

20 August 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
FOUR (4) RIGHTS SHARES
FOR EVERY ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue, the Placing Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 20 August 2024 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

With reference to the Letter from the Board, the Board proposes, subject to, among other things, the Share Consolidation becoming effective, to conduct the Rights Issue on the basis of four (4) Rights Shares for every one (1) Consolidated Share held on the Record Date at the Subscription Price of HK\$0.18 per Rights Share, to raise gross proceeds up to (i) approximately HK\$102.0 million before expenses by way of issuing up to 566,720,000 Rights Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than as a result of the Share Consolidation); or (ii) approximately HK\$110.0 million before expenses by way of issuing up to 610,880,000 Rights Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than as a result of the Share Consolidation and the new Shares to be allotted and issued upon the full exercise of the outstanding Share Options). Subject to the fulfillment of 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.

The Company will make arrangements as described in Rule 7.21(1)(b) of the Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of the No Action Shareholders. There will be no excess application arrangements in relation to the Rights Issue.

On 19 July 2024 (after trading hours), the Company entered into the Placing Agreement with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to procure independent placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares. The placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares shall be not less than the Subscription Price. The placing price shall be not less than HK\$0.18 per Unsubscribed Rights Share and/or the NQS Unsold Rights Share.

Listing Rules Implications

In accordance with Rule 7.19A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares by more than 50% within 12 months period immediately preceding the Latest Practicable Date (after taking into account the effect of the Share Consolidation), the Rights Issue is subject to the approval of the Shareholders at the EGM by way of poll. Pursuant to Rule 7.27A of the Listing Rules, the Rights Issue must be made conditional on approval by the Shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of resolution(s) relating to the Rights Issue at the EGM.

As at the Latest Practicable Date, the Company does not have any controlling shareholder and none of the Directors and the chief executive of the Company and their respective associates holds any Shares. Accordingly, no Shareholder shall abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM and no Director shall abstain from voting in favour of the Rights Issue at the meeting of the Board.

The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

Independent Board Committee

The Independent Board Committee, comprising all the four independent non-executive Directors, namely, Mr. Shek Jun Chong, Mr. Qiu Yue, Ms. Tam Wing Yan, and Mr. Wu Kai Tang, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Placing Agreement and the transactions contemplated thereunder 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, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group or the Placing Agent that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group or the Placing Agent and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Rights Issue and the Placing Agreement. Accordingly, we are independent from the Company pursuant to the requirement under Rule 13.84 of the Listing Rules and therefore we are qualified to give independent advice in respect of the Rights Issue, the Placing Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

Shareholders will be informed by the Group and us as soon as possible if there is any material change to the information disclosed in this Circular during the period from the Latest Practicable Date up to the date of the EGM, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of the Group

The Group is principally engaged in infrastructural pipeline construction and related engineering services mainly for gas, water, telecommunications and power industries services, provision of engineering services and trading of building materials.

Set out below is a summary of the audited financial information of the Group for the three years ended 31 March 2024 (“FY2022”, “FY2023” and “FY2024”, respectively) as extracted from the annual report of the Company for FY2023 (the “2023 Annual Report”) and the annual report of the Company for FY2024 (the “2024 Annual Report”):

(i) Financial performance

	For the year ended 31 March			
	2022	2023	2023	2024
	S\$'000	S\$'000	S\$'000	S\$'000
	(audited)	(audited)	(audited)	(audited)
			(re-presented)	
Continuing operations				
Revenue	59,099	60,103	59,750	59,115
– Construction contracts and engineering services	46,368	59,750	59,750	59,097
– Brokerage, placing and margin financing services	–	353	–	–
– Trading of building materials	12,731	–	–	18
Gross profit	9,861	7,419	7,066	7,993
Other income	4,201	6,176	6,163	2,576
Other (losses)/gains, net	(745)	191	191	(67)
Allowance for expected credit losses	(196)	(511)	(469)	(407)
Administrative expenses	(9,572)	(12,609)	(12,164)	(18,683)
Finance costs	(1,563)	(1,614)	(1,613)	(1,727)
Share of losses of joint ventures	(140)	(259)	(259)	(101)
Impairment loss on investment in a joint venture	–	(20)	(20)	–

	For the year ended 31 March			
	2022	2023	2023	2024
	S\$'000	S\$'000	S\$'000	S\$'000
	(audited)	(audited)	(audited)	(audited)
			(re-presented)	
Impairment loss on goodwill	-	-	-	(65)
Profit/(loss) before tax	1,846	(1,227)	(1,105)	(10,481)
Income tax expense	(822)	(852)	(852)	(171)
Profit/(loss) attributable to the Shareholders	1,024	(2,062)	(1,957)	(10,437)

As disclosed in the 2024 Annual Report, on 26 January 2024, the Group entered into an equity transfer agreement with an independent third party whereby the Group agreed to ultimately dispose of its 96.13% equity interest in Wealth Link Securities Limited (“**Wealth Link**”). Wealth Link, a company incorporated in Hong Kong with limited liability, is principally engaged in the provision of securities brokerage, placing and underwriting services and margin financing services and comprised the whole “brokerage, placing and margin financing services” reportable and operating segment of the Group. The transfer of the equity interest was completed on 3 May 2024. As at 31 March 2024, the directors of the Company were committed to the disposal plan for the sale of Wealth Link and the sale of Wealth Link was assessed to be highly probable. Accordingly, the assets and liabilities of Wealth Link as at 31 March 2024 were classified as assets and liabilities of a disposal group held for sale and the Group’s “brokerage, placing and margin financing services” segment, which was presented as a continuing operation of the Group for FY2023 in the 2023 Annual Report, became a discontinued operation for FY2024. As such, the financial information of the Group for FY2023 has been re-presented for the comparison of the financial information of the Group for FY2024.

FY2024 compared to FY2023

Total revenue of the Group remained relatively stable at approximately S\$59.8 million and S\$59.1 million for FY2023 and FY2024, respectively, which were principally generated from the Group’s construction contracts and engineering services.

The Group’s gross profit increased by approximately 13.1% from approximately S\$7.1 million for FY2023 to approximately S\$8.0 million for FY2024, primarily attributable to the recognition of additional cost for foreseeable losses in two water related construction projects during FY2023, where these was no such additional cost recurred for FY2024.

The Group's loss attributable to the Shareholders increased by approximately 433.3% from approximately S\$2.0 million for FY2023 to approximately S\$10.4 million for FY2024. Such increase was primarily attributable to (a) the decrease in other income by approximately S\$3.6 million mainly due to the decrease in agency income of approximately S\$3.1 million; and (b) the increase in administrative expenses by approximately S\$6.5 million mainly due to the increase in (1) general operating expenses in relation to the newly acquired business of Zhejiang Taiding Construction Co., Ltd. ("**Zhejiang Taiding**") during FY2024. Zhejiang Taiding is a company incorporated in the PRC with limited liability and principally engaged in engineering construction and other related businesses; (2) equity-settled share based payment expense by approximately S\$2.7 million. On 15 June 2023, 110,400,000 share options were granted by the Company to its employees. An equity-settled share base payment expense of approximately S\$5.1 million was recognised in FY2024; and (3) wages and salaries by approximately S\$3.3 million as a result of the increase of average number of headcounts from 416 for FY2023 to 479 for FY2024.

FY2023 compared to FY2022

Total revenue of the Group increased slightly by approximately 1.7% from approximately S\$59.1 million for FY2022 to approximately S\$60.1 million for FY2023, primarily attributable to the increase in revenue from construction contracts and engineering services by approximately S\$13.4 million mainly due to (a) the increase in revenue from new water projects relating to district cooling system of approximately S\$9.4 million; and (b) the increase in revenue from water projects relating to the supply and laying of watermains of approximately S\$6.1 million. Such increase was partially offset by the decrease in revenue from trading of building materials by approximately S\$12.7 million mainly due to the unstable operating environment including but not limited to the difficulties in supply chain management.

Despite the slight increase in revenue, the Group's gross profit decreased by approximately 24.8% from approximately S\$9.9 million for FY2022 to approximately S\$7.4 million for FY2023, primarily attributable to the increase in operating costs and expenses in the construction industry in relation to the global supply chain problems, as well as the recognition of additional cost for foreseeable losses in two water related construction projects during FY2023.

The Group recorded a change from profit attributable to the Shareholders of approximately S\$1.0 million for FY2022 to loss attributable to the Shareholders of approximately S\$2.1 million for FY2023, primarily attributable to (a) the decrease in gross profit as mentioned above; and (b) the increase in administrative expenses by approximately S\$3.0 million mainly due to the

increase in general operating expenses and wages and salaries as a result of (1) the acquisition of Wealth Link during FY2023; and (2) the increase in the number of employees from 355 as at 31 March 2022 to 476 as at 31 March 2023 in order to cope with the Group's business development in Singapore, the PRC and Hong Kong, which was partially offset by the increase in other income by approximately S\$2.0 million as a result of the increase in agency income of approximately S\$3.9 million.

(ii) Financial position

	As at 31 March		
	2022	2023	2024
	S\$'000	S\$'000	S\$'000
	(audited)	(audited)	(audited)
Non-current assets, including:	29,318	28,583	30,379
– Property, plant and equipment	19,313	17,519	17,191
– Right-of-use assets	3,414	4,063	3,282
– Investments in joint ventures	6,203	5,943	9,906
Current assets, including:	73,814	91,770	81,752
– Trade and other receivables	25,734	29,623	23,086
– Loan receivables	12,447	13,564	10,461
– Amounts due from joint ventures	2,896	3,667	18,802
– Contract assets	23,581	32,667	20,651
– Pledged bank deposits	102	2,603	4,001
– Cash and cash equivalents	9,054	3,710	1,439
Total assets	103,132	120,353	112,131
Current liabilities, including:	34,719	44,751	26,446
– Trade and other payables	11,515	25,430	12,748
– Borrowings	21,673	12,493	10,457
Non-current liabilities, including:	27,245	19,454	15,826
– Borrowings	23,848	15,747	12,769
Total liabilities	61,964	64,205	42,272
Equity attributable to the Shareholders	41,168	55,856	69,686

As at 31 March 2024, total assets of the Group amounted to approximately S\$112.1 million, which mainly consisted of (a) property, plant and equipment of approximately S\$17.2 million; (b) trade and other receivables of approximately S\$23.1 million; (c) loan receivables of approximately S\$10.5 million; (d) amounts due from joint ventures of approximately S\$18.8 million; and (e) contract assets of approximately S\$20.7 million.

As at 31 March 2024, total liabilities of the Group amounted to approximately S\$42.3 million, which mainly consisted of (a) trade and other payables of approximately S\$12.7 million; and (b) borrowings of approximately S\$23.2 million.

(iii) Overall comment

The financial performance of the Group had been deteriorated during the three years ended 31 March 2024, primarily attributable to the increase in administrative expenses as a result of the Group's efforts in achieving business expansion. With reference to the 2024 Annual Report, the global economies and market behaviour has undergone profound changes amid the three-year COVID-19 pandemic. Notwithstanding the challenging operating conditions in the year ahead, the Group believes that it is positioned on the right track for sustainable development. Looking forward, the Group will continue to focus on strengthening the market position in the construction industry and developing the Trendzon Diandian Science and Technology Innovation City's Industrial Park in the PRC. The Group will also continue to keep a close watch on the global economic trend and market situations to capture business opportunities in turn to achieve synergies and better operating results.

According to Research and Markets, the world's largest market research store with more than 1,700 research teams and covering 800 industries, despite the near-term challenges in certain construction sectors, medium to long term growth in Singapore remains intact. The growth momentum is expected to continue at a compound annual growth rate of approximately 2.7% from 2023 to 2027, with construction output reaching approximately S\$39.4 billion by 2027. With such solid growth in the market, we concur with the Directors that the prospect of the Group's business is cautiously optimistic in the long term.

2. Reasons for the Rights Issue and use of proceeds

The maximum gross proceeds from the Rights Issue are expected to be approximately HK\$110.0 million. The maximum net proceeds from the Rights Issue after deducting related expenses are estimated to be approximately HK\$107.0 million. The Company intends to apply the net proceeds from the Rights Issue as follows:

- (i) approximately HK\$50.0 million or 46.7% of the maximum net proceeds for the start-up costs of phase three of the Trendzon Diandian Science and Technology Innovation City's Industrial Park in the PRC;
- (ii) approximately HK\$45.0 million or 42.1% of the maximum net proceeds for repayment of loans; and
- (iii) approximately HK\$12.0 million or 11.2% of the maximum net proceeds to replenish the general working capital of the Group.

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

As stated in the Letter from the Board, despite the challenging operating conditions, the Group has been focusing on strengthening the market position in the construction industry. The construction of the Trendzon Diandian Science and Technology Innovation City's Industrial Park (the "**Industrial Park**") in the PRC, being one of the major construction projects of the Group commenced in 2021 with an aim to construct and develop intelligent manufacturing areas and warehouses, targeting and gathering high-tech companies together to build an intelligent manufacturing professional city (智能製造裝備專業鎮). This project will be dedicated to creating a concentrated demonstration of the advanced manufacturing industry of new energy vehicles park, smart manufacturing industry development pilot area, degradable biomaterials high-end talent innovation and entrepreneurship gathering area, simultaneously build a smart manufacturing industry public service platform. Construction work of phase one of the Industrial Park was completed in December 2023, and the construction work of phase two of the Industrial Park has been commenced in November 2023 and is expected to be completed by April 2025. The Company intends to apply approximately HK\$50.0 million of the net proceeds from the Rights Issue to finance the start-up costs of phase three of the Industrial Park which construction works is expected to commence in September 2024. Total construction cost of phase three of the Industrial Park to be paid by the Group is estimated to be approximately HK\$207 million. In December 2021, the Ministry of Industry and Information Technology and seven other government ministries of the PRC released the "14th Five-Year Plan for the Development of Intelligent Manufacturing" (「十四五」智能製造發展規劃), which proposed a "two-step" goal in promoting the development of intelligent manufacturing, including but not limited to, constructing smart manufacturing demonstration factories, building smart scenes, smart workshops and smart factories, promoting the digital transformation of small and medium-sized enterprises and expanding the application of intelligent manufacturing industry. In view of the promulgation of favourable government policies to encourage the development of intelligent manufacturing and the low level of the Group's cash on hand of approximately S\$1.4 million as at 31 March 2024, we concur with the Directors that the Group is in need for fund raising to develop the Industrial Park to grasp the business opportunity and tap into the growing intelligent manufacturing market in the PRC.

Furthermore, as mentioned in the section headed "1. Background of the Group" above, the financial performance of the Group had been deteriorated during the three years ended 31 March 2024, with loss attributable to the Shareholders increased by approximately 433.3% from approximately S\$2.0 million for FY2023 to approximately S\$10.4 million for FY2024, as compared to profit attributable to the Shareholders of approximately S\$1.0 million for FY2022. As at 31 March 2024, the Group was in a highly leveraged financial position, having total borrowings of approximately S\$23.3 million. On the other hand, the Group only had total cash and bank balances (including pledged bank deposits and cash and

cash equivalents) of approximately S\$5.4 million as at 31 March 2024, which were insufficient to cover even the current portion of total borrowings of approximately S\$10.5 million. Having considered the prevailing market condition and low level of cash on hand available to the Group, the Group encountered pressures on liquidity and is in need for fund raising to relieve its liquidity pressure. In this regard, the Rights Issue could provide sufficient funds at no borrowing costs for the Group to satisfy its funding needs in repayment of the borrowings and the development and expansion of the Group's business.

Fundraising alternatives

As disclosed in the Letter from the Board, the Board has considered various fundraising alternatives before resolving to the Rights Issue, including debt financing and equity financing alternatives such as open offer and placing of new shares.

The Board is of the view that while additional debt financing will increase the gearing ratio of the Group and having considered the prevailing high interest rate environment, additional debts will increase the overall financial burden of the Group which may in turn further affect the profitability of the Group.

With respect to equity financing alternatives, the Board considers that placing of new Shares would be a sub-optimal fundraising means as it will lead to an immediate dilution in shareholding interest of the existing Shareholders without offering them opportunities to participate in the enlargement of the capital base of the Company. As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. The Directors are of the view that the Rights Issue provides better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing the overall working capital to fulfill the development plan of the Group without further increase the financial burden to the Group. The Rights Issue also offers all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company and avoid shareholding dilution for those Shareholders who take up their entitlement under the Rights Issue in full.

In this respect, we have discussed with the management of the Group and were advised that given the loss-making performance of the Company, the banks have been reducing their facilities to the Company. On the other hand, as the Company does not have material assets that could be provided as security to secure loans with amount sufficient for developing the Industrial Park, the Company did not seek for debt financing or consider other financing alternatives.

Taking into account (i) the unsatisfactory financial performance and the liquidity level of the Group; (ii) the funding requirement of the Group to develop the Industrial Park to grasp the business opportunity and tap into the growing intelligent manufacturing market in the PRC; (iii) that the Rights Issue will strengthen the capital base of the Group for further development of its existing businesses; and (iv) that the Rights Issue offers all Qualifying

Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables them to maintain their proportionate interests in the Company and continue to participate in the future development of the Company, we concur with the management of the Group that the Rights Issue is the most appropriate means of financing over the alternative fund-raising methods and is in the interest of the Company and the Shareholders as a whole.

3. Principal terms of the Rights Issue and the Placing Agreement

(i) *The Rights Issue*

The Rights Issue will proceed on a non-underwritten basis. For details of the terms of the Rights Issue, please refer to the section headed “Proposed Rights Issue” in the Letter from the Board. Set out below are the principal terms of the Rights Issue:

Basis of the Rights Issue : Four (4) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date

Subscription Price : HK\$0.18 per Rights Share

Net price per Rights Share : Approximately HK\$0.1747 per Rights Share
(i.e. Subscription Price (assuming there is no change in the total less cost and expenses number of issued Shares from the Latest incurred in the Rights Practicable Date up to and including the Record Issue) Date other than the Share Consolidation); or

Approximately HK\$0.1751 per Rights Share
(assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the Share Consolidation and the new Shares to be allotted and issued upon the full exercise of the outstanding Share Options)

Number of Shares in issue : 1,416,800,000 Existing Shares
as at the Latest
Practicable Date

Number of Consolidated : 141,680,000 Consolidated Shares
Shares in issue upon the
Share Consolidation
becoming effective

Number of Rights Shares to be issued pursuant to the Rights Issue	: 566,720,000 Rights Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the Share Consolidation) with an aggregate nominal value of HK\$56,672,000; or 610,880,000 Rights Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the Share Consolidation and the new Shares to be allotted and issued upon the full exercise of the outstanding Share Options) with an aggregate nominal value of HK\$61,088,000
Total number of Consolidated Shares in issue upon completion of the Rights Issue	: 708,400,000 Consolidated Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the Share Consolidation); or 763,600,000 Consolidated Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the Share Consolidation and the new Shares to be allotted and issued upon the full exercise of the outstanding Share Options)
Gross proceeds from the Rights Issue	: Approximately HK\$102.0 million before expenses (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the Share Consolidation) with a maximum of approximately HK\$110.0 million before expenses (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the Share Consolidation and the new Shares to be allotted and issued upon the full exercise of the outstanding Share Options)

As at the Latest Practicable Date, there are outstanding Share Options for subscription of an aggregate of 110,400,000 Existing Shares granted under the Share Option Scheme. Save as aforementioned, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date. The Company has no intention to issue or grant any Shares, convertible securities, warranties and/or options on or before the Record Date.

Assuming no Shares are issued or repurchased on or before the Record Date other than the Share Consolidation, the aggregate 566,720,000 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 400.0% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and 80.0% of the total number of issued Consolidated Shares as enlarged by the issue of the Rights Shares.

Assuming no Shares are issued or repurchased on or before the Record Date other than the Share Consolidation and the new Shares to be allotted and issued upon the full exercise of the outstanding Share Options, the aggregate 610,880,000 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 400.0% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and 80.0% of the total number of issued Consolidated Shares as enlarged by the issue of the Rights Shares.

(ii) The Placing Agreement

The Company will make arrangements described in Rule 7.21(1)(b) of the Listing Rules to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of the No Action Shareholders. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules.

The Company has therefore appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the Latest Time for Acceptance to independent placees on a best effort basis, and any premium over the aggregate amount of (a) the Subscription Price for those Rights Shares; and (b) the expenses of the Placing Agent (including any other related expenses/fees), that is realised from the Placing will be paid to the No Action Shareholders on a pro-rata basis. The Placing Agent will, on a best effort basis, procure, by not later than 4:00 p.m. on Monday, 14 October 2024, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares at a price not less than

the Subscription Price. Any Unsubscribed Rights Shares and the NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

For details of the terms of the Placing Agreement, please refer to the section headed “the Placing Agreement” in the Letter from the Board. Set out below are the principal terms of the Placing Agreement:

Date	:	19 July 2024 (after trading hours)
Placing Agent	:	Sunhigh Financial Holdings Limited
		To the best knowledge, information and belief of the Directors, after making reasonable enquiries, the Placing Agent is an Independent Third Party and neither the Placing Agent nor any of its associates hold any Shares as at the Latest Practicable Date.
Placing fee and expenses	:	1.0% of the aggregate placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares successfully placed by or on behalf of the Placing Agent.
Placing price of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be)	:	Not less than HK\$0.18 per Unsubscribed Rights Share and/or the NQS Unsold Rights Share.
Placees	:	The Unsubscribed Rights Shares and the NQS Unsold Rights Shares are expected to be placed to the placees who (or as the case may be, their ultimate beneficial owner(s)) are Independent Third Parties.

4. Assessment of the principal terms of the Rights Issue and the Placing Agreement

(i) *The Subscription Price*

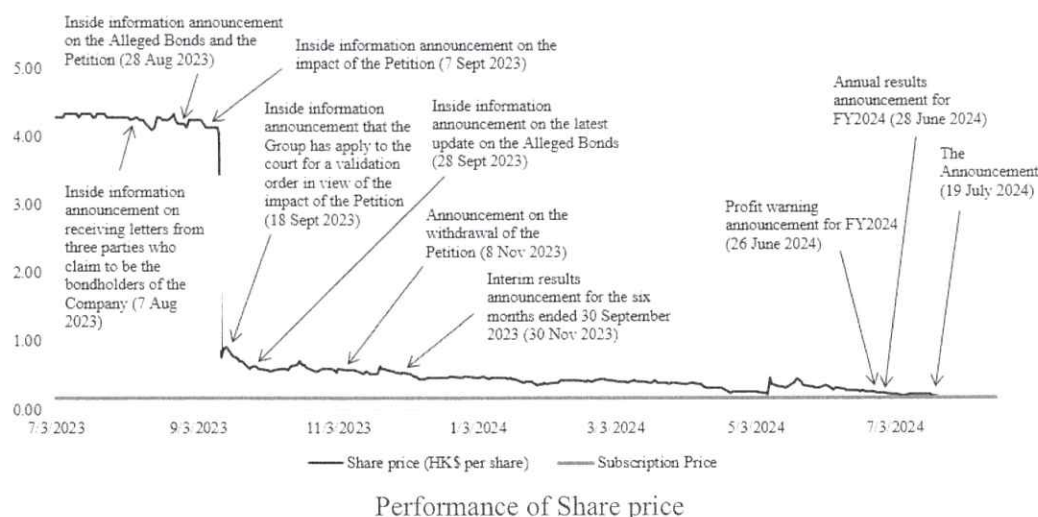
The Subscription Price of HK\$0.18 per Rights Share is payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares. The Subscription Price was determined taking into consideration (a) the loss making position of the Group for the year ended 31 March 2024 and the low level of cash on hand available to the Group as at 31 March 2024; (b) the recent downward trend of the market price of the Existing Shares which dropped from HK\$0.047 in May 2024 to HK\$0.021 on the Last Trading Day; (c) the prevailing market conditions of high borrowing costs and sluggish stock market sentiment; (d) the low trading liquidity of the Existing Shares which the Company is unlikely to raise meaningful amount of funds through equity financing without a notable discount; and (e) the amount of funds (i.e. approximately HK\$110 million) the Company intends to raise under the Rights Issue for the purposes described in the section headed “Reasons for and benefits of the Rights Issue and use of proceeds” in the Letter from the Board.

The Subscription Price of HK\$0.18 per Rights Share represents:

- (a) equivalent to the theoretical closing price of HK\$0.180 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date, assuming Share Consolidation has become effective;
- (b) a discount of approximately 14.29% to the theoretical closing price of HK\$0.210 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day, assuming Share Consolidation has become effective;
- (c) a discount of approximately 17.43% to the average theoretical closing price per Consolidated Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.218, assuming Share Consolidation has become effective;
- (d) a discount of approximately 17.43% to the average theoretical closing price per Consolidated Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.218, assuming Share Consolidation has become effective;

- (e) a discount of approximately 4.26% to the theoretical ex-rights price of approximately HK\$0.188 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day, assuming the Share Consolidation has become effective;
 - (f) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 14.55% represented by the theoretical diluted price of approximately HK\$0.188 to the benchmarked price of approximately HK\$0.220 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.210 per Consolidated Share and the average closing price of the Consolidated Shares in the five trading days immediately prior to the date of the Announcement of HK\$0.220 per Consolidated Share), assuming the Share Consolidation has become effective; and
 - (g) a discount of approximately 93.69% to the consolidated net asset value per share attributable to the Shareholders as at 31 March 2024 of approximately HK\$2.853 calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately S\$69,686,000 (equivalents to approximately HK\$404,178,800) as at 31 March 2024 and 141,680,000 Consolidated Shares in issue as at the Latest Practicable Date, assuming the Share Consolidation became effective on 31 March 2024.
- (a) *Comparison with adjusted historical closing prices of the Consolidated Shares*

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily adjusted closing prices (as adjusted for the Share Consolidation) of the Consolidated Shares from 3 July 2023 to the Last Trading Day (i.e. 19 July 2024) (the “**Review Period**”), being approximately one year preceding the Last Trading Day, and up to the Latest Practicable Date, assuming the Share Consolidation became effective before the Review Period. We consider the Review Period is adequate to reflect the general market sentiment and illustrates the general trend and level of movement of the daily closing price of the Existing Shares.



Source: the website of the Stock Exchange

As shown above, the adjusted closing prices of the Consolidated Shares were above the Subscription Price at all times during the Review Period, ranging from HK\$0.21 on 5 July 2024, 8 July 2024 and the Last Trading Day to HK\$4.35 on 7 July 2023 to 12 July 2023, 14 July 2023, 18 July 2023, 21 July 2023, 24 July 2023 and 23 August 2023. In other words, the discounts of the Subscription Price to the adjusted closing prices of the Consolidated Shares ranged from approximately 14.29% to 95.86%.

The adjusted closing prices of the Consolidated Shares fluctuated between HK\$4.05 per Consolidated Share and HK\$4.35 per Consolidated Share from 3 July 2023 to 12 September 2023 and closed at HK\$4.05 per Consolidated Share on 12 September 2023. Thereafter, it dropped sharply to HK\$0.78 per Consolidated Share on 13 September 2023. Based on our discussion with the management of the Group, such significant decline in the adjusted closing price may be due to the Company's publication of a series of inside information announcements on the Alleged Bonds (as defined below) and the Petition (as defined below) against the Group in August and September 2023. On 7 August 2023, the Company has announced that it has recently received three letters from three parties who claimed to be the bondholders of the Company and the Company clarified that it had not entered into and had no knowledge of the alleged bond agreements or incurred the relevant debts. In this respect, the Company has reported the case to the Hong Kong police. On 28 August 2023, the Company further clarified that the aforementioned bonds were not issued by the Group and the signatures appearing on the alleged bonds were forged. Besides those three alleged bonds, there was one more alleged forged bond recently (collectively, the "Alleged Bonds"). In addition, one alleged bond

holder has petitioned (the “**Petition**”) for a winding up order for a principal of HK\$1,000,000 against the Group on 24 August 2023. The Company further published inside information announcements (1) on 7 September 2023 to remind the investors and the Shareholders that under s.182 Companies (Winding up and Miscellaneous) Ordinance Cap (Cap. 32), if the Petition is successfully to get a winding up order, all disposal or transfer of asset of the Group will be void unless it obtains a validation order granted by the court; and (2) on 18 September 2023 to inform that the Company has instructed its lawyer to apply to the court for a validation order in this respect to avoid the suspension of acceptance of deposit of shares certificates of the Company into Central Clearing and Settlement System. The Hong Kong police has arrested relevant suspects which include an ex-employee of the Group and a bond agent in September 2023 and the Petition has been withdrawn in November 2023. From then on, the adjusted closing prices of the Consolidated Shares generally exhibited a downward trend and hit the lowest of HK\$0.21 per Consolidated Share on 5 July 2024 and 8 July 2024. Such downward trend may be due to the Company’s publication of (1) the interim results announcement for the six months ended 30 September 2023 on 30 November 2023; and (2) the profit warning announcement and annual results announcement for FY2024 on 26 June 2024 and 28 June 2024, respectively.

As at the Last Trading Day and the Latest Practicable Date, the adjusted closing price of the Consolidated Shares closed at HK\$0.21 and HK\$0.18, respectively, to which the Subscription Price represents a discount of approximately 14.29% and nil, respectively.

As discussed in the sub-section headed “(c) Comparison with recent rights issue exercises” below, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant share in order to increase the attractiveness and encourage shareholders to participate in the rights issue so as to meet the company’s need for additional funding.

(b) *Historical trading liquidity of the Shares*

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the period from 3 July 2023 to the Latest Practicable Date:

			Approximate percentage of average daily trading volume to total number of Shares held by the public (Note 2)	Approximate percentage of average daily trading volume to total number of Shares held by the public (Note 2)
	Number of trading days (Note 1)	Approximate average daily trading volume	Approximate total number of Shares in issue (Note 2)	Approximate percentage of average daily trading volume to total number of Shares held by the public (Note 2)
2023				
July	20	8,175,400	0.5770%	0.6393%
August	23	11,833,217	0.8352%	0.9253%
September	19	105,327,789	7.4342%	8.2365%
October	20	13,696,400	0.9667%	1.0710%
November	22	12,095,091	0.8537%	0.9458%
December	19	8,594,105	0.6066%	0.6720%
2024				
January	22	2,478,364	0.1749%	0.1938%
February	19	844,632	0.0596%	0.0660%
March	20	665,850	0.0470%	0.0521%
April	20	2,990,350	0.2111%	0.2338%
May	21	31,299,619	2.2092%	2.4476%
June	19	8,769,684	0.6190%	0.6858%
July	22	8,371,273	0.5909%	0.6546%
From 1 August to the Latest Practicable Date	12	5,683,000	0.4011%	0.4444%

Source: the website of the Stock Exchange

Notes:

1. Number of trading days of the Shares represents number of trading days during the month or period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day (if applicable).

2. *Based on the total number of the Shares in issue at the end of each month or period as disclosed in the monthly returns of the Company.*
3. *Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by Zhongbei Capital Co., Limited as at the Latest Practicable Date.*

As illustrated in the table above, the average daily trading volume for the respective month or period during the period from 3 July 2023 to the Latest Practicable Date ranged from approximately 665,850 Shares in March 2024 to approximately 105,327,789 Shares in September 2023, representing approximately 0.0470% to 7.4342% of the total number of the Shares in issue and approximately 0.0521% to 8.2365% of the total number of the Shares held by the public, respectively.

The trading volume of the Shares was notably high in September 2023 as compared to other months/periods during the period from 3 July 2023 to the Latest Practicable Date, which may be attributable to the market reaction and/or knock-on effects of the Company's publication of a series of inside information announcements in relation to the Alleged Bonds and the Petition in August and September 2023. For details, please refer to the sub-section headed "(a) Comparison with adjusted historical closing prices of the Consolidated Shares" above. As the Hong Kong police has arrested relevant suspects in September 2023 and the Petition has been withdrawn in November 2023, such irregular trading volume of the Shares in September 2023 shall be in one-off nature.

The above statistics revealed that the trading liquidity of the Shares has not been high in the open market. On this basis and considering the financial position and performance of the Group, we are of the view that the Company is unlikely to be able to raise notable amount of funds via equity financing without a notable discount. As such, we consider that it is reasonable for the Subscription Price to be set at a discount to the prevailing historical closing prices of the Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholdings in the Company.

(c) Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have reviewed the rights issue exercises initially announced by the companies listed on the Main Board of the Stock Exchange during the period from 1 January 2024 up to the Last Trading Day (being approximately six months). We have identified an exhaustive list of 20 rights issue transactions (the "**Comparable Transactions**"). We consider that the aforesaid review period is

adequate and appropriate to capture the recent market practice in relation to rights issue exercises under the prevailing market conditions, and provide a sufficient sample for comparison with the Rights Issue.

Although the listed issuers involved in the Comparable Transactions have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company, and includes rights issue transactions which are underwritten with different basis of entitlement and arrangements to dispose of any unsubscribed rights shares, we consider that the Comparable Transactions can provide a general reference to the pricing trend of recent rights issue transactions under the current market conditions as well as a sufficient sample size for comparison purpose, so as to determine whether the Subscription Price is in line with those of recent rights issue transactions in the market.

The details of the Comparable Transactions are set out below:

Date of Announcement	Company name (stock code)	Basis of entitlement	Premium/ (discount) of the subscription price over/to the closing price on the last trading day	Premium/ (discount) of the subscription price over/to the average closing price for the five consecutive trading days up to and including the last trading day	Premium/ (discount) of the subscription price over/to the theoretical ex-rights price based on the closing price on the last trading day	Premium/ (discount) of the subscription price over/to the consolidated net asset value	Maximum dilution	Theoretical dilution	Underwriting commission	Excess application	Placing arrangement
			¥	¥	¥	¥	¥	¥	¥	Yes/No	Yes/No
					(Note 1)		(Note 2)	(Note 3)	(Note 4)		
12 July 2024	Guan Chao Holdings Limited (1872.HK)	4 for 1	(20.00)	(29.08)	(4.76)	(89.86)	80.00	20.07	N/A	No	Yes
26 June 2024	Ev Dynamics (Holdings) Limited (476.HK)	3 for 2	(3.06)	(3.06)	(1.04)	(92.93)	60.00	1.84	N/A	No	Yes
19 June 2024	Bonny International Holding Limited (1906.HK)	1 for 4	(43.02)	(43.55)	(38.16)	(14.93)	20.00	8.71	N/A	Yes	No
4 June 2024	MMG Limited (1208.HK)	2 for 5	(31.41)	(35.59)	(24.65)	(32.51)	28.57	10.17	2.00	Yes	No
10 May 2024	Sky Blue 11 Company Limited (1010.HK)	1 for 1	(33.33)	(34.91)	(20.00)	Net liability	50.00	17.90	N/A	No	Yes
18 April 2024	Shin Hwa World Limited (582.HK)	2 for 1	(33.33)	(32.29)	(22.31)	(98.22)	66.67	22.22	1.00	Yes	No
9 April 2024	Walnut Capital Limited (905.HK)	1 for 2	(45.08)	(31.93)	(35.46)	62.00	33.33	14.92	N/A	No	Yes
8 April 2024	China Uptown Group Company Limited (2330.HK)	2 for 1	(31.82)	(31.82)	(11.76)	(71.15)	66.67	22.73	N/A	Yes	Yes
8 April 2024	Heng Tai Consumables Group Limited (197.HK)	1 for 2	0.00	0.00	0.00	(96.04)	33.33	0.00	N/A	Yes	No
22 March 2024	Kingho Strike Limited (1421.HK)	1 for 2	(9.09)	(6.10)	(6.32)	(78.13)	33.33	2.95	N/A	No	Yes
20 March 2024	Aidigong Maternal & Child Health Limited (286.HK)	1 for 3	(38.24)	(42.47)	(8.82)	(80.03)	25.00	11.00	7.07	Yes	No
1 March 2024	Space Group Holdings Limited (2448.HK)	4 for 1	(19.05)	(18.27)	(4.49)	(93.34)	80.00	15.24	N/A	No	Yes
26 February 2024	Raily Aesthetic Medicine International Holdings Limited (2135.HK)	1 for 3	(74.04)	(75.25)	(69.52)	(66.67)	25.00	18.81	0.50	Yes	No
21 February 2024	Green Economy Development Limited (1315.HK)	1 for 2	(15.26)	(15.71)	(10.56)	(25.12)	33.33	5.26	N/A	Yes	No
19 February 2024	Ta Yang Group Holdings Limited (1991.HK)	1 for 2	(9.77)	(12.03)	(6.98)	7.14	33.33	3.68	N/A	Yes	No

Date of Announcement	Company name (stock code)	Basis of entitlement	Premium/ (discount) of the subscription price over/to the average closing price	Premium/ (discount) of the subscription price over/to the previous consecutive trading days up to and including the last trading day	Premium/ (discount) of the subscription price over/to the theoretical ex-rights price based on the closing price on the last trading day	Premium/ (discount) of the subscription price over/to the consolidated net asset value	Maximum dilution	Theoretical dilution	Underwriting commission	Excess application	Placing arrangement
			%	%	%	%					
			(Note 1)				(Note 2)	(Note 3)	(Note 4)	Yes/No	Yes/No
1 February 2024	Goldstone Capital Group Limited (1160.HK)	1 for 2	(69.86)	(69.86)	(60.71)	57.14	33.33	23.29	N/A	No	Yes
18 January 2024	CCIAM Future Energy Limited (145.HK)	1 for 2	(12.50)	(11.17)	(8.69)	(5.41)	33.33	4.18	N/A	No	Yes
16 January 2024	China Oriented International Holdings Limited (1871.HK)	1 for 2	(18.37)	(14.82)	(13.04)	(63.30)	33.33	6.12	N/A	No	Yes
12 January 2024	Tongda Hong Tai Holdings Limited (2363.HK)	2 for 1	(1.69)	0.00	0.00	Net liability	66.67	1.69	N/A	No	Yes
10 January 2024	Teamway International Group Holdings Limited (1239.HK)	1 for 1	(32.77)	(32.77)	(19.60)	Net liability	50.00	16.39	N/A	No	Yes
		Maximum	0.00	0.00	0.00	62.00	80.00	23.29	7.07		
		Minimum	(74.04)	(75.25)	(69.52)	(98.22)	20.00	0.00	0.50		
		Average	(27.08)	(27.03)	(18.34)	(45.96)	44.26	11.36	2.65		
		Median	(25.71)	(30.45)	(11.16)	(66.67)	33.33	10.59	1.50		
	The Company	4 for 1	(14.29)	(17.43)	(4.26)	(93.69)	80.00	14.55	N/A	No	Yes

Source: the website of the Stock Exchange

Notes:

1. Theoretical ex-rights price is calculated as the sum of (1) the issuer's total market capitalisation by reference to the benchmarked price (as defined under Rule 7.27B of the Listing Rules) and the number of issued shares immediately before the rights issue; and (2) the total funds to be raised from the rights issue, divided by the total number of shares as enlarged by the rights issue.
2. The maximum dilution is calculated by the number of rights shares divided by the total number of issued shares as enlarged by the issue of the rights shares.
3. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules.
4. "N/A" denotes that the rights issue was conducted on a non-underwritten basis and therefore the underwriting commission is not applicable.

As set out in the table above, we note that it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices prior to the announcement of the rights issue and to the theoretical ex-rights price of the shares. We also note that:

- (1) the subscription prices to the share price on the last trading day of the Comparable Transactions ranged from a discount of approximately 74.04% to a discount of nil, with an average and a median discount of approximately 27.08% and 25.71%, respectively. The discount of approximately 14.29% as represented by the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day is within the range of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions;
- (2) the subscription prices to the average share price for the five previous consecutive trading days up to and including the last trading day of the Comparable Transactions ranged from a discount of approximately 75.25% to a discount of nil, with an average and a median discount of approximately 27.03% and 30.45%, respectively. The discount of approximately 17.43% as represented by the Subscription Price to the average adjusted closing price of the Consolidated Shares for the five previous consecutive trading days up to and including the Last Trading Day is within the range of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions;
- (3) the subscription prices to the theoretical ex-rights price based on the closing price on last trading day of the Comparable Transactions ranged from a discount of approximately 69.52% to a discount of nil, with an average and a median discount of approximately 18.34% and 11.16%, respectively. The discount of approximately 4.26% as represented by the Subscription Price to the theoretical ex-rights price based on the adjusted closing price of the Consolidated Shares on the Last Trading Day is within the range of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions;
- (4) the subscription prices over/to the consolidated net asset value attributable to the shareholders of the Comparable Transactions ranged from a discount of approximately 98.22% to a premium of approximately 62.00%, with an average and a medium discount of approximately 45.96% and 66.67%, respectively. The discount of approximately 93.69% as represented by the Subscription Price to the consolidated net asset value per Share attributable to the Shareholders as at 31 March 2024 is within the range of the Comparable Transactions and deeper than the average and median discounts of the Comparable Transactions; and

- (5) the theoretical dilution effect of the Comparable Transactions ranged from nil to approximately 23.29%, with an average and a medium dilution effect of approximately 11.36% and 10.59%, respectively. The theoretical dilution effect of the Rights Issue of approximately 14.55% is within the range of the Comparable Transactions and close to the average and median dilution effects of the Comparable Transactions.

Given that (1) as shown in the table above, it is a common market practice that the subscription price of a rights issue represents a discount to (a) the closing price on the last trading day; (b) the average share price for the five previous consecutive trading days up to and including the last trading day; (c) the theoretical ex-rights price based on the closing price on the last trading day; and (d) the consolidated net asset value attributable to the shareholders; (2) a higher discount of the Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue; (3) the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; (4) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market; (5) the discounts of the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day, the average adjusted closing price of the Consolidated Shares for the five previous consecutive trading days up to and including the Last Trading Day, and the theoretical ex-rights price based on the adjusted closing price of the Consolidated Shares on the Last Trading Day are within the ranges of those of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions; (6) the discount of the Subscription Price to the consolidated net asset value attributable to the Shareholders is within the range of the Comparable Transactions and deeper than the average and median discounts of the Comparable Transactions; (7) as discussed in the section headed “1. Background of the Group” above, the financial performance of the Group had been unsatisfactory in FY2023 and FY2024, both of which recorded escalation in loss for the year. In response to this, the Group has commenced the development of the Industrial Park in 2021 with an aim to tap into the growing intelligent manufacturing market in the PRC. As at 31 March 2024, the Group was in a highly leveraged financial position, having total borrowings of approximately S\$23.3 million as compared to total cash and bank balances (including pledged bank deposits and cash and cash equivalents) of approximately S\$5.4 million only. As the Group is in need to raise funds for working capital for further development of the Industrial Park and relieving its liquidity pressure, it is reasonable to set the Subscription Price with a discount to

enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to take part in the Rights Issue; and (8) the theoretical dilution effect of the Rights Issue is within the range of the Comparable Transactions and close to the average and median dilution effects of the Comparable Transactions, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Although the Subscription Price represents a deep discount to the consolidated net asset value attributable to the Shareholders and the level of discount is higher than the average and median of the Comparable Transactions, taking into account (1) the fundings needs of the Group as discussed above; (2) the interests of the Qualifying Shareholders will not be prejudiced by the level of discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; and (3) the closing price per Existing Share was trading substantially below the net asset value per Share attributable to the Shareholders as at 31 March 2024 during the six months period immediately prior to the Last Trading Day (i.e. from 19 January 2024 to 19 July 2024) with a discount of approximately 83.53% to 92.64%, we consider a substantial discount of the Subscription Price to the consolidated net asset value attributable to the Shareholders given to attract subscription by the Qualifying Shareholders is fair and reasonable.

In comply with Rule 7.21(1)(b) of the Listing Rules, there will be no excess application arrangement in relation to the Rights Issue and the Company has arranged for the Compensatory Arrangement and the Placing.

(ii) The Placing Agreement

Pursuant to the Placing Agreement, any Unsubscribed Rights Shares and NQS Unsold Rights Shares will be placed by the Placing Agent to independent placees on a best effort basis in compliance with Rule 7.21(1)(b) of the Listing Rules. Under the Placing Agreement, the Placing Agent will charge the Company a placing commission (the “**Placing Commission**”) of 1.0% of the aggregate placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares successfully placed by or on behalf of the Placing Agent. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules.

(a) The placing price

Given that (1) the placing price (the “**Placing Price**”) of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be) shall be not less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (2) the Subscription Price is fair and reasonable

as discussed in the sub-section headed “(i) The Subscription Price” above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

(b) The Placing Commission

Pursuant to the Placing Agreement, the Company shall pay the Placing Agent the Placing Commission of 1.0% of the aggregate placing price of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares successfully placed by or on behalf of the Placing Agent. As disclosed in the Letter from the Board, the Placing Commission was determined after arm’s length negotiation between the Placing Agent and the Company with reference to the prevailing market rate in recent placing transactions.

In evaluating the fairness and reasonableness of the principal terms of the Placing Agreement, including the Placing Commission payable to the Placing Agent, we have further assessed the Comparable Transactions which included placing exercises as a result of the compensatory arrangement as required under the Listing Rules. Among the Comparable Transactions, there were 12 Comparable Transactions adopted placing as the compensatory arrangements (the “**Placing Comparables**”). We consider that the aforesaid review period is adequate and appropriate to (1) reflect the latest market sentiment on share placements; and (2) provide a sufficient sample for comparison with the Placing.

Set out below is a summary of the Placing Comparables:

Date of announcement	Company name (stock code)	Commission rate payable to the placing agent
12 July 2024	Guan Chao Holdings Limited (1872.HK)	0.75%
26 June 2024	Ev Dynamics (Holdings) Limited (476.HK)	1.50%
10 May 2024	Sky Blue 11 Company Limited (1010.HK)	5%
9 April 2024	Walnut Capital Limited (905.HK)	1%
8 April 2024	China Uptown Group Company Limited (2330.HK)	2.50%
22 March 2024	Kingbo Strike Limited (1421.HK)	1.50%
1 March 2024	Space Group Holdings Limited (2448.HK)	0.50%
1 February 2024	Goldstone Capital Group Limited (1160.HK)	3.50%
18 January 2024	CCIAM Future Energy Limited (145.HK)	5%
16 January 2024	China Oriented International Holdings Limited (1871.HK)	3%

12 January 2024	Tongda Hong Tai Holdings Limited (2363.HK)	2%
10 January 2024	Teamway International Group Holdings Limited (1239.HK)	0.50%
	Maximum	5.00%
	Minimum	0.50%
	Average	2.23%
	Median	1.75%
	The Company	1.00%

Source: the website of the Stock Exchange

As shown in the table above, we noted that the commission fees payable to the respective placing agents under the Placing Comparables are based on certain percentage of the gross proceeds from the subscription of the unsubscribed rights shares ranging from 0.50% to 5.00%, with an average of approximately 2.23% and a median of approximately 1.75%. Given (1) the Placing Commission was determined after arm's length negotiation between the Placing Agent and the Company with reference to the prevailing market rate; and (2) the Placing Commission falls within the range of the Placing Comparables and is smaller than the average and median of the Placing Comparables, we consider that the Placing Commission to be fair and reasonable.

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

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

5. Potential dilution effect on the shareholding interests of the Independent Shareholders

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will not be diluted after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider to sell their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

For illustrative purposes only, assuming there is no further issue or repurchase of the Shares from the Latest Practicable Date up to and including the date of completion of the Rights Issue, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Share Consolidation; (iii) immediately upon completion of the Share Consolidation, and the Rights Issue assuming full acceptance by all Qualifying Shareholders; and (iv) immediately upon completion of the Share Consolidation, and the Rights Issue assuming no acceptance by any Qualifying Shareholder and all the Unsubscribed Rights Shares and the NQS Unsold Rights Shares have been placed by the Placing Agent:

(i) Assuming no outstanding Share Options being exercised and there is no other change in the shareholding structure of the Company before completion of the Rights Issue

	As at the Latest Practicable Date		Immediately upon completion of the Share Consolidation		Immediately upon completion of the Share Consolidation, and the Rights Issue assuming full acceptance by all Qualifying Shareholders		Immediately upon completion of the Share Consolidation, and the Rights Issue assuming no acceptance by any Qualifying Shareholder and all the Unsubscribed Rights Shares and the NQS Unsold Rights Shares have been placed by the Placing Agent	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Zhongbei Capital Co., Limited (Note 1)	138,000,000	9.74	13,800,000	9.74	69,000,000	9.74	13,800,000	1.95
Placees (Note 2)	–	–	–	–	–	–	566,720,000	80.00
Other public Shareholders	1,278,800,000	90.26	127,880,000	90.26	639,400,000	90.26	127,880,000	18.05
	<u>1,416,800,000</u>	<u>100.00</u>	<u>141,680,000</u>	<u>100.00</u>	<u>708,400,000</u>	<u>100.00</u>	<u>708,400,000</u>	<u>100.00</u>

(ii) *Assuming all outstanding Share Options being exercised on or before the Record Date and there is no other change in the shareholding structure of the Company before completion of the Rights Issue*

	As at the Latest Practicable Date		Immediately upon completion of the Share Consolidation		Immediately upon completion of the Share Consolidation, and the Rights Issue assuming full acceptance by all Qualifying Shareholders		Immediately upon completion of the Share Consolidation, and the Rights Issue assuming no acceptance by any Qualifying Shareholder and all the Unsubscribed Rights Shares and the NQS Unsold Rights Shares have been placed by the Placing Agent	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Zhongbei Capital Co., Limited (Note 1)	138,000,000	9.04	13,800,000	9.04	69,000,000	9.04	13,800,000	1.81
Placees (Note 2)	–	–	–	–	–	–	610,880,000	80.00
Other public Shareholders (Note 3)	1,389,200,000	90.96	138,920,000	90.96	694,600,000	90.96	138,920,000	18.19
	<u>1,527,200,000</u>	<u>100.00</u>	<u>152,720,000</u>	<u>100.00</u>	<u>763,600,000</u>	<u>100.00</u>	<u>763,600,000</u>	<u>100.00</u>

Notes:

1. Ms. Yao Jiajia, an Independent Third Party, held 138,000,000 Shares through Zhongbei Capital Co., Limited (中北資本有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by Ms. Yao Jiajia.
2. If any of the placees subscribes for 10% or more of the Shares under the Placing, he/she/it will become a substantial Shareholder after completion of the Placing.
3. As at the Latest Practicable Date, there are outstanding Share Options for subscription of an aggregate of 110,400,000 Existing Shares granted under the Share Option Scheme.
4. The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.

As set out in the table under the sub-section headed “4. Assessment of the principal terms of the Rights Issue and the Placing Agreement – (i) The Subscription Price – (c) Comparison with recent rights issue exercises”, the maximum dilution of the Comparable Transactions ranged from 20.00% to 80.00% with an average and a medium dilution of approximately 44.26% and 33.33%, respectively. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of 80.0%, which falls within the range of the Comparable Transactions. In addition, the theoretical dilution effect of the Rights Issue is within the range of the Comparable Transactions and close to the average and median dilution effects of the Comparable Transactions.

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

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders’ interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in the section headed “6. Financial impact of the Rights Issue” below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

6. Financial impact of the Rights Issue

(i) Net tangible assets

According to the unaudited pro forma financial information of the Group in Appendix II to the Circular, assuming that the Rights Issue had been completed and subscribed in full on 31 March 2024, the audited consolidated net tangible assets attributable to the Shareholders would have increased from approximately S\$69.9 million as at 31 March 2024 to an unaudited pro forma adjusted consolidated net tangible assets attributable to the Shareholders of approximately S\$87.1 million (based on proposed 566,720,000 Rights Shares) or S\$88.4 million (based on proposed 610,880,000 Rights Shares) immediately after the completion of the Rights Issue.

(ii) Liquidity

As at 31 March 2024, the Group had cash and cash equivalents of approximately S\$1.4 million, current assets of approximately S\$81.8 million and current liabilities of approximately S\$26.4 million. Upon completion of the Rights Issue, cash and cash equivalents of the Group is expected to increase by the estimated net proceeds from the Right Issues of approximately HK\$99.8 million (based on proposed 566,720,000 Rights Shares) or HK\$107.8 million (based on proposed 610,880,000 Rights Shares). As such, the liquidity position of the Group would be improved upon completion of the Rights Issue.

(iii) Earnings

Given that the net proceeds from the Rights Issue will be used for (a) the start-up costs of phase three of the Industrial Park in the PRC; (b) repayment of loans; and (c) working capital, the Group may generate additional revenue if the strategies are implemented successfully and increase earnings resulting from the reduction of finance costs.

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

OPINION AND RECOMMENDATION

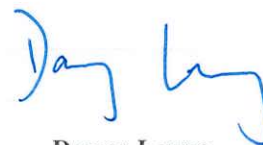
In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following:

- as at 31 March 2024, the Group was in a highly leveraged financial position, having total borrowings of approximately S\$23.3 million as compared to total cash and bank balances (including pledged bank deposits and cash and cash equivalents) of approximately S\$5.4 million only. The Group is in need to raise funds for working capital and relieving its liquidity pressure;
- the financial performance of the Group had been deteriorated during the three years ended 31 March 2024. In view of this, the Group will continue to focus on strengthening the market position in the construction industry and developing the Industrial Park in the PRC, the construction of phase three of which require fundings;
- the Rights Issue is the most preferred option over other financing alternatives such as debt financing, placing of new Shares and open offer, as it will not result in a deterioration of the Group's gearing and allows all Qualifying Shareholders to participate in the fund-raising exercise for the future development of the Group with the flexibility of trading of rights entitlements in the market;
- the principal terms of the Rights Issue, in particular the Subscription Price, are fair and reasonable after considering the following:
 - it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices on the last trading day and to the theoretical ex-rights price of the shares;
 - the discount of the Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue given the current financial difficulties of the Group;
 - the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares;
 - those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market;

- the discounts of the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day, the average adjusted closing price of the Consolidated Shares for the five previous consecutive trading days up to and including the Last Trading Day, and the theoretical ex-rights price based on the adjusted closing price of the Consolidated Shares on the Last Trading Day are within the ranges of those of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions; and
- the discount of the Subscription Price to the consolidated net asset value attributable to the Shareholders is within the range of the Comparable Transactions and deeper than the average and median discounts of the Comparable Transactions;
- the Compensatory Arrangements and the Placing under the Placing Agreement, being part of the Rights Issue, are in compliance with the Listing Rules, which are managed by the Placing Agent who is an Independent Third Party. The Placing Price will be not less than the Subscription Price which is fair and reasonable as mentioned above and the Placing Commission payable to the Placing Agent is in line with those charged in the Placing Comparables;
- the dilution effect on the shareholding interests of public Shareholders, which will be potentially diluted by up to a maximum of 80.0% following completion of the Rights Issue, is considered to be acceptable given (i) the current financial position of the Group; (ii) that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable as mentioned above; and (iii) that the Rights Issue is not prejudicial to the Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue. Meanwhile, the Rights Issue does not result in a theoretical dilution effect of 25% or more on its own, complying with the Listing Rules; and
- the Rights Issue is expected to bring an overall positive financial impact on the Group and improve the liquidity and gearing of the Group, which is in line with the interests of Shareholders.

Based on the above, we consider that the terms of the Rights Issue, the Placing Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Rights Issue, the Placing Agreement and the transactions contemplated thereunder, while not in the ordinary and usual course of business of the Group, are nevertheless in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Rights Issue, the Placing Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited



Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in the corporate finance industry.