AmCap
Ample Capital Limited
豐盛融資有限公司

25 February 2025

To the Independent Board Committee and the Independent Shareholders of
Xinming China Holdings Limited

Dear Sirs,

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

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to (i) advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Rights Issue and the Placing Agreement are fair and reasonable as far as the Independent Shareholders are concerned; (ii) give our recommendation as to whether the Rights Issue and Placing Agreement is in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM. Details of the Rights Issue are set out in the section headed "Letter from the Board" (the "**Letter from the Board**") contained in the circular (the "**Circular**") of the Company to the Shareholders dated 25 February 2025, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context requires otherwise.

Reference is made to the Announcement, in relation to, among other things, the Rights Issue. The Company proposes to raise gross proceeds of up to approximately HK$84.2 million by way of the issue of up to 75,144,880 Rights Shares at the Subscription Price of HK$1.12 per Rights Share on the basis of four (4) Rights Shares for every one (1) Adjusted Share held on the Record Date. The Rights Issue is not underwritten and is only available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders.

LISTING RULES IMPLICATION

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 the Announcement, the Rights Issue is conditional upon the Shareholders' approval at the EGM, and any controlling shareholders of the Company 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 shareholders. Mr. Chen, an executive Director, Chairman and the Chief Executive Officer of the Company, is interested in the 24,330,000 Shares beneficially owned by Xinxing Company Limited, a company wholly owned by Mr. Chen, representing approximately 1.3% of the total issued Shares. Ms. Gao (the spouse of Mr. Chen), a non-executive Director, is also deemed to be interested in the 24,330,000 Shares beneficially owned by Xinxing Company Limited by virtue of the SFO. Therefore, Mr. Chen and Ms. Gao shall abstain from voting in favour of the resolutions approving the Rights Issue and the transactions contemplated thereunder in accordance with Rule 7.27A(1) of the Listing Rules at the EGM. As at the Latest Practicable Date, save for Mr. Chen and Ms. Gao, none of the Directors or chief executives of the Company had any interest in the Shares.

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.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Khor Khie Liem Alex, Mr. Chiu Kung Chak, and Ms. Huang Chunlian and Ms. Lee Yin Man, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the Placing Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned 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.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue. In the last two years, we have not acted in any financial adviser role to the Company.

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

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's annual result announcement for the financial year ended 31 December 2023 (the "**2023 Annual Results**"); (iii) the unaudited interim results of the Company for the six months ended 30 June 2024 (the "**2024 Interim Results**"); (iv) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (v) the opinions expressed by and the representations of the Directors and the Management; and (vi) our review of the relevant public information. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. 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 the 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, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the parties

1.1 Background information and financial overview of the Group

As stated in the Letter from the Board, the Group is principally engaged in the property development, property investment and property leasing in the PRC. Certain summary financial information of the Group as extracted from the 2023 Annual Results and the 2024 Interim Results is set out below:

	For the six months ended 30 June		For the year ended 31 December	
	2024	2023	2023	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	78,696	233,001	422,580	35,198
Gross profit	15,734	35,920	53,440	20,011
Loss attributable to owners of the Company	(342,809)	(281,601)	(592,631)	(2,389,604)

For the six months ended 30 June 2024

The Group's condensed consolidated revenue decreased from approximately RMB233.0 million for the six months ended 30 June 2023 to approximately RMB78.7 million for the six months ended 30 June 2024, representing a decrease of approximately RMB154.3 million or 66.2%. Such decrease in revenue is also due to the sales of Shandong Phases 2 and 3 residential projects mainly recognised as revenue for the corresponding period of last year. The Group recorded a loss attributable to owners of the Company of approximately RMB334.9 million as compared to a loss attributable to owners of the Company of approximately RMB 281.6 million for the six months ended 30 June 2023. The loss during the period was mainly attributed to the decrease in property sales compared to the corresponding period of last year.

For the year ended 31 December 2023

The Group's consolidated revenue increased from approximately RMB35.2 million for the year ended 31 December 2022 to approximately RMB422.6 million for the year ended 31 December 2023, representing an increase of approximately RMB387.4 million mainly due to the completion of phases 2 and 3 of the Shandong residential project. The Group recorded the loss attributable to the shareholders approximately RMB526.1 million, representing a decrease of loss of approximately RMB1,724.3 million or approximately 76.6% as compared to the loss of approximately RMB2,250.4 million for the year ended 31 December 2022. The decrease of loss was mainly attributed to (i) the increase in property sales as mentioned above; and (ii) the substantially decrease in the change in fair value of investment properties diminished.

	As at 30 June 2024 *RMB'000* (unaudited)	**As at 31 December 2023** *RMB'000* (audited)
Cash and cash equivalents	623	1,335
Interest-bearing bank and other borrowings	1,279,465	1,279,465
Convertible bonds	279,221	272,662
Current assets	946,873	1,086,700
Current liabilities	5,201,134	5,006,871
Net current liabilities	(4,254,261)	(3,920,171)
Total asset	2,068,121	2,215,677
Total liabilities	5,370,446	5,175,193

As at 30 June 2024, the Group recorded cash and cash equivalents amounting to approximately RMB0.6 million (31 December 2023: approximately RMB1.3 million) and the net current liabilities was approximately RMB4,254.3 million (31 December 2023: approximately RMB3,920.2 million).

As at 30 June 2024, the Group has interest-bearing bank and other borrowings of approximately RMB 1,279.5 million which is same level as at 31 December 2023. The Group's gearing ratio, which is calculated as a ratio of total bank borrowings to shareholders' equity, was approximately 89.3% (31 December 2023: approximately 110.0%). As at 30 June 2024, the Group's current ratio was approximately 0.18:1 (31 December 2023: approximately 0.27:1).

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

2.1 Funding needs

With reference to the Letter from the Board, the Group has an immediate need for financial resources to settle the overdue liabilities and replenish its working capital according to the 2024 Interim Results, cash and cash equivalents amounted to approximately RMB0.6 million, whereas interest-bearing bank and other borrowings amounted to approximately RMB1,279.5 million, convertible bonds outstanding amounted to approximately RMB279.2 million and other payables and accruals of approximately RMB2,127.1 million as at 30 June 2024. We noted that the Board consider the Rights Issue represents an opportunity for the Company to partially settle outstanding liabilities and negotiate the repayment terms for the remaining balance with the lender(s) and bondholder(s), strengthen the Group's financial position and raise additional funding for the business operations of the Group without any interest burden.

Further, with reference to the Letter from the Board, assuming full subscription under the Rights Issue, the Company intends to use the net proceeds of approximately HK$78.3 million as follows:

- approximately 92% of the net proceeds (approximately HK$72.0 million) for settlement of convertible bonds, repayment of interest-bearing bank loans and other borrowings and other payables and accruals of the Group within around three months upon completion of the Rights Issue; and

- approximately 8% of the net proceeds (approximately HK$6.3 million) as general working capital of the Group, including but not limited to its daily operational expenses of the Group for the forthcoming 6 months upon completion of the Rights Issue.

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

2.2 Our view on the reason for the Rights Issue and the intended use of proceeds

We understand from the Letter from the Board that, apart from the Rights Issue, the Board have considered fund-raising alternatives available to the Group, including debt financing such as bank borrowings, and other equity financing such as placing or subscription of new Shares. The Directors are of the view that debt financing will result in additional interest burden and the interest rate is expected to be further increased in prevailing borrowing market. Besides, the debt financing will further increase the gearing ratio of the Group which is not beneficial to the Group.

According to the statement of indebtedness set out in Appendix I, the Company recorded carrying amount of the unsecured and guaranteed other borrowing of approximately RMB1,209.0 million and the convertible bonds bear interest at the rate of 6.5% plus 1.0% handling fee per annum and are payable in arrears every six months in the principal amount of RMB282.0 million. Moreover, in the prevailing high-interest-rate environment, combined with the Company's elevated gearing ratio, we are of the view that the Company may struggle to secure favourable terms for debt financing during negotiations with banks and financial institutions. The Directors are of the view, and we concur, that any further debt financing may not be achievable on favourable terms in a timely manner and not be beneficial to the Company and the Shareholders as a whole.

In respect of equity financing, as opposed to the Rights Issue, the Directors considered that both the placing of new shares under general mandate and open offer do not offer options to the existing Shareholders, including (i) allowing Shareholders to maintain their shareholdings; and (ii) increasing their shareholding interests by acquiring additional rights entitlements or reducing their shareholding interests in the Company by disposing of their rights entitlements in the open market. As rights issues offer shareholders an option of maintaining their shareholdings of a company, while equity financing such as placing does not have such element and instead would immediately dilute existing shareholders' shareholding in a company, we are of the view that the Rights Issue is in the interest of Shareholders, as compared to placing. In addition, while equity financing through an open offer allows qualifying shareholders to participate, it does not allow free trading of rights entitlement in the open market. Therefore, we are also of the view that the Rights Issue is in the interest of Shareholders, as compared to open offers.

Considering (i) the feasibility of the fund raising methods above; (ii) that the Rights Issue offers all the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata provisional allotments of the Rights Shares without diluting their shareholding interests and allows the Qualifying Shareholders to participate in the future development of the Company; (iii) the additional flexibility provided from the nil-paid rights options in the Rights Issue to the existing Shareholders, (iv) that the Rights Issue will strengthen the Company's capital base and liquidity without incurring interest costs and also enables the Company to reduce its gearing ratio; and (v) the low cash level of the Company as at 30 June 2024; the Directors are of the view, and we concur, that the Rights Issue is an appropriate fund raising option under the current circumstances compared to the abovementioned alternative fund raising methods and it is in the interests of the Company and the Shareholders as a whole.

3. The proposed Rights Issue

3.1 Issue statistics

Basis of the Rights Issue	:	Four (4) Rights Shares for every one (1) Adjusted Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK$1.12 per Rights Share
Net price per Rights Shares (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK$1.05 per Rights Share (on the basis that all the Rights Shares will be taken up)
Number of the Shares in issue as at the Latest Practicable Date	:	1,878,622,000 Existing Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	:	18,786,220 Adjusted Shares (assuming there is no change in number of Shares in issue up to the effective date of the Capital Reorganisation)
Number of Rights Shares (Shares to be issued pursuant to the Rights Issue)	:	Up to 75,144,880 Rights Shares (assuming there is no change in the number of Shares in issue on or before the Record Date other than the Capital Reorganisation) with an aggregate nominal value of HK$751,448.80;
Total number of Adjusted Shares in issue upon completion of the Rights Issue	:	Up to 93,931,100 Adjusted Shares (assuming no change in the number of Shares in issue on or before the Record Date other than the Capital Reorganisation);
Gross proceeds from the Rights Issue	:	Up to approximately HK$84.2 million before expenses (assuming no change in the number of Shares in issue on or before the Record Date other than the Capital Reorganisation)

As at the Latest Practicable Date, the Company does not have any outstanding share options granted under any of its share option scheme or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into the Shares.

Assuming no change in the number of Shares in issue on or before the Record Date, other than the Capital Reorganisation becoming effective, the aggregate 75,144,880 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 400% of the total number of issued Adjusted Shares upon the Capital Reorganisation becoming effective and approximately 80% of the total number of issued Adjusted Shares as enlarged by the issue of the Rights Shares (assuming full acceptance by the Qualifying Shareholders).

3.2 *The Subscription Price*

The Subscription Price of HK$1.12 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, or where a transferee of the nil-paid Rights applies for the Rights Shares. The Subscription Price represents:

(i) a discount of approximately 34.1% to the closing price of HK$1.70 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK$0.017 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 13.8% to the closing price of HK$1.30 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the closing price of HK$0.013 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 18.8% to the adjusted average closing price of approximately HK$1.38 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of HK$0.0138 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 20.6% to the adjusted average closing price of approximately HK$1.41 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) based on the average closing price of HK$0.0141 per Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

(v) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 16.9%, represented by the theoretical diluted price of approximately HK$1.18 per Adjusted Share (after taking into account the effect of the Capital Reorganisation) to the theoretical benchmarked price of HK$1.42 per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of the Adjusted Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) the average closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days prior to the date of this Circular and adjusted for the effect of the Capital Reorganisation).

According to the Letter from the Board, the Subscription Price was determined with reference to (i) the market price of the Shares under the prevailing market conditions; (ii) the current business performance and financial position of the Group; and (iii) the reasons for and benefits of proposed Rights Issue as discussed in the section head "Reasons for the Rights Issue and Use of Proceeds", and the amount of funds the Company intends to raise under the Rights Issue.

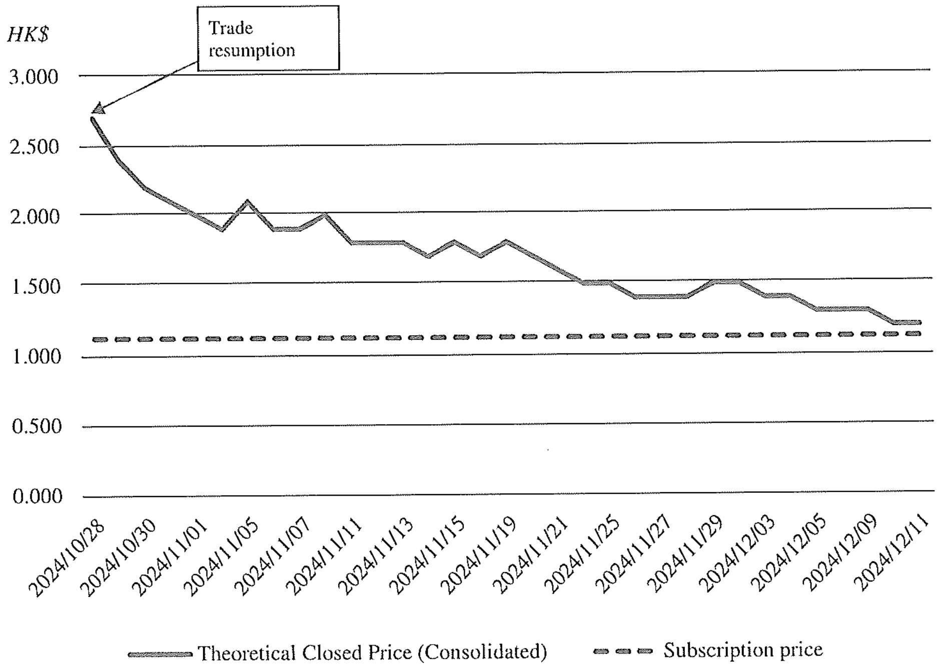
3.3 Non-Underwriting Basis

Given that the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, any Unsubscribed Rights Shares together with the NQS Unsold Rights Shares will be placed on a best effort basis by the Placing Agent to independent Placees under the Placing. Any Unsubscribed Rights Shares or NQS Unsold Rights Shares remain not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue. There are no applicable statutory requirements under the laws of the Cayman Islands regarding minimum subscription levels in respect of the Rights Issue. It is noted that 23 of the 26 Comparable Transactions were conducted on a non-underwritten basis. Further analysis is set out in the below section.

4. Historical price and trading volume of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, considering that trading in the shares of the Company on the Stock Exchange was suspended from 3 April 2023 to 27 October 2024, we have performed a review on the theoretical closing price (the "**Adjusted Closing Price**") of Consolidated Shares (after taking into account the effect of the Share Consolidation) and trading volume of the Shares from 28 October 2024 up to and including the Last Trading Day (the "**Review Period**") (being the period since the resumption of trading of the Shares on 28 October 2024 and including the Last Trading Day) and compared with the Subscription Price.

4.1 Theoretical Closing price movement of the Consolidated Share during the Review Period



Source: the website of the Stock Exchange

As shown in the chart above, the Company's Adjusted Closing price of the Consolidated Shares was above the Subscription Price at all times during the Review Period, ranging from HK$1.2 recorded on 10 December 2024 to HK$2.7 recorded on 28 October 2024. Since trading resumed on 28 October 2024, the Adjusted Closing Price of the Consolidated Shares has exhibited a downward trend.

The Subscription Price of HK$1.12 represents a discount ranging from approximately 6.67% to 58.52% compared to the Adjusted Closing Prices during the Review Period. Furthermore, the Subscription Price also represented a discount of approximately 34.23% to the average Adjusted Closing Prices per Consolidated Share during the Review Period, which was HK$1.70. With reference to section headed "Comparative analysis on the proposed terms of the Rights Issue" below, we note that it is a normal market practice for companies to set subscription prices at discounts to trading prices to enhance the attractiveness of a rights issue and encourage qualifying shareholders to take part in the rights issue, we are of the view that the Subscription Price, being set at a discount to the historical trading prices, is on normal commercial terms.

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

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

Month	Number of trading days	Average daily trading volume of the Shares during the month/ period	Average daily trading volume of the Shares during the month/ period to the total number of issued Shares
2024			
October	4	24,373,686	6.81%
November	21	7,974,857	0.42%
December (up to the Last Trading Day)	8	8,525,000	0.45%
Max		127,961,850	6.81%
Min		7,974,857	0.42%
Average		48,153,902	2.56%

Source: website of the Stock Exchange

The above table indicates that liquidity for the Shares was generally thin during the Review Period. The average daily trading volume of the Consolidated Shares in each month ranged from a low of approximately 0.42% and up to a maximum of 6.81% to the total number of issued Shares as at the Latest Practicable Date. The average daily trading volumes were 48,153,902 Consolidated Shares, accounting for approximately 2.56% of the total issued Shares during the Review Period.

Given the low trading volume, the Company would likely face difficulty in raising equity funds from third parties without offering a substantial discount to the prevailing Share price. Considering the low trading liquidity and the prevailing weak market sentiment in Hong Kong, as well as the Company's high gearing ratio, we are of the view that the Rights Issue is an appropriate equity financing method for the Group allowing existing Shareholders to participate, and the Subscription Price thereunder is fair and reasonable.

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

5.1 The Comparables

In order to assess the fairness and reasonableness of the proposed terms of the Rights Issue, we have identified an exhaustive list of 26 companies (the "**Comparable(s)**") listed on the Main Board and GEM of the Stock Exchange which announced a rights issue or an open offer during three-month period prior to the date of the Announcement, i.e. 6 December 2024.

Although the Comparables include rights issues and open offer in different scale or engaged in different business from the Company, having considered (i) all of the Comparables and the Group are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issues and open offer and we are not aware of any established evidence showing any correlation between the principal business and the fund-raising exercise's underlying principal terms; (iii) a 3-month period for the selection of the Comparables has generated a reasonable and meaningful number of samples size of 26 Hong Kong listed issuers to reflect the market practice regarding recent rights issue or open offer, the Comparables were included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers, we consider that the Comparables are fair and representative samples.

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

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

Announcement date	Company name (Stock code)	Basis of entitlement	Maximum amount of fund rising	Closing price (%) *(Note 1)*	5-day average (%) *(Note 1)*	Theoretical ex-rights entitlement price (%) *(Note 1)*	Consolidated net asset value per share (%) *(Note 1)*	Potential maximum dilution of shareholding (%) *(Note 1)*	Theoretical dilution effect (%) *(Note 1)*	Excess Application/ Compensatory Arrangement *(EA/CA)*	Underwriting Arrangement	Placing Commission
02/09/2024	Guangdong – Hong Kong Greater Bay Area Holdings Limited (1396)	2 for 1	HK$62.41 million	(22.30)	(21.70)	(15.85)	(94.87)	33.30	(8.28)	EA	No	No
04/09/2024	China New Consumption Group Limited (8275)	1 for 2	HK$24.0 million	(5.66)	(7.41)	(4.76)	(61.09)	33.30	(2.47)	CA	No	3.5%
09/09/2024	Crown International Corporation Limited (727)	1 for 2	HK$159.0 million	2.27[3]	14.80[4]	1.50[5]	162.35[6]	33.33	Premium	EA	No	No
13/09/2024	Shougang Century Holdings Limited (103)	1 for 5	HK$129.2 million	10.00[3]	8.20[4]	8.20[5]	(62.50)	16.67	Premium	EA	No	No
13/09/2024	Dragon Rise Group Holdings Limited (6829)	1 for 1	HK$28.8 million	(48.70)	(48.20)	(33.10)	(89.20)	50.00	(24.90)	CA	2.0%	1.0%
23/09/2024	Shougang Fusan Resources Group Limited (639)	1 for 30	HK$427.0 million	1.96[3]	2.52[4]	1.90[5]	(21.21)	3.20	Premium	EA	No	No
23/09/2024	Hatcher Group Limited (8365)	3 for 1	HK$33.0 million	(31.50)	(24.00)	(10.40)	(94.10)	75.00	(23.60)	CA	No	No
26/09/2024	Innovax Holdings Limited (2680)	1 for 2	HK$12.0 million	(67.93)	(68.35)	(59.02)	(88.59)	33.30	(22.78)	CA	No	No
02/10/2024	China National Culture Group Limited (745)	2 for 1	HK$15.6 million	(31.97)	(31.51)	(0.14)	N/A[2]	66.70	(21.31)	CA	No	2.0%
04/10/2024	Palinda Group Holdings Limited (8179)	1 for 2	HK$71.6 million	(18.70)	(9.42)	(13.29)	(60.86)	33.33	(6.23)	EA	No	N/A
07/10/2024	China Water Industry Group Limited (1129)	1 for 1	HK$129.31 million	(49.44)	(49.21)	(32.84)	(91.65)	50.00	(21.72)	CA	No	2.0%
08/10/2024	V & V Technology Holdings Limited (8113)	1 for 2	HK$24.2 million	(31.50)	(26.40)	(23.47)	(32.23)	33.30	(10.50)	EA	No	No

Announcement date	Company name (Stock code)	Basis of entitlement	Maximum amount of fund rising	Closing price (%) *(Note 1)*	5-day average (%) *(Note 1)*	Theoretical ex-rights entitlement price (%) *(Note 1)*	Consolidated net asset value per share (%) *(Note 1)*	Potential maximum dilution of shareholding (%) *(Note 1)*	Theoretical dilution effect (%) *(Note 1)*	Excess Application/ Compensatory Arrangement *(EA/CA)*	Underwriting Arrangement	Placing Commission
15/10/2024	Eminence Enterprise Limited (616)	2 for 1	HK$62.2 million	(8.00)	(24.34)	(2.85)	(98.98)	66.67	(21.30)	EA	No	No
18/10/2024	Gaodi Holdings Limited (1676)	1 for 2	HK$30.8 million	37.90(3)	38.90(4)	12.10	(65.50)	33.30	Premium	CA	No	1.0%
18/10/2024	Kingkey Financial International (Holdings) Limited (1468)	1 for 2	HK$542.59 million	0.00(3)	8.59(4)	N/A(2)	124.60(6)	35.20	N/A	EA	No	No
21/10/2024	China 33 Media Group Limited (8087)	3 for 2	HK$19.4 million	(7.41)	(8.54)	(3.23)	(65.75)	60.00	(5.12)	CA	No	1.5%
22/10/2024	IRC Limited (1029)	1 for 2	HK$362.1 million	(15.00)	(17.20)	(10.50)	(67.30)	33.30	(4.90)	EA	No	No
11/11/2024	Far East Holdings International Limited (36)	2 for 1	HK$72.75 million	(35.77)	(35.27)	(15.66)	(80.59)	66.67	(23.85)	CA	No	2.5%
12/11/2024	HG Semiconductor Limited (6908)	1 for 4	HK$90.1 million	(36.00)	(41.50)	(31.00)	(44.20)	20.00	(8.30)	CA	No	1.0%
15/11/2024	Global Strategic Group Limited (8007)	4 for 1	HK$51.1 million	(12.50)	(14.10)	(3.20)	(92.40)	80.00	(11.30)	EA	3.0%	No
19/11/2024	China Wood International Holding Co., Limited (1822)	1 for 1	HK$45.6 million	(45.00)	(48.60)	(29.10)	Net liabilities(7)	50.00	(24.90)	EA	No	No
19/11/2024	Rare Earth Magnesium Technology Group Holdings Limited (601)	1 for 2	HK$29.18 million	(43.88)	(39.63)	(34.26)	(86.91)	33.33	(14.63)	EA	7.07%	No
21/11/2024	Elife Holdings Limited (223)	1 for 5	HK$27.12 million	(6.54)	(9.91)	(9.09)	96.10(6)	16.67	(0.61)	EA	No	No
21/11/2024	Legend Strategy International Holdings Group Company Limited (1355)	1 for 1	HK$47.3 million	(49.71)	(49.60)	(33.08)	Net liabilities(7)	50.00	(24.86)	EA	No	No
02/12/2024	Luxxu Group Limited (1327)	1 for 1	HK$16.2 million	(44.44)	(44.44)	N/A(2)	(82.10)	50.00	(22.22)	CA	No	1.5%

Announcement date	Company name (Stock code)	Basis of entitlement	Maximum amount of fund rising	Closing price (%) (Note 1)	5-day average (%) (Note 1)	Theoretical ex-rights entitlement price (%) (Note 1)	Consolidated net asset value per share (%) (Note 1)	Potential maximum dilution of shareholding (%) (Note 1)	Theoretical dilution effect (%) (Note 1)	Excess Application/ Compensatory Arrangement (EA/CA)	Underwriting Arrangement	Placing Commission
03/12/2024	Graphex Group Limited (6128)	3 for 1	HK$119.7 million	(32.00)	(28.27)	(10.53)	(51.51)	75.00	(24.00)	EA	No	1.5%
			Maximum discount	(67.9)	(68.4)	(59.0)	(99.0)		(24.9)		Maximum	3.50%
			Minimum discount	(5.7)	(7.4)	(0.1)	(21.2)		(0.6)		Minimum	1.00%
			Average discount	(30.7)	(30.8)	(18.8)	(71.6)		(15.6)		Average	1.75%
			Median discount	(32.0)	(28.3)	(14.5)	(73.9)		(21.3)		Median	1.50%
			Maximum premium	37.9	38.9	12.1	162.4					
			Minimum premium	–	2.5	1.5	(65.5)					
			Average premium	10.4	14.6	5.9	27.5					
			Median premium	2.3	8.6	5.0	(21.2)					
06/12/2024	The Company (2699)	4 for 1	HK$93.8 million	(13.8)	(18.8)		Net liabilities	80.0	(16.9)	CA	No	3.0%

Source: website of the Stock Exchange

Notes:

1. Information has been extracted from the relevant announcements or circulars of the rights issue of the respective Comparables.

2. "N/A" denotes that the announcement did not disclose such information.

3. Denotes that premium of the subscription price over the closing price was excluded from the analysis because the Company recorded a discount on the subscription price compared to the closing price. Consequently, the analysis focused on the maximum discount, minimum discount, average discount, and median discount, which are relevant to our evaluation of the reasonableness of the discount applied to the Subscription Price. It allows for a more accurate comparison with the Comparables, aligning our analysis with the actual market conditions faced by the Company.

4. Denotes that premium of subscription price over the five-day average is not applicable due to the Company recorded a discount of subscription price to the closing price, and has been excluded from the analysis or calculation for the maximum discount, minimum discount, average discount and median discount.

5. Denotes that premium of subscription price over the theoretical ex-rights entitlement price is not applicable due to the Company recorded a discount of subscription price to the closing price, and has been excluded from the analysis or calculation for the maximum discount, minimum discount, average discount and median discount.

6. Denotes that premium of subscription price over the consolidated net asset value per share is not applicable due to the Company recorded a discount of subscription price to the closing price, and has been excluded from the analysis or calculation for the maximum discount, minimum discount, average discount and median discount.

7. Denotes that comparison to net asset value is not applicable due to the net liabilities position of the respective Comparable, and has been excluded from the analysis.

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

(a) the discount of subscription price to the closing price on the last trading day of the Comparables ranged from approximately 67.9% to approximately 5.7%, with the average of discounts being approximately 30.7% and the median of discounts being approximately 32.0%. The Subscription Price represents a discount of approximately 13.8% to the closing price on the Last Trading Day, which is within the range and close to the lowest discount of the Comparables. Out of the 26 Comparables, 5 had a subscription price higher than the closing price on the last trading day. In contrast, the Company set its subscription price at a discount to the closing price. We believe this approach aligns with market practice, as the majority of Comparables also recorded subscription prices at a discount;

(b) the theoretical dilution effect of the Rights Issue Comparables ranged from 0.6% to approximately 24.9%, with the average of discounts being approximately 15.6% and the median of discounts being approximately 21.3%. The theoretical dilution effect of the Rights Issue of approximately 16.9% is within the theoretical dilution range and close to the average and median of the Comparables;

(c) 11 out of 26 Comparables have facilitated compensatory arrangements. Despite that the arrangement of compensatory arrangements is less popular among the Comparables, such arrangement is permissible under Rule 7.21(1)(b) of the Listing Rules. Further analysis is set out in the section "5.2 The Placing Agreement"; and

(d) the Rights Issue is on a non-underwritten basis, which is considered to be in line with market practice, given that 23 out of 26 Comparables were also conducted on a non-underwritten basis. Furthermore, 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 pursuant to the Placing Agreement.

As the Company recorded consolidated net liabilities as at 30 June 2024, the comparison of the Subscription Price with the net asset value of the Company is not applicable.

In view of (i) the recent general downward trend of the closing price of the Shares and the trading volume of the Shares during the Review Period was generally thin as discussed in the section headed "4. Historical price and the trading volume of the Shares" above; (ii) the discounts represented by the Subscription Price all fall within the range and close to the lowest discounts of the Comparables; (iii) the Rights Issue is available to all Qualifying Shareholders; and (iv) the theoretical dilution effect of the Rights Issue is close to the average of that of the Comparables, we consider that the principal terms of the Rights Issue (including the Subscription Price) fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

5.2 The Placing Agreement

As stated in the Board Letter, on 6 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, as an agent of the Company, to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares during the Placing Period.

Details of the Placing Agreement are summarised as follows:

Date	:	6 December 2024 (after trading hours)
Issuer	:	the Company
Placing Agent	:	Advent Securities (Hong Kong) Limited, a licensed corporation to carry out Type 1 (dealing in securities) regulated activities under the SFO, was appointed as the Placing Agent to procure, on the best effort basis, placees to subscribe for the Unsubscribed Rights Shares and NQS Unsold Rights Shares during the Placing Period. The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not the Shareholder; and (ii) they are Independent Third Parties.
Commission and expenses	:	The Placing Agent shall be entitled to a commission fee equal to 3% of the amount which is equal to the Placing price multiplied by the Placing Shares that have been successfully placed by the Placing Agent.

Placing price	:	The placing price of each of the Placing Shares shall be not less than the Subscription Price. The final price determination will be dependent on the demand and market conditions of the Placing Shares during the process of placement.
Placees	:	The Placing Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall not be a Shareholder and shall be Independent Third Party(ies).
Ranking of the Placing Shares	:	The Placing Shares (when placed, allotted, issued and fully paid), shall rank *pari passu* in all respects among themselves and with the Adjusted Shares in issue at the date of completion of the Placing.
Conditions Precedent	:	The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled or being waived by the Placing Agent in writing, if applicable):

(i) the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Rights Shares;

(ii) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion; and

(iii) the Placing Agreement not having been terminated in accordance with the provisions thereof.

		The Placing Agent may, in its absolute discretion, waive the fulfilment of all or any part of the conditions precedent to the Placing Agreement (other than those set out in paragraph (i) above) by notice in writing to the Company.
Termination	:	The Placing Agreement shall end on Monday, 2 June 2025 or any other date by mutual written agreement between the Placing Agent and the Company. The engagement of the Placing Agent may also be terminated by the Placing Agent in case of force majeure resulting in the Company and the Placing Agent being unable to fulfil its duties and responsibilities under the engagement. However, if during the course of the engagement it has come to the Placing Agent's knowledge that there is any material adverse change in the business and operational environment in the Company which, in the sole opinion of the Placing Agent, may make it inadvisable to continue the engagement, the Placing Agent shall have the right to terminate the engagement by written notice to the Company with immediate effect.
Placing Completion	:	Completion is expected to take place within eleven (11) Business Days after publication of an announcement by the Company of the number of the Unsubscribed Rights Shares and NQS Unsold Rights Shares under the Compensatory Arrangements and upon fulfilment or waiver (as the case may be) of the conditions precedent to the Placing Agreement or such other date as the Company and the Placing Agent may agree in writing.

The Company shall use its best endeavours to procure the fulfilment of such conditions precedent to the Placing Agreement by the Placing Long Stop Date. If any of the conditions precedent to the Placing Agreement have not been fulfilled by the Placing Long Stop Date or become incapable of being fulfilled (subject to the Placing Agent not exercising its rights to waive or extend the time for fulfilment of such conditions), then the Placing will lapse and all rights, obligations and liabilities of the Company and the Placing Agent in relation to the Placing shall cease and determine, save in respect of any accrued rights or obligations under the Placing Agreement or antecedent breach thereof.

5.3 Our view on the Placing Agreement

Pursuant to the Placing Agreement, the placing price (the "**Placing Price**") of the Unsubscribed Rights Shares shall be at least equal to the Subscription Price. The final price determination depends on the demand and market conditions of the Unsubscribed Rights Shares during the process of the Placing.

Given that (i) the Placing Price shall be at least equal to the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraph headed "5.1 The Comparables" above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned. Pursuant to the Placing Agreement, the Company shall pay the Placing Agent a placing commission (the "**Placing Commission**") of 3.0% of the amount which is equal to the Placing Price multiplied by the total number of the Unsubscribed Rights Shares which are successfully placed by the Placing Agent. As advised by the Company, the Placing Commission was determined after arm's length negotiation between the Company and the Placing Agent with reference to the prevailing market rate and is on normal commercial terms, and the Placing Agent confirms that it is an Independent Third Party.

As illustrated in the comparable table above, our analysis of Comparables show that the placing commission rates ranged from 1% to 3.5%. It is noted that the Placing Commission is within the range of the Comparable Transactions. Given the long suspension of trading in the shares of the Company on the Stock Exchange, the Company's high gearing ratio as at 30 June 2024 and the net loss position for the year ended 31 December 2023, we consider that the Placing Commission is 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 Board Letter and above table) 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 Shareholders are concerned.

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

6. Possible dilution effect on interests of other public Shareholders

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 "SHAREHOLDING STRUCTURES" in the Board Letter, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Excluded 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 80.0%. 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.

We are aware of the potential dilution effect as a result of the Rights Issue. However, after taking into consideration that (i) the theoretical dilution effect of the Rights Issue falls within range of those of the Comparables; (ii) the Rights Issue would strengthen the capital structure and financial position of the Group; (iii) all Qualifying Shareholders are offered an equal opportunity to maintain their shareholding interests in the Company and allowed to participate in the development of the Company; (iv) the inherent dilutive nature of rights issues in general if the existing shareholders do not take up their entitlements thereunder in full; and (vi) Qualifying Shareholders who are not taking up their entitlements are given the flexibility to dispose of the nil-paid Rights Shares in open market, we consider that the potential dilution effect of the Rights Issue is justifiable.

7. Financial effects of the Rights Issue

It should be noted that the Rights Issue is subject to the conditions as set out in the Letter from the Board and on a non-underwritten basis, the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

7.1 Net tangible liabilities

Based on the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible liabilities of the

Group attributable to owners of the Company as at 30 June 2024 was approximately RMB3,288.7 million. Upon completion of the Rights Issue, the Group will have unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to owners of the Company being approximately RMB3,210.4 million.

*7.2 **Liquidity***

The estimated net proceeds from the Rights Issue are expected to enhance the Group's current assets by approximately RMB78.3 million (assuming full acceptance by Qualifying Shareholders) and the Rights Issue is expected to improve the Group's liquidity position immediately after its completion.

RECOMMENDATION

We are of the opinion that the terms of the Rights Issue (including the Subscription Price and the potential dilution effect) are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
for and on behalf of
Ample Capital Limited

Tommy Mak	**Jenny Law**
Vice President	*Vice President*

Mr. Tommy Mak is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Mr. Mak has over 9 years' experience in the corporate finance industry.

Ms. Jenny Law is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Ms. Law has over 10 years' experience in the corporate finance industry.