

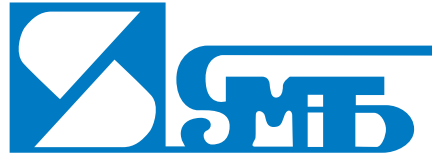
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Sandmartin International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.



Sandmartin International Holdings Limited

聖馬丁國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 482)

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY
TWO (2) SHARES HELD ON THE RECORD DATE;
(II) CONNECTED TRANSACTION IN RELATION
TO THE UNDERWRITING AGREEMENT;
(III) APPLICATION FOR WHITEWASH WAIVER;
(IV) SPECIAL DEAL; AND
(V) NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company



禹銘投資管理有限公司
YU MING INVESTMENT MANAGEMENT LIMITED

Placing Agent of the Rights Issue



萬基證券有限公司
MORTON SECURITIES LIMITED

*Independent Financial Adviser to the
Independent Board Committee and the Independent Shareholders*



紅日資本有限公司
RED SUN CAPITAL LIMITED

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 42 and 43 of this circular. A letter from Red Sun, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 44 to 83 of this circular.

A notice convening the SGM to be held at Industrial Zone No. 3, No. 16 Qianjin Erlu, Xin Qian Jin Village, Tanzhou Town, Zhongshan, Guangdong Province, the People's Republic of China at 11:00 a.m. on Monday, 22 May 2023 is set out on pages SGM-1 to SGM-5 of this circular. Whether or not you are able to attend the SGM, please complete the form of proxy enclosed in accordance with the instructions printed thereon and return it to the Registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong as soon as practicable, but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM, or any adjournment thereof (as the case may be), should you so wish.

It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company served prior to 4:00 p.m. on Wednesday, 28 June 2023 to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. Such events are set out in the section headed "Termination of the Underwriting Agreement" of this circular. If the Underwriter terminates the Underwriting Agreement, or the Underwriting Agreement does not become unconditional, the Rights Issue will not proceed.

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DEFINITION

In this circular, unless the context otherwise requires, the following terms shall have the following meaning:

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 27 March 2023 in relation to, among others, the Rights Issue, the Special Deal and the Whitewash Waiver
“associate(s)”	has the meaning ascribed to such term in the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day (not being a Saturday, Sunday or public holiday in Hong Kong and a day on which typhoon signal no. 8 or a black rainstorm warning is hoisted at any time in Hong Kong) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours and the Stock Exchange is open for the transaction of business
“Bye-laws”	the bye-laws of the Company, as amended from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Sandmartin International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange (stock code: 482)
“Compensatory Arrangements”	placement of the Unsubscribed Rights Shares by the Placing Agent on a best effort basis pursuant to the Placing Agreement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company

DEFINITION

“Executive”	the Executive Director of the Corporate Finance Division of SFC or any delegate of the Executive Director
“First Steamship” or “Underwriter”	First Steamship Company Limited, the issued shares of which are listed on the Taiwan Stock Exchange and a substantial shareholder of the Company
“Grand Citi”	Grand Citi Limited, a 58.62% indirectly owned subsidiary of First Steamship
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, Mr. Wu Chia Ming, Ms. Chen Wei-Hui and Mr. Lu Ming-Shiuan, which has been established to give recommendation to the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver, and as to the voting action therefor
“Independent Financial Adviser” or “Red Sun”	Red Sun Capital Limited, a licensed corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, appointed by the Company with the approval of the Independent Board Committee for the purpose of advising 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 Whitewash Waiver and as to the voting action therefor

DEFINITION

“Independent Shareholder(s)”	the Shareholders other than 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
“Independent Third Party(ies)”	third party(ies) independent of the Company and any connected person(s) of the Company and not a connected person of the Company
“Irrevocable Undertaking”	the irrevocable undertaking given by First Steamship in favour of the Company under the Underwriting Agreement and described in the sub-section headed “The Irrevocable Undertaking” under the section headed “Proposed Rights Issue” in this circular
“Last Trading Day”	15 March 2023, being the last trading day of the Shares before the release of the Announcement
“Latest Acceptance Date”	Monday, 19 June 2023
“Latest Practicable Date”	26 April 2023, being latest practicable date prior to the publication of this circular
“Latest Time for Acceptance”	4:00 p.m. on Monday, 19 June 2023, or such other date and/or time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of, and the payment for, the Rights Shares under the Rights Issue
“Latest Time for Termination”	4:00 p.m. on Wednesday, 28 June 2023, or such other time or date as may be agreed between the Company and the Underwriter in writing, being the latest time to terminate the Underwriting Agreement
“Lender”	AP Finance Limited (a wholly-owned subsidiary of Allied Group Limited, the shares of which are listed on the Mainboard of the Stock Exchange (stock code: 373)), the lender of the Loan and a licensed money lender

DEFINITION

“Listing Committee”	has the same meaning ascribed thereto under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the loan in the outstanding principal amount of US\$25 million (equivalent to approximately HK\$196.21 million) with accrued interest of approximately HK\$14.73 million owing by the Company to the Lender up to the maturity of the loan on 20 April 2023
“Loan Agreement”	the loan agreement dated 19 September 2016 entered into between the Company and the Lender in respect of the Loan (which was supplemented by the supplemental agreements dated 8 November 2016, 18 January 2017, 10 February 2017, 17 March 2017, 31 March 2017, 16 August 2017, 28 August 2017, 18 September 2017, 9 February 2018, 5 September 2018, 18 February 2019, 20 April 2020 and 11 August 2021)
“Mr. Hung”	Mr. Hung Tsung Chin, an executive Director
“Mr. Kuo”	Mr. Kuo Jen Hao, a non-executive Director and chairman of the Company
“No Action Shareholder(s)”	Qualifying Shareholders who do not subscribe for the Rights Shares (whether partially or fully) under the PALs or their renounces, or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed, or Non-Qualifying Shareholders (as the case may be)
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) whom the Directors, after making enquiries regarding the legal restrictions under the laws of the relevant jurisdictions or the requirements of the relevant overseas regulatory bodies or stock exchanges, consider it necessary or expedient to exclude them from the Rights Issue
“NQS Rights Shares”	the Rights Share(s) which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form

DEFINITION

“Overseas Letter”	a letter from the Company to the Non-Qualifying Shareholder(s) (if any) explaining the circumstances in which the Non-Qualifying Shareholder(s) (if any) is/are not permitted to participate in the Rights Issue
“Overseas Shareholder(s)”	the Shareholder(s) (whose names appear on the register of members of the Company at the close of business on the Record Date) with registered address(es) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Placee(s)”	professional, institutional or other investor(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies) and not acting in concert with First Steamship and parties acting in concert with it (including Grand Citi) and/or the connected persons of the Company, procured by the Placing Agent and/or its sub-placing agent(s) to subscribe for any of the Unsubscribed Rights Shares pursuant to the Placing Agreement
“Placing”	the placing of a maximum of 524,298,882 Unsubscribed Rights Shares on a best effort basis by the Placing Agent and/or its sub-placing agents(s) to the Placees on the terms and conditions of the Placing Agreement
“Placing Agent”	Morton Securities Limited, an organization licensed to carry out type 1 (dealing in securities) regulated activity under the SFO
“Placing Agreement”	the placing agreement dated 15 March 2023 (as supplemented by the supplemental agreement dated 27 March 2023 and 24 April 2023) entered into between the Company and the Placing Agent in relation to the Compensatory Arrangements
“Placing Completion Date”	the third Business Day following the satisfaction of the placing conditions set out in the Placing Agreement or such other date as the Company and the Placing Agent may agree

DEFINITION

“PRC”	the People’s Republic of China which, for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus to be issued to the Qualifying Shareholders (and the Non-Qualifying Shareholder(s) for information only) containing, among other things, details of the Rights Issue
“Prospectus Documents”	the Prospectus and the PAL
“Prospectus Posting Date”	Monday, 5 June 2023 or such other date as may be agreed between the Company and the Underwriter, being the date on which the Prospectus Documents are posted to the Qualifying Shareholders
“Qualifying Shareholder(s)”	Shareholders, other than the Non-Qualifying Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	Friday, 2 June 2023, or on such other date as may be agreed between the Company and the Underwriter, being the date by reference to which the Shareholders’ entitlements to the Rights Issue are to be determined
“Registrar”	Boardroom Share Registrars (HK) Limited, the Hong Kong branch share registrar and transfer office of the Company
“Relevant Period”	the period commencing six months prior to the date of the Announcement and ending on the Latest Practicable Date
“Rights Issue”	the proposed issue by way of rights of three (3) Rights Shares for every two (2) Shares in issue on the Record Date at the Subscription Price pursuant to the Prospectus Documents
“Rights Shares”	738,242,235 new Shares proposed to be allotted and issued under the Rights Issue (assuming no change in the number of Shares in issue on or before the Record Date)
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITION

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder, and the Whitewash Waiver
“Shares”	ordinary share(s) with par value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Special Deal”	the use of the proceeds from the Rights Issue for repayment of the Loan where an associate of the Lender is a Shareholder, which constitutes a special deal under Note 5 to Rule 25 of the Takeovers Code
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.12 per Rights Share
“substantial shareholder(s)”	has the meaning as ascribed thereto under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement dated 15 March 2023 (as supplemented by the supplemental agreement dated 27 March 2023 and 24 April 2023) entered into between the Company and the Underwriter in relation to the Rights Issue
“Unsubscribed Rights Shares”	those Rights Shares that are not subscribed by the Qualifying Shareholders and the NQS Rights Shares that are not successfully sold by the Company as described in the sub-section headed “Non-Qualifying Shareholders” in this circular
“Untaken Rights Shares”	all the Unsubscribed Rights Shares that are not placed by the Placing Agent or they have been placed but the places have not paid therefor at 4:00 p.m. on the Placing Completion Date

DEFINITION

“US”	the United States of America
“Whitewash Waiver”	a waiver to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code to waive the obligation of First Steamship to make a mandatory general offer to the Shareholders in respect of the Shares not already owned or agreed to be acquired by First Steamship and parties acting in concert with it (including Grand Citi) as a result of the taking up of the Rights Shares by First Steamship as the underwriter pursuant to the Underwriting Agreement
“Yu Ming”	Yu Ming Investment Management Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management), being the financial adviser to the Company in respect of the Rights Issue
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	US dollars, the lawful currency of the US
“%”	per cent.

For the purpose of this circular, unless otherwise stated, the conversion of US\$ into HK\$ is based on the exchange rate of US\$1.00 to HK\$7.85. The exchange rate has been used, where applicable, for the purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rate or at all.

EXPECTED TIMETABLE

All times stated in this circular refer to Hong Kong times. Any changes to the anticipated timetable will be published or notified to the Shareholders and the Stock Exchange as and when appropriate.

Event	Date (Hong Kong time) 2023
Despatch of the Circular together with notice of SGM and proxy form for SGM	Friday, 28 April
Latest time for lodging transfer documents of the Shares to qualify for attendance and voting at the SGM	4:30 p.m. on Monday, 15 May
Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the SGM (both dates inclusive)	Tuesday, 16 May to Monday, 22 May
Latest time for lodging proxy forms for the SGM	11:00 a.m. on Saturday, 20 May
Record date for attendance and voting at the SGM	Monday, 22 May
Date and time of the SGM	11:00 a.m. on Monday, 22 May
Announcement of the poll results of the SGM	Monday, 22 May
Register of members re-opens	Tuesday, 23 May
Last day of dealings in the Shares on a cum-entitlement basis relating to the Rights Issue	Tuesday, 23 May
First day of dealings in Shares on an ex-entitlement basis relating to the Rights Issue	Wednesday, 24 May
Latest time for the Shareholders to lodge transfer documents of Shares in order to be qualified for the Rights Issue	4:30 p.m. on Thursday, 25 May
Closure of register of members to determine the eligibility of the Rights Issue (both dates inclusive)	Monday, 29 May to Friday, 2 June
Record date for the Rights Issue	Friday, 2 June
Register of members re-opens	Monday, 5 June

EXPECTED TIMETABLE

Despatch of the Prospectus Documents (including the PAL and the Prospectus) (in case of the Non-Qualifying Shareholders, the Prospectus only)	Monday, 5 June
First day of dealings in nil-paid Rights Share	Wednesday, 7 June
Latest time for splitting the PAL	4:30 p.m. on Friday, 9 June
Last day of dealing in nil-paid Rights Shares	Wednesday, 14 June
Latest time for lodging transfer documents of nil-paid Rights Shares in order to qualify for the Compensatory Arrangements	4:00 p.m. on Monday, 19 June
Latest time for acceptance of and payment for the Rights Shares	4:00 p.m. on Monday, 19 June
Announcement of the number of Unsubscribed Rights Shares	Wednesday, 21 June
Commencement of placing of Unsubscribed Rights Shares by the Placing Agent	Friday, 23 June
Latest time of placing of the Unsubscribed Rights Shares by the Placing Agent	4:00 p.m. on Wednesday, 28 June
Latest time for terminating the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Wednesday, 28 June
Announcement of results of the Rights Issue (including results of the placing of Unsubscribed Rights Shares and the amount of the Net Gain per Unsubscribed Rights Share under the Compensatory Arrangements)	Tuesday, 4 July
Despatch of share certificates for fully-paid Rights Shares	Wednesday, 5 July
Refund cheques, if any, to be despatched (if the Rights Issue is terminated)	Wednesday, 5 July
Commencement of dealings in fully-paid Rights Shares	9:00 a.m. on Thursday, 6 July
Payment of the Net Gain to relevant No Action Shareholders (if any) or Non-Qualifying Shareholders (if any)	Tuesday, 18 July

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS SHARES

The Latest Time for Acceptance and payment for the Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or “extreme conditions” caused by super typhoons which is announced by the Government of Hong Kong, or a “black” rainstorm warning:

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

If the Latest Time for Acceptance and payment for the Rights Shares are postponed in accordance with the foregoing, the dates of the events subsequent to the Latest Time for Acceptance mentioned in this section may be affected. An announcement will be made as soon as practicable by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

Pursuant to the Underwriting Agreement, the Underwriter shall be entitled by a notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if, prior to the Latest Time for Termination:

1. in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
2. any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
3. there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially and adversely affect the prospects of the Group, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or the destruction of any material asset of the Group; or
4. any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which in the reasonable opinion of the Underwriter will materially and adversely affect the success of the Rights Issue and/or the prospects of the Group taken as a whole; or
5. any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not *ejusdem generis* with any of the foregoing; or

TERMINATION OF THE UNDERWRITING AGREEMENT

6. any matter which, had it arisen or been discovered immediately before the date of the Prospectus Documents and not having been disclosed in the Prospectus Documents, would have constituted, in the reasonable opinion of the Underwriter, an omission which is material in the context of the Rights Issue; or
7. any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements in connection with the Rights Issue.

If prior to the Latest Time for Termination any such notice as is referred to above is given by the Underwriter, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement will be made by the Company if the Underwriter terminates the Underwriting Agreement.



Sandmartin International Holdings Limited

聖馬丁國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 482)

Board of Directors

Executive Directors

Mr. Hung Tsung Chin

Mr. Chen Wei Chun

Non-executive Director

Mr. Kuo Jen Hao (*Chairman*)

Independent Non-executive Directors

Ms. Chen Wei-Hui

Mr. Lu Ming-Shiuan

Mr. Wu Chia Ming

Registered office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business

Unit 516, 5th Floor

Peninsula Centre

67 Mody Road

Tsim Sha Tsui East, Kowloon

Hong Kong

28 April 2023

To the Shareholders

Dear Sir or Madam,

- (I) PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY
TWO (2) SHARES HELD ON THE RECORD DATE;
(II) CONNECTED TRANSACTION IN RELATION
TO THE UNDERWRITING AGREEMENT;
(III) APPLICATION FOR WHITEWASH WAIVER;
(IV) SPECIAL DEAL; AND
(V) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver.

* *For identification purpose only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver; (iii) a letter of advice from Red Sun to the Independent Board Committee and the Independent Shareholders in regard to the aforesaid; (iv) other information required under the Listing Rules and the Takeovers Code; and (v) a notice convening the SGM.

PROPOSED RIGHTS ISSUE

The Board proposes the Rights Issue, details of which are summarised 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:	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 to be issued:	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)

LETTER FROM THE BOARD

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.

Subscription Price

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 16.67% to the closing price of HK\$0.144 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) 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;
- (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 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 (taking into account the valuation of the properties of the Group as at 31 March 2023 as set out in Appendix III – Property Valuation Report in this circular) and 492,161,490 Shares in issue.

LETTER FROM THE BOARD

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 and the benchmarked price (as defined under Rule 7.27B of the Listing Rules) of HK\$0.144 per Share.

The net price per Rights Share (i.e. 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), assuming that the Rights Issue is fully subscribed, will be approximately HK\$0.115.

The Subscription Price was determined by the Company with reference to (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.

The Directors consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors:

- (i) issuance of new shares by way of rights issue at a discount to the then market price has been commonly adopted by listed issuers in Hong Kong to encourage existing shareholders to take up their entitlements so as to participate in the business development of the listed issuers;
- (ii) the Subscription Price represents a discount of approximately 16.67% and 23.08% to the closing price of the Shares on the Last Trading Day and the average of the closing prices of the Shares for the last three months up to and including the Last Trading Day respectively, and such discounts fall within the range of discounts to market price in the rights issues conducted by other listed issuers in Hong Kong and would encourage the Qualifying Shareholders to subscribe for their assured entitlements under the Rights Issue taking into account the persistent loss-making position of the Company;
- (iii) the Qualifying Shareholders are provided with an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company;
- (iv) the funding needs of the Group as set out in the section headed "Reasons for and benefits of the rights issue and use of proceeds" in this circular.

LETTER FROM THE BOARD

Qualifying Shareholders

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

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the said nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company and are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date.

In order to be registered as members of the Company on the Record Date, all transfers of Shares (together with the relevant share certificate(s)) must be lodged with the Registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong by not later than 4:30 p.m. on Thursday, 25 May 2023. It is expected that the last day of dealings in the Shares on a cum-rights basis is Tuesday, 23 May 2023 and the Shares will be dealt with on an ex-rights basis from Wednesday, 24 May 2023.

The Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date.

Application for all or any part of a Qualifying Shareholder's entitlement to the Rights Shares should be made by completing the PAL and lodging the same with a cheque drawn on an account with, or bank cashier's order issued by, a licensed bank in Hong Kong for the Rights Shares being applied for with the Registrar, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong on or before the Latest Time for Acceptance.

The Qualifying Shareholders who take up their pro-rata entitlement in full will not experience any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Shares arising from the aggregation of fractional entitlements). **If a Qualifying Shareholder does not take up any of his/her/its entitlements in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

LETTER FROM THE BOARD

Non-Qualifying Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. As at 10 April 2023, there were a total of 15 Overseas Shareholders with addresses in Taiwan and the US.

The Board will make enquiries regarding the legal restrictions under the laws of the relevant overseas jurisdiction(s) and the requirements of the relevant regulatory body(ies) or stock exchange(s) pursuant to Rule 13.36(2)(a) of the Listing Rules. If, after making such enquiries and based on legal opinions provided by the legal advisers to the Company, the Board is of the opinion that it would be necessary or expedient not to offer the Rights Shares to any Overseas Shareholders on account either of the legal restrictions under the laws of the relevant jurisdiction(s) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in the relevant place(s), no offer of the Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to such Overseas Shareholders. The basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Prospectus.

The Company will send copies of the Overseas Letter and the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send the PAL to them. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained above.

The Non-Qualifying Shareholders (which are excluded from the Rights Issue) would not have any entitlement under the Rights Issue. Such Rights Shares will form part of the Unsubscribed Rights Shares and if possible, be placed by the Placing Agent to independent places under the Compensatory Arrangements.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in their nil-paid form, to be sold in the market as soon as practicable after dealings in the nil-paid Rights Shares commence, and in any event before the last day for dealings in nil-paid Rights Shares if a premium (net of expenses) can be obtained. Proceeds from each sale, less expenses and stamp duty, of not less than HK\$100 will be paid pro-rata (rounded down to the nearest cent) to the relevant Non-Qualifying Shareholder(s) in Hong Kong dollars. The Company will retain individual amount of less than HK\$100 for its own benefit to cover the administrative costs that it would have incurred.

LETTER FROM THE BOARD

Any unsold entitlements of the Non-Qualifying Shareholders will be placed by the Placing Agent under the Placing Agreement together with Rights Shares that are not being taken up by the Qualifying Shareholders.

For the nil-paid Rights Shares that were sold in the market by the Company and the buyer of such nil-paid Rights Shares who will not take up the entitlement, such Unsubscribed Rights Shares will be subject to the Compensatory Arrangements under the Placing Agreement.

For details of the Compensatory Arrangements, please refer to the section headed “No excess application and procedures in respect of the Unsubscribed Rights Shares” in this circular.

The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Non-Qualifying Shareholders should exercise caution when dealing in the Shares.

Basis of provisional allotments

The basis of the provisional allotments shall be three (3) Rights Shares (in nil-paid form) for every two (2) Shares held by the Qualifying Shareholders as at the close of business on the Record Date.

Irrevocable Undertaking

First Steamship and parting acting in concert with it are interested in an aggregate of 142,628,902 Shares (representing approximately 28.98% of the entire issued share capital of the Company as at the Latest Practicable Date), of which 124,950,000 Shares (representing approximately 25.39% of the entire issued share capital of the Company as at the Latest Practicable Date) are held by it and 17,678,902 Shares (representing approximately 3.59% of the entire issued share capital of the Company as at the Latest Practicable Date) are held by Grand Citi, a 58.62% indirectly owned subsidiary of First Steamship.

LETTER FROM THE BOARD

Pursuant to the Irrevocable Undertaking, First Steamship has undertaken to the Company that (i) it will subscribe for and/or procure subscriptions for 213,943,353 Rights Shares which comprise the full acceptance of the provisional entitlement in respect of the aggregate of 142,628,902 Shares beneficially held by First Steamship and Grand Citi; (ii) it will not and will procure Grand Citi not to dispose of, or agree to dispose of, any of the 124,950,000 Shares and 17,678,902 Shares currently owned by it and Grand Citi, respectively, and such Shares will remain beneficially owned by it and Grand Citi, respectively, up to and including the Record Date; (iii) it will, and will procure Grand Citi to accept, its (as applicable) entitlements under the Rights Issue for an aggregate of 213,943,353 Rights Shares; and (iv) it will and will procure Grand Citi lodge or procure the subscription of the 187,425,000 Rights Shares and 26,518,353 Rights Shares respectively, which will be the number of Rights Shares provisionally allotted (on nil-paid basis) to it and Grand Citi respectively, under the Rights Issue, with the Registrar.

Save for the Irrevocable Undertaking, as at the Latest Practicable Date, the Company has not received any information or irrevocable undertaking from any other Shareholders (including Metroasset Investments Limited which holds 70,718,859 Shares (representing approximately 14.37% of the issued share capital of the Company) and is 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) of their intention to take up the Rights Shares to be provisionally allotted and issued to them under the Rights Issue.

Application for listing

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

Rights Shares will be eligible for admission into CCASS

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms with their board lot size being the same (i.e. 10,000) as their underlying Shares on the Stock Exchange, or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter.

LETTER FROM THE BOARD

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid with a record date falling on or after the date of allotment and issue of the Rights Shares in their fully-paid form.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy and other applicable fees and charges in Hong Kong.

Share certificates for the Rights Shares and refund cheques

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be sent by ordinary post on Wednesday, 5 July 2023 to those persons who have validly accepted and, where applicable, applied for, and paid for the Rights Shares, at their own risk, to their registered addresses. Each allottee will receive one share certificate for all allotted Rights Shares.

If the Rights Issue does not proceed, the monies received by the Company in respect of the subscription of the Rights Shares will be refunded to the Qualifying Shareholders or such other person to whom the nil-paid rights have been validly renounced or transferred or, in the case of joint acceptances, to the first-named person, without interest and by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders or such other person to their registered addresses by the Registrar on Wednesday, 5 July 2023.

Fractional entitlement to the Rights Shares

No fractional entitlements to the Rights Shares shall be issued to the Shareholders and no entitlements of the Non-Qualifying Shareholders to the Rights Shares shall be issued to the Non-Qualifying Shareholders. All fractions of the Rights Shares shall be rounded down to the nearest whole number of Rights Shares and aggregated and, if a premium (net of expenses) can be achieved, sold in the market by the Company for its own benefit.

LETTER FROM THE BOARD

No excess application and procedures in respect of the Unsubscribed Rights Shares

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.

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.

LETTER FROM THE BOARD

Placing Agreement for the Unsubscribed Rights Shares

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 and 24 April 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.

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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 <i>pari passu</i> in all respects among themselves and with the Shares then in issue.

Conditions of the Placing Agreement

The obligations of the Placing Agent under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled or waived:

- (i) the passing by the Independent Shareholders at the SGM of (1) ordinary resolutions to approve the Underwriting Agreement, the Placing Agreement, the Rights Issue, the Special Deal and the transactions contemplated thereunder; and (2) a special resolution to approve the Whitewash Waiver (at least 75% of the Independent Shareholders at the SGM by way of poll) in accordance with the Listing Rules and the Takeovers Code respectively;
- (ii) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in the Rights Shares;
- (iii) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained;
- (iv) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events; and
- (v) the posting of copies of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus (stamped "For Information Only") to the Non-Qualifying Shareholders for information purpose only.

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As at the Latest Practicable Date, save for the approvals set out in conditions (i) and (ii) above, the granting of the Whitewash Waiver, the granting of the Executive's consent to the Special Deal and the authorisation and registration of the Prospectus Documents, the Company is not aware of other consents or approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder.

In the event that the above condition precedents have not been fulfilled on or before 30 June 2023 (or such later date as may be agreed between the Company and the Placing Agent in writing), all rights, obligations and liabilities of the parties under the Placing Agreement in relation to the placing shall cease and determine, and none of the Company or the Placing Agent shall have any claim against the other in respect of the placing (save for any antecedent breaches thereof).

As at the Latest Practicable Date, the Placing Agent, Yu Ming and their respective associates do not hold any Shares. The terms of the Placing Agreement, including the placing commission, were determined after arm's length negotiation between the Placing Agent and the Company with reference to the prevailing market rate and the Company considers the Placing Agreement to be on normal commercial terms.

The Company considers that the Placing Agreement will provide a compensatory mechanism for the No Action Shareholders, protect the interest of the Shareholders, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 and 24 April 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)

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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.
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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).

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. The Directors (including the members of the Independent Board Committee, whose views are set out in the letter from the Independent Board Committee) are of the 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.

Conditions of the Rights Issue

The obligations of the Underwriter under the Underwriting Agreement are conditional on the fulfilment of the following conditions:

- (i) the passing by the Independent Shareholders at the SGM of (1) ordinary resolutions to approve the Underwriting Agreement, the Placing Agreement, the Rights Issue, the Special Deal and the transactions contemplated thereunder; and (2) a special resolution to approve the Whitewash Waiver (at least 75% of the Independent Shareholders at the SGM by way of poll) in accordance with the Listing Rules and the Takeovers Code respectively;
- (ii) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents duly signed by the Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Prospectus Posting Date;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders by the Prospectus Posting Date and the posting of the Prospectus and a letter to the Non-Qualifying Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue on or before the Prospectus Posting Date;

LETTER FROM THE BOARD

- (iv) the Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Business Day prior to the first day of their dealings;
- (v) compliance with the requirements under the applicable laws and regulations of Hong Kong and Bermuda;
- (vi) the Executive granting the Whitewash Waiver to the Underwriter and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- (vii) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (viii) the compliance with and performance of all the undertakings and obligations of the Underwriter under the Irrevocable Undertaking;
- (ix) all necessary consents and approvals to be obtained on the part of each of the Underwriter and the Company in respect of the Underwriting Agreement and the transactions contemplated thereunder having been obtained; and
- (x) the Executive granting consent under Rule 25 of the Takeovers Code in respect of Special Deal.

The above conditions precedent are incapable of being waived. If any of the conditions precedent are not satisfied by the Latest Time for Termination, the Underwriting Agreement shall terminate and no party will have any claim against any other party (save for any antecedent breaches and claims thereof).

As at the Latest Practicable Date, save for the approvals set out in conditions (i), (iv), (vi) and (x) above, authorisation and registration of the Prospectus Documents, and the approval of the Underwriting Agreement by the board of directors of the Underwriter, the Company is not aware of other consents or approvals (including the regulatory requirements required under the listing rules of the Taiwan Stock Exchange) to be obtained on the part of each of the Underwriter and the Company in respect of the Underwriting Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, the Company does not believe that the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver would give rise to any concerns in relation to compliance with other applicable laws or regulations (including the listing rules of the Taiwan Stock Exchange and the Listing Rules).

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

The Underwriter shall be entitled by a notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if, prior to the Latest Time for Termination:

1. in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
2. any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
3. there is any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will materially and adversely affect the prospects of the Group, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or the destruction of any material asset of the Group; or
4. any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which in the reasonable opinion of the Underwriter will materially and adversely affect the success of the Rights Issue and/or the prospects of the Group taken as a whole; or

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5. any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
6. any matter which, had it arisen or been discovered immediately before the date of the Prospectus Documents and not having been disclosed in the Prospectus Documents, would have constituted, in the reasonable opinion of the Underwriter, an omission which is material in the context of the Rights Issue; or
7. any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements in connection with the Rights Issue.

If prior to the Latest Time for Termination any such notice as is referred to above is given by the Underwriter, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement will be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

EFFECTS ON THE SHAREHOLDING STRUCTURE

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Rights Issue (assuming full acceptance of the Rights Shares by all Qualifying Shareholders); (iii) 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 100% of the Unsubscribed Rights Shares are fully placed to the Placees under the Compensatory Arrangements); and (iv) 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 100% of the Untaken Rights Shares are taken up by the Underwriter):

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	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%

Notes:

- 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.
- 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.
- 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.

LETTER FROM THE BOARD

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

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will not take place if a tropical cyclone warning signal no. 8 or above, or “extreme conditions” caused by super typhoons, or a black rainstorm warning is:

- (a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead the deadline for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; and
- (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead the deadline for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. The Company will notify the Shareholders by way of announcement(s) of any change to the expected timetable as soon as practicable.

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

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.

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 (“**2022 Results Announcement**”), 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

LETTER FROM THE BOARD

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.

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% 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.

LETTER FROM THE BOARD

- (ii) approximately HK\$10.98 million or 13% 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).

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 relatively 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.

In view of the above and the reasons described in the sub-section headed "Subscription Price" under the section headed "Proposed Rights Issue", the Directors consider that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE UNDERWRITER

First Steamship is a company listed on the Taiwan Stock Exchange Corporation ("TWSE") (TWSE stock code: 2601). First Steamship's principal business activities include dry bulk carrier shipping, professional vessel management and crewing services and operation of department store. As at the Latest Practicable Date, Henghua Investment Co., Ltd., is the single largest shareholder of First Steamship, holding approximately 6.83% of the issued shares of First Steamship. Henghua Investment Co., Ltd. is principally engaged in investment holding.

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. In the event that First Steamship becomes the controlling shareholder of the Company as a result of taking up of the Unsubscribed Rights Shares under the Underwriting Agreement, it is the intention of First Steamship to continue the existing businesses of the Group. First Steamship has no intention to introduce any major changes to the businesses of the Group (including any redeployment of the fixed assets of the Group) or terminate the continued employment of the employees of the Group.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 or the consent to the Special Deal is not granted 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.

SGM

The register of members of the Company will be closed from Tuesday, 16 May 2023 to Monday, 22 May 2023 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM. For the avoidance of doubt, the Non-Qualifying Shareholders are entitled to attend and vote at the SGM.

A notice convening the SGM to be held at Industrial Zone No. 3, No. 16 Qianjin Erlu, Xin Qian Jin Village, Tanzhou Town, Zhongshan, Guangdong Province, the People's Republic of China on Monday, 22 May 2023 at 11:00 a.m. is set out on pages SGM-1 to SGM-5 of this circular.

LETTER FROM THE BOARD

The SGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver. Only the Independent Shareholders will be entitled to vote on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

A form of proxy for use at the SGM is enclosed with this circular and such form of proxy is also published at the website of the Stock Exchange at www.hkex.com.hk. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy and indicate voting instruction in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time for the holding of the SGM (i.e. by 11:00 a.m. on Saturday, 20 May 2023) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof.

In accordance with the Listing Rules and the Takeovers Code, First Steamship, its associates and any parties acting in concert with it (including Grand Citi), Mr. Hung and his associates, the Lender and its associates and 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/or the Whitewash Waiver will be required to abstain from voting on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver at the SGM. Save as disclosed in this circular, no other Shareholder is involved or interested in or has a material interest in the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver and, hence, is required to abstain from voting on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising Mr. Wu Chia Ming, Ms. Chen Wei-Hui and Mr. Lu Ming-Shiuan, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder respectively, and the Whitewash Waiver, and as to the voting action therefor.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee should comprise all non-executive and independent non-executive Directors. Since Mr. Kuo, a non-executive Director, is the chairperson and a director of First Steamship, Mr. Kuo is not considered as independent for the purpose of giving advice or recommendations to the Independent Shareholders and will not be part of the Independent Board Committee.

LETTER FROM THE BOARD

With the approval of the Independent Board Committee, Red Sun has been appointed to advise the Independent Board Committee and the Independent Shareholders in these regards. Please refer to the Letter from Red Sun set out on pages 44 to 83 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the aforesaid regards.

DESPATCH OF PROSPECTUS DOCUMENTS

Subject to, among other things, the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver having been approved by the Independent Shareholders at the SGM, the Prospectus Documents or the Prospectus, whichever appropriate, will be despatched to the Qualifying Shareholders and, for information only, the Non-Qualifying Shareholders in due course. For the avoidance of doubt, the Non-Qualifying Shareholders are entitled to attend and vote at the SGM.

RECOMMENDATION

The Directors (including the members of the Independent Board Committee whose views in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver are further set out below) consider that the terms of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, the Whitewash Waiver is fair and reasonable, and the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee whose views in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver are further set out below) recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver.

Having taken into account the advice of Red Sun, the Independent Board Committee considers that the terms of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 42 to 43 of this circular which contain its recommendation to the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver. Your attention is also drawn to the letter from Red Sun set out on pages 44 to 83 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the aforesaid regards.

Your attention is also drawn to the additional information contained in the appendices to this circular

WARNING OF THE RISKS OF DEALING IN THE SHARES AND THE RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-section headed "Termination of the Underwriting Agreement" under the section headed "The Underwriting Agreement" in this circular). Accordingly, the Rights Issue may or may not proceed.

The Shares are expected to be dealt in on an ex-rights basis from Wednesday, 24 May 2023. Dealings in the Rights Shares in nil-paid form are expected to take place from Wednesday, 7 June 2023 to Wednesday, 14 June 2023. Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares.

Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares and the nil-paid Right Shares.

On behalf of the Board
Sandmartin International Holdings Limited
Chen Wei Chun
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of a letter of recommendation from the Independent Board Committee to 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, which has been prepared for the purpose of inclusion in this circular.



Sandmartin International Holdings Limited

聖馬丁國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 482)

28 April 2023

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular dated 28 April 2023 of the Company to the Shareholders (the “Circular”), of which this letter forms part. Capitalised terms used herein shall have the same meaning as those defined in the Circular unless the context otherwise requires.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, as to whether the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and to recommend how the Independent Shareholders should vote at the SGM. Red Sun has been appointed as the independent financial adviser to advise us and the Independent Shareholders in these regards. Details of the advice of Red Sun, together with the principal factors it has taken into consideration in giving its advice, are contained in its letter set out on pages 44 to 83 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having taken into account the advice of Red Sun, we consider that the Rights Issue, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable and in the interests of the Company and/or its Independent Shareholders. We also consider that the Underwriting Agreement is on normal commercial terms, and the terms of the Underwriting Agreement are fair and reasonable and in the interests of the Company and/or the Independent Shareholders, despite the transaction contemplated under the Underwriting Agreement is not in the Company's ordinary and usual course of business. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee
Sandmartin International Holdings Limited

Wu Chia Ming
Independent
non-executive Director

Chen Wei-Hui
Independent
non-executive Director

Lu Ming-Shiuan
Independent
non-executive Director

LETTER FROM RED SUN

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



红日资本有限公司
RED SUN CAPITAL LIMITED

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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

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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.

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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.

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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.

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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.

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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.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background and Financial Information of the Group

As set out in the Letter from the Board, the Group 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 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	
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%
<i>Segment revenue</i>			
– 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%
<i>Segment results</i>			
– 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%

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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.

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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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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

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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 approximately HK\$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.

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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

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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.

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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.

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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.

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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

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- (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

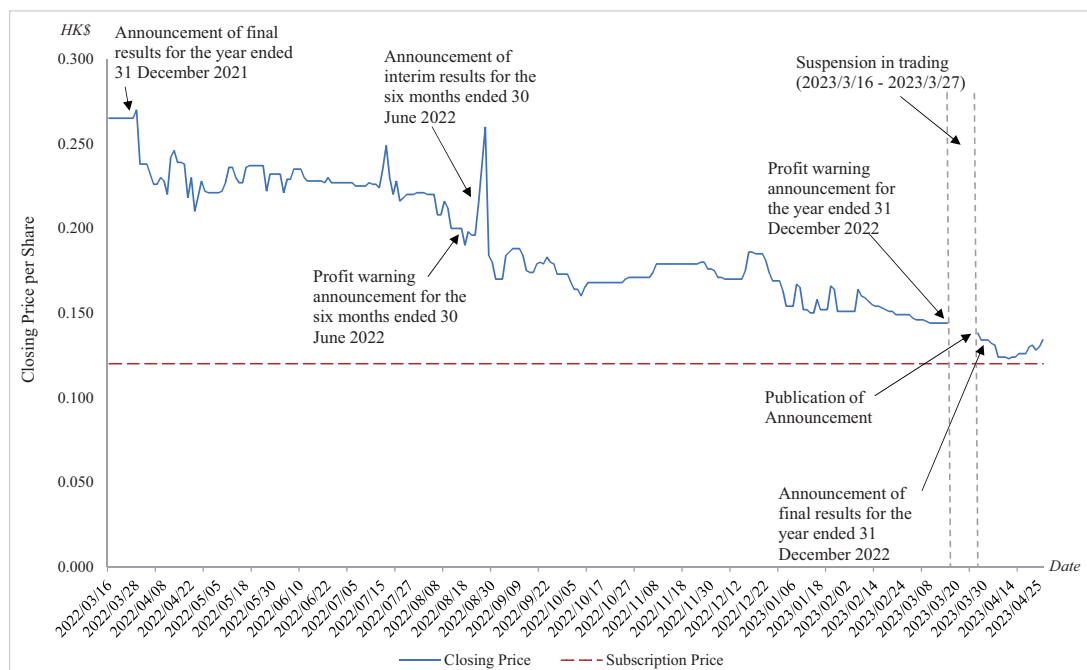
In order to assess the fairness and reasonableness of the Subscription Price, we set out the following analysis for illustrative purposes:

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.

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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.

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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 (<i>from 16 March 2022</i>)	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 (<i>up to the Latest Practicable Date</i>)	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

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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.

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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.

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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:

Date of announcement	Company name (Stock code)	Basis of entitlement	Gross proceeds (HK\$, million)	Premium/(Discount) of subscription price over/to		Consolidated NAV per share (Note 1) (%)	Theoretical dilution effect (Note 2) (%)	Underwriting commission (Note 3) (%)	Placing commission (%)	Excess application (Yes/No)
				Closing price on the last trading day (%)	Theoretical ex-rights price (%)					
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	(13.89)	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>)

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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;

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- (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 places.
- (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

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(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.

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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).

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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).

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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.

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(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.

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(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.

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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)

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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 Grand Citi	124,950,000	25.39	312,375,000	25.39	312,375,000	25.39	836,673,882	68.00
	17,678,902	3.59	44,197,255	3.59	44,197,255	3.59	44,197,255	3.59
<i>First Steamship and parties acting in concert with it</i>	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
<i>Public Shareholders</i>	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

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- 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 places; 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.

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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.

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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.

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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.

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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;

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- (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.

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Details of the audited consolidated financial information of the Group for the years ended 31 December 2020, 2021 and 2022 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.sandmartin.com.hk):

- (i) the audited financial information of the Group for the year ended 31 December 2022 is disclosed in the annual results announcement of the Company for the year ended 31 December 2022 published on 30 March 2023, (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0330/2023033001962.pdf>);
- (ii) the audited financial information of the Group for the year ended 31 December 2021 is disclosed in the annual report of the Company for the year ended 31 December 2021 published on 27 April 2022, from pages 80 to 219 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700405.pdf>); and
- (iii) the audited financial information of the Group for the year ended 31 December 2020 is disclosed in the annual report of the Company for the year ended 31 December 2020 published on 27 April 2021, from pages 81 to 235 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701444.pdf>).

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2020, 2021 and 2022.

	For the year ended 31 December		
	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000
Revenue	863,629	926,471	745,954
Cost of sales	(744,716)	(805,276)	(666,262)
Gross profit	118,913	121,195	79,692
Other income, gains and losses	44,875	47,469	41,899
Increase in fair value of investment properties	7,052	19,006	34,974
Write off of investment properties for re-development	-	-	(21,051)
Distribution and selling costs	(36,543)	(27,895)	(23,147)
Administrative and other expenses	(107,229)	(110,287)	(92,967)
Research and development costs	(32,276)	(27,382)	(22,939)
Share of (loss)/profit of an associate	16,277	4,487	(45,427)
Loss on changes in ownership interests in an associate	-	-	(1,240)
Reversal of/(provision for) expected credit losses on other financial assets	(1,916)	(14,895)	10,526
Finance costs	(29,839)	(28,140)	(28,161)
Loss before income tax expense	(20,686)	(16,442)	(67,841)
Income tax expense	(3,141)	(9,819)	(12,674)
Loss for the year	(23,827)	(26,261)	(80,515)
Other comprehensive income for the year	20,648	553	(1,737)
Total comprehensive income for the year	(3,179)	(25,708)	(82,242)
Loss for the year attributable to:			
- Owners of the Company	(12,594)	(25,433)	(77,548)
- Non-controlling interests	(11,233)	(828)	(2,967)
	(23,827)	(26,261)	(80,515)
Total comprehensive income attributable to:			
- Owners of the Company	7,921	(26,438)	(81,052)
- Non-controlling interests	(11,100)	730	(1,190)
	(3,179)	(25,708)	(82,242)
Basic and diluted loss per share (<i>HK cent</i>)	(3.82)	(6.32)	(15.76)
Dividend	-	-	-
Dividend per Share	-	-	-

The management discussion and analysis of the Company for each of the financial years ended 31 December 2020, 2021 and 2022 are disclosed in the annual reports of the Company for the financial years ended 31 December 2020 and 2021 and the annual results announcement dated 30 March 2023 of the Company.

Material uncertainty related to going concern

The following material uncertainty related to going concern was contained in the auditor's reports of the Company issued by its auditors for each of the financial years ended 31 December 2020, 2021 and 2022:

For the year ended 31 December 2020, the Group incurred a net loss of HK\$12,594,000 attributable to owners of the Company and at the end of reporting period, the Group had net current liabilities of approximately HK\$252,796,000. The Group had bank loans and other loans of HK\$171,379,000 and HK\$241,605,000 at 31 December 2020 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

For the year ended 31 December 2021, the Group incurred a net loss of HK\$25,433,000 attributable to owners of the Company and at the end of reporting period, the Group had net current liabilities of approximately HK\$6,325,000. As at the same date, the Group had bank loans of HK\$144,083,000, which is subject to repayment or renewal in the next twelve months after the end of the reporting period. These conditions may cast significant doubt on the Group's ability to continue as a going concern.

For the year ended 31 December 2022, the Group incurred a net loss of HK\$77,548,000 attributable to owners of the Company and at the end of reporting period, the Group had net current liabilities of approximately HK\$178,964,000. As at the same date, the Group had bank loans of HK\$269,941,000, which is subject to repayment or renewal in the next twelve months after the end of the reporting period. Included in current borrowings as at 31 December 2022 was other loans with an outstanding balance of approximately HK\$194,938,000 scheduled to be fully repayable in April 2022, and interest payment included in other payables of approximately HK\$8,812,000 which has been overdue. The non-repayment of interest constituted an event of default under the loan agreement. In addition, the Group had capital deficiency attributable to owners of the Company of HK\$25,773,000 as at 31 December 2022. These conditions may cast significant doubt on the Group's ability to continue as a going concern.

Save for the above, no qualified or modified opinion, emphasis of matter or material uncertainty related to going concern was contained in the auditor's reports of the Company issued by its auditors for each of the financial years ended 31 December 2020, 2021 and 2022.

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2023, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group's indebtedness are set out below.

The Group had outstanding borrowings of approximately HK\$391,678,000 comprising bank loans of approximately HK\$189,126,000, secured and unguaranteed short term loan of approximately HK\$196,247,000; and unsecured and unguaranteed short term loan of approximately HK\$6,305,000. As at 31 March 2023, (i) bank loans of approximately HK\$28,191,000 were secured and guaranteed; (ii) approximately HK\$152,801,000 were secured and unguaranteed bank loan; (iii) approximately HK\$393,000 were unsecured and guaranteed; and (iv) the remaining bank loans of the Group of approximately HK\$7,741,000 were unsecured and unguaranteed.

As at 31 March 2023, the Company had recognized the provision for financial guarantee amounting to US\$3,500,000 (equivalent to approximately HK\$27,332,000) in favour of a former subsidiary of the Company, My HD Media FZ-LLC in relation to its financial obligations.

As at the close of business on 31 March 2023, the Group had lease liabilities with the amount of approximately HK\$16,232,000, which were unsecured and unguaranteed.

Save as disclosed above and apart from intra-group liabilities, at the close of business on 31 March 2023, the Group did not have any loan capital issued and outstanding or agreed to be issued, other debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other contingent liabilities.

The Directors confirmed that, save as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the Group since 31 March 2023 up to the Latest Practicable Date.

SUFFICIENCY OF WORKING CAPITAL

In determining the sufficiency of the working capital of the Group, the Directors have made the assumptions that the Group is able to renew the existing banking facilities and other borrowings upon expiry and complete the proposed Rights Issue. The Directors are of the opinion that the Group maintains good relationship with major banks and lenders providing finance or facilities to the Group and the Group has successfully renewed its banking facilities and other borrowings based on past experience.

The Directors, after due and careful enquiries, are of the opinion that, after taking into account the financial resources presently available to the Group including internally generated funds, the currently available banking facilities and other borrowings and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital to satisfy its present requirements for at least the next twelve months from the date of the publication of this circular.

MATERIAL CHANGE

The Directors confirm that there was no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

BUSINESS TREND AND FINANCIAL AND TRADING PROSPECT

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.

Media entertainment platform related products

In 2022, the Group's media entertainment platform related products segment faced a challenging economic environment and a decline in demand of its products due to the continued impact of the Pandemic. For the year ended 31 December 2022, the revenue of this segment decreased by 20.97% as compared with the year ended 31 December 2021, while the segment results decreased by 124.59%. The Group is exploring new business opportunities for this segment. The China-US trade war is not expected to have material adverse impact on this segment as this segment does not have customers in the US.

Other multimedia products

Due to the increase in material costs and freight charges, the profitability of the Group's other multimedia products segment was lower than expected. Major products of this segment included cables, multimedia accessories and wireless mobile phone chargers for vehicles. For the year ended 31 December 2022, the revenue of this segment decreased by 50.97% and segment results decreased by 67.91% due to the increase in material costs after the outbreak of COVID-19. The Group is enhancing its product portfolio and developing new businesses to cope with the new demand from customers. The China-US trade war has some impact on this segment as some of the customers are located in the US. The Group is trying to minimize the impact by sourcing from suppliers outside the PRC, such as Southeast Asia and adjusting logistics structure.

Satellite TV equipment and antenna products

The segment margin of the Group's satellite TV equipment and antenna products segment showed a decline notwithstanding the gradual recovery of economy from COVID-19 in the North America. For the year ended 31 December 2022, the revenue of this segment slightly decreased by 3.22% as compared with the year ended 31 December 2021, while the segment results decreased by 26.72%. Low noise blocking down converters ("LNBS") are receiving devices mounted on satellite dishes used for reception, which collect microwaves from the satellite dishes and facilitate the transmission of satellite television signals. Apart from the sales of LNBS to the customers in North America, the Group is exploring business opportunities in other areas such as cross-selling LNBS to other existing customers of the Group in South Asia. The research and development team of the Group endeavours to develop new products for next generation radio and antenna communications. The China-US trade war has some impact on this segment as some of the customers are located in the US. Such impact is mitigated by sourcing from suppliers outside the PRC, such as Southeast Asia.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company (the “**Unaudited Pro Forma Financial Information**”) which has been prepared by the directors of the Company in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the proposed rights issue of 738,242,235 rights shares at the subscription price of HK\$0.12 per rights share (the “**Rights Issue**”), on the basis of three rights shares for every two shares held on the Record Date, on the consolidated net tangible assets of the Group as if the Rights Issue had been taken place on 31 December 2022.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated net liabilities of the Group attributable to owners of the Company as at 31 December 2022 as extracted from the published annual report of the Company for the year ended 31 December 2022, with adjustment described below, and is adjusted for the effect of the Rights Issue as if the Rights Issue had been taken place on 31 December 2022.

The Unaudited Pro Forma Financial Information is prepared by the directors of the Company for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after completion of the Rights Issue or any future date.

Consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 December 2022 (Note 1) HK\$'000	Estimated net proceeds from the Rights Issue (Note 2) HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the Rights Issue HK\$'000	Consolidated net tangible liabilities per share attributable to owners of the Company before the completion of the Rights Issue (Note 3) HK\$	Unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company immediately after the completion of the Rights Issue (Note 4) HK\$
(38,180)	84,589	46,409	(0.0776)	0.0377

Based on 738,242,235 Rights Shares to
be issued at the Subscription Price
of HK\$0.12 per rights share

Notes:

- (1) The amount of consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 December 2022 was approximately HK\$38,180,000, which is based on the consolidated net liabilities of the Group attributable to owners of the Company as at 31 December 2022 of HK\$25,773,000, adjusted by goodwill and intangible assets of HK\$8,772,000 and HK\$3,635,000 respectively as shown on the consolidated statement of financial position of the Group as at 31 December 2022, as extracted from the published annual report of the Company for the year ended 31 December 2022.
- (2) The estimated net proceeds from the Rights Issue of approximately HK\$84,589,000 are based on 738,242,235 rights shares to be issued, on the basis of three rights share for every two existing shares at the subscription price of HK\$0.12 per rights share, after deduction of the estimated related expenses, including among others, transaction fees, which are directly attributable to the Rights Issue, of approximately HK\$4,000,000.
- (3) The consolidated net tangible liabilities of the Group per share attributable to owners of the Company before the completion of the Rights Issue is determined based on the consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 December 2022 of approximately HK\$38,180,000 as set out in note 1 above, divided by 492,161,490 shares in issue as at 31 December 2022.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the Rights Issue per share is determined based on the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2022 immediate after the Rights Issue had taken place of approximately HK\$46,409,000 divided by 1,230,403,725 shares which comprise 492,161,490 shares in issue as at 31 December 2022 and 738,242,235 rights shares to be issued under the Rights Issue.
- (5) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2022.

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

The following is the text of the accountants' report received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's Unaudited Pro Forma Financial Information prepared for the purpose of inclusion in this circular.



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TO THE BOARD OF DIRECTORS OF SANDMARTIN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sandmartin International Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2022 and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out in Appendix II to the circular issued by the Company dated 28 April 2023 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix II of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue on the basis of three rights shares for every two shares held on the record date at the subscription price of HK\$0.12 per rights share (“**Rights Issue**”) on the Group’s consolidated net tangible assets/liabilities attributable to owners of the Company as at 31 December 2022 as if the Rights Issue had taken place at 31 December 2022. As part of this process, information about the Group’s net tangible liabilities has been extracted by the Directors from the Group’s consolidated financial statements for the year ended 31 December 2022, on which an audit report has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* (“**AG 7**”), issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Management

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

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

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Rights Issue at 31 December 2022 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

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

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the entity, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

28 April 2023

The following is the text of a letter, summary of values and valuation report, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited, an independent valuer, in connection with its valuation of the properties held by the Group, as at 31 March 2023.



永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

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Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

28 April 2023

The Board of Directors
Sandmartin International Holdings Ltd
Unit 516, 5th Floor,
Peninsula Centre,
67 Mody Road,
Tsim Sha Tsui East,
Kowloon,
Hong Kong

Dear Sirs/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the properties (the “**Property**”) held by Sandmartin International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) located in the People’s Republic of China (the “**PRC**”) and Taiwan. We confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 March 2023 (the “**Valuation Date**”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value (“**Market Value**”) which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

To assessing the Properties, the direct comparison method is adopted based on the principle of substitution, where comparison is made based on prices realized on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

VALUATION CONSIDERATIONS

In valuing the Property, we have complied with all the requirements contained in Chapter 5, Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, Rule 11 of the Code on Takeovers and Mergers issued by Securities and Futures Commission and the International Valuation Standards 2022.

VALUATION ASSUMPTION

In our valuation, unless otherwise stated, we have assumed that:

- i. the owners of the Property have enforceable titles to the Property and have free and uninterrupted rights to use, occupy or assign the Property for the whole of the respective unexpired terms as granted;
- ii. no deleterious or hazardous materials or techniques have been used in the construction of the Property;
- iii. the Property is connected to main services and sewers which are available on normal terms; and

- iv. the cost of repairs and maintenance to the buildings of which the Property forms part are shared among all owners of the building, and that there are no onerous liabilities outstanding.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the Property. However, we have not examined the original documents to verify the existing titles to the Property or any amendment which does not appear on the copies handed to us. For properties located in the PRC, we have relied considerably on the information given by the Company's PRC legal adviser, Anli Partners, concerning the validity of the titles to the Property. For properties located in Taiwan, we conducted land search on the government's official land record search website and relied on the legal opinion by Taiwan legal adviser, KPMG Taiwan.

LIMITING CONDITIONS

We have conducted on-site inspections in April 2023 by our staff Ms. Liu Jing (MSc in Geo-information Science) and Ms. Chuhui Chen (陳初慧).

During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Property are free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

Should it be discovered that any contamination, subsidence or other latent defect exists in the Property or on adjoining or neighboring land or that the Property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

We have relied to a very considerable extent on the information provided by the Group and have accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the Property. The plans including but not limited to location plan, site plan, lot index plan, outline zoning plan, building plan if any, in the report are included to assist the reader to identify the Property for reference only and we assume no responsibility for their accuracy.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Neither have we verified the correctness of any information supplied to us concerning the Property. We also rely on the property information, ownership and encumbrances advised by legal adviser

POTENTIAL TAX LIABILITY

For the purpose of compliance with the Rule 11.3 of the Takeovers Code and as advised by the Group, in respect of the properties in the PRC, the potential tax liabilities which would arise from the sale of the properties comprise value-added tax at 5% or 9% and the surcharge taxes at 10% to 12% of the value-added tax paid on the transaction amount and stamp duty at 0.05% on the transaction amount; land appreciation tax at progressive rates from 30% to 60% on the appreciation in property value; and corporate income tax at 25%.

In respect of property in Taiwan, the potential tax liabilities which would arise from the sale of the properties comprise corporate income tax at 20% to 35% on the gain (depending on the date of original acquisition), value-added business tax at 5% on the transaction amount and land value increment tax at 20% to 40%.

As advised, the Group has no immediate plan to sale or dispose of the properties as at the valuation date, the likelihood of any such liability crystalizing is not high.

REMARKS

We have valued the properties in Renminbi (RMB) and New Taiwan Dollar (TWD).

We enclose herewith the summary of values and the “Property Particulars and Opinion of Value”.

Jessie X. Chen

*MRICS, MSc (Real Estate), BEcon
Senior Associate Director*

Jenny S. L. Mok

*MHKIS, MRICS, BSc (Hons)
Senior Manager*

Ms. Jessie X. Chen is a Registered Professional Surveyor (Valuation) with over 10 years’ experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Chen is a Professional Member of The Royal Institution of Chartered Surveyors.

Ms. Jenny S. L. Mok is a Chartered Surveyor with over 10 years’ experience in valuation of properties in HKSAR and mainland China. Ms. Mok is a Professional Member of The Royal Institution of Chartered Surveyors and a Member of The Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Group I – Property interests held by the Group in the PRC

No.	Property	Market Value as at 31 March 2023 RMB
1.	An industrial park comprises various industrial buildings and vacant lands under development erected on lot 1, located in Xin QianJin Village “San Shi”, Tanzhou County, Zhongshan City, Guangdong Province, the PRC	269,200,000
	Total	269,200,000

Group II – Property interests held by the Group in Taiwan

No.	Property	Market Value as at 31 March 2023 TWD
2.	Four office units Nos.4-7 on 14/F, two carparks on -3/B, located at No.1071 Zhongzheng Road, No. 60, Zhongpu Section, Taoyuan District, Taoyuan City, Taiwan	68,970,000
	Total	68,970,000

Group I – Properties held by the Group in the PRC

PROPERTY PARTICULARS AND OPINION OF VALUE

No.	Property	Description and tenure	Particulars of occupancy	Market value as at 31 March 2023 RMB																		
1.	An industrial park comprises various industrial buildings and vacant lands under development located in Xin QianJin Village “San Shi”, Tanzhou County, Zhongshan City, Guangdong Province, the PRC	<p>The property comprises various industrial buildings completed in between 2001 and 2005 with a total gross floor area of approximately 92,716.52 sq.m. erected on a total site of approximately 109,901 sq.m..</p> <p>Some vacant lands within the site are under construction to be developed into new industrial buildings.</p> <p>The breakdown of gross floor area of existing industrial buildings is listed as follows:</p> <table border="1"> <thead> <tr> <th>Property</th> <th>Approximate GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Block 2</td> <td>14,645.58</td> </tr> <tr> <td>Block 5</td> <td>14,911.94</td> </tr> <tr> <td>Block 6</td> <td>23,612.70</td> </tr> <tr> <td>Block 7</td> <td>28,413.49</td> </tr> <tr> <td>Dormitory</td> <td>4,209</td> </tr> <tr> <td>Factory</td> <td></td> </tr> <tr> <td>Dormitory</td> <td>6,923.65</td> </tr> <tr> <td>Total:</td> <td>92,716.52</td> </tr> </tbody> </table>	Property	Approximate GFA (sq.m.)	Block 2	14,645.58	Block 5	14,911.94	Block 6	23,612.70	Block 7	28,413.49	Dormitory	4,209	Factory		Dormitory	6,923.65	Total:	92,716.52	<p>Portions of the industrial buildings are currently subject to various leases while the remaining portions are currently vacant or owner-occupied; the vacant lands are currently under development. <i>(Please see Notes 3 -5 below for details)</i></p>	<p>269,200,000 (RENMINBI ONE HUNDRED SIXTY NINE MILLION AND TWO HUNDRED THOUSAND ONLY)</p>
Property	Approximate GFA (sq.m.)																					
Block 2	14,645.58																					
Block 5	14,911.94																					
Block 6	23,612.70																					
Block 7	28,413.49																					
Dormitory	4,209																					
Factory																						
Dormitory	6,923.65																					
Total:	92,716.52																					

No.	Property	Description and tenure	Particulars of occupancy	Market value as at 31 March 2023 RMB
		The planned gross floor area of lands under construction is approximately 175,274.69 sq.m..		
		The land use right of the property is granted for a term expiring on 2048 for new-type industrial use.		

Notes:

- Pursuant to two State-owned Land Use Right Grant Contracts - Zhong Guo Tu Chu Rang Zi (98) Di No.5545 and Zhong Guo Tu Chu Rang Zi (98) Di No.5563, the land use rights of two parcels of land with site area of approximately 39,730.00 sq.m. and 47,521.00 sq.m. (total at 87,251.00 sq.m) were both granted to Sandmartin (Zhong Shan) Electronic Co., Ltd. ("**Sandmartin Zhongshan**"), a wholly owned subsidiary of Sandmartin International Holdings Limited for industrial use.
- Pursuant to a State-owned Land Use Right Grant Contract – Zhong Guo Tu Chu Rang Zi (98) Di No.5754, the land use rights of a parcel of land with total site area of approximately 22,650.06 sq.m. was granted to Sandmartin Zhongshan for industrial use.
- Pursuant to two Real Estate Ownership Certificates (as listed below), the building ownership of various industrial buildings with a total gross floor area of approximately 104,631.03 sq.m were vested in Sandmartin Zhongshan for industrial use, 70,967.78 sq.m. of which is tenanted or held for investment. The details of such certificates are as follows:

Property	Certificate Nos.	Approximate Gross Floor Area (sq.m.)
Industrial Factories erected on Lot 1	Yue (2022) Zhong Shan Shi Bu Dong Chan Quan Di No. 0234590	93,498.22
Dormitory Factory	Yue (2022) Zhong Shan Shi Bu Dong Chan Quan Di No. 0233445	11,132.81
Total:		104,631.03

As advised by the client, portion of the properties Certificate No. 0234590, with a total gross floor area of approximately 11,914.51 sq.m. had been demolished on the valuation date.

4. Pursuant to two Construction Work Planning Permits dated 27 September 2022, Sandmartin Zhongshan is permitted to build with a total gross floor area of 175,274.78 sq.m. with details as below:

Certificate No.	Phase	Permitted Gross Floor Area (sq.m.)			Total
		Workshop/ Warehouse	Affiliated buildings	Car Parking Space	
442000202203826	2A	44,397.64	179.03	12,185.15	56,761.82
442000202203824	2B	44,397.64	–	–	44,397.64
442000202203822	3	63,320.48	–	10,794.84	74,115.32
Total		152,115.76	179.03	22,979.99	175,274.78

5. Pursuant to various Construction Work Commencement Permits in favors of Sandmartin Zhongshan, the construction works of the Development with a total gross floor area of approximately 175,115.32 sq.m. is in compliance with construction work requirements and have been permitted to commence with details as below:

Certificate No.	Issued Date	Phase	Gross Floor Area (sq.m.)
442000202210110301	11 October 2022	2A	56,761.82
442000202211230301	23 November 2022	2B	44,397.64
442000202212280601	28 December 2022	3	74,115.32
Total			175,115.32

As advised by the company, the total budgeted cost is at approximately RMB 418,131,788. As at the valuation date, the total occurred development costs was RMB16,268,998. In the course of our valuation, we have taken into account such development costs.

6. The Property is currently subject to various leases with latest expiring on 31 October 2039 for industrial purpose.
7. Pursuant to the PRC legal opinion, portions of the property located at No.10 Qianjin Road (total gross floor area of 11,132.81 sq.m.) was subject to a mortgage in favour of Zhongshan Huasuan Zhigu Industry Development Co., Ltd (中山市華算智谷產業發展有限公司) and Zhongshan Branch of China Guangfa Bank Co. Ltd (廣發銀行股份有限公司中山分行); and other portions of the property located at No.16 Qianjin Er Road (total gross floor area of 93,498.22 sq.m.) was subject to a mortgage in favour of Zhongshan Branch of China Guangfa Bank Co. Ltd (廣發銀行股份有限公司中山分行). We have not taken into account such mortgage in our valuation.

8. We have been provided with a legal opinion by the Group's PRC legal advisor, Anli Partners, regarding the legal title of the property, which contains, inter alia, the followings:
- i. the property including land and buildings are legally held by Sandmartin Zhongshan;
 - ii. Sandmartin Zhongshan is entitled to transfer, lease, mortgage or dispose of the property (land and buildings) freely in the market;
 - iii. For the construction in progress, the construction planning permit and construction commencement permit is valid, no major violations of laws and regulations related to construction and planning was found; and
 - iv. There are some buildings and structure erected in the site which has not been granted with real estate title certificate, the lawyer has the opinion that for any illegal buildings that have not been approved need to be demolished or apply for redevelopment. If not, the company may be punished for such non-compliant construction. According to the Urban and Rural Planning Law, the fine is not less than 5% but not more than 10% of the total construction cost. In our valuation, we have not taken into account such buildings.

Group II – Properties held by the Group in the Taiwan

PROPERTY PARTICULARS AND OPINION OF VALUE

No.	Property	Description and tenure	Particulars of occupancy	Market value as at 31 March 2023 TWD
2	Four office units Nos.4-7 on 14/F, two carparking spaces on Basement 3, located at No.1071 Zhongzheng Road, No. 60, Zhongpu Section, Taoyuan District, Taoyuan City, Taiwan	<p>The property comprises four office units on level 14 and two carparking spaces on basement 3 of a 20-storey office building erected on a parcel of land with a site area of approximately 3,735.00 sq.m. (40,203 sq.ft.) completed in about 1992.</p> <p>The gross floor area of four office units and two carparking spaces are approximately 760.14 sq.m. (8,182.08 sq.ft.) and 62.90 sq.m. (677.05 sq.ft.) respectively.</p> <p>The classification of the property is residential area with usage for office and car parking/air-raid shelter.</p>	As advised, portions of the property are currently subject various leases while the remaining portions are owner-occupied.	68,970,000 (NEW TAIWAN DOLLARS SIXTY EIGHT MILLION AND NINE HUNDRED SEVENTY THOUSAND ONLY)

Notes:

1. Pursuant to Land Searched Records searched on 06 April 2023, the registered owner of the property (see details below) is Pro Brand Technology (TW) Inc., which is interested as to 59.1% by the Company, 0.85% by Mr. Chen Wei Chun (an executive Director), 0.57% by Mr. Hung (an executive Director), 1.5% by Mr. Hung Chih Chun (son of Mr. Hung), 0.13% by Ms. Chen Mei Huei (spouse of Mr. Hung) and 37.85% by other investors (Independent Third Parties).

Certificate Nos.	Approximate Gross Floor Area (sq.m.)	Floor	Usage	Registration Date
095 Tao Zi Di Zi Di No.064578	64.98	1	Land	25/12/2006
095 Tao Zi Jian Zi Di No.037431	192.42	14	Office	25/12/2006
095 Tao Zi Jian Zi Di No.037430	182.00	14	Office	25/12/2006
095 Tao Zi Jian Zi Di No.037429	182.00	14	Office	25/12/2006
095 Tao Zi Jian Zi Di No.037428	203.72	14	Office	25/12/2006
095 Tao Zi Jian Zi Di No.037432	62.90	-3	Carparking/ air-raid shelter	25/12/2006

2. According to Land Searched Records searched on 06 April 2023, the property has been granted with the right to apply for a mortgage in favor of Land Bank of Taiwan Co. Ltd. (臺灣土地銀行股份有限公司) with a maximum amount of NTW44,400,000. However, we have not taken into account into such mortgage in our valuation.
3. We have been provided with a legal opinion dated 24 April 2023 by the Group's Taiwan legal advisor, KPMG Taiwan, regarding the legal title of the property, which contains, inter alia, the followings:
 - i. the property are legally held by Pro Brand Technology (TW) Inc.; and
 - ii. Pro Brand Technology (TW) Inc. is entitled to transfer, lease, mortgage or dispose of the property (land and buildings) freely in the market.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than those relating to First Steamship and parties acting in concert with it (including Grand Citi)) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to First Steamship and parties acting in concert with it (including Grand Citi)) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by First Steamship) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

Directors of First Steamship accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Group), and confirms, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Rights Issue (assuming no further issue or repurchase of Shares on or before the completion of the Rights Issue) will be as follows:

As at the Latest Practicable Date

	<i>HK\$</i>
Authorised share capital:	
10,000,000,000 Shares of HK\$0.10 each	<u>1,000,000,000.00</u>
Issued and paid-up share capital:	
492,161,490 Shares of HK\$0.10 each	<u>49,216,149.00</u>

Immediately following the completion of the Rights Issue (assuming no other issue or repurchase of Shares up to completion of the Rights Issue)

HK\$

Authorised share capital:	
10,000,000,000 Shares of HK\$0.10 each	<u>1,000,000,000.00</u>

Issued and paid-up share capital:	
1,230,403,725 Shares of HK\$0.10 each immediately following the completion of the Rights Issue	<u>123,040,372.50</u>

All the Shares rank *pari passu* with each other in all respects including the rights as to dividends, voting and return of capital. The Rights Shares, when allotted, issued and fully paid, will rank *pari passu* with each other and the Shares in issue on the date of allotment and issue of the Rights Shares in all respects including rights to dividends, voting and return of capital. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of issue of the fully-paid Rights Shares.

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

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

The Company had not issued any Shares since 31 December 2022, being the end of the last financial year of the Company, and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company had no outstanding warrants, options or convertible securities in issue which confer any right to subscribe for, convert or exchange into Shares.

MARKET PRICES

The table below shows the closing price(s) of the Shares as quoted on the Stock Exchange (i) on the Last Trading Day, (ii) at the end of each calendar months during the Relevant Period and (iii) on the Latest Practicable Date:

Date	Closing price per Share HK\$
30 September 2022	0.173
31 October 2022	0.171
30 November 2022	0.176
30 December 2022	0.169
31 January 2023	0.151
28 February 2023	0.149
15 March 2023 (the Last Trading Day)	0.144
31 March 2023	0.134
26 April 2023 (the Latest Practicable Date)	0.134

The highest and lowest closing prices per Share as quoted on the Stock Exchange during the period commencing from 28 September 2022, being the first day of the Relevant Period, and ending on the Latest Practicable Date are HK\$0.186 on 15 and 16 December 2022 and HK\$0.123 on 13 April 2023, respectively.

DISCLOSURE OF INTERESTS**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations**

(i) *Long positions in the shares, underlying shares and debentures of the Company*

Name of Director	Capacity	Number of ordinary shares and underlying shares held	Percentage of the issued share capital
Mr. Hung Tsung Chin	Interest of controlled corporation	70,718,859 ¹	14.37%

Note:

- These shares represent shares held by Metroasset Investments Limited in which Mr. Hung Tsung Chin beneficially owns 45.09% of the issued share capital.

- (ii) *Long positions in the shares, underlying shares and debentures of associated corporations of the Company*

Name of associated corporation: Pro Brand Technology, Inc.

Name of Director	Capacity	Number of shares held	Percentage to the issued share capital
Mr. Chen Wei Chun	Interest of controlled corporation	350,000 (Note 1)	0.44%
	Beneficial owner	300,000 (Note 2)	0.38%
Mr. Hung Tsung Chin	Beneficial owner	450,000 (Note 3)	0.57%

Notes:

1. These shares are held by Jun Zhong Investment Limited (鈞仲投資有限公司) in which Mr. Chen Wei Chun beneficially owns the entire issued share capital.
2. These shares represent 300,000 shares of Pro Brand Technology, Inc., a non-wholly owned subsidiary of the Company, owned by Mr. Chen Wei Chun.
3. These shares represent 450,000 shares of Pro Brand Technology, Inc., a non-wholly owned subsidiary of the Company, owned by Mr. Hung Tsung Chin.

As at the Latest Practicable Date, saved as disclosed above, none of the Directors and chief executive of the Company were interested in or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) were required to be disclosed under the Takeovers Code.

Interest of substantial shareholders

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following person, other than a Director or chief executive of the Company, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in the Shares

Name	Capacity	Number of Shares	Shareholding
First Steamship ^{Note 1}	Beneficial owner	338,893,353	71.59%
	Interest of controlled corporation	17,678,902	
	Underwriter	524,298,882	
Legacy Trust Company Limited ^{Note 2}	Beneficial owner	76,520,000	15.55%
Metroasset Investments Limited ^{Note 3}	Beneficial owner	70,718,859	14.37%
Chan Mei Huei ^{Note 3}	Interest of controlled corporation	70,718,859	14.37%

Notes:

1. 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 as enlarged by the issue of the Rights Shares.
2. Legacy Trust Company Limited 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.
3. Metroasset Investments Limited is 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.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had, or was taken or deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS' SERVICES CONTRACTS

As at the Latest Practicable Date, (i) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including continuous and fixed term contracts) had been entered into or amended during the Relevant Period; (b) were continuous contracts with a notice period of 12 months or more; or (c) were fixed term contracts with more than 12 months to run irrespective of the notice period; and (ii) none of the Directors had any existing or proposed service contract with any member of the Group which is not expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' INTEREST IN ASSETS, CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any asset which, since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up, had been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

ADDITIONAL DISCLOSURE

As at the Latest Practicable Date,

- (i) there was no agreement, arrangement or understanding pursuant to which the Rights Shares to be acquired by First Steamship under the Rights Issue will be transferred, charged or pledged to other persons;

- (ii) save as disclosed in the shareholding structure table as set out in the section headed “Effects on the shareholding structure” in the “Letter from the Board” of this circular, none of the Directors and First Steamship and any parties acting in concert with it (including Grand Citi) own, control or have control or direction over any voting rights and rights over shares, convertible securities, warrants, options or derivatives of the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) (the “**Relevant Securities**”) of the Company;
- (iii) First Steamship and any parties acting in concert with it (including Grand Citi) and the Company have not received any irrevocable commitment from any Shareholders to vote for or against the proposed resolutions relating to the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and/or the Whitewash Waiver at the SGM;
- (iv) save for the Irrevocable Undertaking given by First Steamship, the Company has not received any irrevocable commitment from any Shareholders to accept or reject the relevant Rights Shares to be provisionally allotted to the relevant party under the Rights Issue;
- (v) save for the Underwriting Agreement entered into between the Company and First Steamship, the Placing Agreement entered into between the Company the Placing Agent and the Irrevocable Undertaking given by First Steamship, First Steamship and any parties acting in concert with it (including Grand Citi) do not have any arrangements referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise), with any other persons in relation to the Relevant Securities of the Company, which might be material to the Rights Issue and/or the Underwriting Agreement and/or the Placing Agreement and/or the Special Deal and/or the Whitewash Waiver;
- (vi) the Placing Agent does not own or control or have control or direction over any Relevant Securities of the Company and had not dealt for value in any such securities of the Company during the Relevant Period;
- (vii) First Steamship and any parties acting in concert with it (including Grand Citi), the Company and the Directors have not borrowed or lent any Relevant Securities of the Company;
- (viii) no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Rights Issue, the Placing Agreement, the Underwriting Agreement the Special Deal, and the transactions contemplated thereunder and the Whitewash Waiver;

- (ix) there was no agreement, arrangement or understanding (including any compensation arrangement) existed among First Steamship or any parties acting in concert with it (including Grand Citi) and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the Whitewash Waiver;
- (x) save that the Rights Issue, the Underwriting Agreement and the Placing Agreement are conditional upon, among other things, obtaining of the Whitewash Waiver by First Steamship and the consent from the Executive on the Special Deal, as set out in the sub-section headed "Conditions of the Rights Issue" under the section headed "The Underwriting Agreement" in the "Letter from the Board" contained in this circular, there is no agreement or arrangement to which First Steamship or any parties acting in concert with it (including Grand Citi) is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Rights Issue and/or the Underwriting Agreement and/or the Placing Agreement and/or the Whitewash Waiver and/or the Special Deal;
- (xi) the subsidiaries of the Company, pension funds of the Company or of any subsidiaries of the Company or a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of "associate" under the Takeovers Code do not own, control or have control or direction over any Relevant Securities of the Company. The aforesaid parties had not dealt for value in any such securities of the Company during the Relevant Period;
- (xii) save for the Placing Agreement entered between the Company and the Placing Agent, the Underwriting Agreement entered between the Company and First Steamship, and the Irrevocable Undertaking given by First Steamship to the Company, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert" under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of "associate" under the Takeovers Code.
- (xiii) First Steamship and parties acting in concert with it had not dealt for value in any Relevant Securities of the Company during the Relevant Period, save for the intra-group transfer of 124,950,000 Shares on 29 November 2022 whereby First Mariner Holding Limited, a wholly-owned subsidiary of First Steamship, completed the transfer of 124,950,000 Shares to First Steamship pursuant to an internal group restructuring of its assets in 2022;

- (xiv) no Relevant Securities of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (xv) First Steamship has executed the Irrevocable Undertaking. In accordance with the Listing Rules and the Takeovers Code, First Steamship, its associates and any parties acting in concert with it (including Grand Citi) shall abstain from voting in favour of the resolutions to approve the Rights Issue, the Placing Agreement, the Special Deal, the Underwriting Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the SGM;
- (xvi) there was no agreement or arrangement between any of the Directors and any other person which was conditional or dependent on the outcome of the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver or otherwise connected with the Rights Issue, the Underwriting Agreement, the Placing Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver;
- (xvii) save for Mr. Kuo (a non-executive Director and a director and chairman of First Steamship and a director of the Placing Agent) who is deemed to have an interest in the Underwriting Agreement and the Placing Agreement, there was no material contract entered into by First Steamship and parties acting in concert with it (including Grand Citi) in which any Director had a material personal interest;
- (xviii) apart from the underwriting commission payable by the Company to First Steamship pursuant to the terms of the Underwriting Agreement, the placing commission payable by the Company to the Placing Agent pursuant to the terms of the Placing Agreement and the financial advisory fee payable by the Company to Yu Ming in respect of the Rights Issue (the “**FA Engagement**”), the Company has not paid and will not pay any other consideration, compensation or benefit in whatever form to First Steamship and parties acting in concert with it (including Grand Citi) in connection with the Rights Issue;
- (xix) apart from the Underwriting Agreement and the Irrevocable Undertaking therein, the Placing Agreement and the FA Engagement, there is no other understanding, arrangement or special deal between the Group on the one hand, and First Steamship and parties acting in concert with it (including Grand Citi) on the other hand;
- (xx) save for the Special Deal, there was no understanding, arrangement or agreement or special deal between (a) any Shareholder; and (b) (i) First Steamship and parties acting in concert with it (including Grand Citi), or (ii) the Company, its subsidiaries or associated companies;

- (xxi) during the Relevant Period, none of the Directors has dealt for value in any of the Relevant Securities;
- (xxii) the Group is not interested in any shares of First Steamship;
- (xxiii) Save for Mr. Kuo (a non-executive Director) who is interested in approximately 3.01% issued shares of First Steamship, none of the Directors is interested in any shares of First Steamship;
- (xxiv) the board of directors of First Steamship comprises Mr. Kuo Jen Hao, Mr. Ng Qing Hai, Mr. Yau Dennis Wai Tak, Mr. Chuang Chien-Wan, Mr. Chao Tseng-Ping, Mr. Lui Ping-Sum and Mr. Yang Jung-Tsung. None of the directors of First Steamship is interested in any Shares; and
- (xxv) 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 is interested in any Shares. Mr. Hung has not decided as to subscription of the Rights Shares by Metroasset Investments Limited. The Directors who hold Shares are required to abstain from voting on the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the transactions contemplated thereunder and the Whitewash Waiver at the SGM.

MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by members of the Group from 27 March 2021 (being the date falling two years immediately preceding 27 March 2023 (being the date of the Announcement)) up to and including the Latest Practicable Date:

- (i) the placing agreement dated 28 April 2021 entered into between the Company and Morton Securities Limited (i.e. the Placing Agent) in relation to the placement of the unsubscribed rights shares by the Placing Agent on a best-effort basis in relation to the proposed rights issue announced by the Company on 28 April 2021;

- (ii) the cooperation agreement dated 26 July 2021 entered into between the Group and Guangdong Huasuan International Industrial Park Investment Development Co., Ltd.* (廣東省華算國際產業園投資發展有限公司) relating to the cooperation in development of a land owned by the Group in Zhongshan;
- (iii) the supplemental loan agreement dated 11 August 2021 entered into between the Company and the Lender in respect of extending the maturity date of the Loan to 20 April 2023;
- (iv) the letter dated 21 March 2023 entered into between the Company and the Lender in respect of the extension of the maturity date of the remaining balance of the Loan;
- (v) the Placing Agreement; and
- (vi) the Underwriting Agreement (including the Irrevocable Undertaking).

LITIGATION

As at the Latest Practicable Date, the Group has the following litigations:

- (i) On 29 September 2011, the Group entered into a conditional agreement (the “**Agreement**”) with an independent individual third party (the “**Original Shareholder**”) and Technosat Technology JLT FZE (“**Technosat**”, a company incorporated in Dubai, which was wholly owned by the Original Shareholder), to subscribe for 375 new shares in Technosat at a cash consideration of US\$7,500,000 (equivalent to HK\$58,170,000), amounting to 15% of Technosat’s enlarged capital. Technosat is set up to be engaged in operation of digital TV and radio platform, pay TV channel, and sales and supply of TV set top boxes.

As at 30 June 2012, the Group had paid a deposit of US\$2,500,000 (equivalent to HK\$19,467,000) to Technosat to acquire new shares in Technosat which was fully provided for impairment in the prior year. Pursuant to the terms of the Agreement, the Group is required to pay a further sum of US\$5,000,000 in relation to the subscription of this 15% equity interest in Technosat. The subscription has not yet completed up to the date of approval of this report as the conditions precedent of the subscription of new shares in Technosat including the consent and approval by government authority in Dubai have not been fulfilled.

Despite the Group’s repeated requests for information, there has been no satisfactory response from the Original Shareholder or Technosat (“**Counterparties**”) regarding the current status and the procurement of obtaining government approval from the government authority in Dubai. The Group has engaged legal counsel to act for the Group and started dispute resolution proceedings against the Original Shareholder and Technosat.

On 21 January 2013, the legal counsel of the Original Shareholder and Technosat served a notice on the Group's legal counsel for a claim on the further payment of US\$5,000,000 in relation to the subscription of 15% equity interest in Technosat.

The Group's legal counsel has replied on behalf of the Group on 11 February 2013 in response to the claim of the Original Shareholder and Technosat defending the claim as the Directors consider such claim invalid, as the conditions precedent of the subscription of new shares in Technosat had not been fulfilled and constituted a breach of the Agreement.

The Group's legal counsel had repeated request on the Original Shareholder and Technosat to commence the next step on mediation, but there was no satisfactory response from the legal counsel of the Original Shareholder and Technosat. As at the Latest Practicable Date, there was no further update on the arbitration.

- (ii) In October 2020, Aggressive Digital Systems Private Ltd. ("**AD**", a non-wholly owned subsidiary of the Company) received a summons (the "**Summons**") to the National Company Law Tribunal ("**NCLT**") at Chandigarh in India that was filed by Aggressive Electronics Manufacturing Services Private Limited ("**AEMS**", a minority shareholder of AD) and Mr. Neeraj Bharara (collectively the "**Petitioners**") against Top Dragon Development Limited (a wholly owned subsidiary of the Company and the shareholder of AD), AD and certain directors of AD (collectively the "**Respondents**") alleging that the Respondents made undue acts either of oppression or mismanagement and claiming for losses caused to the Petitioners arising from such undue acts. No claim amount was set out in the Summons. The last hearing was originally scheduled on 29 March 2023 at NCLT and was further adjourned. The date of next hearing has yet to be determined.

Save as disclosed above, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

EXPERTS AND CONSENTS

The qualifications of the experts who have given opinions, letters or advice contained in this circular are set out below:

Name	Qualification
BDO Limited	Certified public accountants
Red Sun	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
RHL Appraisal Limited	an independent professional valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter, advice, report and/or references to its names, in the form and context in which they are respectively included.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, nor did it have any interest, either directly or indirectly, in the assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

EXPENSES

The expenses payable by the Company in connection with the Rights Issue, the Placing Agreement, the Underwriting Agreement, the Special Deal and the Whitewash Waiver, including printing, registration, translation, legal, financial advisory, accounting and other professional fees, are estimated to be approximately HK\$4 million.

PARTICULARS OF DIRECTORS

Biographies of the existing Directors are set out below:

Executive Directors

Mr. Hung Tsung Chin, aged 62, is the founder of the Group, which was founded in November 1989. He was the Chairman of the Board until 18 August 2017. Mr. Hung acts as an executive Director and authorised representative of the Company. He is currently the director of certain subsidiaries of the Company and the chief executive officer of several subsidiaries of the Company which are engaged in the Manufacturing and Trading of Electronic Products Business Division. Mr. Hung has over 33 years of management experience in the electronics manufacturing industry. He graduated from the National Chengchi University in Taiwan, with a bachelor's degree in business administration. Mr. Hung also completed the executives programme from the Graduate School of Business Administration, National Chengchi University. He is the husband of Ms. Chen Mei Huei, the director of several subsidiaries of the Company and the chief executive officer of the pay TV and broadband service business division.

Mr. Chen Wei Chun, aged 46, joined the Group in May 2015 and was appointed as an executive Director and chief financial officer of the Company on 28 August 2015 and 30 November 2017 respectively. He is also the director and the chief financial officer of Pro Brand Technology, Inc., a non-wholly owned subsidiary of the Company. Mr. Chen graduated from National Chengchi University and Shih Chien University with a master's degree in business administration and a master's degree in business administration respectively. He is well experienced in accounting and finance industries. Prior to joining the Group, Mr. Chen was the head of finance department of TTY Biopharm Company Limited and head of finance department of K.H.S. Musical Instrument Company Limited.

Non-Executive Director

Mr. Kuo Jen Hao, aged 46, was appointed as a non-executive Director of the Company on 18 August 2017. He graduated with a bachelor's degree in Business Administration from Aletheia University in Taiwan and holds a master's degree of business administration from Pace University in 2003 in the US. Mr. Kuo is a certified public accountant of the New Jersey State Board of Accountancy. He has several years of work experience in investment advisory, financial advisory and corporate finance at PricewaterhouseCoopers, Bank of America Merrill Lynch and Private Equity Management Group and held various key roles at several private and listed companies engaging in (i) the administrative and corporate business; (ii) corporate finance; and (iii) general management in real estate development business, shipping business, retailing business and logistics business. Mr. Kuo has a wealth of experience in business strategy development and innovation management. He is a director, the chairman and the general manager of First Steamship Company Limited ("**First Steamship**") (a company listed on the Taiwan Stock Exchange Corporation ("**TWSE**") (TWSE Stock Code: 2601) and is a substantial shareholder of the Company and through its subsidiaries collectively holds 28.98% of the issued share capital of the Company). Mr. Kuo is also a director and the chairman of Grand Ocean Retail Group Limited (a company listed on the TWSE (TWSE

Stock Code: 5907) and is a subsidiary of First Steamship) and Taiwan Environment Scientific Co., Ltd. (a company listed on the Taipei Exchange) (Taipei Exchange Stock Code: 8476). He is currently a non-executive director of Da Yu Financial Holdings Limited (Stock Code: 1073). He is also a director of several subsidiaries of First Steamship including but not limited to Mariner Finance Limited and First Steamship S.A. He has served as a non-executive director and the chairman of the board of Summit Ascent Holdings Limited (Stock Code: 102) from 28 December 2017 to 26 April 2019. Mr. Kuo was a director of IRC Properties, Inc. (a company listed on the Philippine Stock Exchange) from July 2017 to May 2018.

Independent Non-executive Directors

Mr. Wu Chia Ming, aged 54, is an independent non-executive Director since 1 December 2014 and is currently the chairman of Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. He has a master's degree in business administration from the Institute of International Business, National Chen-kung University and a bachelor's degree in electronic engineering from Chung Yuan Christian University in Taiwan. Mr. Wu Chia Ming has nearly 28 years of experience in financial analysis and fund management. Currently, he is the chairman of Fortune-Future Investment Co., Ltd. Prior to that, Mr. Wu Chia Ming was a fund manager of KGI Securities Investment Trust Co., Ltd.

Ms. Chen Wei-Hui, aged 45, was conferred the Master's degree of Accounting from National Chengchi University in 2002 and Bachelor's degree of Accounting from Fu Jen Catholic University in 1999, both in Taiwan. Ms. Chen Wei-Hui is a certified public accountant of the Republic of China, a Certified Internal Auditor of The Institute of Internal Auditors-Chinese Taiwan and a Land Administration Agent of the Republic of China. Ms. Chen Wei-Hui is a Land Administration Agent of Canaan Land Registration Office since 2022 and was an Assistant Vice President of Taipei Exchange from 2005 to 2022 and Audit Assistant Manager of Deloitte and Touche of Taiwan from 2002 to 2005.

Mr. Lu Ming-Shiuan, aged 51, was conferred the degree of Master of Law in Science and Technology from the Institute of Law of Science and Technology, College of Technology Management at the National Tsing Hua University in 2010, in Taiwan. Mr. Lu Ming-Shiuan has been appointed as a member of the Taipei Bar Association since 2013. Mr. Lu Ming-Shiuan is a senior partner of Heng-Sheng Attorney-at-Law since April 2016 and was a prosecutor of Taiwan Pingtung District Prosecutors Offices and Taiwan Miaoli District Prosecutors Offices.

Business address of the Directors

The business address of the Directors is the same as the Company's principal office in Hong Kong at Unit 516, 5th Floor, Peninsula Centre, 67 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong.

CORPORATE INFORMATION AND PARTIES TO THE RIGHTS ISSUE

Registered office:	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business in Hong Kong:	Unit 516, 5th Floor Peninsula Centre 67 Mody Road Tsim Sha Tsui East Kowloon Hong Kong
Legal advisers to the Company as to Hong Kong law:	Michael Li & Co. 19/F., Prosperity Tower 39 Queen's Road Central Hong Kong
Principal share registrar and transfer office:	Conyers Corporate Services (Bermuda) Limited Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office:	Boardroom Share Registrars (HK) Limited Room 2103B 21st Floor 148 Electric Road North Point Hong Kong
Financial adviser to Company:	Yu Ming Investment Management Limited Room 1801 18th Floor Allied Kajima Building 138 Gloucester Road Wanchai Hong Kong

Independent financial adviser: Red Sun Capital Limited
Room 310, 3/F
China Insurance Group Building
141 Des Voeux Road
Central
Hong Kong

Valuer: RHL Appraisal Limited
Rm 1010
Star House
Tsimshatsui
Kowloon
Hong Kong

Auditors and reporting accountants: BDO Limited
25th Floor
Wing On Centre
111 Connaught Road
Central
Hong Kong

Principal bankers: CTBC Bank Co., Ltd.
1/F, No. 168 Jingmao
2nd Road Nangang District
Taipei City 115, Taiwan
R.O.C.

China Guangfa Bank Co., Ltd.
No. 713, Dongfengdong Road
Yuexiu District, Guangzhou
Guangdong, China

Land Bank of Taiwan Co., Ltd.
No.46, Guancian Rd.
Jhongjheng District
Taipei City 100007
Taiwan
R.O.C.

Authorised representatives:

Mr. Hung Tsung Chin
Unit 516, 5th Floor
Peninsula Centre
67 Mody Road
Tsim Sha Tsui East
Kowloon
Hong Kong

Ms. Tung Wing Yee Winnie
31/F, 148 Electric Road
North Point
Hong Kong

Company Secretary:

Ms. Tung Wing Yee Winnie (*a fellow member of The Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the CPA Australia*)

Placing agent:

Morton Securities Limited
Room 1804-05
18th Floor Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

Underwriter:

First Steamship Company Limited
14th Floor
237 Fuxing South Road, Section 2
Taipei
Taiwan

GENERAL

As at the Latest Practicable Date, to the best knowledge of the Directors, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.

DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Company (www.sandmartin.com.hk), the Stock Exchange (www.hkexnews.hk) and the SFC (www.sfc.hk) from the date of this circular for at least 14 days and including the date of the SGM:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the memorandum and articles of association of First Steamship;
- (iii) the annual reports of the Company for each of the financial years ended 31 December 2020 and 2021;
- (iv) the annual results announcement of the Company for the financial year ended 31 December 2022;
- (v) the letter from the Board, the text of which is set out on pages 14 to 41 of this circular;
- (vi) the letter from the Independent Board Committee the text of which is set out on pages 42 to 43 of this circular;
- (vii) the letter from Red Sun, the text of which is set out on pages 44 to 83 of this circular;
- (viii) the report from BDO Limited on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;
- (ix) the property valuation report from RHL Appraisal Limited, the text of which is set out in Appendix III to this circular;
- (x) the written consents of the experts as referred to in the section headed "Experts and Consents";
- (xi) the material contracts referred to in the section headed "Material Contracts";
and
- (xii) this circular.



Sandmartin International Holdings Limited

聖馬丁國際控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 482)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the “**SGM**”) of Sandmartin International Holdings Limited (the “**Company**”) will be held at Industrial Zone No. 3, No. 16 Qianjin Erlu, Xin Qian Jin Village, Tanzhou Town, Zhongshan, Guangdong Province, the People’s Republic of China at 11:00 a.m. on Monday, 22 May 2023 for the purpose of considering, if thought fit, passing with or without amendments, the following resolutions of the Company. Unless otherwise stated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 28 April 2023 (the “**Circular**”):

ORDINARY RESOLUTIONS

1. **“THAT** subject to the passing of the resolutions numbered 2 and 3 below and the satisfaction of the conditions of the Rights Issue (as defined below):
 - (a) the Underwriting Agreement dated 15 March 2023 as supplemented on 27 March 2023 and 24 April 2023 (“**Underwriting Agreement**”) signed between the Company and First Steamship Company Limited (“**Underwriter**”) (a copy of the Underwriting Agreement marked “**A**” has been produced to this SGM and initialed by the chairman of this SGM for the purpose of identification), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
 - (b) the issue by way of rights issue (“**Rights Issue**”) of 738,242,235 new ordinary shares of the Company (“**Rights Shares**” and each a “**Right Share**”), on the basis of three (3) Rights Shares for every two (2) existing ordinary shares held by the shareholders of the Company (“**Shareholders**”) on Friday, 2 June 2023 (the “**Record Date**”) (or such other date as may be agreed between the Company and the Underwriter for determining entitlements of Shareholders to participate in the Rights Issue), at a subscription price of HK\$0.12 per Rights Share (“**Subscription Price**”) to Shareholders whose names appear on the register of members of the Company at the close of business on the

* For identification purpose only

NOTICE OF SGM

Record Date (“**Qualifying Shareholders**”), save for overseas Shareholders to whom the directors of the Company (“**Directors**”), based on legal opinions to be provided by the legal advisers to the Company, consider it necessary or expedient not to offer the Rights Shares (“**Non-Qualifying Shareholders**”) on account either of the legal restrictions under the laws of the relevant place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), and substantially on the terms and conditions set out in the Circular (a copy of the Circular marked “**B**” has been produced to this SGM and initialed by the chairman of this SGM for the purpose of identification) and such other terms and conditions as may be determined by the Directors, be and is hereby approved, confirmed and ratified;

- (c) the placing agreement dated 15 March 2023 as supplemented on 27 March 2023 and 24 April 2023 (“**Placing Agreement**”) entered into between the Company and Morton Securities Limited (“**Placing Agent**”) in relation to the placing of those Rights Shares that are not successfully sold by the Company (the “**Unsubscribed Rights Shares**”) and/or the Rights Share(s) which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders in nil-paid form (the “**NQS Unsold Rights Shares**”) at the placing price of not less than the Subscription Price on a best effort basis (a copy of the Placing Agreement marked “**C**” has been produced to this SGM and initialed by the chairman of this SGM for the purpose of identification), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (d) the board of Directors (“**Board**”) or a committee thereof be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue in accordance with the terms set out in the Circular;
- (e) the Board or a committee thereof be and is hereby authorised to make such other exclusions or other arrangements in relation to the Non-Qualifying Shareholders as it may deem necessary or expedient having regard to any restrictions or obligations under the bye-laws of the Company or the laws of, or the rules and regulations of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong, and generally to do such things or make such arrangements as it may think fit to effect the Rights Issue; and

NOTICE OF SGM

- (f) any one or more Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or deeds and to take such steps as he/they may in his/their absolute discretion consider necessary, appropriate, desirable or expedient to carry out or to give effect to or in connection with the Rights Issue, the Underwriting Agreement, the Placing Agreement and any transactions contemplated thereunder.”

2. **“THAT:**

- (a) subject to the passing of the resolutions numbered 1 and 3 and conditional upon the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s) (**“Executive”**) granting consent, the use of the proceeds from the Rights Issue for repayment of the loan in the outstanding principal amount of US\$25 million (equivalent to approximately HK\$196.21 million) with accrued interest of approximately HK\$14.73 million (**“Special Deal”**) to AP Finance Limited, which constitutes a special deal under Rule 25 of the Code of Takeovers and Mergers (**“Takeovers Code”**), be and is hereby approved, confirmed and ratified; and
- (b) any one or more Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or deeds and to take such steps as he/they may in his/their absolute discretion consider necessary, appropriate, desirable or expedient to carry out or to give effect to or in connection with any matters relating to the Special Deal and the transactions contemplated thereunder.”

SPECIAL RESOLUTION

3. **“THAT:**

- (a) subject to the granting of the Whitewash Waiver (as defined below) by the Executive and the satisfaction of any conditions attached to the Whitewash Waiver granted, the waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code waiving any obligation of the Underwriter to make a mandatory general offer to the Shareholders in respect of the shares of the Company not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it which would arise under Rule 26 of the Takeovers Code as a result of the fulfillment of the underwriting obligations by the Underwriter pursuant to the Underwriting Agreement (**“Whitewash Waiver”**) be and is hereby approved; and

NOTICE OF SGM

- (b) any one or more Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or deeds and to take such steps as he/they may in his/their absolute discretion consider necessary, appropriate, desirable or expedient to carry out or to give effect to or in connection with any matters relating to the Whitewash Waiver and the transactions contemplated thereunder.”

On behalf of the Board
Sandmartin International Holdings Limited
Kuo Jen Hao
Chairman

Hong Kong, 28 April 2023

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

Principal Place of Business in Hong Kong:
Unit 516, 5/F., Peninsula Centre,
67 Mody Road Tsim Sha Tsui East,
Kowloon Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the SGM is entitled to appoint in written form one or, if he is the holder of two or more shares (the “Shares”) of the Company, more proxy(ies) to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised to sign the same, and must be delivered to the office of the Hong Kong branch share registrar and transfer office of the Company (the “**Hong Kong Share Registrar**”), Boardroom Share Registrars (HK) Limited at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the SGM (i.e. by 11:00 a.m. on Saturday, 20 May 2023) or any adjournment thereof.
- (3) For determining the entitlement of the Shareholders to attend and vote at the SGM, The register of members will be closed from Tuesday, 16 May 2023 to Monday, 22 May 2023 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible for attending and voting at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 May 2023.
- (4) Completion and return of the form of a proxy shall not preclude a member of the Company from attending and voting at the SGM or any adjournment thereof.
- (5) In the case of joint holders of Share, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting in person or by proxy, that one of the said persons so present whose names stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.

NOTICE OF SGM

- (6) If Typhoon Signal No. 8 or above, or a “black” rainstorm warning or “extreme conditions after super typhoons” announced by the Government of Hong Kong is/are in effect any time after 10:00 a.m. on the date of the SGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at <http://www.sandmartin.com.hk> and on the website of the Stock Exchange at <http://www.hkexnews.hk> to notify Shareholders of the date, time and venue of the rescheduled meeting.
- (7) In case of discrepancy between the English version and the Chinese version of this notice of the SGM, the English version shall prevail.

As at the date of this notice, the Board comprises Mr. Hung Tsung Chin and Mr. Chen Wei Chun as executive Directors, Mr. Kuo Jen Hao as non-executive Director, and Mr. Wu Chia Ming, Ms. Chen Wei-Hui and Mr. Lu Ming-Shiuan as independent non-executive Directors.