SORRENTO CAPITAL LIMITED
擎天資本有限公司

5 January 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed offer for subscription of up to 2,313,613,998 Rights Shares by way of the Rights Issue at the Subscription Price of HK$0.11 each to be made by the Company to the Qualifying Shareholders on the basis of three (3) Rights Shares for every one (1) existing Share held on the Record Date, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 5 January 2024 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As stated in the Letter from the Board, on 28 November 2023 (after trading hours), the Company and VC Brokerage Limited (the "**Underwriter**") entered into the Underwriting Agreement, pursuant to which the Company conditionally appointed the Underwriter and the Underwriter conditionally agreed to underwrite up to 2,313,613,998 Rights Shares on a best-effort basis. The maximum gross proceeds from the Rights Issue will be (i) approximately HK$233.8 million (assuming full subscription under the Rights Issue, no conversion of the outstanding Convertible Bonds and no exercise of the exercisable Share Options and there will not be any further issue of new Shares or repurchase of Shares on or before the Record Date); and (ii) approximately HK$254.5 million (assuming full subscription under the Rights Issue, full conversion of the Convertible Bonds and all exercisable Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue). The net proceeds would be approximately HK$247.5 million under scenario (i) and approximately HK$227 million under scenario (ii) above respectively, which will be applied towards repayment and discharge the Outstanding Indebtedness and general working capital of the Group (if there is any balance).

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In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares by more than 50% within a 12 months period immediately preceding the date of the announcement of the company (the "**Announcement**") dated 28 November 2023 in relation to, among others, the Rights Issue, the Rights Issue is conditional upon the minority Shareholders' approval at the EGM, and any controlling Shareholders (within the meaning of the Listing Rules) and their respective associates, or where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the EGM. As at the Latest Practicable Date, Mr. Lai, who holds 430,000 Shares, representing approximately 0.06% of the total number of existing issued Shares, and Shine Well Holdings Limited ("**Shine Well**", a substantial shareholder of the Company under the Listing Rules), which holds 42,930,000 Shares, representing approximately 6.06% of the total number of existing issued Shares, will abstain from voting in favour of the resolution relating to the Rights Issue at the EGM. Also, Mr. Zhong, a co-chief executive of the Company, who holds 3,980,000 Shares, representing approximately 0.56% of the total number of existing issued Shares as at the Latest Practicable Date, will abstain from voting in favour of the resolution relating to the Rights Issue at the EGM.

In addition, as the Underwriter, which holds 422,000 Shares, representing approximately 0.06% of the total number of existing issued Shares, and its holding company, Value Convergence Holdings Limited, which holds 53,560,000 Shares, representing approximately 7.56% of the total number of existing issued Shares, are considered to have a material interest in the Underwriting Agreement and the transactions contemplated thereunder, the Underwriter and Value Convergence Holdings Limited will be required to abstain from voting on the resolution relating to the Rights Issue at the EGM.

The Independent Board Committee comprising Mr. Hung Muk Ming, Mr. Jin Zi and Mr. Luk Hong Man, Hammond (i.e. all the independent non-executive Directors) has been established by the Board to consider the terms of the Rights Issue and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Rights Issue are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) whether to vote in favour of the Rights Issue at the EGM.

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

BASIS AND ASSUMPTIONS OF OUR OPINION

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

PRINCIPAL FACTORS AND REASONS CONCERNED

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

1. Information on the Group

The Group is principally engaged in (i) sales of intelligent terminal products (the "**Intelligent Terminal Products Sales Segment**"); (ii) provision of tailor-made system solutions applying internet of things technologies of smart cities by provision of coordination, management and installation services, sale of intelligent terminal products as well as development of customised softwares (the "**System Integration Segment**"); (iii) development of customised softwares (the "**Software Development Segment**"); and (iv) provision of system maintenance services. As at the Latest Practicable Date, the authorised share capital of the Company is HK$10,000,000 divided into 1,000,000,000 Shares of which 708,466,773 Shares with par value of HK$0.01 each were in issue. As set out in the Letter from the Board, the Company proposed to increase the authorised share capital of the Company from HK$10,000,000 divided into 1,000,000,000 Shares to HK$100,000,000 divided into 10,000,000,000 Shares.

The audited consolidated financial information of the Group for each of the two years ended 31 March 2023, as extracted from the annual report of the Company for the year ended 31 March 2023 (the "**2023 AR**") and the unaudited consolidated financial information of the Group for the six months ended 30 September 2022 and 2023, as extracted from the interim report of the Company for the six months ended 30 September 2023 (the "**2023 IR**"), are summarised as follows:

	For the six months ended 30 September		**For the year ended 31 March**	
	2023	**2022**	**2023**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	199,016	366,154	907,274	1,046,296
Cost of sales	(191,840)	(289,826)	(813,371)	(867,695)
Gross Profit	7,176	76,328	93,903	178,601
Other income	866	4,234	7,043	6,317
Other (losses)/gains, net	(4,561)	(17,946)	(54,592)	3,664
Share of results of associates	–	(5)	(34)	727
Impairment losses under expected credit loss model, net of reversal	(111,757)	(2,652)	(150,998)	(15,423)
Distribution and selling expenses	(2,202)	(3,356)	(6,890)	(8,048)
Administrative expenses	(24,528)	(37,483)	(59,311)	(62,624)
Equity-settled share-based payments	–	–	(54,912)	(28,488)
Finance costs	(12,123)	(9,084)	(19,748)	(18,290)
Research and development expenses	(13,102)	(3,613)	(39,646)	(12,531)
(Loss)/profit before taxation	(160,231)	6,423	(285,185)	43,905
Income tax credit (expense)	10,242	(7,348)	(8,095)	(19,889)
Loss and total comprehensive expense for the year/period	(149,989)	(925)	(293,280)	24,016
(Loss) profit and total comprehensive (expense) income for the year/period attributable to				
– owners of the Company	(135,394)	7,390	(243,564)	14,663
– non-controlling interests	(14,595)	(8,315)	(49,716)	9,353

Comparison between the years ended 31 March 2022 and 31 March 2023

The Company recorded a revenue of approximately RMB907.27 million for the year ended 31 March 2023 representing a decrease of approximately 13.29% as compared with approximately RMB1,046.30 million for the previous year mainly due to decrease in revenue of the Intelligent Terminal Products Sales Segment, the System Integration Segment and the Software Development Segment by approximately 5.47%, 98.91% and 49.67% respectively during the year ended 31 March 2023 resulting from the overall poor market conditions in the PRC. The Intelligent Terminal Products Sales Segment remained as the largest business segment of the Group and revenue from which accounted for approximately 92.87% of total revenue of the Company for the year ended 31 March 2023.

Gross profit margin of the Company decreased from approximately 17.07% for the year ended 31 March 2022 to approximately 10.35% for the year ended 31 March 2023 mainly due to the increase in the proportion of revenue from the Intelligent Terminal Products Sales Segment (with relatively low gross profit margin) to the total revenue of the Company from approximately 85.19% for the year ended 31 March 2022 to approximately 92.87% of total revenue of the Company for the year ended 31 March 2023.

The Company's other losses, net amounted to approximately RMB54.59 million for the year ended 31 March 2023 as compared to approximately RMB3.66 million for the previous year. Such change was mainly due to (i) foreign exchange losses, net was recorded for the year ended 31 March 2023 while foreign exchange gain, net was recorded in the previous year; (ii) gain on change in fair value of derivative component of the convertible bonds of approximately RMB13.83 million was recorded in year ended 31 March 2022 while there was no such gain for the year ended 31 March 2023; and (iii) impairment loss on goodwill for an acquisition of approximately RMB3.6 million and written off of intangible assets (i.e. software) of approximately RMB36.2 million were recorded for the year ended 31 March 2023 while there was no such impairment loss and written off were recorded in the previous year.

During the year ended 31 March 2023, the impairment losses under expected credit loss (ECL) model, net of reversal increased substantially by 879.2% to approximately RMB151.00 million as compared to approximately RMB15.42 million in previous year. This was mainly due to (i) an increase in the Group's total trade receivables from approximately RMB903.36 million as at 31 March 2022 to approximately RMB1,429.05 million as at 31 March 2023, resulting in a significant increase in the total trade receivables subject to impairment assessment based on the expected credit loss model during the year ended 31 March 2023; and (ii) an increase in the ageing of the Group's trade receivables as at 31 March 2023 as a result of the adverse overall market conditions in the PRC during the year ended 31 March 2023.

During the year ended 31 March 2023, the Company's equity-settled share-based payments increased by 92.7% to approximately RMB54.91 million as compared to approximately RMB28.49 million for the previous year mainly due to the fact that the Share Options granted during the year vested immediately on the date of grant and therefore the related share option expenses were not spread, whereas the Share Options granted in 2022 have a vesting period and the related share option expenses were spread over the vesting period.

The Company's research and development expenses increased from approximately RMB12.53 million for the year ended 31 March 2022 to approximately RMB39.65 million for the year ended 31 March 2023 mainly due to the increase in resources investing in research and development expenses as the Group's performance is expected to improve in the future.

As a result of the abovementioned, the Company recorded a loss attributable to owners of the Company of approximately RMB243.56 million for the year ended 31 March 2023 as compared with profit attributable to owners of the Company of approximately RMB14.66 million for the year ended 31 March 2022.

Comparison between the six months ended 30 September 2022 and 2023

The Company recorded a revenue of approximately RMB199.02 million for the six months ended 30 September 2023 representing a decrease of approximately 45.65% as compared with approximately RMB366.15 million for the same period in previous year mainly due to decrease in revenue of all four business segments particularly the decrease of (i) approximately 38.35% for Intelligent Terminal Products Sales Segment which had the largest revenue contribution to the Group over 85% of total revenue of the Company during the six months ended 30 September 2022 and 2023; (ii) approximately 98.65% for Software Development Segment which contributed approximately 12.61% to the total revenue of the Company during the six months ended 30 September 2022; and (iii) the absence of revenue from the System Integration Segment during the six months ended 30 September 2023.

Gross profit margin of the Company decreased from approximately 20.85% for the six months ended 30 September 2022 to approximately 3.61% for the six months ended 30 September 2023 mainly due to the decrease of sales price.

During the six months ended 30 September 2023, the impairment losses under ECL model, net of reversal increased substantially to approximately RMB111.76 million as compared to approximately RMB2.65 million for the same period in previous year mainly due to an increase in the ageing of the Group's trade receivables as at 30 September 2023.

The Company's research and development expenses increased from approximately RMB3.61 million for the six months ended 30 September 2022 to approximately RMB13.10 million for the six months ended 30 September 2023 mainly due to more research and development expenses allocated to Software Development Segment during the six months ended 30 September 2022.

As a result of the abovementioned, the Company recorded a loss attributable to owners of the Company of approximately RMB135.39 million for the six months ended 30 September 2023 as compared with profit attributable to owners of the Company of approximately RMB7.39 million for the same period in previous year.

	As at 30 September 2023	As at 31 March 2023
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-current assets	294,389	295,469
Current assets	1,351,109	1,833,874
Total assets	1,645,498	2,129,343
Non-current liabilities	34,027	52,021
Current liabilities	1,136,502	1,510,086
Total liabilities	1,170,529	1,562,107
Net current assets	214,607	1,510,086
Equity attributable to owners of the Company	436,185	513,857
Non-controlling interests	38,784	53,379
Total equity/Net assets	474,969	567,236

The non-current assets of the Company was approximately RMB294.39 million as at 30 September 2023 and comparable to that as at 31 March 2023. The current assets of the Company decreased from approximately RMB1.83 billion as at 31 March 2023 to approximately RMB1.35 billion as at 30 September 2023 mainly due to (i) decrease in trade and other receivables by approximately RMB207.35 million; and (ii) decrease in bank balances and cash by approximately RMB205.87 million.

The non-current liabilities of the Company decreased from approximately RMB52.02 million as at 31 March 2023 to approximately RMB34.03 million as at 30 September 2023 mainly due to (i) decrease in bonds payables by approximately RMB11.51 million; and (ii) decrease in deferred tax liabilities by approximately RMB10.24 million.

The current liabilities of the Company decreased from approximately RMB1.51 billion as at 31 March 2023 to approximately RMB1.14 billion as at 30 September 2023 mainly due to decrease in trade and other payables, particularly the decrease in (i) trade payables by approximately RMB257.40 million; (ii) deposits received for issue of convertible bonds by approximately RMB44.55 million; and (iii) investment cost payables by approximately RMB33.56 million. Nevertheless, bank and other borrowings increased by approximately RMB3.37 million and bonds payables increased by approximately RMB21.11 million from 31 March 2023 to 30 September 2023.

As disclosed in the 2023 IR, the Group incurred an audited loss for the six months ended 30 September 2023 and had certain indebtedness as at 30 September 2023 due for repayment within the next twelve months from the end of reporting period and bank balances and cash of approximately RMB0.85 million. In addition, the Company received the Petition. 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 (the "**Uncertainty related to Going Concern**"). Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the Directors have been implementing various plans and measures such as (i) to restructure and capitalise certain of the Group's liabilities into new shares; (ii) the proposed rights issue of shares in Company; (iii) possible disposal of a significant business; and (iv) the Group is considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible bonds (for details, please refer to the notes to the condensed consolidated financial statements set out in the 2023 IR).

According to the 2023 IR, the directors of the Company were of the opinion that, taking into account the above plans and measures, the Group would have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 30 September 2023. The directors of the Company were therefore of the opinion that it was appropriate to prepare the condensed consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

During the six months ended 30 September 2023, the Company has completed (i) a placing of the Convertible Bonds under general mandate (the "**Placing of CBs**") on 2 May 2023 to raise a net proceeds of approximately HK$51.9 million; and (ii) a placing of new Shares under general mandate (the "**Placing of Shares**") on 5 July 2023 to raise a net proceeds of approximately HK$9.0 million. As disclosed in the Letter from the Board, all net proceeds from the Placing of CBs and Placing of Shares have been utilised as at the Latest Practicable Date. Save as the abovementioned, the Company has not conducted and completed any other equity financing activity in the 12 months immediately preceding the date of the Announcement.

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

According to the Letter from the Board, the net proceeds from the Rights Issue, after deducting the underwriting commission, professional fees and all other relevant expenses, are estimated to be not more than (i) approximately HK$247.5 million (assuming full subscription under the Rights Issue, full conversion of the Convertible Bonds and all exercisable Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue); and (ii) approximately HK$227 million (assuming full subscription under the Rights Issue, no conversion of the outstanding Conversion Bonds and no exercise of the exercisable Share Options and there will not be any further issue of new Shares or repurchase of Shares on or before the Record Date).

As disclosed in the 2023 AR, the Group's consolidated bank and other borrowings that are repayable within one year and those that are repayable more than one year, but not more than two years amounted to approximately RMB97.21 million and approximately RMB20.11 million respectively as at 31 March 2023. As further disclosed in the 2023 AR, the current portion and the non-current portion of the bonds payables of the Company amounted to approximately RMB95.13 million and approximately RMB11.51 million respectively as at 31 March 2023.

Furthermore, as disclosed in the 2023 IR, the Group recorded an unaudited revenue of approximately RMB199.02 million and gross profit of approximately RMB7.18 million for the six months ended 30 September 2023, which representing a decrease of approximately 45.6% and a decrease of approximately 90.6% respectively as compared with the same period in 2022. The Company recorded loss attributable to the Shareholders of approximately RMB135.39 million for the six months ended 30 September 2023 as compared to profit attributable to Shareholders of approximately RMB7.39 million for the same period in 2022. In addition, as at 30 September 2023, the Group's unaudited bank balances and cash was approximately RMB0.85 million while the Group's unaudited consolidated bank and other borrowings that are repayable within one year and those that are repayable more than one year, but not more than two years amounted to approximately RMB100.59 million and approximately RMB20.04 million respectively. Also, the current portion and the non-current portion of the bonds payables of the Company amounted to approximately RMB116.24 million and nil as at 30 September 2023 respectively.

On 24 July 2023, a winding-up petition (the "**Petition**") was filed by a bondholder (the "**Petitioner**") with the High Court for the winding-up of the Company under the provision of the Companies (WUMP) Ordinance. Details of the Petition are set out in the section headed "WINDING-UP PETITION" in the Letter from the Board. According to the Letter from the Board, in view of the Petition, the holders of the remaining non-convertible bonds (with the aggregate principal amount of approximately HK$113.6 million with the maturity dates from April 2022 to August 2024. For details, please refer to the Letter from the Board) issued by the Company allege that the Petition triggers a cross-default of the Company on the non-convertible bonds held by them. They have requested immediate full repayment of the non-convertible bonds by the Company, irrespective of the original maturity dates. On the other hand, although the Group have fulfilled its repayment obligations of the bank loans and interests from time to time, certain banks have exercised their overriding rights in requesting early repayment of the bank loans in full even if such loans are not yet due for repayment or long term in nature. Worse still, debtors of the Group slow down their repayments to the Group in view of the Petition. The aforesaid is similar to credit squeeze, which exert tremendous pressure on the liquidity of the Group.

Even though the amount allegedly due by the Company to the Petitioner thereof aggregated at approximately HK$5.6 million (inclusive of both principal amount and interest according to the amended Petition and re-amended Petition which was filed by the Petitioner on 5 September 2023 and 11 October 2023 respectively) only, event of default under most of the Company's debt and/or derivative instruments or agreements has been triggered as a result of the presentation of the Petition, and the Company shall have to raise funds for repayment of outstanding liabilities and guarantees of the Company which have thus fallen due subject to settlement arrangements among the parties (the "**Outstanding Indebtedness**"). As at 31 October 2023, the Outstanding Indebtedness amounts to approximately HK$227 million (or approximately RMB208.3 million).

As part of our due diligence, we have reviewed the indebtedness of the Group as at 30 November 2023 and noted that it mainly comprised bond payables, bank and other borrowings, margin account payable, lease liabilities and convertible bonds in the total amount of approximately RMB252 million. We also noted that the Outstanding Indebtedness comprised (i) bonds and accrued interests of the Company of approximately RMB114.5 million; (ii) bank borrowings of and accrued interests of subsidiaries of the Company of approximately RMB46.2 million generally with the Company as guarantor; (iii) short term loan and accrued interests of the Company of approximately RMB18.2 million; (iv) the Convertible Bonds and accrued interests of the Company of approximately RMB2.6 million; and (v) accruals, other professional fees relating to the Group's restructuring, legal costs etc. of approximately RMB26.8 million.

The Company intends to apply the net proceeds from the Rights Issue towards (i) repayment and discharge of the Outstanding Indebtedness; and (ii) the general working capital of the Group including but not limited to staff cost, rental expenses, legal and professional fees, other office overhead and general corporate purposes of the Group (for the remaining portion of net proceeds, if any). In the event that there is an under-subscription of the Rights Issue, the net proceeds from the Rights Issue will first be applied for repayment of the Outstanding Indebtedness, and any surplus which remains thereafter will be used for general working capital of the Group.

As set out in the Letter from the Board, the Company is considering and evaluating the existing operation and business of the Group with a view to restructure and/or streamline the same so as to further improve the financial position of the Group. As at the Latest Practicable Date, this plan is under negotiation. As disclosed in the announcement of the Company dated 19 September 2023, the Company and its legal team are contacting the Company's creditors and/or their legal advisers for debt capitalisation. The aim of the Company is, in addition to the Rights Issue, to effectuate debt capitalisation to swap the Outstanding Indebtedness or such relevant part thereof into new Shares to be issued and allotted by the Company therefor so as to reduce the amount of the Outstanding Indebtedness as much as possible. However, as at the Latest Practicable Date no agreement has been reached between the Company and its creditors in respect of debt capitalisation. Given the Uncertainty related to Going Concern as mentioned above, the size of the Outstanding Indebtedness and results of liaison between the Company and its creditors are not guaranteed, we concur with the Company that there is the imminent need of capital for settlement and discharge of the Outstanding Indebtedness to avoid the Company being wound up.

As regards the intended use of net proceeds from the Rights Issue towards general working capital of the Group, we noted from the 2023 AR that the total staff costs were approximately RMB77.45 million and RMB95.52 million for the year ended 31 March 2022 and 2023 respectively and the total staff costs per month was approximately RMB7.96 million in the year ended 31 March 2023. Therefore, it is reasonable to allocate any remaining net proceeds from the Rights Issue to replenish the Group's general working capital.

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

3. Alternative financing methods

As stated in the Letter from the Board, apart from the Rights Issue, the Directors have considered other debt/equity fund raising alternatives such as bank borrowings, placing or an open offer. As disclosed in the announcement of the Company dated 19 September 2023, in order to improve the liquidity of the Group and to finance the debt restructuring related expenses, the Company has been considering to conduct fund raising exercise by way of rights issue and/or placing of new Shares to raise funds in the region of HK$180 million to HK$200 million. As disclosed in the announcement of the Company dated 12 September 2023, a placing agreement was entered into by the Company and a placing agent in order to raise the gross proceeds of approximately HK$11.9 million which was intended to be used for debt restructuring related expenses and general working capital of the Group. However, on 20 October 2023, the Board announced that the placing (the "**Previous Placing 2**") did not complete and the placing agreement lapsed. As advised by the Company the lapse of the placing was mainly due to no placees was identified by the placing agent. In addition, in view of the Petition, the Company can hardly obtain any new loans or borrowings from any banks or other financial institutions. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the Nil-paid Rights in the market. The Rights Issue will also give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered the abovementioned alternatives, the Directors consider that the Rights Issue will enable the Group to strengthen its capital structure without incurring additional debt financing cost and enhance its financial position, and that the Rights Issue is more attractive in view of the current market condition. The Directors are also of the opinion that the Rights Issue will allow all the Qualifying Shareholders the equal opportunity to subscribe for their respective pro rata provisional entitlement of the Rights Shares and hence avoiding dilution in their shareholding interests in the Company.

We also noted that the Company has also tried to conduct a placing of new Shares under general mandate (the "**Previous Placing 1**") but it was eventually terminated on 19 April 2023. As advised by the Company, the termination of the Previous Placing was mainly due to no placees was identified by the placing agent. Furthermore, due to the Petition and the alleged cross-default of the non-convertible bonds together with the loss-making financial performance of the Group, we concur with the Company that it would not be feasible to raise debt financing unless the Group can show significant improvement in its trading and financial positions and the terms of the Underwriting Agreement are fair and reasonable and the Rights Issue is in the best interests of the Company and the Shareholders as a whole.

4. Principal terms of the Rights Issue

4.1 Issue statistics

Basis of the Rights Issue	:	Three (3) Rights Shares for every one (1) existing Share in issue and held at the close of business on the Record Date
Number of Shares in issue as at the Latest Practicable Date	:	708,466,773 Shares
Maximum number of Rights Shares to be issued	:	(i) Up to 2,125,400,319 Rights Shares (assuming no conversion of the Convertible Bonds and none of the exercisable Share Options are exercised and there will not be any further issue of new Shares or repurchase of Shares on or before the Record Date and full subscription under the Rights Issue) (ii) Up to 2,313,613,998 Rights Shares (assuming full conversion of the Convertible Bonds and all exercisable Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue)
Aggregate nominal value of the Rights Shares	:	(i) Up to HK$21,254,003.19 (assuming no conversion of the Convertible Bonds and none of the exercisable Share Options are exercised and there will not be any further issue of new Shares or repurchase of Shares on or before the Record Date and full subscription under the Rights Issue) (ii) Up to HK$23,136,139.98 (assuming full conversion of the Convertible Bonds and all exercisable Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue)

Subscription price	:	HK$0.11 per Rights Share
Enlarged number of Shares in issue upon completion of the Rights Issue	:	(i) Up to 2,833,867,092 Shares (assuming no conversion of the Convertible Bonds and none of the exercisable Share Options are exercised and there will not be any further issue of new Shares or repurchase of Shares on or before the Record Date and full subscription under the Rights Issue) (ii) Up to 3,084,818,664 Shares (assuming full conversion of the Convertible Bonds and all exercisable Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue)

The Company adopted the Share Option Scheme on 6 December 2017 pursuant to which the total number of Shares in respect of which the Share Options may be granted under the Share Option Scheme shall not exceed 175,070,524 Shares. As at the Latest Practicable Date, 62,577,893 Share Options remain outstanding, of which 60,937,893 are exercisable which entitle the holders thereof to subscribe for an aggregate of 60,937,893 new Shares. Besides, there are outstanding Convertible Bonds in an aggregate principal amount of HK$2,772,000 which are convertible into 1,800,000 conversion Shares at a conversion price of HK$1.54 each as at the Latest Practicable Date. Save as disclosed above, as at the Latest Practicable Date, the Company had no other outstanding derivatives, options, warrants or securities in issue which confer any rights to subscribe for, convert or exchange into Shares.

Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscription for the Untaken Shares, the Underwriter shall confirm with the Company the actual number of Untaken Shares as at the Latest Time for Acceptance, and shall procure for subscription therefor on best effort basis whilst using its best endeavours to ensure that (i) each of the subscribers of the Untaken Shares procured by the Underwriter shall be an Independent Third Party of and not connected with the Company, any of the Directors or chief executive or substantial shareholders of the Company or their respective associates; (ii) the Public Float Requirement be complied with by the Company upon completion of the Rights Issue; and (iii) the Underwriter or each subscriber procured by the Underwriter (together with parties acting in concert with the respective subscribers or any of the connected persons or associates of the respective subscribers) shall not hold in aggregate 30% (or such percentage which will trigger any MGO Obligation under the Takeovers Code) or more of the voting rights of the Company immediately after the Rights Issue.

Without prejudice to the generality of the Underwriting Agreement, all applications for Rights Shares whether under the PAL(s) or the EAF(s), or by transferees of Nil-paid Rights, or by subscribers procured by the Underwriter will be made on the basis that the applications are to be scaled-down by the Company to a level which (a) does not trigger an MGO Obligation on the part of the applicant or parties acting in concert with him/her/it, and/or (b) does not result in the non-compliance of the Public Float Requirement on the part of the Company. Any subscription monies for the Scale-down PAL Shares or the Scale-down EAF Shares will be refunded to the applicants, and the Scale-down PAL Shares and the Scale-down EAF Shares will be made available for subscription by other Qualifying Shareholders through the EAF(s).

In addition, under and/or pursuant to the Scaling-down, any application for Rights Shares, whether under the PAL(s) or the EAF(s), shall be subject to the scale-down mechanisms of the Rights Issue as determined by the Company to levels which do not trigger any MGO Obligation or non-compliance of Public Float Requirement.

4.2 Subscription Price

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

Historical price movement analysis

As set out in the Letter from the Board, the Subscription Price of HK$0.11 per Rights Share, which will be payable in full upon application, represents:

(i) a discount of approximately 12.00% to the closing price of HK$0.125 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 25.17% to the closing price of HK$0.147 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 25.68% to the average of the closing price of approximately HK$0.148 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 25.17% to the average of the closing price of approximately HK$0.147 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 7.56% to the theoretical ex-rights price of approximately HK$0.119 per Share based on the closing price of HK$0.147 per Share as quoted on the Stock Exchange on the Last Trading Day;

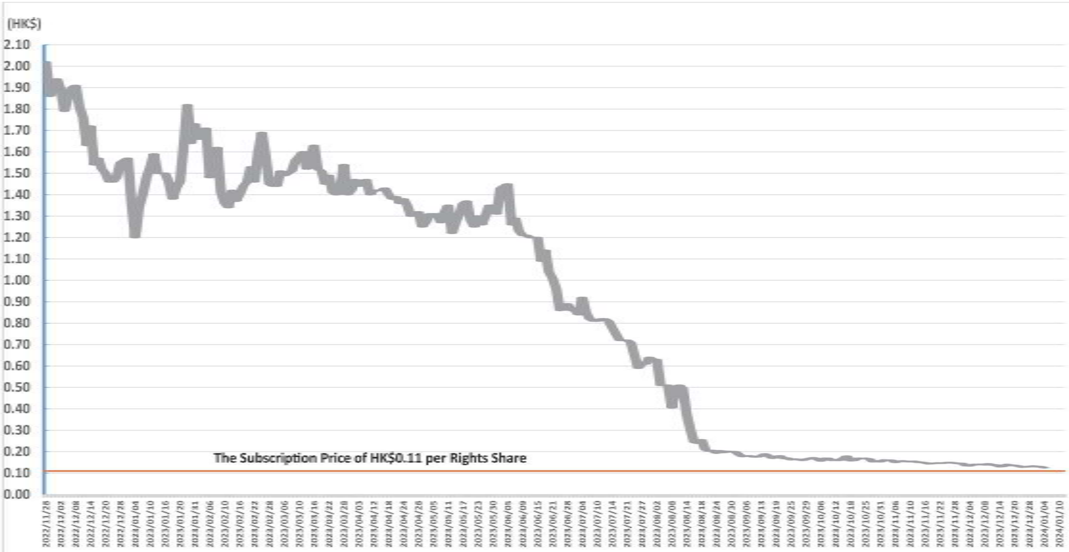
(vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 19.26%, represented by the theoretical diluted price of approximately HK$0.120 per Share to the benchmarked price of HK$0.148 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.147 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the date of this announcement of approximately HK$0.148 per Share);

(vii) a discount of approximately 87.49% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK$0.879 (based on the latest published audited consolidated net asset value attributable to Shareholders of approximately RMB513,857,000 (equivalent to approximately HK$586,876,080 based on the exchange rate of RMB1 to HK$1.1421) and 667,318,773 Shares in issue as at 31 March 2023); and

(viii) a discount of approximately 83.61% to the unaudited consolidated net asset value attributable to Shareholders per Share (the "**NAV per Share**") of approximately HK$0.671 (based on the latest published unaudited consolidated net asset value attributable to Shareholders of approximately RMB436,185,000 (equivalent to approximately HK$475,354,413 based on the exchange rate of RMB1 to HK$1.0898) and 708,466,773 Shares in issue as at 30 September 2023).

According to the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the financial position of the Group; and (iii) the reasons as discussed in the section headed "REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS" in the Letter from the Board.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price of the Shares during the period from 28 November 2022, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "**Price Review Period**"). We consider that a period of 12 months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Subscription Price.



Source: The Stock Exchange

Although the Subscription Price appears to be at a substantial discount to the NAV per Share of approximately HK$0.671 per Share as at 30 September 2023, we consider that the NAV per Share is not meaningful benchmarks to assess the Subscription Price as (i) the Shares have been traded at discount to the then net asset value per Share (calculated based on the published 2023 AR and 2023 IR) in the open market since late June 2023 (i.e. almost half of the Price Review Period); (ii) the total assets of the Group as at 31 March 2023 and 30 September 2023 comprised substantially (i.e. over 70%) trade and other receivables; and (iii) the Subscription Price was determined with reference to, among others, the market price of the Shares under the prevailing market conditions, the financial position of the Group and the funding need of the Group. Given the recent market price of the Shares have already reflected the expectation of the investors to the Company such as financial results, corporate actions and recent development of the Company and the recent stock market sentiment, we consider that recent market price of the Shares to be relevant for our assessment to the fairness and reasonableness of the Subscription Price.

As illustrated in the above chart, the closing prices of the Shares decreased from HK$2.02 per Share on 28 November 2022 (i.e the beginning of the Price Review Period) to HK$0.134 per Share on 4 December 2023 showing a general downward trend. During this period, the Company announced (i) the lapse of a discloseable transaction in relation to the acquisition of companies on 30 November 2022; (ii) the entering into of a strategic cooperation agreement with an Independent Third Party on 30 November 2022; (iii) its unaudited financial results for the six months ended 30 September 2022 on 30 November 2022; (iv) the entering into of a letter of intent in relation to investment on 2 December 2022; (v) the entering into of a memorandum of understanding for possible subscription and the Previous Placing 1 on 7 March 2023; (vi) the disposal of 20,000,000 Shares by Shine Well on 9 March 2023; (vii) the placing of the

Convertible Bonds under general mandate on 28 March 2023, 3 April 2023 and 2 May 2023; (viii) the termination of the Previous Placing 1 on 19 April 2023; (ix) the subscription and further investment in a target company on 29 May 2023 and 2 June 2023; (x) a profit warning for the financial results of the year ended 31 March 2023 on 15 June 2023; (xi) the placing of new Shares under general mandate on 19 June 2023, 3 July 2023 and 5 July 2023; (xii) its audited financial results for the year ended 31 March 2023 on 30 June 2023; (xiii) the inside information of the Petition on 27 July 2023 and subsequent update on 31 August 2023, 27 September 2023, 18 October 2023, 1 November 2023, 3 November 2023 and 29 November 2023; (xiv) the Previous Placing 2 on 12 September 2023 and 26 September 2023; (xv) the lapse of the Previous Placing 2 on 20 October 2023; (xvi) the forced sale of the Shares by Shine Well and/or Mr. Lai during black-out period since 1 November 2023; and (xvii) the Rights Issue on 27 November 2023 and 28 November 2023.

Since the publication of the Announcement, the closing prices of the Shares have continued to decrease and reached HK$0.125 per Share as at the Latest Practicable Date. During the period, the Company announced its unaudited financial results for the six months ended 30 September 2023 on 30 November 2023 and update on the Petition on 4 December 2023.

In the Price Review Period, the highest closing price of the Shares was HK$2.02 per Share on 28 November 2022 and the lowest closing price of the Shares was HK$0.125 per Share on 4 January 2024 (i.e. the Latest Practicable Date) respectively. The Subscription Price represents a discount of approximately 12.00% to the lowest closing price of the Shares and a discount of approximately 94.55% to the highest closing price of the Shares in the Price Review Period respectively.

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

Historical trading volume and liquidity analysis

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

Month/period	**Number of trading days**	**Average daily trading volume**	**% of average daily trading volume to the total number of Shares in issue** *(Note 1)*	**% of average daily trading volume to the total number of Shares in the public hands** *(Note 2)*
2022				
November *(Note 3)*	3	1,134,000	0.1699	0.2252
December	20	1,400,600	0.2099	0.2773
2023				
January	18	2,823,667	0.4231	0.5583
February	20	4,693,400	0.7033	0.9280
March	23	4,401,217	0.6595	0.8371
April	17	1,246,471	0.1868	0.2371
May	21	4,872,381	0.7301	0.9268
June	21	4,668,286	0.6666	0.8355
July	20	2,189,000	0.3090	0.3855
August	23	4,495,565	0.6345	0.7485
September	19	1,292,842	0.1825	0.2113
October	20	910,300	0.1285	0.1473
November	22	1,761,103	0.2486	0.2806
December	19	3,493,684	0.4931	0.5284
2024				
January *(Note 4)*	3	84,667	0.0120	0.0128

Source: The Stock Exchange

Notes:

1. Calculated based on the total number of the Shares in issue at the end of month/period.

2. Calculated based on the total number of the Shares in public hands at the end of month/period according to the public information on the Stock Exchange.

3. Represents number of trading days and trading volume for the period from 28 November 2022 to 30 November 2022, both days inclusive.

4. Represents number of trading days and trading volume for the period from 2 January 2024 to the Latest Practicable Date, both days inclusive.

As demonstrated in the table above, during the Price Review Period, the average daily trading volume of the Shares by month/period were in the range of approximately 0.0120% to 0.7301% as to the total number of issued Shares and approximately 0.0128% to 0.9280% as to the total number of Shares held in public hands respectively. The above statistics revealed that the liquidity of the Shares was relatively low in the open market. On this basis and the closing price of the Shares generally showed a decreasing trend during the Price Review Period, we concur with the Directors that the discount to the Share price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company. For this reason, we are of the view that the discount to the Share price as represented by the Subscription Price is justifiable.

Rights Issue comparable analysis

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have identified an exhaustive list of 34 rights issue transactions announced by other companies listed on the Stock Exchange for the period from six months immediately prior to the Last Trading Day (the "**Comparable Review Period**") and up to the Latest Practicable Date. Except Oriental Securities International Holdings (stock code: 8001) the rights issue of which has been terminated or lapsed, the other 33 rights issue transactions (the "**Comparables**") are included in our analysis. Shareholders should note that the subject companies in the Comparables may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company. Although the circumstances surrounding the Comparable may be different from those relating to the Company, we consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions in relation to rights issue transactions which the Comparables, for illustrative purpose only, serve as a general reference for prevailing market practices in relation to rights issue transactions conducted by the companies listed in the Stock Exchange.

Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the share price on the last trading day (%)	Premium/ (Discount) of the subscription price over/to the average share price for the five previous consecutive trading days up to and including the last trading day (%)	Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price (%)	Underwriting/ placing commission, as the case may be (%)	Excess application Yes/No	Fully underwritten Yes/No	Maximum dilution effect (%) (Note 1)	Cumulative theoretical dilution impact (Note 2)
28 May 2023	Hao Bai International (Cayman) Limited	8431	1 for 2	(5.66)	(8.68)	(3.85)	1.60	N	N	33.33	(3.83)
30 May 2023	Min Fu International Holding Limited	8511	1 for 2	(8.26)	(7.41)	(5.66)	4.00	N	N	33.33	(3.30)
5 June 2023	Solomon Worldwide Holdings Limited	8133	1 for 2	(20.80)	(21.90)	(15.80)	1.50	Y	N	33.33	(7.30)
7 June 2023	Tesson Holdings Limited	1201	3 for 4	(11.50)	(11.50)	(9.10)	N/A	Y	N	42.86	(2.70)
7 June 2023	GBA Holdings Limited	261	4 for 5	(25.00)	(22.28)	(16.67)	3.50	N	N	44.44	(11.11)
8 June 2023	Hi-Level Technology Holdings Limited	8113	1 for 1	(35.50)	(35.50)	(21.60)	1.00	N	N	50.00	(17.70)
11 June 2023	China Zheshang Bank Co., Ltd. (H shares)	2016	3 for 10	(15.20)	(14.40)	(12.10)	1.00	Y	Y	23.08	(3.50)
16 June 2023	Future World Holdings Limited	572	1 for 1	(27.71)	(23.27)	(16.08)	2.50	Y	Y	50.00	(13.86)
19 June 2023	E-House (China) Enterprise Holdings Limited	2048	12 for 10	(20.69)	(20.14)	(10.56)	0.60	N	N	54.55	(11.00)
6 July 2023	Classified Group (Holdings) Limited	8232	3 for 2	(15.00)	(15.00)	(6.60)	0.35 for placing commission Nil for Underwriting fee (as underwriter is a connected person)	N	Y	60.00	(8.80)
14 July 2023	Tasty Concepts Holding Limited	8096	5 for 2	4.70	3.60	1.50	2.50	N	N	71.43	(2.60)
24 July 2023	Platt Nera International Limited	1949	1 for 2	(57.98)	(56.78)	(47.92)	3.00	N	N	33.33	(19.33)
26 July 2023	China Best Group Holding Limited	370	2 for 5	(37.30)	(38.70)	(31.00)	1.00	N	N	28.57	(11.10)
28 July 2023	Artgo Holdings Limited	3313	2 for 1	(29.41)	(28.57)	(11.16)	1.00	N	N	66.67	(19.61)
11 August 2023	Almana Limited	8186	3 for 1	(26.70)	(29.00)	(8.30)	1.00	N	N	75.00	(7.90)
15 August 2023	Wisdomcome Group Holdings Limited	8079	3 for 1	(22.40)	(18.20)	(6.30)	7.07	Y	Y	75.00	(16.80)
3 September 2023	Rare Earth Magnesium Technology Group Holdings Limited	601	1 for 2	(39.85)	(31.62)	(23.81)	7.07	Y	Y	33.33	(13.53)
6 September 2023	Oriental Securities International Holdings *(Note 3)*	8001	1 for 2	(50.82)	(52.19)	(40.42)	0.50	N	N	33.33	(17.47)
11 September 2023	Asian Citrus Holdings Limited	73	1 for 2	(33.96)	(33.96)	(25.53)	2.50	Y	N	33.33	(11.32)
15 September 2023	Royal Century Resources Holdings Limited	8125	5 for 1	(19.30)	(17.90)	(3.80)	1.00	N	N	83.33	(16.10)

Announcement date	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the share price on the last trading day (%)	Premium/ (Discount) of the subscription price over/to the average share price for the five previous consecutive trading days up to and including the last trading day (%)	Premium/ (Discount) of the subscription price over/to the theoretical ex-right share price (%)	Underwriting/ placing commission, as the case may be (%)	Excess application Yes/No	Fully underwritten Yes/No	Maximum dilution effect (%) (Note 1)	Cumulative theoretical dilution impact (Note 2)
3 October 2023	Universe Printshop Holdings Limited	8448	3 for 2	(14.81)	(18.44)	(8.00)	1.50 for placing commission	N	Y	60.00	(11.06)
							Nil for Underwriting fee (as underwriter is a connected person)				
3 November 2023	Rego Interactive Co., Ltd	2422	1 for 2	(49.37)	(48.45)	(16.46)	0.50	N	N	33.33	(16.46)
17 November 2023	Da Yu Financial Holdings Limited	1073	1 for 1	11.11	11.11	4.90	N/A	Y	N	50.00	0.00
17 November 2023	Huabang Technology Holdings Limited	3638	1 for 2	(24.05)	(18.55)	(17.43)	2.00	N	N	33.33	(8.02)
20 November 2023	Cool Link (Holdings) Limited	8491	3 for 1	(28.70)	(28.70)	(9.50)	1.50	Y	N	75.00	(22.10)
21 November 2023	Gameone Holdings Limited	8282	1 for 2	6.80	8.30	4.50	3.00	Y	Y	33.33	0.00
24 November 2023	Lapco Holdings Limited	8472	3 for 1	(30.23)	(19.35)	(9.77)	2.50	N	N	75.00	(22.67)
1 December 2023	China Financial Leasing Group Limited	2312	1 for 1	(32.60)	(32.40)	(19.50)	1.00	Y	Y	50.00	(16.30)
5 December 2023	Finsoft Financial Investment Holdings Limited	8018	3 for 1	(28.16)	(26.00)	(8.92)	3.50	N	N	75.00	(21.12)
8 December 2023	Imperium Financial Group Limited	8029	1 for 2	(11.11)	(7.41)	(7.69)	2.00	N	N	33.33	(3.70)
14 December 2023	Major Holdings Limited	1389	2 for 3	(53.10)	(51.77)	N/A	3.00 for placing commission	N	Y	40.00	(21.24)
							Nil for Underwriting fee (as underwriter is a connected person)				
28 December 2023	Sun Kong Holdings Limited	8631	2 for 1	(34.78)	(34.78)	(15.49)	1.00	N	N	66.67	(23.49)
28 December 2023	Huasheng International Holding Limited	1323	1 for 2	(12.20)	(11.50)	(8.73)	3.00	N	N	33.33	(3.82)
28 December 2023	Elife Holdings Limited	233	1 for 5	3.53	4.02	2.92	2.50	Y	N	16.67	0.00
			Min	(57.98)	(56.78)	(47.92)	0.35			16.67	(23.49)
			Max	11.11	11.11	4.90	7.07			83.33	0.00
			Median	(24.05)	(20.14)	(9.64)	2.00			44.44	(11.10)
			Mean	(22.58)	(21.37)	(11.98)	2.23			48.48	(11.25)
	The Company		3 for 1	(25.17)	(25.68)	(7.56)	2.00	Y	N	75.00	(19.26)

Source: The Stock Exchange

Notes:

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

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

3. This company is excluded from analysis as the rights issue of which was terminated.

We noted from the above table that almost all of the Comparables had set the subscription price of their rights issue at a discount to the prevailing market price of the relevant shares before the relevant announcements in respect of the rights issue were made except four Comparables, being Tasty Concepts Holding Limited (stock code: 8096), Da Yu Financial Holdings Limited (stock code: 1073), Gameone Holdings Limited (stock code: 8282) and Elife Holdings Limited (stock code: 223). Therefore we consider it is a normal market practice for listed companies to set the subscription price of rights issue at a discount to the prevailing market price of the relevant shares so as to encourage the shareholders' participation.

The discount/premium represented by the subscription prices to/over the closing price of shares of the Comparables on their respective last trading days ranges from a discount of approximately 57.98% to a premium of approximately 11.11% with mean and median discount of approximately 22.58% and 24.05% respectively. The discount of approximately 25.17% of the Subscription Price over the closing price of the Shares on the Last Trading Day is comparable to the said mean and median of the Comparables.

The subscription prices of the Comparables represent a range from a discount of approximately 47.92% to a premium of approximately 4.90% relative to their respective theoretical ex-rights prices (which is calculated based on the recent market price of share, subscription price and entitlement per share) as disclosed in relevant announcements. The discount of approximately 7.56% of the Subscription Price to the theoretical ex-rights prices of the Shares on the Last Trading Day is within the range of the Comparables and below the mean and median.

Based on (i) the above analysis on the Subscription Price with reference to the Comparables; (ii) the liquidity in trading of the Shares was thin during the Price Review Period; (iii) it is common for the listed companies in Hong Kong to set the subscription price of rights issue at a discount to the market price of the listed shares in order to enhance the attractiveness of the rights issue transactions; (iv) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; and (v) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market, we consider that the Subscription Price is on normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Application for Excess Rights Shares

As stated in the Letter from the Board, the Company shall make the Excess Rights Shares available for subscription by the Qualifying Shareholders by means of EAF, and the Excess Rights Shares represent (i) any Nil-paid Rights provisionally allotted but not accepted by any of the Qualifying Shareholders or otherwise subscribed for by transferees of Nil-paid Rights prior to the Latest Time for Acceptance; (ii) subject to the provisions of the Underwriting Agreement, any entitlements of the Excluded Shareholders provisionally allotted to a nominee of the Company which are left unsold; and (iii) the Scale-down PAL Shares (if any) and the Scale-down EAF Shares (if any). We have reviewed the Comparables, and noted that 12 out of 33 Comparables offer excess application to their shareholders. Furthermore, 24 out of 33 Comparables were not fully underwritten (either by underwriting or placement on best effort basis), among which six of them offer excess application to their shareholders. As such, we consider that the non-fully underwritten Rights Issue allowing application for excess Rights Shares is not uncommon in the market.

The allocation of the Excess Rights Shares (if any) will be on a fair and equitable basis on the following principles:

(i) any Excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of the Excess Rights Shares applied for;

(ii) reference will only be made to the number of Excess Rights Shares being applied for but no reference will be made to the Rights Shares comprised in applications by the PALs or the existing number of Shares held by Qualifying Shareholders;

(iii) if the aggregate number of Rights Shares not taken up by the Qualifying Shareholders and/or transferees of Nil-paid Rights under the PALs is greater than the aggregate number of Excess Rights Shares applied for through the EAFs, the Company will allocate to each Qualifying Shareholder who applies for Excess Rights Shares in full application; and

(iv) no preference will be given to topping up odd lots to whole board lots.

In light that (i) the Rights Issue has already given the opportunity to all Qualifying Shareholders to maintain their proportionate interests in the Company should they so wish by applying for the Rights Shares in full and acquire additional nil-paid Rights Shares in the market; (ii) allocation of the Excess Rights Shares (if any) will be on a fair and equitable basis; and (iii) the Scale-down of subscription under the EAF to avoid the triggering of MGO Obligation and non-compliance of Public Float Requirement, we consider the availability of application for the Excess Rights Shares is fair and reasonable.

5. Underwriting commission

Pursuant to the Underwriting Agreement, the Company shall pay the Underwriter an underwriting commission (the "**Underwriting Commission**") of 2.0% of the aggregate Subscription Price in respect of such number of the Rights Shares actually procured by the Underwriter for subscription pursuant to the Underwriting Agreement. As advised by the Company, the terms of the Underwriting Agreement (including the Underwriting Commission) were determined after arm's length negotiation between the Company and the Underwriter by reference to the market practice.

As illustrated in table above, the underwriting/placing commission rate of the Comparables ranged from 0.35% to 7.07% (except those underwritten by connected persons). The Underwriting Commission falls within the range of the underwriting/placing commission rate of the Comparables and comparable to the mean and median. Accordingly, we consider that the Underwriting Commission is fair and reasonable.

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

6. Impact of the Petition on the Rights Issue

References are made to the Petition Announcements. On 24 July 2023, the Petition was presented by the Petitioner to the High Court for the winding-up of the Company under the provision of the Companies (WUMP) Ordinance. As stated in the announcement of the Company dated 31 August 2023, the Petitioner's revised alleged claim was HK$5,503,616, which represent net amount of the outstanding principal of the bonds issued by the Company and the interest. In addition, it has come to the attention of the Company that a few alleged creditors of the Company have filed Notice of Intention to Appear on the Petition (the "**Alleged Creditors**"). While the Company has already instructed legal advisers to defense the Petition and to seek further information on the Alleged Creditors, the Company is also trying to negotiate with relevant parties.

As disclosed in the announcement of the Company dated 18 October 2023, the Company has instructed its legal team to apply for a validation order from the High Court and at the hearing thereof on 3 November 2023, the High Court granted the validation order to the effect that any transfer of the Company's fully paid up Shares on or after 24 July 2023, being the date of the Petition, shall not be void by virtue of the Petition under Section 182 of the Companies (WUMP) Ordinance. As disclosed in the announcement of the Company dated 4 December 2023, the hearing of the Petition has been further adjourned to Monday, 29 January 2024. According to the Letter from the Board, further validation order regarding the issuance and transfer of the Rights Shares and/or the Nil-paid Rights and the use or utilisation of the net proceeds of the Rights Issue has been made and the grant of which by the High Court under section 182 of the Companies (WUMP) Ordinance will be part of the conditions precedent to the Rights Issue in order to minimise the impact of the Petition on the Rights Issue.

7. Dilution effect of the Rights Issue on shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their proportionate shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. As at the Latest Practicable Date, the existing public Shareholders (other than the Underwriter and Value Convergence Holdings Limited) held approximately 85.70% of the total issued share capital of the Company. Upon completion of the Rights Issue (assuming none of the Rights Shares are subscribed for by the Qualifying Shareholders), the shareholding of such public Shareholders will be diluted to a maximum of approximately 21.43% (assuming no conversion of the Convertible Bonds and no exercise of the exercisable Share Options on or before the Record Date).

As set out in table above, the maximum dilution of the Comparables ranged from approximately 16.67% to approximately 83.33%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 75.00%, which falls within the range of the Comparables. As set out in the Letter from the Board, the theoretical dilution impact is approximately 19.26% and we also noted that cumulative (where applicable) theoretical dilution impact of the Comparables range from nil to approximately 23.49% with 12 out of 33 Comparables showing dilution impact over 15%. Hence, we consider that it is reasonable for the Rights Issue with such cumulative theoretical dilution impact.

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

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraph headed "8. Financial effects" below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

8. Financial effects

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

8.1 Net tangible assets

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, had the Rights Issue been completed in full on 30 September 2023, the consolidated net tangible assets of the Group attributable to the Shareholders would have increased from an unaudited one of approximately RMB387.4 million to an unaudited pro forma adjusted one of approximately RMB594.9 million immediately after the completion of the Rights Issue.

8.2 Bank balances

Upon completion of the Rights Issue in full and before the utilization of net proceeds as intended by the Company, the bank balances of the Company is expected to increase by an amount equivalent to the net proceeds from the Rights Issue, which is estimated to be approximately HK$247.5 million (assuming full conversion of the Convertible Bonds and all exercisable Share Options are exercised in full on or before the Record Date, but otherwise no other Shares are issued and no repurchase of Shares on or before the Record Date and full subscription under the Rights Issue) or approximately HK$227 million (assuming full subscription under the Rights Issue, no conversion of the outstanding Convertible Bonds and no exercise of the exercisable Share Options and there will not be any further issue of new Shares or repurchase of Shares on or before the Record Date).

8.3 Gearing & Liquidity

The gearing ratio of the Company (calculated by dividing total borrowings (including bank and other borrowings and bonds payables) by total equity) was approximately 39.5% as at 31 March 2023 and approximately 50.3% as at 30 September 2023 respectively. Subject to the acceptance of the Rights Issue by the Shareholders and the results of the underwriting of the Underwritten Shares, a maximum of approximately HK$227 million of the net proceeds from the Rights Issue is intended to be used to repay and discharge the Outstanding Indebtedness, the debt of the Company is expected to decrease as a result of the Rights Issue assuming the Rights Issue will be completed in full and the entire net proceeds will be applied as intended and no additional borrowings. Based on the above analysis, we are of the view that the Rights Issue would have a positive effect on the Group's net tangible assets, cash position and gearing. Nevertheless, as the Underwritten Shares are underwritten on best-effort basis, there is no guarantee that the Company would raise sufficient capital to settle and discharge the Outstanding Indebtedness in full and the Company will be released from the Petition and/or any claims made or to be made by the creditors of the Group (e.g. the Alleged Creditors).

As set out in the Circular, the Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources presently available to the Group, including other internal resources, and the estimated net proceeds from the Rights Issue assuming full subscription, the Group will not have sufficient working capital for at least the next twelve months from the date of the Circular. The major factor leading to the insufficiency of working capital is that certain trade payables and bank and other borrowings of the Group will fall due within the next twelve months from the date of the Circular while the future operating cash inflow of the Group is insufficient to match the repayment schedule of borrowings and relevant interest payment and trade payables.

To address the working capital sufficiency issue, the Directors will devote its best effort to (i) negotiate to effectuate debt capitalisation to swap the Outstanding Indebtedness or such relevant part thereof into new Shares to be issued and allotted by the Company therefor so as to reduce the amount of the Outstanding Indebtedness as much as possible; and (ii) accelerate the demand and collection of the outstanding trade receivables of the Group. Taking into account the successful implementation of all the measures mentioned above, the Directors are of the view that the Group would have sufficient working capital for at least the next twelve months from the date of the Circular.

Furthermore, as set out in the Letter from the Board, in order to further enhance the Group's liquidity and financial position, the Group will (i) actively negotiate with the banks for extension/renewal of bank and other borrowings; (ii) contact the Company's creditors and/or their legal advisers for debt capitalisation; (iii) accelerate the demand and collection of the outstanding trade receivables of the Group; (iv) consider and evaluate the existing operation and business of the Group with a view to restructure and/or streamline the same; and (v) continue to seek external sources of funding including but not limited to by ways of placing of new shares/convertible bonds. For details, please refer to the Letter from the Board.

Although the Rights Issue is expected to have a positive effect on the Group's net tangible assets, cash position and gearing, the liquidity and financial position of the Group still depend on the success of various plans and measures as mentioned above which are subject to uncertainty on their timing and results.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue (including the Subscription Price and the potential dilution effect) are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the relevant resolution(s) proposed at the EGM thereby approving the Rights Issue. However, we do not envisage our role as to opine on, and our opinion herein does not in any manner address to or imply, whether Qualifying Shareholders should or should not accept the Rights Shares.

Yours faithfully,
For and on behalf of
Sorrento Capital Limited

Wesker Poon
Managing Director

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