SUNWAH KINGSWAY
新華滙富

23 March 2023

*To the Independent Board Committee and*
*the Independent Shareholders of*
*State Innovation Holdings Limited*

Dear Sirs,

**PROPOSED RIGHTS ISSUE**
**ON THE BASIS OF THREE (3) RIGHTS SHARES**
**FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE**

## A. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) fairness and reasonableness of the terms of the proposed Rights Issue; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions at the EGM, details of which are set out in the "Letter from the Board" in the circular (the "**Circular**") issued by the Company to the Shareholders dated 23 March 2023 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the Announcement, in relation to, among other things, the Rights Issue. On 17 February 2023, the Company proposes to raise gross proceeds of up to approximately HK$35.28 million before expenses by way of a rights issue of 240,002,067 Rights Shares at the Subscription Price of HK$0.147 each and on the basis of three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date (assuming no change in the issued share capital of the Company on or before the Record Date).

In accordance with Rule 10.29(1) of the GEM Listing Rules, as the Rights Issue will increase the number of the issued Shares by more than 50%, the Rights Issue must be made conditional on approval by Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the ordinary resolution to approve the Rights Issue at the EGM.

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As at the Latest Practicable Date, the Company has no controlling Shareholder as defined under the GEM Listing Rules and none of the Directors or the chief executive of the Company and their respective associates is interested in any Shares. Therefore, no Shareholder is required to abstain from voting in favour of the proposed resolutions to approve the Rights Issue and the transaction contemplated thereunder at the EGM.

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. He Dingding, Ms. Chan Tsz Hei Sammi and Mr. Liu Ching Man, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest 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 have been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Rights Issue. In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and make recommendations to the Independent Shareholders on how to vote at the EGM so far as the Independent Shareholders are concerned and such appointment has been approved by the Independent Board Committee.

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, we did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue of the Company. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. During the past two years, there was no engagement between the Group and Kingsway Capital Limited. Also, we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we consider that we are eligible to give independent advice on the proposed Rights Issue and the transactions contemplated thereunder of the Company.



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## B. BASIS OF OUR OPINION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. 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 material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors and the management of the Company have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

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, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.



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In formulating our opinion, we have not considered the taxation implications on Independent Shareholders in relation to the subscription for, holding or disposal of the Rights Shares, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Rights Shares. In particular, Independent Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

We consider that we have reviewed all currently available information and documents, among others: (i) the Placing Agreement dated 17 February 2023; (ii) annual report of the Company for the year ended 31 March 2022 (the "**2022 Annual Report**"); (iii) the interim report of the Company for the six months ended 30 September 2022 (the "**2022 Interim Report**"); (iv) the third quarterly report of the Company for the nine months ended 31 December 2022 (the "**2022 Third Quarterly Report**"); and (v) other information contained in the Circular, which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with 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 purposes, without our prior written consent.

## C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Rights Issue and the transactions contemplated thereunder, we have considered the principal factors and reasons set out below:

### 1. Information on the Group

The Group is a foundation contractor primarily specializing in bored piling works as well as other foundation works. The Group is capable of installing bored piles with diameters ranging from 1.5 metres to 3 metres of various pile lengths. The Group has invested considerably in reinforcing its machinery and the Group possesses all necessary standard plant and machinery and equipment for its construction of bored piles. The Group is also engaged in leasing of machinery.

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## 2. Historical financial performance of the Group

Set out below is a summary of the (i) audited consolidated financial information of the Group the years ended 31 March 2022 ("**FY2022**") and 31 March 2021 ("**FY2021**"), as extracted from the 2022 Annual Report; (ii) unaudited consolidated financial information of the Group for the six months ended 30 September 2022 ("**6M2022**") and 30 September 2021 ("**6M2021**") as extracted from the 2022 Interim Report; and (iii) the unaudited consolidated financial results of the Group for the nine months ended 31 December 2022 and 31 December 2021 ("**Q32022**" and "**Q32021**", respectively) as extracted from the 2022 Third Quarterly Report:

| | **FY2021**<br>*HK$'000*<br>(audited) | **FY2022**<br>*HK$'000*<br>(audited) | **Q32021**<br>*HK$'000*<br>(unaudited) | **Q32022**<br>*HK$'000*<br>(unaudited) |
|---|---|---|---|---|
| Revenue | | | | |
| – Construction contract income | 139,675 | 146,737 | 108,981 | 83,837 |
| – Rental income from machinery | 2,116 | – | – | 2,507 |
| Total revenue for the year/period | 141,791 | 146,737 | 108,981 | 86,344 |
| Loss for the year/period | (14,714) | (37,796) | (16,068) | (20,565) |

| | **As at 30 September 2022**<br>*HK$'000*<br>(unaudited) | **As at 30 September 2021**<br>*HK$'000*<br>(unaudited) | **As at 31 March 2021**<br>*HK$'000*<br>(audited) | **As at 31 March 2022**<br>*HK$'000*<br>(audited) |
|---|---|---|---|---|
| Current assets | 66,742 | 56,538 | 76,682 | 56,538 |
| Total assets | 125,538 | 112,593 | 132,694 | 112,593 |
| Current liabilities | 54,263 | 56,427 | 65,797 | 56,427 |
| Total liabilities | 58,828 | 62,067 | 77,928 | 62,067 |
| Net current assets | 12,479 | 111 | 10,885 | 111 |
| Net assets | 66,710 | 50,526 | 54,766 | 50,526 |
| Bank and cash balances | 18,187 | 4,340 | 7,532 | 4,340 |



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***FY2022***

As disclosed in the 2022 Annual Report, in FY2022, the revenue of the Group increased by approximately HK$4.9 million or approximately 3.5% from approximately HK$141.8 million for FY2021 to approximately HK$146.7 million for FY2022. Such increase was mainly attributable to the increase in contracts awarded during the year.

In FY2022, the Group recorded net loss of approximately HK$37.8 million, representing an increase by approximately HK$23.1 million or approximately 156.9% as compared to net loss of approximately HK$14.7 million for FY2021. Such increase in net loss was mainly attributable to (i) the decrease in gross profit as a result of cost overrun in the Group's bored pilling projects, mainly driven by the project located in Hung Hom which experienced delay in work progress; (ii) the loss arising from the increase of an allowance for impairment loss of financial assets of approximately HK$5.1 million; and (iii) the decrease in other income of approximately HK$3.9 million as a result of the absence of subsidies of the employment support scheme under the anti-epidemic fund, set up by the government of Hong Kong during FY2022.

The net current assets position of the Group decreased from approximately HK$10.9 million as at 31 March 2021 to approximately HK$0.1 million as at 31 March 2022 (with bank and cash balances decreased from approximately HK$7.5 million as at 31 March 2021 to approximately HK$4.3 million as at 31 March 2022). The Group's net assets decreased from approximately HK$54.8 million as at 31 March 2021 to approximately HK$50.5 million as at 31 March 2022. As at 31 March 2022, total liabilities of the Group amounted to approximately HK$62.1 million, which mainly comprised of trade and retention payables of approximately HK$36.0 million, accruals and other payables of approximately HK$9.7 million, lease liabilities of approximately HK$7.7 million, bank and other borrowings of approximately HK$5.2 million and promissory note payable of HK$3.0 million. Current ratio of the Group decreased slightly from approximately 1.2 times as at 31 March 2021 to approximately 1.0 times as at 31 March 2022 and the gearing ratio of the Group decreased from approximately 64.2% as at 31 March 2021 to approximately 31.5% as at 31 March 2022.

***Q32022***

As disclosed in the 2022 Third Quarterly Report, in Q32022, the revenue of the Group decreased by approximately HK$22.7 million or approximately 20.8% from approximately HK$109.0 million for Q32021 to approximately HK$86.3 million for Q32022. Such decrease was primarily due to the decrease of construction contract income with fewer and lower value of contracts awarded to the Group.

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In Q32022, the Group recorded net loss of approximately HK$20.6 million, which increased by approximately HK$4.5 million as compared to the net loss of approximately HK$16.1 million for Q32021. The increase in net loss was mainly attributable to (i) the decrease in gross profit due to fewer and lower value of contracts awarded to the Group and cost overrun in the Group's bored pilling projects, mainly driven by the project located in Hung Hom which experienced delay in work progress; and (ii) the increase in administrative expenses due to the increase in legal and professional fee for the Company's rights issue exercise in 2022.

***6M2022***

The net current assets position of the Group improved from approximately HK$$0.1 million as at 30 September 2021 to approximately HK$12.5 million as at 30 September 2022 (with bank and cash balances increased from approximately HK$4.3 million as at 30 September 2021 to approximately HK$18.2 million as at 30 September 2022). The Group's net assets increased from approximately HK$50.5 million as at 30 September 2021 to approximately HK$66.7 million as at 30 September 2022. As at 30 September 2022, total liabilities of the Group amounted to approximately HK$58.8 million, which mainly comprised of trade and retention payables of approximately HK$37.2 million, accruals and other payables of approximately HK$12.3 million, lease liabilities of approximately HK$6.5 million and bank and other borrowings of approximately HK$2.8 million. Current ratio of the Group increased from approximately 1.0 times as at 31 March 2022 to approximately 1.2 times as at 30 September 2022 and the gearing ratio of the Group decreased from approximately 31.5% as at 31 March 2022 to approximately 13.9% as at 30 September 2022.

## 3. Background of Reasons for the Rights Issue and the Use of Proceeds

***Reasons for the Rights Issue and the Use of Proceeds***

It is estimated that the Company will raise gross proceeds up to approximately HK$35.28 million from the Rights Issue and the relevant expenses would be approximately HK$1.8 million, which includes placing commission and professional fees payable to legal advisors, financial printer and other parties involved in the Rights Issue. Accordingly, the Directors intended to utilise the Net Proceeds as to (i) approximately 55.26% (or approximately HK$18.50 million) for the expansion of the foundation business capacity of the Group; (ii) approximately 22.40% (or approximately HK$7.5 million) for the development of the AI business, including but not limited to AI translation; and (iii) approximately 22.34% (or approximately HK$7.48 million) as the general working capital of the Group.



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*The Construction Business*

The Group is a foundation contractor primarily specialising in bored piling works as well as other foundation works. The Group is also engaged in leasing of machinery. As set out in the "Letter from the board", the Group plans to acquire sets of pile casing with the aim to consolidate Group's foundation business and expand its capacity, with cost of approximately HK$18.50 million. Over the years, the Group has periodically leased construction equipment from third-party construction equipment rental services providers to supply its foundation service capacity when its self-owned equipment has been under deployment or unavailable. Occasionally, according to the Board, the third-party construction equipment rental services providers may not be able to provide the construction machinery on time, which may cause the schedule delay in construction projects and increase the construction costs of the Group.

We note that based on the 2022–23 Budget announced by the Hong Kong government, the annual capital expenditure on infrastructure will reach approximately HK$100 billion and approximately 15,200 transitional housing units will be introduced in the next few years. Taking into account the long-term development of the Hong Kong construction industry in light of the 2022–23 Budget, the Directors consider that there will be an increase in demand for the Group's foundation services.

Upon discussions with the management of the Company, we were given the understanding that, it is part of the Group's business strategy to enhance the variety and quantity of its foundation equipment in order to strengthen its service capacity, enhance its market position in Hong Kong and to capture the growing demand for foundation services in Hong Kong.

*The AI Business*

As stated in the "Letter from the Board", the Company has identified new business opportunity in the field of technological innovation created by the rapid growth of AI technology and government support towards digital transformation of Hong Kong enterprise. The Company intends to use the relevant Net Proceeds to set up the AI business by hiring team for operation of the AI business and developing and/or acquiring the respective AI system, including AI translation system that customises the process of translation and create a memory of files to provide a customised categorisation, glossary and style for each user. The Company may either hire a team of talents to develop the respective AI system or to acquire the system with further enhancement. The Company expects that the total fund required to develop the AI business is approximately HK$7.50 million. As at the Latest Practicable Date, the Company had not yet entered into any agreement in relation to the AI business.

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Through the AI Business, the Company expects to charge the potential customers on different terms depending on the needs of the users, including but not limited to (i) monthly subscription with a monthly fee covering a certain amount and type of services provided; or (ii) by each word/page translated. As an international commercial hub, the Directors believe that accurate and efficient translation is widely needed in many different industries in Hong Kong especially finance related businesses. As at Latest Practicable Date, the Company is in negotiation with potential partners and has identified relevant system and platform to acquire. The Board plans to complete the setup of the AI business segment by the end of 2023 and commence at early 2024.

In order to get a better grasp of the development of AI industry in Hong Kong and the PRC, we have conducted our own desktop research. We note that based on the 2023-24 Budget announced by the Hong Kong government, the Hong Kong government is eyeing to develop Hong Kong into a smart city through (i) investing approximately HK$200 million to enhance the operation of the "iAM Smart" platform launched by the Hong Kong government; (ii) introducing tax deduction scheme to encourage the Telecommunications industry to invest in infrastructure for providing better communication services to Hong Kong; (iii) launching a Digital Transformation Support Pilot Programme to support digital transformation of Hong Kong enterprise; and (iv) allocating HK$50 million to expedite the Web3 ecosystem development in Hong Kong. The above document demonstrated the vision and long-term action plan of the Hong Kong government to accelerate the digital transformation of the city through providing financial support and implementation of new government policies. The Ministry of Industry and Information Technology issued the "Three Year Action Plan to Promote the Development of the New Generation of AI Industry (2018–2020)" (《促進新一代人工智能產業發展三年行動計劃(2018-2020)》), proposing to accelerate the development of the AI industry and promote the deep integration of AI and the real economy. This document supports the cultivation of intelligent products including high precision AI translation system and promotes goal of the PRC governments to improve the accuracy of translation between Chinese and foreign languages and minority languages in China. We consider that the action plan introduced by the PRC government will drive demand and create new business opportunities for the AI business of the Group in China market.

Upon discussions with the management of the Company, we were given the understanding that, the Group targets to diversity into a promising industry to broaden the Group's income stream and increase shareholders' return with the AI business. Taking into consideration of (i) the acquisition of the foundation equipment would strengthen the Group's service capacity, reduce the risk of unavailability of the pile casings from third-party construction equipment rental services providers, thereby facilitating the Group in fulfilling its project schedule and the expected growing demand in foundation business in Hong Kong and (ii) the expected positive prospects of the AI business and developing AI business will diversify revenue streams of the

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Group, we concur with the Directors' view that the Group can enhance its financial position through the Rights Issue by applying the Net Proceeds in the manner as stated above.

As the Rights Issue will be on a non-underwritten basis, the actual amount of the Net Proceeds cannot be ascertained at this moment. In the event that the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue are expected to be utilised with proportional reductions in the same usage scenarios as above.

***Fund-raising alternatives***

As advised by the Directors, apart from the Rights Issue, the Directors have considered various ways of raising funds and believe that the Rights Issue is the most efficient way in terms of time and costs for the Company. The Board considers it is prudent to finance the Group's long-term growth by long term financing, preferably in the form of equity which will not increase the Group's finance costs.

The Directors has considered other fundraising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. As advised by the management of the Company, the Group has contacted with its main commercial banks and was unable to secure any additional bank loan facilities due to its worsening financial performance during FY2022. The Directors also note that debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations. We have reviewed the 2022 Annual Report and the 2022 Interim Report and note that the Group was loss-making for both FY2022 and FY2021 with net losses increased from approximately HK$14.7 million for FY2021 to approximately HK$37.8 million for FY2022, with a gearing ratio of approximately 13.9% as at 30 September 2022. Given that the Group recorded consecutive losses for FY2022 and FY2021 and that its main commercial banks refused to grant additional bank loan facilities to the Group, it is unlikely for the Group to obtain bank borrowings at favourable terms in a timely manner. In addition, further debt financing or bank borrowings could create additional pressure to the liquidity of the Company and be subject to possible lengthy due diligence review. As such, we concur with the view of the management of the Company that debt financing may not be a viable financing alternative.

As for equity fund raising, such as placing of new Shares, the Directors are of the view that it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. While an open offer is similar to a rights issue, offering qualifying shareholders to participate, the Directors consider that it does not allow free trading of rights entitlements in the open market. Lastly, we consider that although an open offer is

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similar to a rights issue which provides the Qualifying Shareholders with equal opportunity to participate in proportion to their existing shareholder interest, an open offer is less favourable to the Shareholders compared to a 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.

In addition, the Company had preliminarily consulted other brokerage companies (including the Placing Agent) for underwriting the Rights Issue but has not received any favourable feedback due to the current capital market situation. As advised by the management of the Company, none of the brokerage companies shown interest in acting as an underwriter to the Rights Issue. Having considered the feedback from the brokerage companies, the Board was of the view that the terms of the placing agreement including the commission rate proposed by the Placing Agent was reasonable and favorable to the Company. As such, the Company subsequently decided to conduct the Rights Issue on non-underwritten basis and to adopt the placing arrangement simultaneously in order to ensure sufficient funds could be raised. Having considered that (i) none of the brokerage companies shown interest in acting as an underwriter to the Rights Issue; and (ii) the placing commission for the Compensatory Arrangements will only be incurred if there are any Unsubscribed Rights Shares to be placed by the Placing Agent and such Unsubscribed Rights Shares are placed successfully, we concur with the view of the Directors that conducting the Rights Issue on a non-underwritten basis is in the interests of the Company and the Shareholders as a whole.

Taking into account the benefits and potential cost of each of the fundraising alternatives as mentioned above, we concur with the view of the Directors that placing of new Shares would only be available to certain placees who are not necessarily the existing Shareholders which would result in immediate dilution in the shareholding interest of existing Shareholders is therefore less favourable to the Shareholders compared to a rights issue. We concur with the view of the management of the Company that the Rights Issue allows the Group to strengthen the capital base of the Company at a more cost-effective method, while at the same time allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and is in the interests of the Company and the Shareholders as a whole.

**4. Principal terms of the Rights Issue**

The Board proposed to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date at the Subscription Price of HK$0.147 per Rights Share to raise up to gross proceeds of approximately HK$35.28 million by issuing 240,002,067 Rights Shares to the Qualifying Shareholders (assuming no change in the issued share capital of the Company on or before the Record Date).



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Further details of the Rights Issue are set out below:

| | | |
|---|---|---|
| Basis of the Rights Issue | : | Three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date |
| Subscription Price | : | HK$0.147 per Rights Share |
| Number of Shares in issue as at the Latest Practicable Date | : | 160,001,378 Shares |
| Number of Rights Shares | : | Up to 240,002,067 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date) |
| Aggregate nominal value of the Rights Shares | : | Up to HK$120,001,033.50 (assuming no change in the share capital of the Company on or before the Record Date) |
| Number of Shares as enlarged by the allotment and issue of the Rights Shares | : | Up to 400,003,445 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) |

As at Latest Practicable Date, the 2022 CB Placing is not completed. The Company have mutually agreed with the CB Placing Agent that the 2022 CB Placing will not be completed on or before the Record Date, therefore there is no Bondholder on or before the Record Date, and the Bondholder(s) are not entitled to participate in the Rights Issue.

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

Assuming no change in the share capital of the Company on or before the Record Date, 240,002,067 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 150% of the total number of issued Shares as at the Latest Practicable Date; and (ii) 60% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

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*Non-underwritten basis*

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent placees on a best effort basis under the Compensatory Arrangements. Any Unsubscribed Rights Shares and NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue. There is no minimum amount to be raised under the Rights Issue. As the Rights Issue will proceed on a non-underwritten basis, any Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

As at the Latest Practicable Date, the Board has not received any information from any Shareholders of their intention to take up their entitlement under the Rights Issue nor any undertaking from any Shareholders that they will undertake to subscribe for the Rights Shares.

*Subscription Price*

The Subscription Price is HK$0.147 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 26.50% to the closing price of HK$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 26.50% to the average of the closing prices of approximately HK$0.200 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

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(iii) a discount of approximately 28.29% to the average of the closing prices of approximately HK$0.205 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 34.38% to the average of the closing prices of approximately HK$0.224 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 12.50% to the theoretical ex-rights price of approximately HK$0.168 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represent a discount of approximately 16.00%, represented by the theoretical diluted price of approximately HK$0.168 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.200 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date of approximately HK$0.200 per Share) of HK$0.200 per Share;

(vii) a cumulative theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) in aggregation with the 2022 Rights Issue and the CB Placing represented by a discount of approximately 22.17%, represented by the cumulative theoretical diluted price of approximately HK$0.932 per Share to the benchmarked price of HK$0.725 per Share in respect of the 2022 Rights Issue and the CB Placing (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the benchmarked price of the 2022 Rights Issue, being HK$0.725 per Share and the benchmarked price of HK$0.417 of the CB Placing which was at a premium);

(viii) a discount of approximately 32.26% to the closing price of HK$0.217 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(ix) a discount of approximately 53.48% to the audited net asset value per Share of approximately HK$0.316 (based on the latest published consolidated net asset value of the Group of approximately HK$50,526,000 as at 31 March 2022 as disclosed in the annual report of the Company for the year ended 31 March 2022 and 160,001,378 Shares in issue as at the Latest Practicable Date).



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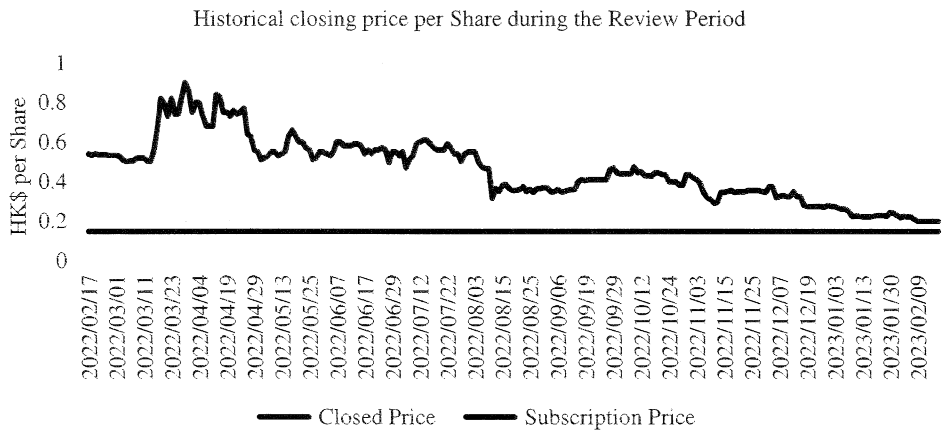
As stated in the Letter from the Board, the Subscription Price and the subscription rate (i.e. three (3) Rights Shares for every two (2) Shares held on the Record Date) was determined with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong and the impact of COVID-19 pandemic; (iii) the latest business performance and financial position of the Group; and (iv) the reasons for and benefits of Rights Issue as discussed in the section headed "REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS" in the Circular.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the theoretical closing prices of the Shares and the trading liquidity of the Shares for the period from 17 February 2022, being the 12-month period prior to the date of the Announcement, up to and including the Last Trading Day ("**Review Period**"). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Announcement and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the closing prices of the Shares before the Announcement represent a fair market value of the Company which the Shareholders expected, while that after the Announcement, the value may have taken into account the potential upside of the Rights Issue which may distort the analysis. The chart below illustrates the daily closing price per Share ("**Closing Price**") versus the Subscription Price of HK$0.147 per Rights Share during the Review Period:




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



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During the Review Period, the highest Closing Price was HK$0.9 recorded on 29 March 2022 and the lowest Closing Price was HK$0.199 recorded on 10 February 2023. The Subscription Price of HK$0.147 represents a discount of approximately 83.7% to the highest Closing Price during the Review Period and a discount of approximately 26.1% to the lowest Closing Price during the Review Period. The average Closing Price of the Review Period was approximately HK$0.46, which means the Subscription Price has a discount of approximately 68.0% over the average Closing Price during the Review Period.

As illustrated in the chart above, during the Review Period, the Closing Price was traded higher than the Subscription Price. It can be observed from the above chart that the daily Closing Price substantially increased from HK$0.5 to HK$0.9 between 15 March 2022 to 29 March 2022 and showed a gradual downward trend since then. As discussed with the management of the Company, they were not aware of any reason for such substantial change in the Closing Price in March 2022 and the reason for the general downward trend of the Closing Price during the Review Period. We have also reviewed the announcements published by the Company during such period and we are not aware of any information which caused the substantial change in Closing Price.

As discussed in the section headed "Comparison to other rights issue" in this letter below, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue.



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**Table A**

| | Total trading volume of the Shares in the month (No. of Shares) | Number of trading days in the month | Average daily trading volume of the Shares in the month (No. of Shares) (Note 1) | Percentage of average daily trading volume to total number of Shares (Note 2) |
|---|---|---|---|---|
| **2022** | | | | |
| February | 13,953,549 | 17 | 820,797 | 0.30% |
| March | 23,609,594 | 23 | 1,026,504 | 1.90% |
| April | 27,062,500 | 18 | 1,503,472 | 2.78% |
| May | 74,232,700 | 20 | 3,711,635 | 2.75% |
| June | 17,550,600 | 21 | 835,743 | 0.62% |
| July | 24,357,936 | 20 | 1,217,897 | 0.90% |
| August | 70,526,700 | 23 | 3,066,378 | 2.27% |
| September | 20,353,600 | 21 | 969,219 | 0.72% |
| October | 1,343,000 | 20 | 67,150 | 0.05% |
| November | 43,631,000 | 22 | 1,983,227 | 1.47% |
| December | 50,529,200 | 20 | 2,526,460 | 1.58% |
| **2023** | | | | |
| January | 31,822,850 | 18 | 1,767,936 | 1.10% |
| February (up and including the Last Trading Day) | 21,821,200 | 17 | 1,283,600 | 0.80% |

*Source: website of the Stock Exchange (http://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 during the month/period which excludes any trading day on which trading in the Shares on the Stock Exchange was suspended for the whole trading day.

2. The calculation is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue at the end of each month/period. As at the Last Trading Day, the Company has no controlling Shareholder as defined under the GEM Listing Rules.

We have also reviewed the trading volume of the Shares during the Review Period. We note that during the Review Period, the average daily trading volume per month of the Shares as compared with the total issued Shares at the end of the respective month/period (the "**Trading Liquidity Ratio**") ranged from approximately 0.05% to approximately 2.78% with the mean of approximately 1.33%.



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In view of this, we considered the trading liquidity of the Shares were thin during the Review Period, with six months (being February, June, July, September, October 2022 and February 2023) less than 1.0% to the then total number of issued Shares as at the end of their respective month/period. We anticipate that the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are therefore of the view that it is reasonable to set the Subscription Price at a discount to the average Closing Price to encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company.

***Comparison to other rights issue***

In order to assess the fairness and reasonableness of the Subscription Price, we exhaustively conducted a search of recent proposed rights issue exercises, announced by the companies listed on GEM of the Stock Exchange (excluding those terminated or lapsed or announced but not yet completed) within approximately 12 months prior to the Last Trading Day (the "**Comparison Period**") to understand the trend of the recent market practice. Based on our research, we have identified a total of 14 rights issue comparables (the "**Comparables**") during the Comparison Period.

We consider the Comparison Period of approximately 12 months is adequate and appropriate given that (i) such period would provide us with the recent and relevant information to demonstrate the prevailing market practice prior to the Announcement under the prevailing market conditions; and (ii) we are able to identify sufficient and reasonable samples size for selection of Comparables within the Comparison Period. We note that the terms of the rights issue announced by the Comparables may not be directly comparable to the terms of the Rights Issue announced by the Group due to the differences in business activities and performances. We note that the business activities of the Comparables may not be directly comparable to the business activities carried out by the Group. We consider that despite the terms of the rights issue depend on various factors, including the dilution effect to shareholding, funding needs and use of proceeds, discounts to share price, etc., they are often influenced by the recent market trends for rights issue. Although the Comparables included rights issue on different basis of entitlement, and involved issuers which engaged in different business or with different financial performance and funding needs from the Company, we consider that the Comparables are suitable to serve as a general reference for the purpose of an assessment on the Subscription Price, as (i) all of the Comparables and the Company are listed on GEM of the Stock Exchange which are similar in size of operation as GEM is positioned as a market designed to accommodate small and mid sized companies; (ii) our analysis is mainly concerned with the comparison of subscription price to closing price, theoretical ex-rights price, maximum dilution on the shareholding and theoretical dilution effect; and (iii) the Comparables were included without any artificial selection or filtering on our part thus they represented a true and fair view of the recent market trends for rights issue.

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## Table B

| Date of announcement | Company (stock code) | Basis of entitlement | Maximum amount of funds to be raised from the rights issue *HK$' million* | Discount of subscription price over the closing price per share on the respective last trading day *(Approximately %)* | Discount of the subscription price over the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective rights issue *(Approximately %)* | Maximum dilution on the shareholding *(Approximately %)* | Theoretical dilution effect *(Note 2)* *(Approximately %)* | Excess Application/ Placing *(Note 3)* | Underwriting arrangement | Placing Commission *(%)* | Underwriting commission *(%)* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 29/12/2022 | New Amante Group Limited (8412) | 1 for 2 | 12.6 | (10.6) | (7.3) | 33.3 | (5.6) | Excess application | Underwritten on a best effort basis | N/A | 1.5 |
| 21/10/2022 | C&N Holdings Limited (8430) | 3 for 1 | 32.5 | (13.3) | (3.7) | 75 | (10.0) | Placing | Non-underwritten | 1.5 | N/A |
| 10/8/2022 | Easy Repay Finance & Investment Limited (8079) | 1 for 2 | 14.4 | (45.0) | (35.1) | 33.3 | (16.1) | Placing | Non-underwritten | 7.1 | N/A |
| 4/8/2022 | Xinyi Electric Storage Holdings Limited (8328) | 1 for 10 | 393.9 | (18.8) | (17.4) | 9.1 | (1.7) | Excess application | Non-underwritten | N/A | N/A |
| 14/7/2022 | Wan Cheng Metal Packaging Company Limited (8291) | 1 for 1 | 24.0 | (25.0) | (14.3) | 50.0 | (16.5) | Placing | Non-underwritten | 2.5 | N/A |
| 17/6/2022 | Ocean Star Technology Group Limited (8297) | 1 for 2 | 31.5 | (41.2) | (32.0) | 33.3 | (13.9) | Excess application | Underwritten on a best effort basis | N/A | 1 |
| 10/6/2022 | Gameone Holdings Limited (8282) | 1 for 2 | 22.4 | (40.4) | (31.2) | 33.3 | (13.5) | Excess application | Underwritten on a best effort basis | N/A | 1.5 |
| 25/5/2022 | F8 Enterprises (Holdings) Group Limited (8347) | 1 for 2 | 17.1 | (5.6) | (3.7) | 33.3 | (1.9) | Excess application | Underwritten on a best effort basis | N/A | 5 |
| 18/5/2022 | K Group Holdings Limited (8475) | 2 for 1 | 50.2 | (28.8) | (12.3) | 66.7 | (20.4) | Excess application | Underwritten on a best effort basis | N/A | 3 |
| 12/5/2022 | KOALA Financial Group Limited (8226) | 2 for 1 | 83.5 | (4.8) | (1.6) | 66.7 | (4.7) | Excess application | Underwritten on a best effort basis | N/A | 3 |



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| Date of announcement | Company (stock code) | Basis of entitlement | Maximum amount of funds to be raised from the rights issue *HK$' million* | Discount of subscription price over the closing price per share on the respective last trading day *(Approximately %)* | Discount of the subscription price over the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective rights issue *(Approximately %)* | Maximum dilution on the shareholding *(Approximately %)* | Theoretical dilution effect *(Note 2)* *(Approximately %)* | Excess Application/ Placing *(Note 3)* | Underwriting arrangement | Placing Commission *(%)* | Underwriting commission *(%)* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 28/4/2022 | Palinda Group Holdings Limited (8179) | 1 for 2 | 29.3 | (39.8) | (30.6) | 33.3 | (13.3) | Excess application | Fully-underwritten | N/A | 7.1 |
| 28/4/2022 | Life Concepts Holdings Limited (8056) | 3 for 2 | 48.6 | (7.0) | (2.9) | 60.0 | (9.3) | Excess application | Underwritten on a best effort basis | N/A | 1 |
| 3/3/2022 | China Eco-Farming Limited (8166) | 1 for 2 | 8.9 | (10.1) | (7.0) | 33.3 | (5.3) | Excess application | Underwritten on a best effort basis | N/A | 2 |
| 28/2/2022 | Zioncom Holdings Limited (8287) | 1 for 2 | 23.1 | (16.7) | (11.4) | 33.3 | (5.6) | Placing | Non-underwritten | 2.5 | N/A |
| **17/2/2023** | **The Group** | **3 for 2** | **35.3** | **(26.5)** | **(12.5)** | **60.0** | **(22.2)** | **Placing** | **Non-underwritten** | **2.5** | **N/A** |
| | | | Maximum | (4.8) | (1.6) | | (1.7) | | | | |
| | | | Minimum | (45.0) | (35.1) | | (20.4) | | | | |
| | | | Average | (21.9) | (15.0) | | (9.8) | | | | |

*Notes:*

1. In order to calculate the average, minimum and maximum percentage of the placing commission of the Comparable Transactions, we have excluded the minimum placing commissions and absolute placing commissions.

2. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Rules Governing the Listing of Securities on the Stock Exchange or Rule 10.44A of the GEM Listing Rules.

3. Pursuant to Rule 10.31(1) of the GEM Listing Rule.

4. N/A represents the respective fundraising exercise did not involve underwriters nor placing agents.



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Based on the Table B, we note that (i) the subscription prices to the closing price on the Last Trading Day prior to the announcement of the Comparables ranged from a discount of approximately 4.8% to a discount of approximately 45.0%, with an average discount of approximately 21.9%. The discount of the Subscription Price to the closing price per Share as at the Last Trading Day of approximately 26.5% is within the range; (ii) the theoretical ex-rights price per Share based on the closing price per share on the last trading day prior to announcement in relation to the respective Comparables ranged from approximately 1.6% to a discount of approximately 35.1%, with an average discount of approximately 15.0%. The discount of the Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day of approximately 12.5% is within the range; (iii) the theoretical dilution effect of the Comparables ranged from approximately 1.7% to approximately 20.4% with an average discount of approximately 9.8%. The theoretical dilution effect represented by the Rights Issue of approximately 22.2% is slightly greater than the range of the theoretical dilution effect of the Comparables. Having considered that (i) the net proceeds from the Rights Issue would improve the Group's financial condition; and (ii) the Subscription Price favors the Qualifying Shareholders to subscribe for the Rights Shares and maintain their respective pro-rata shareholding interests in the Company, we consider that the theoretical dilution effect represented by the Rights Issue is acceptable so far as the Independent Shareholders are concerned.

Taking into consideration that, (i) the Subscription Price of the Rights Issue has a discount of approximately 68.0% to the average Closing Price of HK$0.46 during the Review Period; (ii) the trading liquidity of the Shares were generally thin during the Review Period and the Subscription Price at a discount may enhance the attractiveness of the Shares among the thin trading liquidity; (iii) the discount of the Subscription Price is within the range of the Comparables; (iv) a review period of 12 months prior to the Announcement to be exhaustive for a representation of proposed rights issue in the recent market; and (v) the discount of the Subscription Price to the recent market price of the Share is necessary to encourage the Qualifying Shareholders to participate the Rights Issue under recent market uncertainties, we are of the view that the setting of the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.



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***Potential dilution effect on the interests of the Independent Shareholders***

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue (assuming all Shareholders have taken up their entitled Rights Shares); (iii) immediately after completion of the Rights Issue (assuming none of the Shareholders have taken up any entitled Rights Share); (iv) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming full acceptance) to the full conversion of the Convertible Bonds); and (v) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds), for illustration purposes only, assuming there are no changes in the share capital of the Company on or before the Record Date:

| | (i) As at the Latest Practicable Date | | (ii) Immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders | | (iii) Immediately upon completion of the Rights Issue assuming no acceptance by any Qualifying Shareholder and all Unsubscribed Rights Shares have been placed by the Placing Agent | | (iv) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming full acceptance) to the full conversion of the Convertible Bonds) | | (v) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Number of issued Shares* | *Approx. %* | *Number of issued Shares* | *Approx. %* | *Number of issued Shares* | *Approx. %* | *Number of issued Shares* | *Approx. %* | *Number of issued Shares* | *Approx. %* |
| Mr. Lam Yu Chor *(Note 1)* | 33,098,750 | 20.69 | 82,746,875 | 20.69 | 33,098,750 | 8.27 | 82,746,875 | 18.21 | 33,098,750 | 7.29 |
| Ms. Wong Fei Heung Terbe *(Notes 2 and 3)* | 21,790,000 | 13.62 | 54,475,000 | 13.62 | 21,790,000 | 5.45 | 54,475,000 | 11.98 | 21,790,000 | 4.79 |
| Other public Shareholders | 105,112,628 | 65.69 | 262,781,570 | 65.69 | 105,112,628 | 26.28 | 262,781,570 | 57.81 | 105,112,628 | 23.12 |
| Independent placees | - | - | - | - | 240,002,067 | 60.00 | - | - | 240,002,067 | 52.80 |
| Bondholders | - | - | - | - | - | - | 54,545,454 | 12.00 | 54,545,454 | 12.00 |
| Total | 160,001,378 | 100.00 | 400,003,445 | 100.00 | 400,003,445 | 100.00 | 454,548,899 | 100.00 | 454,548,899 | 100.00 |



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*Notes:*

1. Mr. Lam Yu Chor ("**Mr. Lam**") legally and beneficial owns the entire issued share capital of Goldstone Wealth Management Limited ("**Goldstone**"), which is the general partner of Goldstone 1 LPF. Therefore, Mr. Lam is deemed, or taken to be, interest on all Shares held by Goldstone for the purpose of the SFO. Mr. Lam is the director of Goldstone.

2. Ms. Wong Fei Hung Terbe ("**Ms. Wong**") legally and beneficially owns the entire issued share capital of Success Run International Limited ("**Success Run**"). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 18,350,000 Shares held by Success Run for the purpose of the SFO. Ms. Wong is the sole director of Success Run.

3. Ms. Wong legally and beneficially owns the entire issued share capital of Lion Spring Enterprises Limited ("**Lion Spring**"). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 3,440,000 Shares held by Lion Spring for the purpose of the SFO. Ms. Wong is the director of Lion Spring.

The Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future business development of the Company should they wish to do so. However, 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 Details of the changes in shareholding structure of the Company resulting from completion of the Rights Issue are set out in the table above. Assuming there will be no change in the shareholding structure of the Company before completion of the Rights Issue, if (i) all Right Shares are subscribed for by the Qualifying Shareholders, the shareholding of the public Shareholders will remain at 65.7%; and (ii) assuming none of the Qualifying Shareholders takes up any of the Rights Shares and all Unsubscribed Rights Shares have been placed by the Placing Agent, the shareholding of the public Shareholders will decrease from approximately 65.7% as at the Latest Practicable Date to approximately 26.3% upon completion of the Rights Issue. The possible maximum dilution effect to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 60.0%. The above scenario is for illustrative purpose only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

We are aware of the potential maximum dilution effect as a result of the Rights Issue. However, having taken into account that (i) all Qualifying Shareholders are offered an equal opportunity to maintain their shareholding interests in the Company and allowed to participate in the business growth of the Company; (ii) the theoretical dilution effect of 22.2% of the Rights Issue is slightly greater than the range of that of the Comparables, which was mainly due to the cumulative theoretical dilution effect created by 2022 CB Placing and 2022 Rights Issue; (iii) the shareholding of the Qualifying Shareholders would not be diluted if they choose to subscribe for their entitled Rights Shares in full; and (iv) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the markets if they do not want to take up the rights entitlement, we are of the opinion that the potential dilution effect of the Rights Issue is justifiable.

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*Excess application*

As stated in the Letter from the Board, the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. We have reviewed the Comparables and noted that 4 out of 14 Comparables did not offer excess application to their shareholders and 5 out of 14 Comparables were conducted on non-underwritten basis. Therefore, we consider that the absence of excess application arrangement is not an uncommon market practice. As such, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

*Placing price*

Pursuant to the Placing Agreement, the placing price (the "**Placing Price**") of each of the Unsubscribed Rights Share and/or the NQS Unsold Rights Share shall be not less than the Subscription Price. The final price determination is depends on the demand and market conditions of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares during the process of the Placing.

Given that (i) the Placing Price shall be not less than 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 "Subscription Price" in this letter above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

*Placing commission*

As set out in the Letter from the Board, the terms of the Placing Agreement, including the rate of placing commission, were determined after arm's length negotiation between the Company and the Placing Agents with reference to (i) the market comparables including the average placing commission of 2.94% of the recent proposed rights issue announced by the companies listed on GEM of the Stock Exchange within 12 months prior to the Last Trading Day; (ii) the net loss attributable to owners of the Company of approximately HK$20.5 million recorded by the Group for the nine months ended 31 December 2022; (iii) the gross proceeds of the Rights Issue of HK$35.28 million; and (iv) the downward trend of the daily closing price of the Shares of the Company during the Relevant Period and the Placing Agent to the Company will receive 2.5% of the placing price.

According to the Comparables as set out in Table B, the placing commission rate of the Comparables ranged from approximately 1.3% to approximately 7.1%, with an average placing commission rate of approximately 3.4%. As the placing commission rate of approximately 2.5% is below the average placing commission of the Comparables and falls within the range of the Comparables, we are of the view that the placing commission rate charged by the Placing Agent is not unreasonable and is in the interests of the Company and Independent Shareholders as a whole.



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## 5. Financial effects of the Rights Issue

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible assets attributable to owners of the Company as at 30 September 2022 was approximately HK$66.7 million.

***Net assets***

Assuming no further issuance of Shares on or before the Record Date, (i) the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company would increase to approximately HK$100.2 million as at 30 September 2022 upon completion of the Rights Issue; and (ii) the unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company would be approximately HK$0.42 before the completion of the Rights Issue and approximately HK$0.25 upon completion of the Rights Issue as at 30 September 2022.

***Liquidity***

According to the 2022 Interim Report, as at 30 September 2022, the cash and cash equivalents of the Group was approximately HK$18.2 million and the Group had current assets of approximately HK$66.7 million, current liabilities of approximately HK$54.2 million. Accordingly, (i) the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 September 2022 was approximately 1.2 times; and (ii) the gearing ratio of the Group (being the total debts divided by the total equity of the Group) as at September 2022 was approximately 13.9%. Immediately upon completion of the Rights Issue, the cash and cash equivalents of the Group is expected to increase by the expected net proceeds from the Rights Issue of approximately HK$33.48 million.

Upon completion of the Rights Issue and assuming that the Rights Shares are fully subscribed, it is expected that (i) the current ratio of the Group will be increased from approximately 1.2 times to approximately 1.8 times; and (ii) the gearing ratio of the Group will be decreased from approximately 13.9% to approximately 9.3%. As such, the current ratio, the gearing ratio and the liquidity of the Group will be improved upon the completion of the Rights Issue before utilising the net proceeds.

As the Rights Issue will improve the liquidity position of the Group, we are of the view that the Rights Issue are in the interests of the Company and the Shareholders as a whole.

Shareholders should note that the aforesaid analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon completion of the Rights Issue and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of (i) the financial position of the Company as at 30 September 2022 or any future date; or (ii) the net assets per Share of the Company as at 30 September 2022 or any future date.

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## C. RECOMMENDATION

Having taken into consideration of the following principal factors and reasons regarding the major terms of the Rights Issue including:

(i) the proceeds from the Rights Issue will enable the Group to strengthen its foundation service capacity and diversify its revenue streams by developing the AI business;

(ii) the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are therefore of the view that setting the Subscription Price at a discount to the average Closing Price would encourage the Qualifying Shareholders to participate in the Rights Issue, and to maintain their respective shareholding interests in the Company as stated under the paragraph headed "Subscription Price" in this letter;

(iii) the Subscription Price is fair and reasonable in our view for the reasons set out in earlier sections headed "Subscription Price" and "Comparison to other rights issue" in this letter; and

(iv) Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportionate interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company, and the maximum dilution effect will only occur when the Qualifying Shareholders do not subscribe for their proportionate Rights Shares,

we are of the view that the terms of the Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue including the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of

**Kingsway Capital Limited**
**Jackson Wong**
*Managing Director*

*Note:* Mr. Jackson Wong is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Kingsway Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in and completed various advisory transactions involving companies listed in Hong Kong in respect of the Takeovers Code for over 10 year.



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