Placing Commission was determined after arm's length negotiation between the Company and the Placing Agent and is on normal commercial terms, and the Directors, have taken into account the range of placing commission for recent rights issues conducted by issuers listed on the Stock Exchange.

As illustrated in table above, the placing/underwriting commission rate of the Comparables ranged from 0.06% to 7.07% (except those underwritten by connected person(s)). The Placing Commission falls below the range of the placing/underwriting commission rate of the Comparables. Accordingly, we consider that the Placing Commission is fair and reasonable.

We have also reviewed other major terms of the Placing Agreement, including but not limited to the conditions and termination clause of the Placing Agreement (details of which are set out in the Letter from the Board) and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Placing Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

In view of the above, we consider that the implementation of the Compensatory Arrangements is in the interests of the Company and the Shareholders as a whole.

6. Dilution effect of the Rights Issue on shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their proportionate shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. As at the Latest Practicable Date, the existing public Shareholders held approximately 79.86% of the total issued share capital of the Company. Upon completion of the Rights Issue (assuming none of the Rights Shares are subscribed for by the Qualifying Shareholders), the shareholding of the existing public Shareholders will be diluted to approximately 31.95%.

As set out in table above, the maximum dilution of the Comparables ranged from approximately 9.09% to approximately 83.33% with an average dilution of approximately 40.89%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 60.00%, which falls within the range of the Comparables. As set out in the Letter from the Board, the theoretical dilution impact is approximately 6.76% and we also noted that cumulative (where applicable) theoretical dilution impact of the Comparables range from nil to approximately 23.83% with 26 out of 36 Comparables showing dilution impact over 6%. Hence, we consider that it is reasonable for the Rights Issue with such cumulative theoretical dilution impact.

In all cases of rights issue, the dilution on the shareholding of those qualifying shareholders who do not take up in full their provisional allotments under the rights issue is inevitable. In fact, the dilution magnitude of any rights issue depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraph headed "7. Financial effects" below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

7. Financial effects

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

7.1 Net tangible assets

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, had the Rights Issue been completed in full on 31 December 2022, the consolidated net tangible assets of the Group attributable to the Shareholders would have increased from an audited one of approximately RMB331.14 million to an unaudited pro forma adjusted one of approximately RMB583.31 million immediately after the completion of the Rights Issue.

7.2 Bank balances

Upon completion of the Rights Issue in full and before the utilization of net proceeds as intended by the Company, the bank balances of the Company is expected to increase by an amount equivalent to the net proceeds from the Rights Issue, which is estimated to be approximately RMB252.16 million (equivalent to approximately HK$286.55 million).

7.3 Gearing

The gearing ratio of the Company, as represented by debts (including borrowings and payables incurred not in the ordinary course of business) over equity, was approximately 2.85% as at 31 December 2022. Since approximately HK$11.5 million of the net proceeds from the Rights Issue is intended to be used to repay the Group's bank borrowing, the debt of the Company is expected to decrease as a result of the Rights Issue assuming the Rights Issue will be completed in full and the entire net proceeds will be applied as intended and no additional borrowings. Based on the above analysis, we are of the view that the Rights Issue would have a positive effect on the Group's net tangible assets, cash position and gearing.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue (including the Subscription Price and the potential dilution effect) are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the relevant resolution(s) proposed at the EGM thereby approving the Rights Issue.

Yours faithfully,
For and on behalf of
Sorrento Capital Limited

Wesker Poon
Managing Director

Note: Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than ten years of experience in corporate finance and investment banking. Mr. Poon has participated in and completed various advisory transactions (including fundraising activities of listed companies in Hong Kong).