



**MERDEKA CORPORATE FINANCE LIMITED**

**领智企业融资有限公司**

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27 January 2025

*To: the Independent Board Committee and the Independent Shareholders of  
Graphex Group Limited*

Dear Sir and Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARE  
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 Rights Issue, details of which are set out in the Letter from the Board (the “**Board Letter**”) contained in the circular of Graphex Group Limited (the “**Company**”) dated 27 January 2025 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Board proposes, subject to, among other things, the Share Consolidation becoming effective, to conduct the Rights Issue on the basis of three (3) Rights Shares for every one (1) Consolidated Share held on the Record Date at the Subscription Price of HK\$0.170 per Rights Share, to raise approximately HK\$119.7 million by issuing 704,284,056 Rights Shares to the Qualifying Shareholders. The Rights Issue is only available to Qualifying Shareholders and will not be extended to Non-Qualifying Shareholders. 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 Rights Shares by offering the Unsubscribed Rights Shares and the NQS 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 3 December 2024 (after trading hours of the Stock Exchange), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares. The placing price of the Unsubscribed Rights Shares and the NQS Rights Shares shall be not less than the Subscription Price. The placing price shall be not less than HK\$0.170 per Unsubscribed Rights Share and/or the NQS Rights Share.

#### **LISTING RULES IMPLICATIONS**

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares of the Company by more than 50% within 12 months period immediately preceding the date of this circular, the Rights Issue is conditional upon the minority Shareholders' approval at the EGM, and any controlling shareholders and their associates, or where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) in relation to the Rights Issue at the EGM.

As at the Latest Practicable Date, the Company does not have any controlling shareholder. Mr. Chan Yick Yan Andross, an executive Director and the Chief Executive Officer of the Company, holds 4,894,000 Shares by himself and 93,716,887 Shares through CY Y Holdings Limited, a company wholly owned by him, representing 8.40% of the total issued Shares; Mr. Lau Hing Tat, Patrick, the chairman and an executive Director of the Company, holds 9,892,000 Shares by himself and 46,003,444 Shares through LSBJ Holdings Limited, a company wholly owned by him, representing 4.76% of the total issued Shares and Mr. Qiu Bin, an executive Director of the Company, holds 680,000 Shares by himself representing 0.06% of the total issued Shares. Therefore, Mr. Chan Yick Yan Andross, Mr. Lau Hing Tat Patrick and Mr. Qiu Bin and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules at the EGM. Apart from the above mentioned, no shareholders shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A(1) of the Listing Rules.

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.

As at the Latest Practicable Date, the Company has no treasury shares.

## **THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee comprising all the four independent non-executive Directors, namely, Ms. Tam Ip Fong Sin, Mr. Wang Yuncai, Mr. Liu Kwong Sang and Mr. Tang Zhaodong, 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, Merdeka Corporate Finance Limited (“**Merdeka**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Rights Issue, there were no engagements between the Group or the Shareholders and Merdeka. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

## **BASIS OF OUR ADVICE**

In formulating our opinion and recommendation, we have relied on the statements, information, opinions and representations contained in or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the “**Management**”). Our review procedures include, among others, review of (i) the Placing Agreement; (ii) the annual report of the Group for the years ended 31 December 2022 and 2023 (the “**2023 Annual Report**”); (iii) the interim report of the Group for the six months ended 30 June 2023 and 2024 (the “**2024 Interim Report**”); (iv) the Circular; (v) other relevant information provided by the Company; (vi) market information obtained from the official website of the Stock Exchange; and (vii) other public information available to us. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and its advisers, the Directors and the Management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Management in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading.

We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the Management.

Our opinion is based on the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Rights Issue, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinions and recommendations in respect of the Rights Issue, we have taken into account the principal factors and reasons set out below.

### **1. Background information of the Group**

The Company is an investment holding company. The principal activities of the Group are development and processing of graphene products, in particular, graphite anode material for lithium-ion batteries used in electric vehicles, energy storage systems and other applications (“**Graphene Segment**”). The Group is also engaged in landscape architecture and design businesses (“**Architecture Segment**”).

### 1.1 Financial information of the Group

Set out below is a summary of the financial performance of the Group for the financial years ended 31 December 2022 (“FY2022”) and 31 December 2023 (“FY2023”) respectively as extracted from the 2023 Annual Report and the six months ended 30 June 2023 (“HY2023”) and 30 June 2024 (“HY2024”) respectively as extracted from 2024 Interim Report:

#### Consolidated statement of profit or loss

	<b>FY2023</b> <i>HK\$'000</i> (audited)	<b>FY2022</b> <i>HK\$'000</i> (audited)	<b>HY2024</b> <i>HK\$'000</i> (unaudited)	<b>HY2023</b> <i>HK\$'000</i> (unaudited)
<b>Revenue</b>	291,929	341,241	93,742	151,274
– Sale of graphene products	194,929	214,614	61,489	97,103
– Landscape architecture services	97,000	122,856	32,253	54,171
– Catering management services	–	3,771	–	–
<b>Gross profit</b>	96,821	119,962	30,367	50,032
(Loss) before income tax	(114,281)	(71,971)	(57,303)	(46,780)
<b>(Loss) for the period</b>	(112,201)	(69,650)	(54,046)	(41,775)
<b>(Loss)/profit for the period attributable to:</b>				
– the owners of the Company	(113,168)	(69,663)	(54,096)	(43,968)
– non-controlling interests	967	13	50	2,193

#### FY2023 and FY2022

The Group’s revenue for FY2023 amounted to approximately HK\$291.93 million, representing a decrease of 14.45% when compared to that of approximately HK\$341.24 million for the last year, which was mainly derived from the sale of graphene products and provision of landscape architecture services. The Graphene Segment generated revenue in the amount of approximately HK\$194.93 million in FY2023, as compared to approximately HK\$214.61 million in FY2022. The decline in revenue in the Graphene Segment is due to product price drop and exchange rate factors. The Architecture Segment generated revenue in the amount of approximately HK\$97.00 million in FY2023, as compared to approximately HK\$122.86 million in FY2022, and the reduction

was mainly due to slowdown in real estate development market in China. During FY2023, the Group ceased all the remaining catering business and completed the disposal of the entire segment.

The Group's gross profit amounted to approximately HK\$96.82 million for FY2023, representing a reduction of approximately 19.29% as compared to approximately HK\$119.96 million for FY2022. Gross profit margin decreased by approximately 2 percentage points to approximately 33.2% for FY2023, as compared with that of approximately 35.2% for FY2022. The overall decrease in gross profit margin was due to the decrease of gross profit margin in Architecture Segment during FY2023.

The loss attributable to the owners of the Company for FY2023 stood at approximately HK\$113.17 million versus that of approximately HK\$69.66 million for FY2022. As advised by the Management, the increase in loss attributable to the owners of the Company was due to the reduction of revenue of the Graphene Segment and Architecture Segment and reduction of other income and gains for FY2023.

#### *HY2024 and HY2023*

The Group's revenue for HY2024 amounted to approximately HK\$93.74 million, representing a decrease of 38.03% when compared to that of approximately HK\$151.27 million for the corresponding period of last year, which was mainly derived from the sale of graphene products and provision of landscape architecture services. The Graphene Segment generated revenue in the amount of approximately HK\$61.49 million in HY2024, as compared to approximately HK\$97.10 million in HY2023. The decline in revenue in the Graphene Segment is due to a drop in selling prices and a decrease in orders. The Architecture Segment generated revenue in the amount of approximately HK\$32.25 million in HY2024, as compared to approximately HK\$54.17 million in HY2023, and the reduction was mainly due to the slowdown in real estate development market in China. During HY2024, the Group did not generate revenue from the catering business upon the cessation of such business in 2023.

The Group's gross profit amounted to approximately HK\$30.37 million for HY2024, representing a reduction of approximately 39.30% as compared to approximately HK\$50.03 million for HY2023. Gross profit margin decreased to approximately 32% for HY2024, as compared with that of approximately 33% for HY2023. The slight decrease was mainly attributable to the decrease in the gross profit margin in the Graphene Segment.

The loss attributable to the owners of the Company for HY2024 stood at approximately HK\$54.10 million versus that of approximately HK\$43.97 million for HY2023. As advised by the Management, the increase in loss attributable to

the owners of the Company was due to the less favourable market and economic environment in relation to the Graphene Segment and Architecture Segment.

*Consolidated statement of financial position*

	As at	
	30 June 2024 HK\$'000 (unaudited)	31 December 2023 HK\$'000 (audited)
<b>TOTAL ASSETS</b>	839,316	847,343
Non-current assets	570,006	600,844
Current assets	269,310	246,499
– <i>Restricted bank deposit</i>	45	–
– <i>Cash and cash equivalents</i>	10,391	27,190
<b>TOTAL LIABILITIES</b>	510,069	477,705
<b>Current liabilities</b>	367,829	320,168
– <i>Interest-bearing borrowings</i>	150,099	135,882
– <i>Convertible notes</i>	3,798	4,158
<b>Non-current liabilities</b>	142,240	157,537
– <i>Interest-bearing borrowings</i>	–	12,500
– <i>Promissory note</i>	63,182	61,024
<b>NET ASSETS</b>	329,247	369,638

As illustrated above, the total assets of the Group amounted to approximately HK\$839.32 million as at 30 June 2024, representing a slight decrease of approximately 0.95% as compared to approximately HK\$847.34 million as at 31 December 2023. The Group's cash and bank balances as at 30 June 2024 were approximately HK\$10.39 million, representing a substantial decrease of approximately 61.79% as compared to that of approximately HK\$27.19 million as at 31 December 2023.

Meanwhile, the Group's total liabilities increased by approximately 6.77% to approximately HK\$510.07 million as at 30 June 2024 from approximately HK\$477.71 million as at 31 December 2023. As at 30 June 2024, the Group's borrowings primarily comprise the interest-bearing borrowings of approximately HK\$150.10 million, convertible notes of approximately HK\$3.80 million and promissory note of HK\$63.18 million. As noted from the 2024 Interim Report, the Group's gearing ratio (represented by total interest-bearing bank and other borrowings at the end of the period divided by total equity at the end of the

respective period multiplied by 100%) as at 30 June 2024 was approximately 65.9% (31 December 2023: 57.8%).

The Group recorded net assets amounting to approximately HK\$329.25 million as at 30 June 2024, representing a decrease of approximately 10.93% as compared to the net assets of approximately HK\$369.64 million as at 31 December 2023.

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

### *Use of proceeds*

As disclosed in the Board Letter, assuming full subscription under the Rights Issue, the gross proceeds from the Rights Issue are expected to be approximately HK\$119.7 million. The net proceeds from the Rights Issue (after deducting the estimated expenses of approximately HK\$4.0 million) are estimated to be approximately HK\$115.7 million. The estimated net subscription price per Rights Shares after deducting the related expenses of the Rights Issue is expected to be approximately HK\$0.164.

The Company intends to apply the net proceeds from the proposed Rights Issue of approximately HK\$115.7 million as follows: as to (i) approximately HK\$57.9 million or 50.0% of the maximum net proceeds for the implementation of the Phase 2 Project in Laixi City, the PRC including (a) approximately HK\$25.0 million or 21.6% of the maximum net proceeds for the purchase of Land or any of the other available land parcels inside the Park; (b) approximately HK\$26.3 million or HK\$22.7% of the maximum net proceeds for the purchase of production equipment; and (c) approximately HK\$6.6 million or 5.7% of the maximum net proceeds for the factory construction works on the Land is purchased. The Director expected the aforesaid Land auction is expected to be conducted around the second quarter of 2025. The factory construction works will start within four to six months after the Land is granted as mentioned earlier and be completed in three to four months while the purchase of production equipment will start after the architectural design is approved which would be conducted in three months after the Land is granted; (ii) approximately HK\$34.7 million or 30.0% of the maximum net proceeds for repayment of loans and interests of the Group; and (iii) approximately HK\$23.1 million or 20.0% of the maximum net proceeds as general working capital of the Group including salary and rental payments for the coming nine to twelve months.

In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be allocated and utilised in accordance to the same proportion to the above uses. The Group is minded to improve its profitability and alleviate the repayment pressure by, among other things, lowering liabilities and finance costs.



With reference to 2024 Interim Report, we noted that, as at 30 June 2024, the Group recorded a minimal cash and cash equivalents of approximately HK\$10.39 million, with a short term interest-bearing borrowings of approximately HK\$150.10 million and convertible notes of approximately HK\$3.80 million. Despite the Group has completed the Previous Placing on 8 November 2024, the net proceeds from the Previous Placing is only approximately HK\$11.97 million. On this basis, the Group has need for additional financial resources to settle its short-term liabilities and replenish its working capital.

As mentioned above, a total of approximately HK\$57.9 million is intended to be used for the Group's implementation of project in Laixi City, the PRC.

As understood from the 2023 Annual Report, all of the Group's spherical graphite is produced and sold in China in 2023. The demand of lithium-ion batteries remains strong, especially for EV market and energy storage market. Lithium-ion batteries use deep processed graphite as anode material and there is no commercially viable substitute. The Graphene Segment of the Group specializes in the mid-stream deep processing of graphite from flake graphite into battery anode material which is essential for battery making and hence EV production now and in the foreseeable future.

As disclosed in the annual report of the Company for the year ended 31 December 2023, on 19 July 2023, the Company entered into a cooperation agreement with the Nanshu Town Government pursuant to which the Company and the Nanshu Town Government intended to have a cooperation in the "Graphite Anode Material Project" in Laixi City Nanshu Town New Material Industrial Park ("**Park**") which is situated in Nanshu Town, Laixi City, Shandong Province, the PRC (the "**Project**"). The Project will be carried out in different phases, and the Company's total investment in the first phase of the Project (the "**Phase 1 Project**") is estimated around RMB1 billion. Pursuant to the announcements of the Company dated 10 January 2024 and 18 November 2024, the Phase 1 Project has been delayed mainly due to power supply issue and the Company has been actively negotiating with the local power supply authorities, a local power engineering company, the landlord and Nanshu Town Government in order to resolve the issue. As at the Latest Practicable Date, the Company has obtained the approval of the environmental permit and the implementation of the Phase 1 Project has commenced.

As understood from the tenancy agreement obtained from the Management, on 10 January 2024, a subsidiary of the Company entered into a lease agreement for the factory buildings for an aggregate term of 10 years for which the total rental payment will be RMB58,872,000 (equivalent to HK\$65,936,000) as part of the execution of the cooperation plan under the Phase 1 Project.

As disclosed in the announcement of the Company dated 18 November 2024, it is further understood that the Company and the Nanshu Town Government have intention

of jointly working in the construction of the phase 2 of graphite deep processing project located in the graphite industry cluster area of Nanshu Town (the “**Phase 2 Project**”). The Directors noted that the Phase 2 Project can be carried out without being affected by the progress of the Phase 1 Project and the condition of power supply in Nanshu Town. The estimated investment amount of the Phase 2 Project is RMB2 billion and the Phase 2 Project is mainly engaged in the production and processing of lithium battery anode materials. As advised by the Management, the Company is in progress to acquire land in Nanshu Town (the “**Land**”) through public tender, auction or listing-for-sale process. Based on the best estimation of the Board, tentatively the Company intends to construct a factory with total area of about 50,000 square meters on the Land for the production and processing of lithium battery anode materials. Based on the estimation of the Directors, the Land can be put out for bidding and auction within 6 months after all relevant plans and approval are ready. Currently, the Company is negotiating with the local government on the investment terms and conditions of the Phase 2 Project. The Company estimates the construction of the Phase 2 Project will start within four to six months after the land auction if the Land has been granted to the Company by public tender, auction and listing-for-sale. Alternatively the Company may apply for other available land parcels inside the Park through the application list in case the auction for the Land is not successful. Currently, based on the information on hands, there are at least three vacant land parcels located in the Park which is also available for auction.

As understood from the Company, the Company may conduct debt and/or equity fund-raising exercises and/or utilizing internal resources for the remaining investment amount for the Phase 1 Project and the Phase 2 Project. However, as at the Latest Practicable Date, the Board does not have any concrete plans and the Company will make further announcement in this regard in accordance with the Listing Rules as and when appropriate.

The growing demand for electric vehicles (EVs) in PRC is driving a sustained and robust need for graphite anodes, a critical component in lithium-ion batteries. As the world’s largest EV market, accounting for more than half of global EV sales, China’s aggressive push for clean energy adoption, coupled with government incentives, subsidies, and policies such as the “Dual Carbon” goals, has fueled unprecedented growth in EV production and adoption. With EVs requiring high-performance batteries to achieve longer driving ranges and faster charging, graphite anodes remain the preferred choice due to their excellent energy density, durability, and cost efficiency. Additionally, China’s dominance in natural graphite mining and processing ensures a stable domestic supply chain to meet the surging demand. As EV penetration accelerates, supported by advancements in infrastructure and increasing consumer adoption, the demand for graphite anodes is expected to remain strong, cementing its vital role in powering the nation’s transition to sustainable transportation.

Therefore, the Company believes that utilizing 50% of the net proceeds from the Rights Issue for the implementation of project in Laixi City, the PRC would allow the Group to seize more opportunities to improve the Group's Graphene Segment and to expand of Group's anode material production capacity to take advantage of the growth in demand of batteries and the new battery gigafactory to be built in the next few years.

Besides, we have obtained a summary list of the Group's borrowings as at 30 November 2024. It is understood that the total borrowings of the Group as of 30 November 2024 comprise of (i) two bank borrowings in aggregate of approximately HK\$11,910,000, with an interest rate of 2.95% and 3.60%, respectively; (ii) borrowings from various individuals and institutions in aggregate of approximately HK\$23,890,000, with interest rates ranging from 0% to 15%; (iii) corporate bonds of approximately HK\$115,062,000, with an interest rate of 6%; (iv) convertible notes of approximately HK\$3,798,000, with an interest rate of 5.50%; and (v) promissory notes of approximately HK\$68,010,000, with an interest rate of 2.00%. Hence, the Company considers that the repayment of aforementioned loans by partial proceeds of the Rights Issue would allow the Group to save the associated interest expenses and improve the Group's gearing ratio.

The remaining net proceeds of approximately HK\$23.1 million or 20.0% of the maximum net proceeds will be applied as general working capital of the Group.

#### ***Other financing alternatives***

We understand from the Board Letter that, apart from the Rights Issue, the Company has considered (i) placing of new shares; (ii) debt financing; (iii) disposal of assets; and (iv) open offer as fund raising alternatives in comparison to the Rights Issue. However, placing would only be available to certain placees and debt financing would result in additional finance costs and increase the Group's liabilities burden. In addition, the Company has just completed the Previous Placing on 8 November 2024.

The Board also considered that debt financing cannot address the high gearing ratio of the Group, and the disposal of assets is not a viable solution to the Group due to the absences of liquid and valuable assets that can generate significant cashflow to improve the financial position of the Group within short time interval. On the other hand, the Board considered that the fundraising by way of the Rights Issue will improve the financial position of the Group immediately. The Board has also considered that open offer is less favorable to the Shareholders compared to the Rights Issue due to the flexibility of the Shareholders being able to sell their entitled nil-paid rights when they do not wish to take up the entitlements under the Rights Issue.

The Rights Issue is an offer to existing Shareholders to participate in the enlargement of the capital base of the Company and enables the Shareholders to maintain their proportionate interests in the Company and continue to participate in

development of the Company in the future should they wish to do so. However, those Shareholders who do not participate in the Rights Issue to which they are entitled should note that their shareholding interest in the Company will be diluted.

The Directors consider that, despite any potential dilution impact of the proposed Rights Issue on the shareholding interests of the Shareholders, the terms of the proposed Rights Issue, including the Subscription Price, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue are able to sell the nil-paid rights in the market; (ii) the proposed Rights issue allows 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 market price of the Shares; and (iii) the proceeds from the Rights Issue can fulfil the funding needs of the Group.

As further understood from the Management, it is considered that the placing obligations of the Placing Agent are more or less similar to an underwriter of the Rights Issue (except that the Placing Agent is on best-effort basis). As such, the Company subsequently decided to conduct the Rights Issue on a non-underwritten basis and to adopt the Compensatory Arrangements simultaneously to ensure sufficient funds could be raised.

*Our view*

Having considered the abovementioned alternatives and the reasons for the Rights Issue discussed above, we concur with the Board's view that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**3. Principal terms of the proposed Rights Issue**

**3.1 Summary of the key terms**

Basis of Rights Issue:	Three (3) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date
Subscription Price:	HK\$0.170 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	1,173,806,762 Shares

Number of Consolidated Shares in issue upon the Share Consolidation becoming effective:	234,761,352 Consolidated Shares (assuming there is no further allotment and issue or repurchase of Shares up to the effective date of the Share Consolidation)
Maximum number of Rights Shares:	704,284,056 Rights Shares (assuming there is no other change in the total number of issued Shares on or before the Record Date)
Aggregate nominal value of the Rights Shares:	HK\$35,214,202.80 (assuming no change in the number of Shares in issue on or before the Record Date)
Total Consolidated Shares as enlarged by the Rights Issue (assuming the Rights Issue is fully subscribed):	939,045,408 Consolidated Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)
Maximum gross proceeds to be raised from the Rights Issue:	Approximately HK\$119.7 million

*Other securities of the Company*

As at the Latest Practicable Date, there are Outstanding Share Options for subscription of an aggregate of 9,677,692 Shares under the 2014 Share Option Scheme.

As at the Latest Practicable Date, the number of shares that may be issued in respect of the share awards granted under the 2023 Share Award Scheme is 14,628,072 Shares.

As at the Latest Practicable Date, the Company has 5,842,311 outstanding convertible notes with aggregate principal value of US\$490,000, which was equivalent to approximately HK\$3,797,500 at the fixed exchange rate of HK\$7.75:US\$1 as stipulated in the subscription agreement dated 19 January 2021 with Lexinter International Inc..

As at the Latest Practicable Date, the Company has 89,423,076 warrants outstanding. Each warrant entitles the registered holder the rights to subscribe one Share at the exercise price of HK\$0.65 per Share, subject to adjustment, at any time commencing on the grant date.

As at the Latest Practicable Date, 12,901,336 ADS representing a total of 258,026,720 underlying Shares are in issue. Pursuant to the Deposit Agreement,

an ADS Holder has the right to surrender the ADS and convert into corresponding Shares which are being held by the Depository or the custodian in accordance with the provisions of the Deposit Agreement.

Save as abovementioned, as at the Latest Practicable Date, the Company does not have any other derivatives, options, warrants, other securities or conversion rights or other similar rights which are convertible or exchangeable into, any Shares or Consolidated Shares, as the case may be.

For further information on the Rights Issue, please refer to the Board Letter.

### **3.2 Subscription Price**

The Subscription Price of HK\$0.170 represents:

- (i) a discount of approximately 20.93% to the adjusted closing price of HK\$0.215 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date, assuming Share Consolidation has become effective;
- (ii) a discount of approximately 32.00% to the adjusted closing price of HK\$0.250 per Consolidated Share (based on the closing price of HK\$0.050 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (iii) a discount of approximately 28.27% to the average of the closing prices of approximately HK\$0.237 per Consolidated Share based on the average closing price of approximately HK\$0.047 as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 51.73% to the average of the closing prices of approximately HK\$0.352 per Consolidated Share based on the average closing price of HK\$0.070 as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 10.53% to the theoretical ex-rights price of approximately HK\$0.190 per Consolidated Share based on the closing price of HK\$0.250 per Consolidated Share as quoted on the Stock Exchange for the Last Trading Day;
- (vi) theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 24.00%, represented by the theoretical diluted price of approximately HK\$0.190 per Consolidated Share to the benchmarked price of approximately HK\$0.250 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules,

taking into account the higher of (i) the closing price of the 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 date of this Circular and adjusted for the effect of the Share Consolidation); and

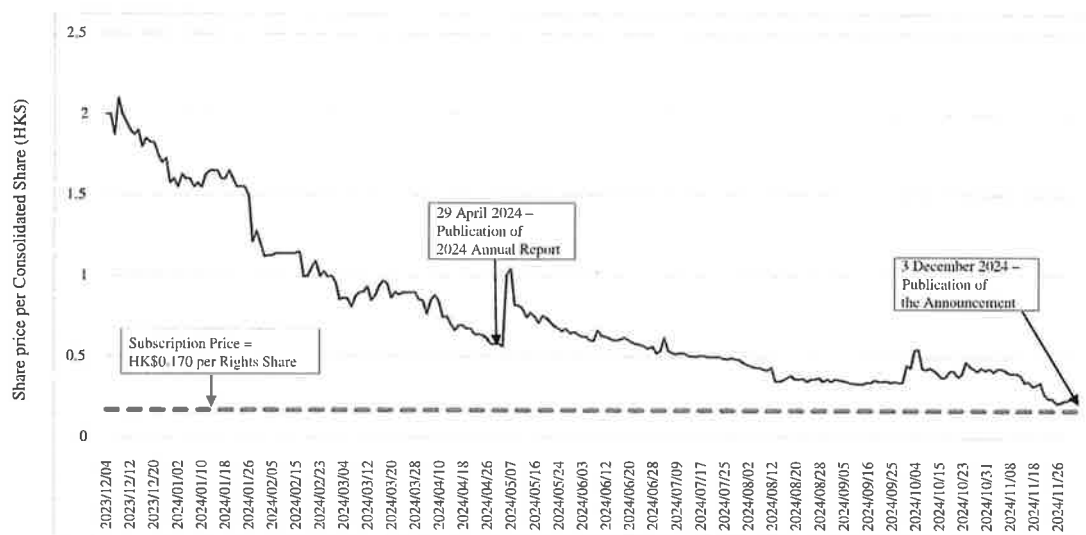
- (vii) a discount of approximately 87.88% to the consolidated net asset value per Consolidated Share of approximately HK\$1.402 (based on the consolidated net asset value of the Company as at 30 June 2024 of approximately HK\$329.2 million and the total number of issued Consolidated Shares after the Share Consolidation and before the Rights Issue, which will be 234,761,352).

As stated in the paragraph headed “The Subscription Price” in the Board Letter, the Subscription Price was determined by Company with reference to the amount of fund raising targeted by the Company under the Rights Issue, the market price of the Shares under the prevailing market conditions, the current business performance and financial position of the Group and the reasons for the Rights Issue and the intended use of proceeds as set out in this Circular.

*a. Historical price performance*

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the adjusted closing prices (as adjusted for the Share Consolidation) of the Consolidated Shares from 4 December 2023 to the Last Trading Day (the “**Share Review Period**”) (being a period of approximately 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider that the Share Review Period is a reasonably long period covering the annual operating cycle of the Company for analysis purpose to illustrate the general trend and level of movement of the adjusted closing price of the Consolidated Shares and thus the Share Review Period is fair and representative to reflect the market assessment on the financial performance of the Group and the general market sentiment.

**Chart 1: Historical closing prices of the Consolidated Shares during Share Review Period**



Source: The website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

As shown in Chart 1, the adjusted closing price of the Consolidated Shares showed a decreasing trend in general from the highest adjusted closing price of HK\$2.10 per Consolidated Share on 7 December 2023 to the lowest adjusted closing price of HK\$0.215 per Consolidated Share on 26 November 2024, which represents a decrease of approximately 89.76% from the highest adjusted closing price of the Consolidated Shares. The average adjusted closing price over the Share Review Period is approximately HK\$0.78 per Consolidated Share.

The Subscription Price of HK\$0.170 represents (i) discount of approximately 91.90% to the highest adjusted closing price of HK\$2.10 per Consolidated Share; (ii) discount of approximately 20.93% to the lowest adjusted closing price of HK\$0.215 per Consolidated Share; and (iii) discount of approximately 78.21% to the average adjusted closing price of HK\$0.78 per Consolidated Share over the Share Review Period. Although the Subscription Price is out of range of the adjusted closing price of the Consolidated Shares during the Share Review Period as mentioned above, after considering that (i) the adjusted closing price of the Consolidated Shares has been decreasing during the Share Review Period; (ii) the low liquidity of the Shares as discussed in sub-section headed “(b) Historical trading liquidity of the Shares” below in this letter; (iii) the funding needs to strengthen of the Graphene Segment via the cooperation with Nanshu Town Government and settlement of the short-term liabilities as discussed in the section headed “2. Reasons for the Rights Issue and proposed use of proceeds” above in this letter; and (iv) the discount of the Subscription Price is within the range in the comparable analysis as discussed in



the sub-section headed “(c) Comparison with recent rights issue transactions” below in this letter, we consider that the discount of the Subscription Price is fair and reasonable and the Rights Issue is in the interests of the Company and the Shareholders as a whole.

*b. Historical trading liquidity of the Shares*

The table below sets out the average daily trading volume of the Shares per month and the respective percentages of the average daily trading volume as compared to the total number of issued Shares during the Share Review Period:

	Total trading volume of the Shares in the month/period	Number of trading days in the month/period	Average daily trading volume of the Shares in the month/period <i>(Note 1)</i>	Percentage of average daily trading volume to total number of Shares <i>(Note 2)</i>
<b>2023</b>				
From 3 December to 31 December	9,460,392	18	525,577	0.059%
<b>2024</b>				
January	14,137,800	22	642,627	0.072%
February	5,650,000	19	297,368	0.033%
March	8,227,000	20	411,350	0.046%
April	10,882,000	20	544,100	0.061%
May	612,621,217	21	29,172,439	3.238%
June	27,962,000	19	1,471,684	0.152%
July	155,168,000	22	7,053,091	0.726%
August	36,589,153	22	1,663,143	0.168%
September	27,556,000	19	1,450,316	0.147%
October	221,838,000	21	10,563,714	1.069%
November	185,718,000	21	8,843,714	0.753%
1 December to Last Trading Day	17,452,000	2	8,726,000	0.743%
		<b>Maximum</b>	29,172,439	3.238%
		<b>Minimum</b>	297,368	0.033%
		<b>Average</b>	5,489,625	0.559%
		<b>Median</b>	1,471,684	0.152%

*Source: The website of the Stock Exchange (www.hkex.com.hk)*

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. Calculation is based on the average daily trading volume of Shares divided by the total issued Shares of the Company at the end of each respective month.

As illustrated in the table above, the percentage of average daily trading volume of Shares during the Share Review Period ranged from 0.033% to approximately 3.238% of the total number of issued Shares for each of their respective month/period, with an average percentage of approximately 0.559%. Considering that the trading liquidity of the Shares were in general relatively thin during the Share Review Period, we consider that the Company is unlikely to be able to raise equity funds from third parties without a substantial discount on the prevailing Share prices. Taking into account the low trading liquidity of the Shares, we are of the view that, from the perspective of trading liquidity of the Shares, the Rights Issue is an appropriate equity financing method for the Group and the Subscription Price thereunder is fair and reasonable.

*c. Comparison with recent rights issue transactions*

With a view to assess the fairness and reasonableness of the terms of the Rights Issue, we have also conducted market research on recent proposed rights issue transactions based on the following selection criteria: (i) the shares of the company are listed on the Stock Exchange; and (ii) the proposed rights issue transaction was announced during the 3-month period commencing on 4 September 2024 up to and including the Last Trading Day (i.e. 3 December 2024) (“**Comparable Review Period**”), which we considered to be an appropriate timeframe to identify a representative sample set for the purpose of our analysis.

Based on the aforesaid criteria, we have identified 25 rights issues (the “**Rights Issue Comparable(s)**”). Shareholders should note that the Rights Issue Comparables may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to those of the Company. Nevertheless, we consider that they can provide a reasonable reference to how the market generally perceive rights issues. We also consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions of companies listed on the Stock Exchange conducting rights issue. It should be noted that, in forming our opinion, we have taken into account of the results of the below analysis together with all other factors stated in this letter as a whole. The table below provides a summary of our findings.

The details of which are set out in the following table:

Date of announcement	Company name (Stock code)	Basis of entitlement	Premium/(Discount) of subscription price over/to				Theoretical dilution effect (%) (Note 3)	Placing Commission (%) (Note 4)	Excess application (Yes/No)
			Closing price on the respective last trading day (%)	Theoretical ex-rights price (%) (Note 1)	The net asset value per share (%) (Note 2)				
2-Dec-24	Luxxu Group Limited (1327)	1 for 1	(44.44)	(28.57)	(79.45)	(22.22)	HKS100,000 or 1.5%	No	
21-Nov-24	Legend Strategy International Holdings Group Company Limited (1355)	1 for 1	(49.71)	(33.08)	N/A	(24.86)	N/A	Yes	
21-Nov-24	Elife Holdings Limited (223)	1 for 5	(6.54)	(9.09)	96.10	(0.73)	N/A	Yes	
19-Nov-24	Rare Earth Magnesium Technology Group Holdings Limited (601)	1 for 2	(43.88)	(34.26)	(86.91)	(14.63)	N/A	Yes	
19-Nov-24	China Wood International Holding Co., Limited (1822)	1 for 1	(45.00)	(29.10)	N/A	(24.90)	N/A	Yes	
15-Nov-24	Global Strategic Group Limited (8007)	4 for 1	(12.50)	(3.20)	(91.60)	(11.30)	N/A	Yes	
12-Nov-24	HG Semiconductor Limited (6908)	1 for 4	(36.00)	(31.00)	(44.20)	(8.30)	HKS100,000 or 1.0%	No	
11-Nov-24	Far East Holdings International Limited (36)	2 for 1	(35.77)	(15.66)	(80.59)	(23.85)	2.50	No	
31-Oct-24	Yuzhou Group Holdings Company Limited (1628)	49 for 100	(73.68)	(65.27)	N/A	(24.23)	N/A	Yes	
4-Nov-24	China Water Industry Group Limited (1129)	1 for 1	(49.85)	(33.20)	(93.95)	(24.92)	2.00	No	
22-Oct-24	IRC Limited (1029)	1 for 2	(15.00)	(10.50)	(67.30)	(4.90)	N/A	Yes	
21-Oct-24	China 33 Media Group Limited (8087)	3 for 2	(7.41)	(3.23)	77.44	(5.12)	HKS100,000 or 1.50%	No	
18-Oct-24	Kingkey Financial International (Holdings) Limited (1468)	1 for 2	(2.56)	(4.04)	87.58	(2.06)	N/A	Yes	
18-Oct-24	Gaodi Holdings Limited (1676)	1 for 2	37.90	12.10	(65.50)	–	1.00	No	
15-Oct-24	Eminence Enterprise Limited (616)	2 for 1	(8.00)	(2.85)	(98.98)	(21.30)	N/A	Yes	
8-Oct-24	V & V Technology Holdings Limited (8113)	1 for 2	(31.51)	(23.47)	(32.23)	(10.50)	N/A	Yes	
4-Oct-24	Palinda Group Holdings Limited (8179)	1 for 2	(18.70)	(13.29)	(66.10)	(6.23)	N/A	Yes	
2-Oct-24	China National Culture Group Limited (745)	2 for 1	(31.97)	(13.79)	(53.36)	(21.31)	2.00	No	
26-Sep-24	Innovax Holdings Limited (2680)	1 for 2	(67.39)	(59.20)	(88.59)	(22.78)	1.00	No	

Date of announcement	Company name (Stock code)	Basis of entitlement	Premium/(Discount) of subscription price over/to				Theoretical dilution effect (%) (Note 3)	Placing Commission (%) (Note 4)	Excess application (Yes/No)
			Closing price on the respective last trading day (%)	Theoretical ex-rights price (%) (Note 1)	The net asset value per share (%) (Note 2)				
23-Sep-24	Hatcher Group Limited (8365)	3 for 1	(31.50)	(10.40)	(94.10)	(23.60)	0.00	No	
23-Sep-24	Shougang Fushan Resources Group Limited (639)	1 for 30	1.96	1.90	(20.49)	-	N/A	Yes	
13-Sep-24	Dragon Rise Group Holdings Limited (6829)	1 for 1	(48.70)	(33.10)	(89.20)	(24.90)	1.0% or HK\$100,000	No	
13-Sep-24	Shougang Century Holdings Limited (103)	1 for 5	10.00	8.196	(62.50)	-	N/A	Yes	
9-Sep-24	Crown International Corporation Limited (727)	1 for 2	0.00	0.00	156.52	-	N/A	Yes	
4-Sep-24	China New Consumption Group Limited (8275)	1 for 2	(5.66)	(4.76)	(61.09)	-	3.5% or HK\$250,000	No	
		<b>Maximum</b>	37.90	12.10	156.52	0.00	3.50 (Note 5)		
		<b>Minimum</b>	(73.68)	(65.27)	(98.98)	(24.92)	0.00 (Note 5)		
		<b>Average</b>	(24.64)	(17.55)	(39.02)	(12.91)	1.55 (Note 5)		
		<b>Median</b>	(31.50)	(13.29)	(65.80)	(11.30)	1.50 (Note 5)		
	<b>The Company</b>	<b>3 for 1</b>	<b>(32.00)</b>	<b>(10.53)</b>	<b>(87.88)</b>	<b>(24.00)</b>	<b>1.50</b>	<b>No</b>	

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

1. The benchmarked price used for calculation of the theoretical ex-rights price is calculated in accordance with Rule 7.27B of the Listing Rules or Rule 10.44A of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"), being the higher of (i) the closing price per share on the last trading day of the subject Rights Issue Comparables; and (ii) average closing price per share for the five trading days immediately prior to the last trading day of the subject Rights Issue Comparables.
2. The net asset value (the "NAV") per share is calculated based on the latest published net asset value of the subject company and total number of shares in issue as at the date of the respective announcement. "N/A" denotes that the NAV of the relevant Rights Issue Comparable that has net liabilities according to its latest published audited/unaudited consolidated financial statements.
3. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules or Rule 10.44A of the GEM Listing Rules. "-" denotes that the rights issue has no theoretical dilution effect attributable to the subject theoretical ex-right price being higher than the subject benchmarked price.
4. "N/A" denotes that the subject rights issue was conducted without the involvement of any placing.
5. Analysis is based on the absolute percentage of the placing commission.
6. Figures or data shown in the above table are based on information as set out in the subject announcement or circular of the respective listed company or by our calculation, where applicable.
7. The above figures may be subject to rounding adjustments, where applicable.

As set out in the table above, we noted that:

- (a) the discount or premium of the subscription price to the respective last trading day price of the Rights Issue Comparables ranged from a discount of approximately 73.68% to a premium of approximately 37.90% (the “**Comparable LTD Range**”), with the average and median of discounts being approximately 24.64% and 31.50%, respectively. The Subscription Price represents a discount of approximately 32.00% to the adjusted closing price of the Consolidated Share on the Last Trading Day, which is within the Comparable LTD Range and is approximate to the aforesaid median;
- (b) the discount or premium of the subscription price to the theoretical ex-rights price of the Rights Issue Comparables ranged from a discount of approximately 65.27% to a premium of approximately 12.10% (the “**Comparable TERP Range**”), with the average and median of discounts of approximately 17.55% and 13.29% respectively. The Subscription Price represents a discount of approximately 10.53% to the theoretical ex-rights price per Share on the Last Trading Day which is within the Comparable TERP Range and represents a lower discount than the aforesaid average and median;
- (c) the discount or premium of the subscription price over or to the net asset value per share of the Rights Issue Comparables ranged from a discount of approximately 98.98% to a premium of approximately 156.52% (the “**Comparable NAV Range**”), with the average and median of discounts of approximately 39.02% and 65.80% respectively. The Subscription Price represents a discount of approximately 87.88% to the net asset value per Share which is within the Comparable NAV Range and represents a higher discount than the aforesaid average and median;
- (d) the theoretical dilution effect of the Rights Issue Comparables ranged from nil to approximately 24.92% (the “**Comparable Dilution Range**”), with average and median dilution effects of approximately 12.91% and 11.30%, respectively. The theoretical dilution effect of the Rights Issue of approximately 24% lies within the Comparable Dilution Range and higher than the average and median dilution effects of the Comparable Rights Issue. In any case, as the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 7.27B of the Listing Rules;

- (e) it is noted from the Board Letter that the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. Based on our analysis on the Rights Issue Comparables, we noted that 11 out of 25 Rights Issue Comparables, did not offer excess application as part of the rights issue. On this basis, we considered the absence of excess application to be common market practice. Furthermore, the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company, for the Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full, they would be able to maintain their respective existing shareholdings in the Company after completion of the Rights Issue. As such, we considered that the absence of excess application arrangement to be acceptable as far as the Independent Shareholders are concerned; and
- (f) Under the Compensatory Arrangements, the Company entered into the Placing Agreement with the Placing Agent to procure Placees, on a best effort basis, to subscribe for the Placing Shares during the Placing Period. The placing commission of the Rights Issue Comparables, where applicable, ranged from 0% to 3.50%, with the average and median of approximately 1.55% and 1.50%, respectively. Pursuant to the terms of the Placing Agreement, the Placing commission is 1.50% of the gross proceeds, from the successful placement of Unsubscribed Rights Shares and NQS Rights Shares, such is within the aforesaid range of the Rights Issue Comparables.

Although (i) the Subscription Price represents a deep discount to the consolidated net asset value per Share attributable to the Shareholders; (ii) the level of discount of the Subscription Price as compared to the closing price on the Last Trading Day is higher than the average and median of the Rights Issue Comparables; and (iii) the theoretical dilution effect of the Rights Issue is higher than the average and median of the Rights Issue Comparables, taking into account (1) the strong demand of the Group's spherical graphite and the prospects of the Phase 1 Project and Phase 2 Project as discussed above; (2) the level of and terms of the borrowings of the Group; (3) 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 (4) the closing price per Share was trading below the net asset value per Share attributable to the Shareholders as at 31 March 2024 for the majority period during the Share Review Period, we consider a substantial discount of the Subscription Price to attract subscription by the Qualifying Shareholders is fair and reasonable.

In view of (i) the Subscription Price represents a discount of approximately 32.00% to the adjusted closing price of the Consolidated Shares on the Last Trading Day which is within the Comparable LTD Range and is approximate to the median of the Rights Issue Comparables; (ii) the discount of the Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day of 10.53% is within the Comparable TERP Range and such discount is lower than the corresponding average and median of the Rights Issue Comparables; (iii) the discount of Subscription Price to the net asset value of the Company as at 30 June 2024 of 87.88% is within the Comparable NAV Range and represents a higher discount than the corresponding average and median of the Rights Issue Comparables; (iv) the theoretical dilution effect of the Rights Issue is within the Comparable Dilution Range and below 25% which is in compliance with Rule 7.27B of the Listing Rules; (v) our analysis on the placing commission under the Placing Agreement is within the range of the Rights Issue Comparables; and (vi) the Subscription Price is available to all Qualifying Shareholders, we consider that the principal terms of the Rights Issue (including the Subscription Price and the Placing commission rate) to be fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

#### **4. Possible financial effects of the Rights Issue**

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, assuming the completion of the Previous Placing and the Rights Issue had been completed and subscribed in full on 30 June 2024, the unaudited consolidated net tangible liabilities of the Group attributable to the owners of the Company would have decreased from approximately HK\$211.74 million to an unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to the owners of the Company of approximately HK\$84.07 immediately after the completion of the Previous Placing and the Rights Issue.

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

#### **5. Possible dilution effect**

All the 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 remain unchanged after the Rights Issue. Referring to the section headed "EFFECT OF THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and their aggregate shareholding interests in the Company

may be reduced by a maximum of approximately 75%. It should be noted that the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including but not limited to the results of acceptance of the Rights Issue.

Having taken into account (i) all Qualifying Shareholders are provided an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company; (ii) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the Rights Issue entitlements; and (iii) shareholding dilution is generally inherent in rights issue with new shares being issued, we are of the view that the potential dilution effect on the shareholding is acceptable.

## **RECOMMENDATION**

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

Yours faithfully,  
For and on behalf of  
**Merdeka Corporate Finance Limited**



**Wallace So**  
*Managing Director*

*Mr. Wallace So is a licensed person registered with the Securities and Futures Commission of Hong Kong, a responsible officer of Merdeka Corporate Finance Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and a licensed representative of Merdeka Investment Management Limited to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. Mr. Wallace So has over 13 years of experience in corporate finance industry.*