



22 May 2024

*To the Independent Board Committee and
the Independent Shareholders of
China Uptown Group Company Limited*

Dear Sirs,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES
FOR EVERY ONE SHARE HELD ON THE RECORD DATE
ON A NON-UNDERWRITTEN BASIS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to (i) advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Rights Issue and the Placing Agreement and the transactions contemplated thereunder (the “**Transactions**”) are fair and reasonable as far as the Independent Shareholders are concerned; (ii) give our recommendation as to whether the Transactions are in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM. Details of the Transactions are set forth in the “Letter from the Board” (the “**Board Letter**”) contained in the circular (the “**Circular**”) issued by the Company to the Shareholders dated 22 May 2024, of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As stated in the Board Letter, subject to the approval by the Independent Shareholders at the EGM, the Company proposes to implement the Rights Issue to raise, before expenses, approximately HK\$91.61 million by issuing up to 610,714,104 Rights Shares on the basis of two (2) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price of HK\$0.15 per Rights Share. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to Excluded Shareholders.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Yau Sze Yeung, Mr. Chen Weijiang and Mr. Lee Chun Tung, has been established to advise the Independent Shareholders as to whether the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

In the past two years, we have not acted in any financial adviser role to the Company. Save for the appointment as the Independent Financial Adviser, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Transactions pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's annual report for the year ended 31 December 2023 (the "**2023 Annual Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate 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 up to the EGM, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. The Company has been separately advised by its own professional advisers with respect to the Transactions and the preparation of the Circular (other than this letter).

We have assumed that the Transactions will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Transactions, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Transactions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Transactions, we have taken into account the following principal factors and reasons:

1. Background information and financial overview of the Group

As stated in the Board Letter, the Company is an investment holding company. The principal activities of the Group are (i) property development and investment; and (ii) trading of raw sugar. Certain summary financial information of the Group as extracted from the 2023 Annual Report for the years ended 31 December 2022 and 2023 (“FY2022” and “FY2023” respectively) is set out below:

	For the year ended	
	31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue	4,442	60,709
Gross profit	180	9,084
Loss for the year attributable to owners of the Company	46,231	55,768

The Group’s revenue decreased from approximately RMB60,709,000 for FY2022 to approximately RMB4,442,000 for FY2023, representing a decrease of approximately RMB56,267,000 or 92.7%. As per the 2023 Annual Report, the revenue for FY2023 was all contributed from property development and investment business, and the decrease in the Group’s revenue was mainly due to the significant decrease in revenue generated from sales of properties and impairment loss recognised on properties held for sales.

The Group's gross profit decreased from approximately RMB9,084,000 for FY2022 to approximately RMB180,000 for FY2023, representing a decrease of approximately RMB8,904,000 or 98.0%. The Group's gross profit margin decreased from approximately 15.0% for FY2022 to approximately 4.1% for FY2023, representing a decrease of approximately 10.9%. The decrease in the Group's gross profit was mainly attributable to abovementioned decrease in revenue generated from sales of properties and impairment loss recognised on properties held for sales.

The Group recorded loss for the year attributable to owners of the Company of approximately RMB46,231,000 for FY2023, representing a decrease of approximately RMB9,537,000 or 17.1%, as compared to that of approximately RMB55,768,000 for FY2022. Such decrease in loss for the year attributable to owners of the Company was mainly due to the absence of impairment loss recognised on properties under development during FY2023, where the Group recorded an impairment loss recognised on properties under development of approximately RMB48,187,000 during FY2022, but was partially offset by the abovementioned decrease in gross profit.

Set out below are certain key consolidated financial information of the Group as extracted from the consolidated statement of financial position set out in the 2023 Annual Report.

	As at	
	31 December 2023	31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Bank balances and cash	17,208	26,710
Current assets	632,502	595,940
Properties under development	383,753	349,000
Net current assets	134,861	188,018
Total assets	651,734	614,052
Current liabilities	497,641	407,922
Trade and other payables	132,331	151,142
Contract liabilities	124,528	32,496
Total liabilities	503,659	414,096
Equity attributable to owners of the Company	176,933	224,147

The Group's bank balances and cash amounted to approximately RMB17,208,000 as at 31 December 2023, representing a decrease of approximately RMB9,502,000 or 35.6%, as compared to that of approximately RMB26,710,000 as at 31 December 2022. The abovementioned bank balances and cash as at 31 December 2023 of approximately RMB17,208,000 (equivalent to approximately HK\$18,933,000) represents approximately 21.2% of the estimated net proceeds of the Rights Issue of HK\$89,200,000 and is therefore grossly insufficient for the purpose of the Rights Issue's use of proceeds. The Group recorded net current assets of approximately RMB134,861,000 as at 31 December 2023, representing a decrease of approximately RMB53,157,000 or 28.3%, as compared to that of approximately RMB188,018,000 as at 31 December 2022. Such decrease was mainly attributable to the combined effects of an increase in current assets of approximately RMB36,562,000 or 6.1% and an increase in current liabilities of approximately RMB89,719,000 or 22.0% as at 31 December 2023. We note from the 2023 Annual Report that the increase in current assets was mainly attributable to the increase in properties under development and restricted bank deposits. The Group's properties under development, being the key line item under the current assets of the Group as at 31 December 2023, amounted to approximately RMB383,753,000, representing an increase of approximately RMB34,753,000 or 10.0%, as compared to that of approximately RMB349,000,000 as at 31 December 2022. Meanwhile, the increase in current liabilities was mainly due to the increase in contract liabilities. The key line items under the current liabilities of the Group as at 31 December 2023, refer to (i) trade and other payables; and (ii) contract liabilities. The Group's trade and other payables amounted to approximately RMB132,331,000 as at 31 December 2023, representing a decrease of approximately RMB18,811,000 or 12.4%, as compared to that of approximately RMB151,142,000 as at 31 December 2022. The Group's contract liabilities amounted to approximately RMB124,528,000 as at 31 December 2023, representing an increase of approximately RMB92,032,000 or 283.2%, as compared to that of approximately RMB32,496,000 as at 31 December 2022. The deterioration in liquidity and solvency gives rise to a decrease in current ratio from approximately 1.46 times as at 31 December 2022 to approximately 1.27 times as at 31 December 2023.

The Group's total liabilities increased by approximately RMB89,563,000 or 21.6%, from approximately RMB414,096,000 as at 31 December 2022 to approximately RMB503,659,000 as at 31 December 2023. Such increase was mainly attributable to the abovementioned increase in contract liabilities. As per the 2023 Annual Report, the Group's total secured bank borrowings and other borrowing amounted to approximately RMB29,994,000 as at 31 December 2023.

The Group recorded equity attributable to owners of the Company of approximately RMB176,933,000 as at 31 December 2023, representing a decrease of approximately RMB47,214,000 or 21.1%, as compared to that of approximately RMB224,147,000 as at 31 December 2022. This was mainly attributable to the loss for the year attributable to owners of the Company during FY2023.

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

As stated in the Board Letter, the Company is an investment holding company. The principal activities of the Group are (i) property development and investment; and (ii) trading of raw sugar.

The estimated net proceeds of the Rights Issue and the Placing (after deduction of expenses) if the Rights Issue is subscribed in full is expected to amount to approximately HK\$89.2 million (assuming no change in the number of Shares in issue on or before the Record Date).

Assuming full subscription under the Rights Issue, the Company intends to apply the net proceeds of approximately HK\$89.2 million as follows:

- (a) Approximately HK\$46,200,000 (being approximately 51.79% of the net proceeds) is intended to be used for the settlement of prolonged construction costs, the trade and other payables to the main contractor and other contract liabilities for the Second Maoming Project in 2024 and beyond. The Group has been developing and operating two property development projects located in Maoming City, Guangdong Province, the PRC. The First Maoming Project has been developed into a composite of residential and commercial properties in three phases. Majority of the commercial and residential properties of the First Maoming Project had been delivered in 2019 and most of the proceeds from sales of the First Maoming Project has been used in the development of the Second Maoming Project situated at Maoming Jixiang District* (茂名市吉祥小區).

On 27 November 2019, Maoming Shang Cheng Real Estate* (茂名上誠置業有限公司), an indirect non-wholly owned subsidiary of the Group, successfully won the bid for land use rights of the Second Maoming Project situated at Maoming Jixiang District* (茂名市吉祥小區) with a total site area of approximately 29,274.16 square meters at a consideration of approximately RMB241,512,000. When the land acquisition transaction by Maoming Shang Cheng Real Estate was completed in 2020, the Second Maoming Project was planned to be developed into a composite of residential and commercial properties with the following approximate planned areas:

Land site area	29,000 m ²
Gross saleable area	84,000 m ²
Residential areas	59,000 m ²
Commercial areas	25,000 m ²
Carpark spaces	1,000 units

During the pandemic, construction and development of Second Maoming Project had been severely delayed, so as to the pre-sales plan. As at 31 December 2023, approximately 60% of the construction had been completed, including the basement, kindergarten and first 2 blocks of residential buildings. Pre-sales of the residential blocks started in June 2022, and pre-sales of the other parts of the project was rescheduled as follows:

Pre-sales of residential properties	Second half of 2024
Pre-sales of apartment properties	Second half of 2024
Pre-sales of commercial properties	Second half of 2024
Pre-sales of car parks and shops	Second half of 2024
Completion and delivery	First half of 2025

Since the onset of the pandemic and up until recently, the Group has faced significant financial challenges resulting from the prolonged construction process of its properties. The primary challenges stem from the construction expenses incurred and the unsettled trade and other payables owed to the relevant contractors involved. As of 31 December 2023, the outstanding amount of trade and other payables which was mainly related to this project amounted to approximately RMB132.3 million.

Typically, the Group relies on pre-sale deposits from property purchasers (recorded in terms of contract liabilities position of the Group) to cover the ongoing construction costs for the subsequent stages of the property project; however, the prolonged construction work and delays in pre-sales have depleted the Group's resources and had a detrimental impact on its liquidity. This was evident from the relatively low cash level of the Group of approximately RMB17.2 million as of 31 December 2023.

However, with reference to the Group's net asset position of approximately RMB148.1 million as at 31 December 2023, the Group is able to and has been utilising most of its financing resources and working capitals from the development of other segments and/or property projects, was to settle its significant liquidity needs resulting from the construction work. The Directors are of the view that additional funding is not only intended to ease out the cash flow liquidity pressure and to sustain operations of the on-going projects, but also to fulfil the associated upfront payment obligations to support the development of potential property projects ahead, contingent upon more favourable conditions in the property market. In the event that the liquidity mismatch persists without securing additional funding through equity financing, or in the event of an undersubscription of the Rights Issue and the pro-rata proceeds and the cash balance are insufficient to cover the required amount, the Group would heavily depend on debt financing activities, such as bank overdrafts and other facilities, to meet its obligations and such debt pressure would continue until the pre-sales of upcoming properties are realized. Meanwhile, the Group's overall profitability would be adversely affected with relatively high interest charges, thereby impeding its capacity to allocate financial resources towards the development of other segments or potential property projects.

The net proceeds from the Rights Issue (whether fully subscribed or not) are intended to serve as equity resources to alleviate ongoing liquidity pressures. However, it should be noted that these proceeds are not intended to be the sole source for covering the outstanding trade and other payables recorded as of 31 December 2023 as the Group is expected to gradually generate cash inflow from the sales of properties held for sales, which amounted to approximately RMB152.9 million as at 31 December 2023. On top of that, among the properties under development which amounted to approximately RMB383.8 million as at 31 December 2023, as the Company incurs further expense of approximately RMB35,000,000 for completion of two residential buildings, it estimates that it will be able to collect over RMB100 million in the next 18 months from sales from the two residential buildings, depending on the market conditions at that time. The payments to be made with main contractors of the Group typically adhere to credit terms and are repaid through installment payments.

- (b) Approximately HK\$23,000,000 (being approximately 25.78% of the net proceeds) is intended to be used to repay the borrowing liabilities of the Group. The Group had several interest-bearing borrowings amounting to approximately RMB30.0 million in aggregate as at 31 December 2023, which includes a secured loan with outstanding principal of approximately HK\$23,000,000 from a finance company and is secured by the leasehold land and building of the Group, interest-bearing at 13% per annum and repayable on or before 15 November 2024. The Directors believes that repaying such liabilities will enable the Group to release its pledge on the relevant collateral and improve its gearing ratio. By doing so, the Group can potentially negotiate better terms with banks and other financial institutions. This strategic move aims to improve the Group's financial position and provide opportunities for more favourable financing arrangements.
- (c) Approximately HK\$12,000,000 (being approximately 13.45% of the net proceeds) is intended to be used as deposit for trading of raw cane sugar and as investment in the food supply chain to support the trading of raw cane sugar. The Group has been engaged in trading of raw cane sugar since 2014, where the revenue generated from trading of raw cane sugar amounted to approximately RMB27,663,000 for the year ended 31 December 2020. In response to the volatile and challenging market conditions caused by the COVID-19 pandemic, the Group had chosen to temporarily suspend its trading of raw cane sugar from 2021 to 2023. This decision was made due to the significant fluctuations in the global market for raw cane sugar, which have made it increasingly difficult to achieve profitable returns from trading activities.

As the global economy gradually recovers from the pandemic, different industries are experiencing varying rates of recovery. In 2024, the demand for domestic raw cane sugar is being influenced by several factors, including the improved pandemic situation in the PRC, adjustments to prevention and control policies, and the lifting of border restrictions between countries. According to OECD-FAO Agricultural Outlook 2023-2032, world sugar consumption is seen increasing for a third successive season in 2022/23. However, the growth of global sugar consumption is anticipated to be moderate due to the projected deceleration in global economic growth in 2022/23. In Asia, it is anticipated that imports will continue to represent 42% of consumption and the share of imported raw sugar for industrial use will continue to increase, mainly driven by key buyers, China and Indonesia. By 2032, Asia is estimated to account for 59% of global imports. In the PRC, consumption is emerging from a period of no real growth that started in 2016 with a period of high prices, followed by a three-year zero-Covid policy. With the reopening of the markets, consumption is expected to rise again over the next ten years.

In light of these market conditions, the Group has conducted a thorough assessment of the raw cane sugar market. The Group has actively collaborated with different business vendors to establish a supply chain platform that enhances its procurement capabilities from upstream suppliers of raw cane sugar. The Group aims to leverage the expertise and resources of various partners in the commodities, logistics and energy sectors, as to create a robust network of reliable supply chain to optimize the Group's procurement of raw cane sugar to fulfil the demand in the PRC market. Leveraging the expertise of its management team, the Group has been resuming its business operations and actively soliciting raw cane sugar orders. To support these efforts and the business requirement to place up to full upfront deposit to obtain letters of credit from banks to secure a stable supply of raw cane sugar from upstream suppliers. Once a stable supply is secured, the Group will take on orders and make arrangements for delivery to customers. The remaining portion of proceeds is expected to be used as an initial investment in connection with a processing plant and/or storage facility for the raw cane sugar business. As at the Latest Practicable Date, the terms of the investment remain under negotiation and have not been finalised. The Directors are of the view that upon the resumption of the Group's trading of raw cane sugar business and establishment of entrusted business relationship with suppliers, the Group will be able to negotiate better prices and credit terms to gradually reduce liquidity pressure from placing deposits with these upstream suppliers.

- (d) Approximately HK\$8,000,000 (being approximately 8.97% of the net proceeds) is intended to be used for the general working capital of the Group. The intended primary use of these funds is for business operation and development, encompassing various aspects. Specifically, HK\$5,000,000 will be allocated towards staff costs. Additionally, HK\$1,500,000 will be designated for sales and marketing fees and HK\$1,500,000 will be set aside for relevant legal and professional fees. This allocation aims to support the overall growth and functioning of the Company.

In the event of an undersubscription of the Rights Issue, the net proceeds will be utilised on a pro-rata basis as set out above.

As discussed with the Management, the prolonged construction work and delays in pre-sales have depleted the Group's resources and had a detrimental impact on its liquidity. The Group cash level amounted to approximately RMB17.2 million as of 31 December 2023, representing a decrease of approximately 35.6% from that of 31 December 2022 of approximately RMB26.7 million. The Group will apply the allocated proceeds of HK\$46,200,000 in the following manner: (a) approximately RMB35,027,000 (equivalent to approximately HK\$38,537,000) is intended to be used for the settlement of management fees and related construction costs to main contractor for certain buildings of the Second Maoming Project requested by the main contractor in March 2024 (the "**March 2024 Injection**") through installment payments in order to meet the original completion target of July 2024; and (b) the remaining portion is intended to be used for settlement of management fees and related construction costs to main contractor for other buildings of the Second Maoming Project. The Group's cash level amounted to approximately RMB17.2 million as of 31 December 2023, which is grossly insufficient to settle the March 2024 Injection (although, as discussed with the Management, the March 2024 Injection could be settled through installment payments, payment schedule of which is subject to further negotiation), and result in the main contractor's possible delay in completion in July 2024 as committed to purchasers. Therefore, we consider additional funding is necessary not only to sustain operations of the on-going projects but also to fulfil the associated upfront payment obligations to support the development of potential property projects ahead, contingent upon more favorable conditions in the property market, so as to continue the Group's property development business and capture potential profitability from such segment in the future.

As discussed above, the borrowing of HK\$23,000,000 (interest-bearing at 13% per annum equivalent to annual interest expense of approximately HK\$2,990,000 on a simple interest basis) from a finance company secured by the leasehold land and building of the Group is repayable on or before 15 November 2024. In view of the current liquidity situation of the Group and in the absence of further financing, we are of the view that it is unlikely that the Group will be able to repay the aforementioned borrowings when they become due, so it is likely that the Group will have to negotiate the refinancing of such borrowings upon maturity which would continuously incur the annual interest expense (which is seemingly larger than the Group's total finance cost of approximately RMB1,940,000 for FY2023) as mentioned above exerting pressure on the Group's financial performance. We further concur with the Directors that repaying such liabilities will enable the Group to release its pledge on the relevant collateral and improve its gearing ratio. Although the other fundraising alternatives were not feasible as at the Latest Practicable Date as discussed below, we concur with the Directors that the Group can also potentially negotiate better terms with banks and other financial institutions for possible future debt financing(s) after repayment of the aforementioned borrowing, release of pledge and improvement of gearing ratio.

As discussed with the Management, the Group has conducted a thorough assessment of the raw cane sugar market and considered the market demand for raw cane sugar would gradually pick up as the global economy gradually recovers from the pandemic. We note that, according to the online library of the Organisation for Economic Co-operation and Development, (i) over 2023-2032, global sugar consumption is projected to continue growing at around 1.1% per annum, reaching 193 million tonnes by 2032, driven by population and income growth; and (ii) the PRC's domestic sugar consumption continues to rise and is now estimated at 17 million tonnes in 2024, leaving a sugar deficit of around 5.76 million tonnes, which will need to be balanced with imported sugar. Therefore, we consider funding is crucial for the Group to resume the segment of trading of raw cane sugar and capture the profitability from such segment. As advised by Management, the business of trading of raw cane sugar has been suspended for years, the Company needs to place up to full upfront deposits with upstream supplier(s) to secure the equivalent amount of raw cane sugar. Moreover, we have obtained from the Management and reviewed the supporting documents in relation to certain potential customers' indicative demand for the Group's raw cane sugar. We note that there are not less than 5 potential customers showing their interests in placing orders for the Group's raw cane sugar, with indicative monthly demand that is in excess of what the Group can achieve with the HK\$12,000,000 earmarked for this business. Although such amount allocated for this business cannot immediately satisfy the potential demand for the Group's raw cane sugar in full, the Management considers that it would be beneficial for the Group to gradually ramp up this business while using the cash inflow from future sales to gradually scale up purchases from upstream supplier(s) to fulfill the potential demand. Based on the experience and estimation of the Management, the Group will apply the allocated proceeds of HK\$12,000,000 in the following manner: (i) HK\$10,000,000 is intended to use for the deposit with upstream supplier(s); and (ii) the remaining HK\$2,000,000 is intended to use for the investment for the food supply chain subject to the negotiation progress with the potential partner.

Having considered the aforementioned factors, we consider (i) the Group has funding needs to conduct the Rights Issue; and (ii) the allocation of the net proceeds from the Rights Issue is fair and reasonable and in the interest of the Company and the Shareholders as a whole. In the event of an undersubscription of the Rights Issue, the net proceeds will be utilised on a pro-rata basis as set out above. We enquired the Management and understood from the Management that (i) despite that the March 2024 Injection is yet to be settled in full, the Company and the main contractor are still in good business relationship and the main contractor is cooperative, and the construction work for the Second Maoming Project has been on-going; (ii) the amount and payment schedule of the March 2024 Injection is subject to further negotiation between the Company and the main contractor; and (iii) timely and periodic settlement of the March 2024 Injection by batches would sustain the main contractor's ongoing construction work and encourage the main contractor to allocate its resources and deliver the best effort on the Second Maoming Project. On the other hand, as discussed above, the secured loan with outstanding principal of approximately HK\$23,000,000 from a finance company at 13% per annum is repayable on or before 15 November 2024, which is less than 6 months away from the Latest Practicable Date. Despite that the maturity date of the secured loan is less than 6 months to go, repaying such liabilities anytime earlier than maturity date will enable the Group to release its pledge on the relevant collateral and improve its gearing ratio, and save interest expenses accordingly. The funding of approximately HK\$12,000,000 to be deployed on the raw cane sugar business is crucial for the Group to resume the segment of trading of raw cane sugar and capture the potential profitability from the revival of such segment. The aforementioned funding needs are of three different natures, namely (i) continuation of business operation; (ii) reduction of interest expense and improvement on gearing ratio; and (iii) business development in relation to the timing of funding requirement in each area is neither rigid nor unnegotiable as at the Latest Practicable Date. Given the above and the amount of net proceeds can never be ascertained in the absence of an underwriter, we consider that the allocation of net proceeds from the Rights Issue on a pro-rata basis is not uncommon and not out of the ordinary, and is therefore fair and reasonable.

Apart from the Rights Issue, the Directors have also explored other debt or equity fundraising alternatives such as bank borrowings, placing or an open offer. The Directors note that the credit lines provided by bank borrowings is very limited and requires collateral. As at 31 December 2023, the Group had a loan with an outstanding principal amount of approximately HK\$23,000,000 from a finance company secured by the leasehold land and building of the Group, and the Directors have also evaluated other assets of the Group, including the value of properties held for sale and properties under development in the PRC as of 31 December 2023. However, it is determined that pre-sales value of these assets were not viewed and evaluated favorably by banks or financial institutions until they are completed and sold in the market, which consequently hindered the Group's ability to negotiate favorable credit terms. If available, the expected size of bank borrowing required by the Group will likely carry additional interest costs and create further pressure to the liquidity and profitability of the Group. As set out in the 2023 Annual Report, the Company recorded total borrowings of approximately RMB30.0 million, and the Group's gearing ratio was approximately 20%. If the Company decided to meet the funding needs by debt financing, the Company's hypothetical gearing ratio would have been approximately 82% as at 31 December 2023 (assuming all the gross proceeds could be raised by debt financing). In regards to equity fundraising methods available to the Company, the Directors considered the placing of new Shares, and noted that the Company had recently completed a placement of new Shares under the Company's general mandate of 20% of the number of issued Shares on 6 March 2024, raising approximately HK\$6.88 million in net proceeds, which is far from the amount required for its current plans. The Directors also noted that whether under a refreshed general mandate or a specific mandate, a further placing of new Shares will inevitably and immediately dilute the interests of existing Shareholders without giving them the opportunity to take part in the exercise. As opposed to an open offer, the Rights Issue enables Shareholders to sell their Nil-Paid Rights Shares in the market. The Rights Issue will 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 Group. Having considered the above alternatives, the Directors are of the view that the Rights Issue is in the best interests of the Company and the Shareholders as a whole and that the Rights Issue is an appropriate fundraising method to strengthen the capital base of the Company, which in turn will support the Company's continuing development and business growth, while allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company.

Despite the above, the management of the Group had still attempted to explore the possibility of obtaining bank borrowings, placing of new Shares or open offer of comparable size to the Rights Issue with the Group's principal banker and a securities brokerage firm in Hong Kong. After exploring the idea with the Group's principal banker in Hong Kong and one securities brokerage firm, the Group considered that these financing alternatives were not feasible as (i) the Group failed to receive any positive response from its principal banker in Hong Kong likely due to the proposed size of the debt financing and that the Group is unable to provide acceptable collateral in favour of the bank; (ii) the proposed size of the fund raising is significant compared to the Company's market capitalization of roughly HK\$67 million (based on the closing price on the Last Trading Day); and (iii) for a securities brokerage firm to be willing to act as placing agent for equity fund raising of such size, the placing commission would be 3.5%, which is well above that as stated in the Placing Agreement of 2.5%.

The Company has considered and approached the substantial shareholder of the Company and underwriters licensed under the SFO to conduct type 1 regulated activities to underwrite the Rights Issue. However, neither the substantial shareholder of the Company nor the underwriters showed any interest to underwrite the Rights Issue. As such, the Company conducts the Rights Issue on a non-underwritten basis.

The Company has no present intention to conduct further fundraising activities at this stage, and the management of the Company intends to evaluate the results of Rights Issue, before determining whether any further fundraising activities are required.

In light of the above, placing of new Shares would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. The Company conducted a placing (the "**Previous Placing**") of new Shares under general mandate on 15 February 2024 and the Previous Placing was completed on 6 March 2024 (before publication of the Group annual results announcement for FY2023). With reference to the Board Letter, the Company fully utilized the net proceeds raised from the Previous Placing of approximately HK\$6.88 million as at the Latest Practicable Date. The Previous Placing of 50,880,000 placing Shares has consumed almost the entire limit on the general mandate to issue new Shares of up to 50,893,810 Shares granted by the Shareholders in the annual general meeting of the Company held on 31 May 2023.

As advised by Management, the Company had approached a financial institution for conducting other fund raising alternatives, if possible. However, the attempt was rejected due to current negative market condition and low stock market trading volume. For our due diligence purpose, we have obtained and reviewed the relevant supporting documents, i.e. email correspondence, and note that the financial institution showed negative interest in the Group's invitation taking into account the current market conditions. The Previous Placing, as discussed in the paragraph immediately above, was conducted on 15 February 2024 and completed on 6 March 2024, which was before the publication of the Group's annual results announcement for FY2023 in which the Group announced that, among others, the Group's revenue decreased from approximately RMB60,709,000 for FY2022 to approximately RMB4,442,000 for FY2023, representing a decrease of approximately RMB56,267,000 or 92.7%. The significant deterioration of financial performance of the Group has made the Group's other equity financing more difficult amid the current weak market sentiment. In any event, it is noted that the net proceeds of approximately HK\$6.88 million from the Previous Placing falls far short of the Rights Issue's estimated net proceeds in the amount of approximately HK\$89.2 million. On the other hand, the Board Letter also advised that the Group also failed to receive any positive response from its principal banker in Hong Kong likely due to the proposed size of the debt financing and that the Group is unable to provide acceptable collateral in favour of the bank. As a result, apart from the Rights Issue, the other fundraising alternatives are not feasible. In addition, the financial institution explicitly expressed in writing that it is currently difficult to find suitable investors due to low stock market trading volume. The Group also failed to procure an underwriter to fully/partially underwrite the subject Rights Issue which is consistent with the low investor interests (and implied underwriting risk) expressed by the aforementioned financial institution. Among the 16 Comparables (as defined below) which conducted rights issue recently, only 3 out of 16 rights issue exercise has been underwritten by an underwriter, which is also consistent with the low investor interests (and implied underwriting risk) expressed by the aforementioned financial institution.

Taking into account the pros and cons of each of the alternatives and the net proceeds from the Previous Placing was already fully utilized as at the Latest Practicable Date, we are of the view that the Rights Issue (although being conducted on a non-underwritten basis due to lack of investor interest amid the current market and thus high underwriting risk), which provides all Qualifying Shareholders an opportunity to participate in the future development of the Company on equal terms to maintain their shareholdings in the Company, is the most preferred means of fund raising under the Group's current circumstances. Based on the foregoing, we are of the view that the Rights Issue allows the Group to improve its liquidity and is in the interests of the Company and the Shareholders as a whole.

3. The proposed Rights Issue

As stated in the Board Letter, subject to the approval by the Independent Shareholders at the EGM, the Company proposes to implement the Rights Issue to raise, before expenses, approximately HK\$91.61 million by issuing up to 610,714,104 Rights Shares on the basis of two (2) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price of HK\$0.15 per Rights Share. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to Excluded Shareholders.

Further details of the Rights Issue are set out below:

3.1 Issue statistics

Basis of the Rights Issue	:	Two (2) Rights Shares for every one (1) Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.15 per Rights Share
Net price per Rights Share	:	Approximately HK\$0.146 per Rights Share (assuming no changes in the share capital of the Company on or before the Record Date)
Number of Shares in issue as at the Latest Practicable Date	:	305,357,052 Shares
Total number of Rights Shares to be issued pursuant to the Rights Issue	:	Up to 610,714,104 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	:	Up to HK\$6,107,141.04 (assuming no change in the number of Shares in issue on or before the Record Date)
Total number of Shares in issue upon completion of the Rights Issue	:	Up to 916,071,156 Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Gross proceeds from the proposed Rights Issue	:	Up to approximately HK\$91.61 million (assuming no changes in the share capital of the Company on or before the Record Date)

Net proceeds from the Rights Issue	:	Up to approximately HK\$89.2 million (assuming no changes in the share capital of the Company on or before the Record Date)
Right of excess applications	:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotments

Assuming no changes in the share capital of the Company on or before the Record Date, the 610,714,104 Rights Shares proposed to be allotted and issued pursuant to the terms of the Rights Issue represent (i) 200% of the total number of Shares in issue as at the Latest Practicable Date; and (ii) approximately 66.67% of the total number of issued Shares as enlarged by the issue of the Rights Shares immediately upon completion of the Rights Issue.

As at the Latest Practicable Date, the Company does not have any derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares. The Company also has no intention to issue or grant any convertible securities, options and/or warrants on or before the Record Date.

3.2 Non-underwritten basis

Subject to the fulfilment and/or waiver (where applicable) for the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. If there is an under-subscription of the Rights Issue as a result of Untaken Rights not being fully taken up by Qualifying Shareholders or transferees of nil-paid Rights Shares, and the Unsubscribed Rights Shares are not fully placed by the Placing Agent, the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue. There is also no statutory requirement regarding minimum subscription level in respect of the Rights Issue.

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

As at the Latest Practicable Date, the Company has not received any undertaking from any substantial shareholder of the Company of any intention as to whether such Shareholder will take up his/her/its entitlements under the Rights Issue (or otherwise).

3.3 The Subscription Price

The Subscription Price of HK\$0.15 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, and, where applicable, when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 31.8% to the closing price of HK\$0.22 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 42.3% to the closing price of HK\$0.26 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iii) a discount of approximately 31.8% to the average closing price of approximately HK\$0.22 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 31.8% to the average closing price of approximately HK\$0.22 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 22.7% to the theoretical ex-entitlement price of approximately HK\$0.17 per Share based on the closing price of approximately HK\$0.22 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares;
- (vi) a discount of approximately 71.2% to the audited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2023 of approximately HK\$0.52 per Share, which is calculated by dividing the audited consolidated net assets of the Group attributable to the Shareholders of approximately RMB148.08 million (equivalent to approximately HK\$159.92 million) as at 31 December 2023 as set out in the 2023 Annual Report by the number of Shares in issue as at the Latest Practicable Date; and

- (vii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 21.2%, represented by the theoretical diluted price of approximately HK\$0.17 per Share to the benchmarked price of approximately HK\$0.22 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day; and (ii) 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 Last Trading Day.

The net Subscription Price per Rights Share (after deducting the relevant expenses) will be approximately HK\$0.146 per Rights Share.

The Subscription Price was determined with reference to an assortment of factors. In particular, the Directors had taken note of and considered:

- (i) the prevailing market price and recent trading performance of the Shares, which includes the daily closing price and daily trading volume of the Shares during the Review Period, having considered that trading in the Shares on the Stock Exchange had been suspended during the Trading Suspension Period. The closing price of the Shares before the Trading Suspension Period was HK\$0.32 per Share. Throughout the Review Period, the closing price of the Shares showed instability, ranging from a low of HK\$0.11 per Share to a high of HK\$0.37 per Share. However, the closing price on the Last Trading Day demonstrated an overall downward trend from HK\$0.32 per Share to HK\$0.22 per Share. Additionally, the average daily trading volume was approximately 0.06% of the total issued Shares as at the Last Trading Day, indicating a lack of liquidity and demand for the Shares;

(ii) the Group's consecutive net losses of approximately RMB78.1 million and RMB51.9 million for FY2022 and FY2023, respectively. Furthermore, the net asset position of the Group significantly decreased from approximately RMB200.0 million as of 31 December 2022 to approximately RMB148.1 million as of 31 December 2023. The Directors also observed that the market capitalization of the Group consistently fell considerably short of its net asset value during the Review Period, where the market capitalization of the Group during the Review Period ranged from approximately HK\$28.5 million to approximately HK\$113.0 million, which represented a discount of approximately 82.2% and 29.4% respectively to the audited consolidated net asset value per Share attributable to the Shareholders of approximately RMB148.08 million (equivalent to approximately HK\$159.92 million) as at 31 December 2023. This substantial disparity reflects a lack of market confidence in the Group's financial performance, position, and future prospects. As a result, the market value of the Shares no longer accurately reflects the underlying net asset value. Based on a review of companies listed on the Main Board and GEM of the Stock Exchange which announced a rights issue during the 3-month period ended on the date of the Announcement, the Directors have identified an exhaustive list of 16 companies as comparable transactions. Out of all 16 comparable transactions, 10 comparable transactions were conducted on a discount to consolidated net asset value per share, ranging from approximately 25.1% to approximately 96.2%, indicating that the Group's discount to consolidated net asset value per share aligns with the market norm. The Directors observed that the rest of these companies which have not conducted their comparable transactions on a discount to consolidated net asset value per share were mainly either in net liabilities positions in each of their latest annual reports or had delayed issuing the relevant annual report. The Directors believes that the 16 comparable transactions did not appear to have determined their respective subscription prices using their respective net asset value per share as a reference, indicating that using the net asset value per share as a reference point cannot be established as a market practice. Having considered the significant amount of funding to be raised from this Rights Issue, and preemptive nature to enable existing Shareholders' participation, the Board believes that determining the Subscription Price based on the lower end of the prevailing market price during the Review Period, despite it being at a significant discount to the net asset value as at 31 December 2023, is fair and reasonable;

- (iii) the prevailing bearish condition of the Hong Kong stock market during the Review Period, where the average Hang Seng Index (HSI) remained low at 16,327. The HSI fluctuated between a low closing of 14,961 on 22 January 2024 (a 15-month low) and a high closing of 17,094 on 12 March 2024, and subsequently ended at 16,723 as of the Last Trading Day;
- (iv) the relatively large fundraising size when compared with the Group's market capitalisation as at the Last Trading Day; and
- (v) the Directors considered that it is reasonable to set the Subscription Price at a discount to the closing price per Share on the Last Trading Day and the consolidated net asset value per Share attributable to the Shareholders in order to enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders and investors to participate, given the abovementioned challenging market conditions, unfavourable price trend and lack of liquidity and demand of the Shares.

The Directors believe that despite the theoretical dilution effect that existing Shareholders will experience as a result of the Rights Issue (see paragraph (vii) above), the Rights Issue will signal the Group's ability to raise new capital and improve its gearing and financial performance by lowering the level of debt and financing costs of the Group through repayment of indebtedness, and continue to grow its business as described in the section headed "Reasons for the Rights Issue, the Placing and Use of Proceeds" in the Board Letter. Based on the foregoing, the Directors consider that the Subscription Price is fair and reasonable, and the Rights Issue is in the interests of the Company and the Shareholders a whole.

In view of the above, and having considered that all the Qualifying Shareholders will be offered equal opportunity to subscribe for the Rights Shares by way of provisional allotment, the Directors consider that the terms of the Rights Issue and the Placing Agreement, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the Last Trading Day, the theoretical dilution price, the benchmarked price and the theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) for the Rights Issue were approximately HK\$0.17 per Share, HK\$0.22 per Share and approximately 21.2%. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

3.4 The Placing Agreement

As stated in the Board Letter, on 8 April 2024 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best efforts basis, to subscribe for the Unsubscribed Rights Shares under the Specific Mandate.

Details of the Placing Agreement are summarised as follows:

Date	:	8 April 2024 (after trading hours of the Stock Exchange)
Issuer	:	the Company
Placing Agent	:	China Demeter Securities Limited was appointed as the Placing Agent to procure, on a best efforts basis, Placees to subscribe for the Unsubscribed Rights Shares. The Placing Agent confirmed that each of it and its ultimate beneficial owner(s) is independent of and not connected with the Company and its connected persons or any of their respective associates.
Placing fee	:	2.5% of the aggregate placing price of the Unsubscribed Rights Shares successfully placed by or on behalf of the Placing Agent.
Placing price	:	The placing price of each of the Unsubscribed Rights Shares shall be not less than the Subscription Price.
Placees	:	The Unsubscribed Rights Shares are expected to be placed to the Placee(s) who and whose ultimate beneficial owner(s) shall be the Independent Third Party(ies).
Ranking	:	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.

Condition precedent : The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled:

- (1) the passing by the Shareholders (or the Independent Shareholders, as the case may be) at the EGM of the necessary resolution(s) to approve the Rights Issue, the Placing Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Rights Shares and the grant of the Specific Mandate for the allotment and issue of the Unsubscribed Rights Shares) by no later than the date on which the Prospectus Documents are posted;
- (2) 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 in their nil-paid and fully-paid forms;
- (3) 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;
- (4) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events; and
- (5) the posting of copies of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus to the Excluded Shareholders for information purpose only.

- Placing completion date : The third Business Day after the Latest Placing Time or such other date as the Company and the Placing Agent may agree in writing.
- Termination : If, prior to the Latest Placing Time:
- (1) in the reasonable opinion of the Placing Agent, the success of the Placing would be materially and adversely affected by:
 - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Placing Agent 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 Placing; or
 - (b) 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 hereof), of a political, military, financial, economic or other nature, 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, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (c) any materially adverse change in the business or in the financial or trading position of the Group as a whole; or

- (d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions which includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs in Hong Kong, the United States of America or the PRC which in the reasonable opinion of the Placing Agent makes it inexpedient or inadvisable to proceed with the Placing,

the Placing Agent shall be entitled, without any liability to the Company, by notice in writing to the Company served prior to the Latest Placing Time, to terminate the Placing Agreement.

As stated in the Board Letter, the terms of the Placing Agreement (including the placing fee) were determined after arm's length negotiation between the Placing Agent and the Company and are on normal commercial terms. Based on a review of companies listed on the Main Board and GEM of the Stock Exchange which announced a rights issue during the 3-month period ended on the date of the Announcement, the Directors have identified an exhaustive list of 16 companies as comparable transactions. Out of all 16 comparable transactions, 9 comparable transactions were conducted on a best effort basis and has compensatory arrangements for rights issue, where the highest placing commission was 3.5% and the lowest was 0.5%; while the other 7 comparable transactions involved excess applications and did not disclose any placing arrangements or applicable placing commission. Since the Company's placing fee is within the abovementioned range, and also taking into account of the adverse impacts on the demand for the Group's Shares including the Group's history of prolonged Trading Suspension Periods until December 2023, the recent equity financing activities in March 2024, and the perceived lack of investors' confidence in the Group's prospects arising from the consecutive loss making performance of the Group, the Directors consider that the placing fee charged by the Placing Agent is no less favourable to the Company than the market rate in recent placing transactions and are therefore of the view that the terms of the Placing Agreement are fair and reasonable and the transactions contemplated under the Placing Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Furthermore, the Directors are of the view that the abovementioned comparable transactions are a fair and representative sample as (i) all the 16 comparable transactions that were identified have been selected without any filtering in order to better represent a true and fair view of the recent market trend of placing fees involved in rights issue transactions; (ii) including comparable transactions with different funding needs and rights issue structure provides a more comprehensive understanding of the overall market conditions; and (iii) despite the comparable transactions involved placing as compensatory arrangements, the placing fees should be comparable given the similar nature of work involved by the placing agents regardless of whether conducted as part of compensatory arrangements or as a separate placing exercise.

The final placing price for the Unsubscribed Rights Shares shall be determined based on the demand for the Unsubscribed Rights Shares and market conditions at the time of placement. The net price per Unsubscribed Rights Share placed will be approximately HK\$0.146, (assuming a placing price of HK\$0.15 per Share). The net proceeds from the Placing will be utilized for the same purposes as described in the section headed “Reasons for the Rights Issue, the Placing and Use of Proceeds” in the Board Letter. In the event the placing price is higher than the Subscription Price, any additional proceeds from the Placing will be allocated with priority towards settlement of prolonged construction costs, unsettled trade and other payables in the manner described in paragraph (a) of the section headed “Reasons for the Rights Issue, the Placing and Use of Proceeds” in the Board Letter. Having considered, as discussed in section 2 of this letter, timely and periodic settlement of the March 2024 Injection by batches would sustain the main contractor’s ongoing construction work and encourage the main contractor to allocate its resources and deliver the best effort on the Second Maoming Project, we consider such arrangement fair and reasonable.

The Placing Agent shall ensure that the Unsubscribed Rights Shares are placed (i) only to institutional, corporate or individual investors who and whose ultimate beneficial owners shall be Independent Third Parties; (ii) such that no Placee shall become a substantial shareholder immediately following the Placing; (iii) such that the Placing will not have any implication under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing; and (iv) such that the Placing will not result in the Company incapable of complying with the Public Float Requirements under the Listing Rules immediately following the Placing. The Company will continue to comply with the Public Float Requirements under Rule 8.08 of the Listing Rules and the Placing will not have any implication under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing.

As of the Latest Practicable Date, none of the conditions precedents under the Placing Agreement have been fulfilled. None of the conditions precedents to the Placing Agreement are waivable.

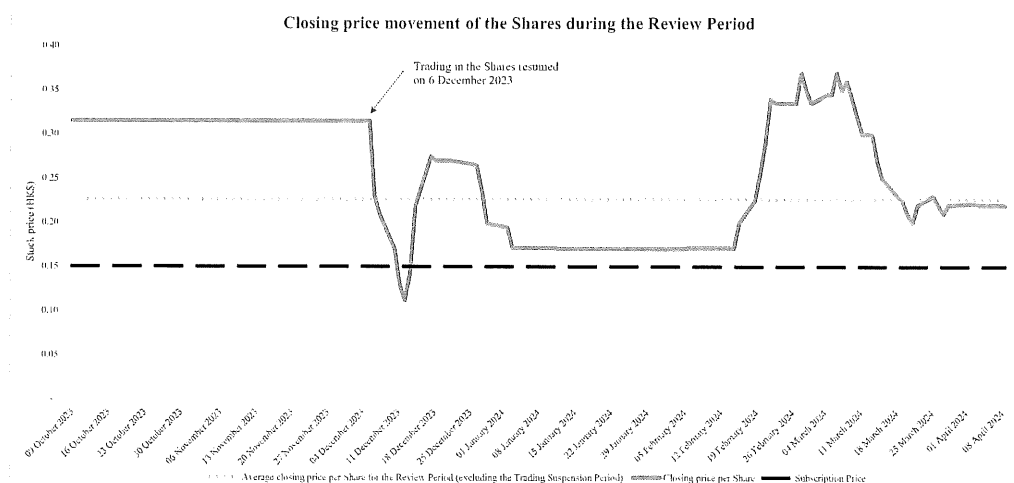
Given that the Placing Agreement would provide (1) a distribution channel of the Unsubscribed Rights Shares to the Company; and (2) a channel of participation in the Rights Issue for independent investors, the Directors consider that the Placing Agreement is fair and reasonable and would provide adequate safeguard to protect the interest of the Company’s minority Shareholders.

4. Historical price and trading volume of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have taken into account (i) the daily closing price of the Shares as quoted on the Stock Exchange during the 6 months ended the date of the Announcement, i.e. the Review Period; and (ii) the average daily trading volume of the Shares for each of the months during the Review Period.

In relation to the 6 months Review Period adopted in our analysis, we note that (i) it represents a reasonable period to provide a general overview of the recent price performance of the Shares which has fully reflected relevant information of the Group's performance; (ii) a shorter period (e.g. 3 months) may not sufficiently illustrate a meaningful historical trend for a proper assessment; and (iii) a longer period (e.g. 12 months) may have been too distant in time making such historical trend less relevant within the context of the Rights Issue and with reference to the dynamic financial markets. Accordingly, we consider that the sampling period of 6 months for the Review Period is appropriate when conducting an analysis on the historical closing prices of the Shares, trading volume and the Subscription Price.

4.1 Closing price movement of the Shares during the Review Period



Source: website of the Stock Exchange

Trading in the Shares on the Stock Exchange had been suspended (the “**Trading Suspension**”) during the Trading Suspension Period and the closing price of the Shares before the Trading Suspension was approximately HK\$0.32 per Share. On 5 December 2023, the Company published an announcement in relation to the fulfilment of all resumption guidance for the trading of shares in the Company (the “**Resumption Announcement**”). Trading in the Shares resumed on 6 December 2023, on which day the closing price of the Shares reached to approximately HK\$0.32 per Share. Subsequently, the closing price of the Shares plunged to approximately HK\$0.11 per Share on 13 December 2023. The closing price of the Shares then experienced a swift bounce-back reaching to approximately HK\$0.28 per Share on 18 December 2023. The closing price of the Shares then exhibited a generally downward trend thereafter before reaching approximately HK\$0.17 per Share on 3 January 2024. The closing price of the Shares then remained stable up to and including 15 February 2024. On 15 February 2024, the Company announced (the “**Placing Announcement**”) placing of new shares under general mandate (the “**Placing**”). Subsequently, the closing price of the Shares experienced a somewhat sharp increase to approximately HK\$0.37 per Share on 6 March 2024, and ultimately exhibited a sliding trend thereafter before reaching approximately HK\$0.22 per Share on the Last Trading Day.

In relation to the sharp decrease of the closing price per Share from approximately HK\$0.32 per Share on 6 December 2023 to approximately HK\$0.11 per Share on 13 December 2023, we note that such sharp decrease in closing price of the Shares was (i) due to the publication of the Resumption Announcement; and (ii) coupled with a marked increase in trading volume on 7 December 2023 and 11 December 2023 of 315,600 Shares and 499,600 Shares, respectively. Nevertheless, trading volume in those two days represented only a range of approximately 0.1% to 0.2% of the total issued Shares as at the end of their corresponding month. We are unable to point out the definitive reason for such fluctuations in our capacity as the Independent Financial Adviser. We have made inquiry to the Management for the aforementioned sharp decline in the closing price of the Shares, and we were advised that such decline in the closing price of the Shares was due to (i) the generally weakened Hong Kong market; and (ii) the publication of the Resumption Announcement. Save as disclosed above, we are not aware of any information which caused the substantial change in the closing price of the Shares.

Furthermore, in relation to the sharp increase of the closing price per Share from approximately HK\$0.17 per Share on 15 February 2024 to approximately HK\$0.37 per Share on 6 March 2024 (after trading hours on which the Company published an announcement in relation to completion of the Placing (the “**Placing Completion**”)), we note that such sharp increase in closing price of the Shares was possibly associated with the publication of the Placing Announcement and market expectation on the Placing Completion. We are unable to point out the definitive reason for such fluctuations in our capacity as the Independent Financial Adviser. We have made inquiry to the Management for the aforementioned sharp increase in the closing price of the Shares, and we were advised that such increase in the closing price of the Shares was possibly due to the publication of the Placing Announcement and market expectation on the Placing Completion. Save as disclosed above, we are not aware of any information which caused the substantial change in the closing price of the Shares.

In addition, the average closing price of the Shares during the Review Period (excluding the Trading Suspension Period) of approximately HK\$0.23 per Share, represents a premium of approximately 53.3%, as compared to the Subscription Price of HK\$0.15 per Rights Share.

On the other hand, we note that the closing price of the Shares during the Review Period has not been on a straightly downward trend but rather unstable between the lowest closing price of the Shares of approximately HK\$0.11 per Share to the highest closing price of the Shares of approximately HK\$0.37 per Share during the Review Period.

Taking into account that (i) the Subscription Price is not determined with reference to the lowest closing price on a straightly downward trend but to the aforementioned instability of the closing price of the Shares during the Review Period; (ii) the prolonged Trading Suspension (which lasted for more than 18 months) had handicapped the Company’s capability to obtain financing from the market; and (iii) the immensely thin trading volume of the Shares as discussed in section 4.3 of this letter below, we consider a discount of the Subscription Price to the recent trading price of the Shares is necessary to enhance the attractiveness of the Rights Issue given the ratio of two Rights Shares for every one Share and the recent market prices of the Shares.

In view of (i) the reasons for and benefits of the Rights Issue as discussed in section 2 of this letter, in particular, the settlement of prolonged construction cost, the trade and other payables to the main contractor and other contract liabilities for the Second Maoming Project in 2024 and beyond; (ii) the Rights Shares are offered to all Qualifying Shareholders and each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company; and (iii) the Subscription Price of the Rights Issue is compared favorably against the Comparables (as defined below) as detailed in section 5 of this letter, we consider the discount of the Subscription Price incentivizes the Shareholders to participate in the future growth of the Group, and is fair and reasonable to the Company and the Shareholders as a whole.

4.2 Average daily trading volume for each month/period during the Review Period

The table below sets out the average daily trading volume of the Shares for each month/period during the Review Period.

Month/period	Number of trading days	Average daily trading volume of the Shares during the month/period (Note 1) (approximate)	Average daily trading volume of the Shares during the month/period to the total number of issued Shares (Note 2) (approximate)
2023			
October (from 9 October 2023)	16	-	-
November	22	-	-
December (excluding the Trading Suspension Period)	16	116,450	0.05%
2024			
January	22	1,364	0.00%
February	19	61,979	0.02%
March	20	568,330	0.22%
April (up to the date of the Announcement, i.e. 8 April 2024)	4	130,000	0.04%

Source: website of the Stock Exchange

Notes:

1. It is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.
2. It is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue at the end of each month/period.

During the Review Period, the average daily trading volume of the Shares in each month/period ranged from a low of nil Shares in October 2023 and November 2023 (due to the Trading Suspension) to a high of 568,330 Shares in March 2024. The average daily trading volume of the Shares in March 2024 represents approximately 0.22% to the total number of issued Shares as at the end of the corresponding month.

4.3 Our observations

We considered the trading liquidity of the Shares were very thin during the Review Period, with average daily trading volume of the Shares for all months/periods being less than 0.10% to the total number of issued Shares as at the end of their respective month/period (except for March 2024). We anticipate that the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are therefore of the view that it is reasonable to set the Subscription Price at a discount to the average closing price of the Shares and it would encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company.

5. Comparative analysis on the proposed terms of the Rights Issue

5.1 The Comparables

In order to assess the fairness and reasonableness of the proposed terms of the Rights Issue, we have identified an exhaustive list of 16 companies (the “**Comparable(s)**”) listed on the Main Board or GEM of the Stock Exchange which announced a rights issue during 3-month period ended on the date of the Announcement, i.e. 8 April 2024.

Although the Comparables include rights issues in different scale, engaged in different business or have different financial performance and funding needs from the Company, having considered (i) all of the Comparables and the Group are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issues and we are not aware of any established evidence showing any correlation between scale of the rights issue and its underlying principal terms; (iii) including transactions conducted by the Comparables with different funding needs and business represents a more comprehensive overall market sentiment in our comparable analysis; (iv) a 3-month period for the selection of the Comparables has generated a reasonable and meaningful number of sample size of 16 Hong Kong listed issuers to reflect the market practice regarding recent rights issue, whereas if a longer period (e.g. 6 months) is used, that would have generated way too many comparable rights issues making the analysis less meaningful with a wider range of premium and discount of the relevant subscription prices; and (v) the 16 Comparables identified during the aforementioned period were exhaustively included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers, we consider that the Comparables are fair and representative samples.

Based on the above, we are of the view that our comparable analysis based on the above criteria is meaningful for us to form our view regarding the fairness and reasonableness of the Subscription Price. To the best of our knowledge and as far as we are aware of, the Comparables represent an exhaustive list of all relevant companies fitting our search criterion as mentioned above, and we consider that such Comparables can provide a reference on the recent rights issues given the sufficient number of transactions in such period resulting in a reasonable sample size.

It should be noted that all the subject companies constituting the Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the rights issues may also be different from that of the Company.

The following table sets forth the relevant details of the Comparables:

Closing price: premium(discount)															
Company name (Stock Code)	Announcement date	Announcement date	Maximum amount of total fund raised	Date of announcement	5-day average	10-day average	Discount/ premium of subscription price (to/ over the theoretical ex-rights/ entitlement price	Premium/ (discount) to consolidated net asset value per share (Note 1)	Potential maximum dilution of shareholding (Note 5)	Theoretical dilution effect	Compensatory Arrangements/ Excess Application (CA/EA)	Fully Underwritten/ Partially Underwritten/ Placing (FU/ P/UP)	Underwriting Commission HK\$	Placing Commission	Minimum Underwriting/ Placing fee
Heng Tai Consumables Group Limited (stock code: 197)	8 Apr 2024	8 Apr 2024	18	0.0% (Note 10)	0.0% (Note 11)	(0.9%)	0.0% (Note 12)	(96.2%)	33.33%	0.0% (Note 13)	EA	NA (Notes 3 and 4)	NA (Note 3)	NA (Note 4)	NA (Notes 3 and 4)
Zijing International Financial Holdings Limited (stock code: 8340)	25 Mar 2024	25 Mar 2024	54	(20.5%)	(25.0%)	(23.1%)	(4.0%)	(52.0%)	83.33%	(20.3%)	CA	P (Note 3)	NA (Note 3)	0.7%	N
Kingho Strike Limited (stock code: 1421)	22 Mar 2024	22 Mar 2024	17	(9.1%)	(6.1%)	(3.6%)	(6.3%)	(78.1%)	33.33%	(3.0%)	CA	P (Note 3)	NA (Note 3)	1.5%	N
Aidigong Maternal & Child Health Limited (stock code: 286)	20 Mar 2024	20 Mar 2024	62	(38.2%)	(42.5%)	(43.2%)	(8.8%)	(80.0%)	25.00%	(11.0%)	EA	FU (Note 4)	7.1%	NA (Note 4)	N
Space Group Holdings Limited (stock code: 2448)	1 Mar 2024	1 Mar 2024	158	(19.1%)	(18.3%)	(18.9%)	(4.5%)	NA (Note 2)	80.00%	(15.2%)	CA	P (Note 3)	NA (Note 3)	0.5%	N
Rally Aesthetic Medicine International Holdings Limited (stock code: 2135)	26 Feb 2024	26 Feb 2024	21	(74.0%)	(75.3%)	(75.6%)	(69.5%)	(66.7%)	25.0%	(18.8%)	EA	PU (Note 4)	0.5%	NA (Note 4)	N
Basetrophy Group Holdings Limited (stock code: 8460)	23 Feb 2024	23 Feb 2024	41	(31.8%)	(26.4%)	(25.0%)	(10.5%)	(77.6%)	75.00%	(23.9%)	CA	P (Note 3)	NA (Note 3)	3.5%	N
Gaosen Holdings Limited (stock code: 8121)	21 Feb 2024	21 Feb 2024	17	(33.3%)	(35.3%)	(35.8%)	(14.3%)	(60.9%)	66.67%	(23.5%)	EA	FU (Note 4)	7.1%	NA (Note 4)	N
Green Economy Development Limited (stock code: 1315)	21 Feb 2024	21 Feb 2024	36	(15.3%)	(15.7%)	(9.6%)	(10.6%)	(25.1%)	33.33%	(5.3%)	EA	NA (Notes 3 and 4)	NA (Note 3)	NA (Note 4)	NA (Notes 3 and 4)

Closing price, premium/discount															
Company name (Stock Code)	Announcement date	Basis of entitlement HK\$ million	Maximum amount of total fund raised	Date of announcement	5-day average	10-day average	(Discount)/ premium of subscription price (to)/ over the theoretical ex-rights/ entitlement price	Premium/ (discount) to consolidated net asset value per share (Note 1)	Potential maximum dilution of shareholding (Note 5)	Theoretical dilution effect	Compensatory Arrangements/ Excess Application (CA/EA)	Fully Underwritten/ Partially Underwritten/ Placing (FU/ PUP)	Underwriting Commission HK\$	Placing Commission	Minimum Underwriting/ Placing fee
Ta Yang Group Holdings Limited (stock code: 1991)	19 Feb 2024	1 for 2	78	(9.8%)	(12.0%)	(13.0%)	(7.0%)	7.1%	33.33%	(3.7%)	EA	NA (Notes 3 and 4)	NA (Note 3)	NA (Note 4)	NA (Notes 3 and 4)
Wuxi Life International Holdings Group Limited (stock code: 8148)	9 Feb 2024	2 for 1	31	(20.0%)	NA (Note 2)	NA (Note 2)	(10.5%)	380.0%	66.67%	(17.3%) (Note 7)	EA	NA (Notes 3 and 4)	NA (Note 3)	NA (Note 4)	NA (Notes 3 and 4)
Goldstone Capital Group Limited (stock code: 1160)	1 Feb 2024	1 for 2	13	(69.9%)	(69.9%)	(69.9%)	(60.7%)	57.1%	33.33%	(23.3%)	CA	P (Note 3)	NA (Note 3)	3.5%	N
SingAsia Holdings Limited (stock code: 8293)	30 Jan 2024	2 for 1	14	(11.5%)	(18.7%)	(20.6%)	(3.9%)	(67.3%)	66.67%	(14.2%)	CA	P (Note 3)	NA (Note 3)	1.5%	100,000
China Oriented International Holdings Limited (stock code: 1871)	16 Jan 2024	1 for 2	40	(18.4%)	(14.8%)	(12.0%)	(13.0%)	(63.3%)	33.33%	(6.1%)	CA	P (Note 3)	NA (Note 3)	3.0%	N
Tongta Hong Tai Holdings Limited (stock code: 2363)	12 Jan 2024	2 for 1	79	(1.7%)	0.0% (Note 8)	(6.5%)	0.0% (Note 9)	NA (Note 2)	66.67%	(1.7%)	CA	P (Note 3)	NA (Note 3)	2.0%	N
Teamway International Group Holdings Limited (stock code: 1239)	10 Jan 2024	1 for 1	16	(32.8%)	(32.8%)	(43.8%)	(19.6%)	NA (Note 2)	50.00%	(16.4%)	CA	P (Note 3)	NA (Note 3)	0.5%	N
		Average:	46	(25.3%)	(26.2%)	(26.7%)	(15.2%)	(17.2%)	50.31%	(12.7%)	4.9%	1.9%			
		Min:	13	(74.0%)	(75.3%)	(75.6%)	(69.5%)	(96.2%)	25.00%	(23.9%)	0.5%	0.5%			
		Max:	158	0.0%	0.0%	(0.9%)	0.0%	380.0%	83.33%	0.0%	7.1%	3.5%			
		Median:	36	(19.5%)	(18.7%)	(20.6%)	(9.6%)	(63.3%)	41.67%	(14.7%)	7.1%	1.5%			
The Company	8 Apr 2024	2 for 1	92	(31.8%)	(31.8%)	(31.8%)	(22.7%)	(71.2%)	66.67%	(21.2%)	EA	P (Note 3)	NA (Note 3)	2.5%	N

Source: website of the Stock Exchange

Notes:

1. The potential maximum dilution effect of each Comparable/the Company is calculated by the number of new rights shares divided by the total number of issued shares as enlarged by the issue of the new rights shares.
2. This information is not disclosed in the relevant announcement of the respective Comparable/the Company.
3. The rights issue of this Comparable/the Company is on a non-underwritten basis as disclosed in the relevant announcement.
4. There is no placing arrangement for this Comparable/the Company as disclosed in the relevant announcement.
5. Theoretical dilution effect of an offer is calculated according to Rule 7.27B of the Listing Rules and refers to the discount of the “theoretical dilution price” to the “benchmarked price” of shares. “Theoretical diluted price” refers to the sum of (i) the issuer’s total market capitalization (by reference to the “benchmarked price” and the number of issued shares immediately before the issue); and (ii) the total funds raised and to be raised from the issue, divided by the total number of shares as enlarged by the issue. While the “benchmarked price” means the higher of: (i) the closing price on the date of the agreement involving the issue; and (ii) the average closing price in the 5 trading days immediately prior to the earlier of: (1) the date of announcement of the issue; (2) the date of the agreement involving the issue; and (3) the date on which the issue price is fixed.
6. It is stated in the announcement of this Comparable dated 26 February 2024 that “assuming the number of Shares to be issued upon exercise of the exercisable Share Options are adjusted on the basis of every five (5) Shares being consolidated into one (1) Consolidated Share”. In this regard, the potential maximum dilution of shareholding of approximately 25.0% by assuming no further issue or repurchase of shares on or before the record date other than the rights shares and the full exercise of the exercisable share options.
7. It is stated in the clarification announcement of this Comparable dated 14 February 2024 that “a theoretical dilution effect (as defined under the GEM Listing Rules) represented by a discount of approximately 17.28% of the theoretical ex-rights price of HK\$0.134 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) to the theoretical benchmarked price of HK\$0.162 per Adjusted Share”. In this regard, the theoretical dilution effect of a discount of approximately 17.28% is adopted for this Comparable.
8. It is stated in the announcement of this Comparable dated 12 January 2024 that “the Subscription Price equals to the average of the closing prices of approximately HK\$0.58 per Consolidated Share based on the average closing price of HK\$0.058 as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day”. In this regard, no premium or discount of its subscription price over or to the average closing price for the five consecutive trading days up to and including the last trading day is adopted for this Comparable.

9. It is stated in the announcement of this Comparable dated 12 January 2024 that “the Subscription Price equals to the theoretical ex-rights price of HK\$0.58 per Consolidated Share based on the closing price of HK\$0.059 per Share as quoted on the Stock Exchange for the Last Trading Day”. In this regard, no premium or discount of its subscription price over or to theoretical ex-rights price is adopted for this Comparable.
10. It is stated in the announcement of this Comparable dated 8 April 2024 that “the Subscription Price equals to the closing price of HK\$0.350 per Share as quoted on the Stock Exchange on the Last Trading Day”. In this regard, no premium or discount of its subscription price over or to the closing price on the last trading day is adopted for this Comparable.
11. It is stated in the announcement of this Comparable dated 8 April 2024 that “the Subscription Price equals to the average closing price of HK\$0.350 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day”. In this regard, no premium or discount of its subscription price over or to the average closing price for the five consecutive trading days up to and including the last trading day is adopted for this Comparable.
12. It is stated in the announcement of this Comparable dated 8 April 2024 that “the Subscription Price equals to the theoretical ex-rights price of HK\$0.350 per Share based on the closing price of HK\$0.350 per Share as quoted on the Stock Exchange on the Last Trading Day”. In this regard, no premium or discount of its subscription price over or to theoretical ex-rights price is adopted for this Comparable.
13. It is stated in the announcement of this Comparable dated 8 April 2024 that “the Subscription Price represents no theoretical dilution effect (as defined under rule 7.27B of the Listing Rules) of the theoretical diluted price of HK\$0.350 per Share to the benchmarked price of HK\$0.350 per Share”. In this regard, no theoretical dilution effect is adopted for this Comparable.

5.2 The Subscription Price and dilution

As illustrated in the table above, we note that variance of the subscription price to the closing price on the respective last trading day of the Comparables ranges from a discount of approximately 74.0% to nil, with an average figure being a discount of approximately 25.3%. The Subscription Price’s discount to closing price on the Last Trading Day of approximately 31.8% therefore falls within the range of the discount to the last trading day of the Comparables and represents a higher discount than the average figure thereof but is far lower than the maximum discount figure thereof.

We note that the variance of the subscription price to the average closing price of the last five trading days of the Comparables ranges from a discount of approximately 75.3% to nil, with an average figure being a discount of approximately 26.2%. The Subscription Price's discount to the average closing price for the last five consecutive trading days up to and including the Last Trading Day of approximately 31.8% therefore falls within the range of discount to the average closing price of the last five trading days of the Comparables and represents a higher discount than the average figure thereof but is far lower than the maximum discount figure thereof.

We note that the variance of the subscription price to the average closing price of the last ten trading days of the Comparables ranges from a discount of approximately 75.6% to a discount of approximately 0.9%, with an average figure being a discount of approximately 26.7%. The Subscription Price's discount to the average closing price for the last ten consecutive trading days up to and including the Last Trading Day of approximately 31.8% therefore falls within the range of discount to the average closing price of the last ten trading days of the Comparables and represents a higher discount than the average figure thereof but is far lower than the maximum discount figure thereof.

Noting the relatively higher discount of the Subscription Price to the average closing price of the respective last trading day, the last five trading days and the last ten trading days of the Comparables, this situation may have been explained by the following situations that justify additional incentives to entice Shareholders' participation in the Rights Issue: (i) significant deterioration in the Group's financial position; and in particular, the revenue decreased from approximately RMB60,709,000 for FY2022 to approximately RMB4,442,000 for FY2023, representing a decrease of approximately RMB56,267,000 or 92.7%; and (ii) the Trading Suspension Period lasted roughly 18 months which only ended not too long ago on 6 December 2023.

We note that the variance of the subscription price over or to the consolidated net asset value per share of the Comparables ranged from a discount of 96.2% to a premium of 380.0%, with an average figure being a discount of 17.2%. The Subscription Price's discount to the audited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2023 of approximately 71.2% therefore falls within the range of the consolidated net asset value of the Comparables and represents a higher discount than the average figure thereof but is far lower than the maximum discount figure thereof.

Given the Subscription Price was determined with reference to, among other factors, the recent market prices of the Shares and that the closing price of the Shares is market driven and should have reflected the relevant information available to the recent market. The book value of a Company is only a benchmark that does not reflect the market value of the shares at which two willing parties agree to change hands.

On the other hand, having reviewed the basis of determining the subscription price of right shares in the initial rights issue announcement of each of the 16 Comparables, we note that the subscription prices of the Comparables were generally and commonly determined with reference to (i) recent market price of the shares under the prevailing market conditions; (ii) the financial conditions of the company; (iii) the then current market conditions; and (iv) the reasons and benefits of such rights issue, and the actual monetary amount of the funding need. Out of the 16 Comparables, none of them mentioned that the "net assets values" had been taken into account when determining the subscription price of the rights share. In addition, the massive range of the variance of the subscription price over or to the consolidated net asset value per share of the Comparables suggests that this comparison is somewhat not meaningful given that the Comparables as a whole did not appear to have determined their respective subscription prices using their respective net asset value per share as a reference indicating that using the net asset value per share as a reference point cannot be established as a market practice.

Last but not least, as discussed in the Board Letter, the Directors also observed that the market capitalization of the Group consistently fell considerably short of its net asset value during the Review Period, where the market capitalization of the Group during the Review Period ranged from approximately HK\$28.5 million to approximately HK\$113.0 million, which represented a discount of approximately 82.2% and 29.4% respectively to the audited consolidated net asset value per Share attributable to the Shareholders of approximately RMB148.08 million (equivalent to approximately HK\$159.92 million) as at 31 December 2023. Accordingly, we consider that analysis on the variance of the subscription price from the consolidated net asset value per share provide a reference only and should not be weighted heavily or focused in isolation in concluding the fairness and reasonableness on the Subscription Price.

We understand that, as stated in the Board Letter, the Subscription Price was determined with reference to an assortment of factors. In particular, the Directors had taken note of and considered:

- (i) the prevailing market price and recent trading performance of the Shares, which includes the daily closing price and daily trading volume of the Shares during the Review Period, having considered that the Trading in the Shares on the Stock Exchange had been suspended during the Trading Suspension Period. The closing price of the Shares before the Trading Suspension Period was HK\$0.32 per Share. Throughout the Review Period, the closing price of the Shares showed instability, ranging from a low of HK\$0.11 per Share to a high of HK\$0.37 per Share. However, the closing price on the Last Trading Day demonstrated an overall downward trend from HK\$0.32 per Share to HK\$0.22 per Share. Additionally, the average daily trading volume was approximately 0.06% of the total issued Shares as at the Last Trading Day, indicating a lack of liquidity and demand for the Shares;
- (ii) the Group's consecutive net losses of approximately RMB78.1 million and RMB51.9 million for FY2022 and FY2023, respectively. Furthermore, the net asset position of the Group significantly decreased from approximately RMB200.0 million as of 31 December 2022 to approximately RMB148.1 million as of 31 December 2023. The Directors also observed that the market capitalization of the Group consistently fell considerably short of its net asset value during the Review Period, where the market capitalization of the Group during the Review Period ranged from approximately HK\$28.5 million to approximately HK\$113.0 million, which represented a discount of approximately 82.2% and 29.4% respectively to the audited consolidated net asset value per Share attributable to the Shareholders of approximately RMB148.08 million (equivalent to approximately HK\$159.92 million) as at 31 December 2023. This substantial disparity reflects a lack of market confidence in the Group's financial performance, position, and future prospects. As a result, the market value of the Shares no longer accurately reflects the underlying net asset value. Based on a review of companies listed on the Main Board and GEM of the Stock Exchange which announced a rights issue during the 3-month period ended on the date of the Announcement, the Directors have identified an exhaustive list of 16 companies as comparable transactions. Out of all 16 comparable transactions, 10 comparable transactions were conducted on a discount to consolidated net asset value per share, ranging from approximately 25.1% to approximately 96.2%, indicating that the Group's discount to consolidated net asset value per share aligns with the market norm. The Directors observed that the rest of these companies which have not

conducted their comparable transactions on a discount to consolidated net asset value per share were mainly either in net liabilities positions in each of their latest annual reports or had delayed issuing the relevant annual report. The Directors believes that the 16 comparable transactions did not appear to have determined their respective subscription prices using their respective net asset value per share as a reference, indicating that using the net asset value per share as a reference point cannot be established as a market practice. Having considered the significant amount of funding to be raised from this Rights Issue, and preemptive nature to enable existing Shareholders' participation, the Board believes that determining the Subscription Price based on the lower end of the prevailing market price during the Review Period, despite it being at a significant discount to the net asset value as at 31 December 2023, is fair and reasonable;

- (iii) the prevailing bearish condition of the Hong Kong stock market during the Review Period, where the average Hang Seng Index (HSI) remained low at 16,327. The HSI fluctuated between a low closing of 14,961 on 22 January 2024 (a 15-month low) and a high closing of 17,094 on 12 March 2024, and subsequently ended at 16,723 as of the Last Trading Day;
- (iv) the relatively large fundraising size when compared with the Group's market capitalisation as at the Last Trading Day; and
- (v) the Directors considered that it is reasonable to set the Subscription Price at a discount to the closing price per Share on the Last Trading Day and the consolidated net asset value per Share attributable to the Shareholders in order to enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders and investors to participate, given that the abovementioned challenging market conditions, unfavourable price trend and lack of liquidity and demand of the Shares.

It is noted that the potential maximum dilution on shareholding of the Comparables ranged from approximately 25.00% to approximately 83.33% (the “**Shareholding Dilution Range**”) with an average of approximately 50.31% and a median of approximately 41.67%. The potential dilution effect of the Rights Issue of approximately 66.67% therefore falls within the Shareholding Dilution Range and represents a higher discount than the average and median figure thereof. We note that the dilution effect is determined by the basis of entitlement of the rights issue which also determines the number of rights shares available for subscription. Moreover, given the reasons for and benefits of the Rights Issue as discussed in section 2 of this letter, in particular, the settlement of prolonged construction cost, the trade and other payables to the main contractor and other contract liabilities for the Second Maoming Project in 2024 and beyond, we consider the potential dilution effect of the Rights Issue acceptable.

It is noted that the theoretical dilution effect of the Comparables ranged from a discount of approximately 23.9% to nil (the “**Theoretical Dilution Effect Range**”) with an average discount of approximately 12.7% and a median discount of approximately 14.7%. The Rights Issue’s theoretical dilution effect of a discount of approximately 21.2% therefore falls within the Theoretical Dilution Effect Range and represents a higher discount than the average figure and the median figure thereof. With regards to the higher-than-average theoretical dilution effect of the Rights Issue, we note that the Group’s revenue decreased from approximately RMB60,709,000 for FY2022 to approximately RMB4,442,000 for FY2023, representing a decrease of approximately RMB56,267,000 or 92.7%. In light of the significant decrease in revenue along with the current negative market sentiment, considerable discount has to be offered to the existing Shareholders in order to incentivize them to forgo possible future income generated from the high prevailing interest rate and allocate their assets portfolio from cash to equity and participate in the Rights Issue on the basis of two Rights Shares for every one Share held (such offering ratio enlarges the issue share capital of the Group by 200% and is based upon the actual funding needs, the allocation of which is considered to be fair and reasonable as discussed in section 2 of this letter) and continue to support the Group. The theoretical dilution effect of the Rights Issue is within the 25% threshold as permitted under Rule 7.27B of the Listing Rules. In addition, given that the Rights Issue’s theoretical dilution effect of a discount of approximately 21.2% falls within the Theoretical Dilution Effect Range, we consider that such theoretical dilution effect is in line with the market practice, is not out of the ordinary and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Last but not least, the Rights Issue is to be conducted with both Placing and excess application available, while no Comparable has been conducted with both Placing and excess application available. As the Company has put in place the excess application arrangements as required by Rule 7.21(1)(a) of the Listing Rules, there will be no compensatory arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(b) of the Listing Rules for the benefit of the Shareholders to whom the rights were offered. Instead, the Directors procured external placing agent to attract independent investors to subscribe for the Unsubscribed Rights Shares. Such arrangement maximizes the gross proceeds from the Rights Issue by (i) incentivizing existing Shareholders to increase their investment in the Company to cultivate a stronger and more resilient shareholder base; while (ii) attracting the independent investors to subscribe for the Unsubscribed Rights Shares. Despite the aforesaid extra effort by the Directors to achieve maximum gross proceeds from the Rights Issue, the exhaustive list of 16 Comparables represents the latest arm's length rights issue exercises which are representative and comparable to the Rights Issue given that the underlying transactions are of the same nature.

In view of the facts that:

- (i) the Subscription Price represents higher discount than the average closing price of the last trading day, the average closing price of the last five trading days and the average closing price of the last ten trading days of the Comparables respectively, but it falls within the ranges of such Comparables and such discount is far lower than the maximum discount figures of such Comparables;
- (ii) the Subscription Price is payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares;
- (iii) a relatively higher discount as represented by the Subscription Price may increase the overall appeal or attractiveness of the Rights Issue to the Qualifying Shareholders in light of the dire circumstances faced by the Company as discussed in section 1 of this letter;
- (iv) the potential dilution effect of Rights Issue falls within the Shareholding Dilution Range and represents a higher discount than the average and median figure thereof but such a situation might have been necessitated by the Company's funding needs as discussed in section 2 of this letter;

- (v) the theoretical dilution effect of Rights Issue falls within the Theoretical Dilution Effect Range and represents a higher discount than the average and median figure thereof but such a situation might have been necessitated by the Group's significantly deteriorated revenue during FY2023 so as to incentivize Shareholders' participation in the Rights Issue and the Company's funding needs, the allocation of which is considered to be fair and reasonable as discussed in section 2 of this letter; and
- (vi) the Rights Issue is to be conducted with both Placing and excess application available while no Comparable has been conducted with both Placing and excess application available. Such arrangement maximizes the gross proceeds from the Rights Issue by (a) incentivizing existing Shareholders to increase their investment in the Company to cultivate a stronger and more resilient shareholder base; while (b) attracting the independent investors to subscribe for the Unsubscribed Rights Shares,

we consider that the principal terms of the Rights Issue (including the Subscription Price) and potential dilution of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole.

5.3 Placing commission

As illustrated in the analysis set out in section 5.1 of this letter, the placing commission of the Comparables range from a low of 0.5% to a high of 3.5%, with the average figure being approximately 1.9%. Accordingly, the placing commission of 2.5% pursuant to the Placing Agreement is above the average placing commission of the Comparables but falls within range of the Comparables and is lower than the maximum placing commission thereof.

In addition, we note that 2 out of 16 Comparables have been conducted on fully underwritten basis (the “**FU Comparables**”) while 1 out of 16 Comparables have been conducted on non-fully underwritten basis (which is similar to the placing commission under the Placing Agreement given it is only on a best effort basis) (the “**BE Comparable**”). Amid the current market sentiment, the Directors were unsuccessful to procure any financial institution to launch equity fund raising for the Group other than the Placing Agent, as discussed in section 2 of this letter. Even if the Company successfully engages an underwriter to fully underwrite the Rights Shares, for reference only, the full-underwriting commission could amount to 7.1%, as illustrated in the FU Comparables. The best effort underwriting commission amounted to only 0.5%, as illustrated in the BE Comparable. However, we noted that the rights issue of such BE Comparable was announced in February 2024, where the annual results announcement of the BE Comparable for FY2023 had yet to be published and a profit warning announcement was published by the BE Comparable on 6 March 2024, and subsequently the annual results announcement of the BE Comparable was published on 28 March 2024, in which the BE Comparable announced a deepened loss for FY2023 by around 87% as compared to FY2022. The Rights Issue was announced on 8 April 2024 shortly after publication of the Group’s annual results announcement for FY2023 in which the Group announced that, among others, the Group’s revenue decreased from approximately RMB60,709,000 for FY2022 to approximately RMB4,442,000 for FY2023, representing a decrease of approximately RMB56,267,000 or 92.7%. A higher placing commission of 2.5% as compared to the best effort underwriting commission of the BE Comparable of 0.5% is not unreasonable in order to incentivize the Placing Agent to procure interested equity investors to subscribe for the Shares given the published unfavorable financial condition of the Group. To conclude, (i) the Group’s failure to procure an underwriter/any financial institution to launch equity fund raising other than the Placing Agent; (ii) even if the Company successfully procure an underwriter to fully underwrite the Right Shares, the underwriting commission of 7.1% as demonstrated by the FU Comparables is far higher than placing commission of 2.5% pursuant to the Placing Agreement; and (iii) the Placing Agent is independent of and not connected with the Company and its connected persons and the placing commission was determined after arm’s length negotiation between the Company and the Placing Agent with us not being aware of any evidence indicating the placing commission involves any favourable treatment to the Placing Agent given that the deteriorated financial performance (in particular the significantly decreased revenue) of the Group as discussed earlier may warrant a relatively higher placing commission, we consider that the placing commission payable to the Placing Agent is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5.4 Excess application arrangements

As stated in the Board Letter, Qualifying Shareholders are entitled to apply for, by way of excess application: (i) any unsold entitlements to the Rights Shares of the Excluded Shareholder(s) (if any); and (ii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renounces or transferees of nil-paid Rights Shares.

Applications for excess Rights Shares may be made by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate any excess Rights Shares at their discretion 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 under each application;
- (ii) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders;
- (iii) no preference will be given to applications for topping up odd-lot holdings to whole lot holdings; and
- (iv) pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by the Relevant Shareholders, whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders' applications for excess Rights Shares to the extent that the total number of excess Right Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares.

Given that the Company has put in place the excess application arrangements as required by Rule 7.21(1)(a) of the Listing Rules, the Directors have determined that there will be no compensatory arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(b) of the Listing Rules. The Directors believe that the introduction of excess application arrangements aims to incentivise existing shareholders to increase their investment in the Group. This initiative is intended to cultivate a stronger and more resilient shareholder base that demonstrates trust in and actively supports the Group's future growth. The Placing of the Unsubscribed Rights Shares will not be conducted for the benefit of the Shareholders to whom the rights were offered, and will instead be utilized to pay the Company's debts and fund the business expansion plans as described in the section "Reasons for the Rights Issue, the Placing and Use of Proceeds" in the Board Letter.

We are of the view that the excess application arrangements are in compliance with Rule 7.21(1)(a) Listing Rules. Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotments. As illustrated in the analysis set out in section 5.1 of this letter, we note that 7 out of 16 Comparables have facilitated excess application arrangements. In addition, 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; and (ii) allocation of the excess Rights Shares (if any) will be on a fair and equitable basis as mentioned above, we consider that the excess application arrangements in relation to the Rights Issue are not uncommon in the market, not out of the ordinary and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. Possible dilution effect on interests of existing public Shareholders

The attention of the Independent Shareholders is drawn to the section headed "Shareholding Structure of the Company" in the Board Letter for the analysis on shareholding under various scenarios. As noted in the aforementioned section, the shareholding of the 'Other Public Shareholders' is approximately 76.42% as at the Latest Practicable Date. The shareholding interests of the Qualifying Shareholders will not suffer from any dilution immediately after completion of the Rights Issue assuming all Shareholders take up their respective entitlements to the Rights Shares in full. Under the scenario immediately after completion of the Rights Issue assuming none of the Shareholders have taken up any of their entitlement to Rights Shares with all the Unsubscribed Rights Shares placed to Independent Third Parties under the Placing, the shareholding of the 'Other Public Shareholders' will be diluted to approximately 25.47%, representing a decrease in shareholding by approximately 50.95%.

We are aware of the above-mentioned potential dilution effects. However, we consider that the dilutive effect should be considered in conjunction with the following factors:

- (1) Independent Shareholders are given the chance to express their views on the terms of the Rights Issue through their votes at the EGM;
- (2) Qualifying Shareholders have the choice to accept or not accept the Rights Issue;
- (3) the Rights Issue offers the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market prices of the Shares;
- (4) 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;
- (5) Qualifying Shareholders are entitled to apply for, by way of excess application:
 - (i) any unsold entitlements to the Rights Shares of the Excluded Shareholder(s) (if any); and
 - (ii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renouces or transferees of nil-paid Rights Shares; and
- (6) applications for excess Rights Shares may be made by completing an EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate any excess Rights Shares at their discretion 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 under each application;
 - (ii) no reference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders;
 - (iii) no preference will be given to applications for topping up odd-lot holdings to whole lot holdings; and

- (iv) pursuant to Rule 7.21(3)(b) of the Listing Rules, the Company will also take steps to identify the applications for excess Rights Shares made by the Relevant Shareholders, whether in their own names or through nominees. The Company shall disregard the Relevant Shareholders' applications for excess Rights Shares to the extent that the total number of excess Right Shares they have applied for exceeds a maximum number equivalent to the total number of Rights Shares offered under the Rights Issue minus the number of Rights Shares taken up by the Relevant Shareholders under their assured entitlement to the Rights Shares.

Having considered that:

- (i) the principal terms of the Rights Issue are fair and reasonable as discussed in sections 5.2, 5.3 and 5.4 of this letter;
- (ii) any form of non-pro rata equity fund raising activities would also have an immediate dilution effect to other Shareholders;
- (iii) if the Company satisfies future funding needs through other equity financing such as placing and open offer or raising additional debts to satisfy its funding needs, such equity/debt financing methods will either have an immediate dilution effect to all existing Shareholders or further increase gearing of the Group as discussed in section 2 of this letter;
- (iv) the Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the equal opportunity to maintain their proportional interests in the Company at a lower than historical prevailing market price;
- (v) Qualifying Shareholders are entitled to apply excess Rights Shares, which will be allocated on a fair and equitable basis, as discussed in section 5.4 of this letter;
- (vi) the reasons for the Rights Issue, the Placing and use of proceeds as discussed in section 2 of this letter; and
- (vii) our further reasonings regarding the Shareholding Dilution Range and the Theoretical Dilution Effect Range as discussed in section 5.2 of this letter,

we are of the view that the dilution effect to the shareholding interests of the non-participating Shareholders is acceptable.

7. Financial effects of the Rights Issue

7.1 Net asset value

Taking into account the proceeds from Rights Issue, it is expected that the net assets of the Group will increase as a result of the Rights Issue. Further, we note from the section headed “Unaudited Pro Forma Financial Information of the Group” as set out in Appendix II to the Circular that the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2023 is approximately RMB176,933,000, while the audited consolidated net tangible assets per Share attributable to equity holders of the Company as at 31 December 2023 before the completion of the Rights Issue is approximately RMB0.70. Assuming full subscription under the Rights Issue, the Group is expected to raise net proceeds of approximately HK\$89,200,000 (equivalent to RMB81,074,000). In addition, the net proceed raised under the Placing Completion was approximately HK\$6,884,000 (equivalent to RMB6,257,000). After pro forma adjustments, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company after the completion of the Rights Issue would improve to approximately RMB264,264,000, while the unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity holders of the Company after the completion of the Rights Issue would deteriorate by approximately 58.6% to approximately RMB0.29. Such decrease is due to the fact that the Subscription Price of HK\$0.15 per Rights Share is fixed at a considerable discount to the consolidated net tangible assets per Share attributable to equity holders of the Company prior to the completion of the Rights Issue.

Despite the decrease in consolidated net tangible assets per Share attributable to equity holders of the Company as a result of the Rights Issue, the Rights Issue is expected to have a positive impact on the Group’s overall net assets position upon completion of the Rights Issue.

7.2 Working capital

The Rights Issue is expected to have a positive effect on the Group’s working capital upon completion as the proceeds from the Rights Issue will bring in net proceeds of approximately HK\$89.2 million (assuming full subscription under the Rights Issue) to the Group, where approximately HK\$8.0 million is allocated for the general working capital of the Group, with reference to the Board Letter.

7.3 Liquidity

As per the 2023 Annual Report, the Group had current assets of approximately RMB632,502,000 (equivalent to approximately HK\$695,898,000) and current liabilities of approximately RMB497,641,000 (equivalent to approximately HK\$547,520,000) as at 31 December 2023. Accordingly, the Group is at a net current asset position and the Group's current ratio (current assets/current liabilities) as at 31 December 2023 was approximately 1.27 times.

The estimated net proceeds from the Rights Issue are expected to enhance the Group's current assets by approximately HK\$89.2 million (assuming full subscription under the Rights Issue) and the Rights Issue is expected to improve the Group's liquidity position immediately after its completion.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

RECOMMENDATION

Having considered the above principal factors and in particular:

- (i) the Group experienced a deteriorating cash flows and liquidity with loss for the year attributable to owners of the Company of approximately RMB55,768,000 and approximately RMB46,231,000 for FY2022 and FY2023, respectively, as discussed in section 1 of this letter;
- (ii) the Group intends to apply approximately HK\$46.2 million (representing approximately 51.79% of the net proceeds of approximately HK\$89.2 million) for the settlement of prolonged construction cost, the trade and other payables to the main contractor and other contract liabilities for the Second Maoming Project in 2024 and beyond, as discussed in section 2 of this letter;
- (iii) the Group intends to apply approximately HK\$23.0 million (representing approximately 25.78% of the net proceeds of approximately HK\$89.2 million) for the repayment of the borrowings liabilities of the Group, i.e. several interest bearing borrowings amounting to approximately RMB30.0 million in aggregate as at 31 December 2023, which includes a secured loan with outstanding principal of approximately HK\$23,000,000 from a finance company and is secured by the leasehold land and building of the Group, interest-bearing at 13% per annum and repayable on or before 15 November 2024, as discussed in section 2 of this letter;

- (iv) the Group intends to apply approximately HK\$12.0 million (representing approximately 13.45% of the net proceeds of approximately HK\$89.2 million) for the deposit for trading of raw cane sugar and as investment in the food supply chain to support the trading of raw cane sugar, as discussed in section 2 of this letter;
- (v) other equity or debt financing options are either, not viable means fulfill the Group's funding needs, have an immediate dilutive effect on existing Shareholders, not in the best interest of the Shareholders as discussed in section 2 of this letter;
- (vi) the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company by subscribing to the Rights Shares at a lower than historical prevailing price, or to apply for excess Rights Shares;
- (vii) the principal terms (including the Subscription Price) of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole as discussed in section 5.2 of this letter;
- (viii) the Rights Issue is to be conducted with both Placing and excess application available while no Comparable has been conducted with both Placing and excess application available. Such arrangement maximizes the gross proceeds from the Rights Issue by (a) incentivizing existing Shareholders to increase their investment in the Company to cultivate a stronger and more resilient shareholder base; while (b) attracting the independent investors to subscribe for the Unsubscribed Rights Shares;
- (ix) the placing commission charged by the Placing Agent is fair and reasonable as discussed in section 5.3 of this letter and in the interests of the Company and the Shareholders as a whole;
- (x) the excess application arrangements are not uncommon in the market, are not out of the ordinary and are fair and reasonable as discussed in section 5.4 of this letter and in the interests of the Company and the Shareholders as a whole; and
- (xi) given the Company's circumstances, the potential dilution effect to the non-participating Shareholders is acceptable as discussed in section 6 of this letter,

we are of the opinion that, although the Transactions are not in the Company's ordinary and usual course of business, the Transactions are fair and reasonable and in the interest of the Company and Shareholders as a whole. Accordingly, we would advise (i) the Independent Board Committee to recommend the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the resolution(s) to be proposed at the EGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited



Kevin So
*Managing Director – Investment Banking
Department*



Florence Ng
Associate Director

Notes:

Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.

Ms. Florence Ng is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Ms. Ng has over 10 years of experience in the corporate finance industry in Hong Kong.