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9 December 2022

To the Independent Board Committee and the Independent Shareholders

C&N Holdings Limited
21st Floor, CMA Building
64 Connaught Road Central
Hong Kong

Dear Sir/Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 9 December 2022 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Board proposes, subject to, amongst others, the Share Consolidation and the Change in Board Lot Size becoming effective, to implement the Rights Issue on the basis of three (3) Rights Shares for every one (1) Consolidated Share held on the Record Date at the Subscription Price of HK$0.26 per Rights Share, to raise gross proceeds of approximately HK$32.5 million before expenses (assuming no other change in the number of Shares in issue save for the Share Consolidation on or before the Record Date), by way of the Rights Issue of 125,126,400 Rights Shares to the Qualifying Shareholders. There will be no excess application arrangements in relation to the Rights Issue.

On 21 October 2022 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares.

GEM LISTING RULES IMPLICATIONS

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on, amongst other things, the approval by the Independent Shareholders at which any controlling shareholders and their respective 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 Rights Issue.

As such, Mr. Chua Kang Lim and Ms. Chua Sui Feng and their respective associates shall abstain from voting in favour of the resolution to approve the Rights Issue and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, Mr. Chua Kang Lim and Ms. Chua Sui Feng, who are executive Directors of the Company, taken together, in aggregate, hold 71,005,000 Existing Shares, representing approximately 8.51% of the existing issued share capital of the Company.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Cheung Wai Kin, Ms. Lo Suet Lai, and Ms. Wong Shuk Yee Camilla, has been established to consider the Rights Issue and to give advice and recommendation to the Independent Shareholders as to (i) whether the terms of the Rights Issue are fair and reasonable; (ii) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the resolution to be proposed at the EGM in relation to the Rights Issue and the transactions contemplated thereunder, after taking into account the recommendation of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Rights Issue are fair and reasonable; (ii) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the resolution to be proposed at the EGM in relation to the Rights Issue and the transactions contemplated thereunder.

We have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years prior to the date of the Circular. Pursuant to Rule 17.96 of the GEM Listing Rules, and given that remuneration for our engagement to opine on the Rights Issue is at market level and not conditional upon successful passing of the relevant resolution at the EGM, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the annual reports of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"); (ii) the interim report of the Company for the six months ended 30 June 2022 (the "**2022 Interim Report**"); (iii) the Announcement; and (iv) other information contained or referred to in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the "**Management**"). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the EGM. The Independent Shareholders will be informed as soon as practicable when we are aware of any material change in all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading at the time they were made or will be untrue, inaccurate or misleading at the date of the EGM, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Company contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

The Group is principally engaged in offering various transport and storage services to the logistics industry in Singapore and Hong Kong, primarily trucking and hubbing services.

1.1 Financial information of the Group

Set out below is a summary of financial information of the Group extracted from the 2021 Annual Report and 2022 Interim Report.

Extract of consolidated statement of profit or loss

	For the year ended 31 December		For the six months ended 30 June	
	2020	**2021**	**2021**	**2022**
	S$'000	*S$'000*	*S$'000*	*S$'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	26,264	26,219	13,328	13,439
— *Trucking services*	*21,673*	*21,497*	*10,921*	*11,260*
— *Hubbing services*	*4,591*	*4,722*	*2,407*	*2,179*
Gross profit	1,499	1,341	764	325
Gross profit margin	*5.7%*	*5.1%*	*5.7%*	*2.4%*
Administrative expenses	(3,978)	(5,970)	(3,772)	(3,874)
Loss for the year/period	(811)	(3,605)	(2,536)	(3,367)

Extract of consolidated statement of financial position

	As at 31 December		As at 30 June
	2020	**2021**	**2022**
	S$'000	*S$'000*	*S$'000*
	(audited)	(audited)	(unaudited)
Current assets			
— *Cash and bank balances*	*11,644*	*10,065*	*7,869*
Current liabilities			
— *Trade payables*	*1,244*	*1,033*	*1,773*
— *Other payables and accruals*	*1,228*	*1,068*	*823*
— *Loans and borrowings*	*1,445*	*1,476*	*1,819*
Non-current liabilities			
— *Loans and borrowings*	*4,304*	*921*	*—*
Net current assets	12,797	11,530	9,719
Net assets	19,827	20,909	19,046

Year ended 31 December 2020 compared with year ended 31 December 2021

The Group's revenue for the year ended 31 December 2020 ("**FY2020**") and 2021 ("**FY2021**") remained relatively stable at approximately S$26.2 million. However, the Group's gross profit decreased from approximately S$1.5 million for FY2020 to approximately S$1.3 million for FY2021, which translated into gross profit margins of approximately 5.7% and 5.1% respectively. Such decrease was mainly attributable to decreases in gross profit margins for both trucking services and hubbing services. With regard to trucking services, there was a decrease in trade volume and as more than a third of the costs for trucking services are attributable to fixed costs such as wages and depreciation, the gross profit margin of this sector decreased accordingly. As to hubbing services, due to disruptions and port closures during the global and local trade economy, subcontractors had to be engaged to store containers for extended days as a result of vessel delays, hence operating costs increased.

Administrative expenses increased from approximately S$4.0 million for FY2020 to approximately S$6.0 million for FY2021 mainly due to the recognition of share-based payment in relation to share options granted during FY2021. As a result of the decrease in gross profit and increase in administrative expenses, the Group's loss for the year increased from approximately S$0.8 million in FY2020 to approximately S$3.6 million in FY2021.

31 December 2020 compared with 31 December 2021

The Group's cash and bank balances decreased from approximately S$11.6 million as at 31 December 2020 to approximately S$10.1 million as at 31 December 2021 mainly due to the net effect of (i) receipt of proceeds from placing of shares of the Company in June 2021; and (ii) repayment of loans and borrowings. As a result, the Group's net current assets decreased accordingly from approximately S$12.8 million as at 31 December 2020 to approximately S$11.5 million as at 31 December 2021. Net assets of the Group increased from approximately S$19.8 million as at 31 December 2020 to S$20.9 million 31 December 2021 due to equity raised from the aforesaid placing of shares, offset by the losses incurred during FY2021.

Six months ended 30 June 2021 compared with six months ended 30 June 2022

Notwithstanding that the Group's revenue remained relatively stable at approximately S$13.4 million for the six months ended 30 June 2021 ("**FY20211H**") and 2022 ("**FY20221H**"), the Group's gross profit margin decreased from approximately 5.7% to 2.4%. Such significant decrease was mainly attributable to the increase in cost of diesel since February 2022.

The loss for FY20221H amounted to approximately S$3.4 million, representing an increase of approximately 32.7% as compared to a loss of S$2.5 million for FY20211H. Besides the abovementioned increase in cost of diesel, there was an absence of recognition of government grants during FY20221H (FY20211H: approximately S$0.5 million of government grant was recorded).

30 June 2022 compared with 31 December 2021

The Group's cash and bank balances decreased from approximately S$10.1 million as at 31 December 2021 to S$7.9 million as at 30 June 2022. Such deterioration was mainly attributable to net cash used in operating activities amounting to approximately S$3.0 million, which was primarily due to the recorded loss for the period during FY20221H. Net current assets and net assets of the Group had also decreased from approximately S$11.5 million and $20.9 million as at 31 December 2021 to approximately S$9.7 million and S$19.0 million as at 30 June 2022 respectively in line with the losses.

1.2 Outlook of the Group

The prolonged COVID-19 pandemic continues to cause uncertainties to the general economy as well as the industry which the Group operates in. There are mounting price pressures due to supply chain disruptions and shortage of shipping containers alongside rising energy costs, primarily due to tensions between Russia and Ukraine. Supply chain bottlenecks as well as rising energy prices have aggravated global inflationary pressures.

The Group's operations have been adversely affected to a large extent and the Group expects future adverse economic conditions would continue to negatively affect the Group's financial position and performance. Amidst the uncertain global trade environment, the Group has been cautious with its expansion plans, while being mindful of the importance of maintaining liquidity for the Group's ongoing operations. Hence, prudent management of cash flow is critical.

2. Reasons for the Rights Issue

2.1 Funding needs

According to the paragraph headed "Reasons for the Rights Issue and use of proceeds" in the "Letter from the Board" of the Circular and the paragraph headed "1.1 Financial information of the Group" above, the Group's cash and bank balances had reduced from approximately S$10.1 million as at 31 December 2021 to S$7.9 million as at 30 June 2022, and further reduced to approximately S$4.1 million as at the Last Trading Day, being the date of the Company's announcement. Such deterioration in the cash level of the Company was due to cash flow used in business operating activities as well as investing activities. Furthermore, the Group's current liabilities (comprising trade payables, other payables and accruals and loans and borrowings) had also increased from approximately S$3.5 million as at 31 December 2021 to S$4.4 million as at 30 June 2022.

Taking into account (i) the recorded losses during FY2020, FY2021 and FY20221H; (ii) the increase in current liabilities; (iii) the continued depletion of cash and bank balances; and (iv) the uncertainties brought about by the prolonged COVID-19 pandemic as well as geopolitical tensions as mentioned in the paragraph headed "1.2 Outlook of the Group" above, the Management considers, and we concur, that conducting the Rights Issue under the current circumstances is important as it would improve the Group's financial position and provide additional financial resources.

2.2 Suitable fund raising method

We understand that the Management has considered other financing alternatives including (i) debt financing; and (ii) other equity fund raising such as placement of new Shares and open offer.

In respect of debt financing, the Group has been encountering difficulties in securing loans at commercially reasonable interest rates. We understand that as at the Latest Practicable Date, the interest rates of loan financing from independent third parties that the Group has been offered are generally over 20% per annum, which are prohibitively high.

In respect of equity financing, compared to the Rights Issue, (i) placement of new Shares 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; and (ii) open offer, although similar to a rights issue which offers qualifying shareholders participation, does not allow the trading of rights entitlements in the open market.

Having considered (i) the feasibility of the various fund raising methods; (ii) the potential financing costs; and (iii) the opportunity for the existing Shareholders to maintain shareholding in the Company and additional flexibility afforded by the Rights Issue to the existing Shareholders, the Management is of the view, and we concur, that the Rights Issue is the most suitable fund raising method to the Group under the current circumstances.

3. Principal terms of the Rights Issue

3.1 Summary of the key terms

Basis of the Rights Issue	:	Three (3) Rights Shares for every one (1) Consolidated Share held at the close of business on the Record Date
Subscription Price	:	HK$0.26 per Rights Share
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	41,708,800 Consolidated Shares (assuming no further issue or repurchase of Shares up to the effective date of the Share Consolidation)
Number of Rights Shares to be issued pursuant to the Rights Issue	:	Up to 125,126,400 Rights Shares with an aggregate nominal value of HK$25,025,280, assuming no further issue or repurchase of the Shares or Consolidated Shares on or before the Record Date
Amount to be raised	:	Up to approximately HK$32.5 million before expenses, assuming no further issue or repurchase of Shares or Consolidated Shares on or before the Record Date

For further information of the Rights Issue, please refer to the paragraph headed "Proposed Rights Issue" in the "Letter from the Board" of the Circular.

3.2 The Subscription Price

As stated in the paragraph headed "Subscription Price" in the "Letter from the Board" of the Circular, the Subscription Price was determined by the Company with reference to, among others, the recent market price of the Shares, the prevailing market conditions, recent rights issue in the market, the amount of funds and capital needs and the reasons for the Rights Issue as discussed in the paragraph headed "Reasons for the Rights Issue and use of proceeds" in the "Letter from the Board" of the Circular.

The Subscription Price of HK$0.26 per Rights Share represents:

(i) a discount of approximately 7.1% to the theoretical closing price of HK$0.28 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.014 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 13.3% to the theoretical closing price of HK$0.3 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.015 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 3.7% to the theoretical ex-rights price of approximately HK$0.27 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.015 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

(iv) a discount of approximately 13.3% to the theoretical closing price of HK$0.3 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK$0.015 per Existing Share as quoted on the Stock Exchange for the five consecutive trading days prior to and excluding the Last Trading Day;

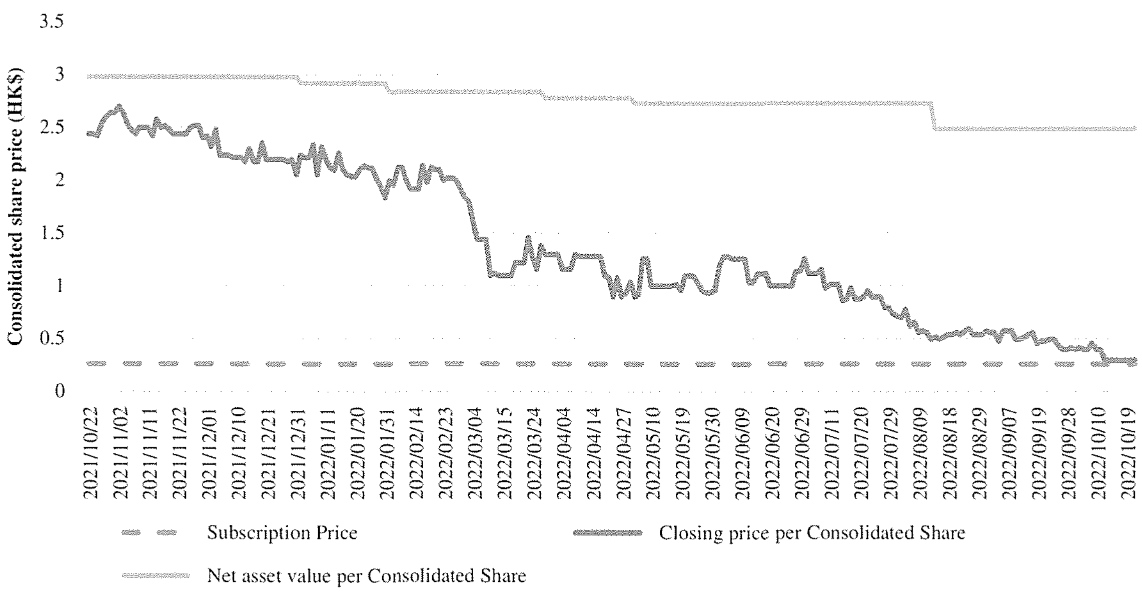
(v) a discount of approximately 22.6% to the theoretical closing price of approximately HK$0.336 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK$0.0168 per Existing Share as quoted on the Stock Exchange for the 10 consecutive trading days prior to and excluding the Last Trading Day;

(vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 3.7%, represented by the theoretical diluted price of approximately HK$0.27 per Consolidated Share to the theoretical benchmarked price of HK$0.3 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.015 per Share and the average of the closing prices of the Existing Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of this announcement of approximately HK$0.015 per Share); and

(vii) a discount of approximately 90%, being HK$2.34 per Consolidated Share (after taking into account the effect of the Share Consolidation), over the unaudited net assets value per Consolidated Share of approximately HK$2.60 based on the published unaudited consolidated net assets of the Company of approximately S$19.0 million (HK$108.6 million) as at 30 June 2022 and 834,176,000 Shares (41,708,800 Consolidated Shares) in issue as at the Latest Practicable Date.

We have conducted analysis on the Subscription Price relative to the historical closing share price of the Company and the historical net asset value per share during the period from 22 October 2022, being 12 months immediately preceding the Last Trading Day, to the Last Trading Day (the "**Price Review Period**"). We consider that a period of 12 months is adequate to illustrate the recent share price and net asset value movements for the purpose of illustrating the comparison. For ease of comparison and illustrative purpose, we have adjusted the closing price and net asset value per share on the basis of Consolidated Share.

Company's share price movement



Source: The Stock Exchange

We note that the share price of the Company has been on a downward trend during the Price Review Period. Taking into consideration that recent market prices of the shares of the Company are indicative of the market's evaluation on various aspects of the Company, such as the Company's financial performance, prospects and also reflects recent market sentiment, we consider that using more recent market closing prices as reference to determine the Subscription Price to be fair and reasonable.

The Subscription Price is at a substantial discount to the unaudited net assets value per Consolidated Share as at 30 June 2022. As the share price of the Company has been protractedly trading at a discount to the Group's net asset value, we consider that the net assets value per share is not a meaningful benchmark to determine the Subscription Price.. As such, given that the Subscription Price is determined at a discount to the prevailing market price of the shares of the Company (as mentioned under (i) to (v) above), we consider the Subscription Price to be fair and reasonable.

Comparison with other rights issues

To further assess the fairness and reasonableness of the Subscription Price, we have also conducted an analysis to compare it with subscription prices of other recent rights issues. Based on the criteria of (i) rights issues conducted by companies listed on the Stock Exchange; and (ii) rights issues that had issued relevant prospectuses between 22 April 2022 and the Last Trading Day (being a 6-month period up to the Last Trading Day) (the "**Review Period**"), we have identified 21 other rights issues (the "**Comparables**").

While the Comparables may have different principal business activities and scale of operations, market capitalisations, profitability and financial positions as compared to those of the Company, we are of the view that they can provide a reasonable reference as to how the recent market generally perceives rights issues. We also consider that the length of the Review Period is adequate, and can fairly and reasonably reflect prevailing market conditions. We believe the list of Comparables below is exhaustive based on our selection criteria. It should be noted that, when forming our opinion, we take into account the below analysis together with all other factors stated in this letter as a whole.

The major terms of the Comparables are summarised below:

Prospectus Date	Company name	Stock code	Percentage of rights shares to the enlarged share capital	Discount of Subscription Price over LTD Price	Discount of Subscription Price over Theoretical Ex-rights Price	Theoretical dilution effect
25 Apr 2022	China Eco-Farming Limited	8166	33%	10.11%	6.98%	5.26%
26 May 2022	Vixtel Technologies Holdings Limited	1782	33%	34.50%	26.00%	13.60%
27 May 2022	Success Dragon International Holdings Limited	1182	60%	2.86%	1.16%	2.70%
13 Jun 2022	Palinda Group Holdings Limited	8179	33%	39.76%	13.25%	13.25%
29 Jun 2022	China Water Industry Group Limited	1129	33%	31.37%	23.25%	10.46%
6 Jul 2022	Gameone Holdings Limited	8282	33%	40.40%	31.20%	13.50%
8 Jul 2022	Kiu Hung International Holdings Limited	381	75%	18.00%	5.09%	13.43%
29 Jul 2022	Ocean Star Technology Group Limited	8297	33%	41.20%	32.00%	13.90%
5 Aug 2022	KOALA Financial Group Limited	8226	67%	4.76%	1.64%	4.70%
23 Aug 2022	F8 Enterprises (Holdings) Group Limited	8347	33%	5.56%	3.68%	1.94%
24 Aug 2022	Progressive Path Group Holdings Limited	1581	50%	42.22%	26.76%	21.11%
24 Aug 2022	Xinyi Electric Storage Holdings Limited	8328	9%	18.82%	17.41%	1.71%
26 Aug 2022	Kwan On Holdings Limited	1559	20%	0.00%	0.00%	0.13%
29 Aug 2022	Easy Repay Finance & Investment Limited	8079	33%	44.95%	35.14%	16.09%
30 Aug 2022	SJM Holdings Limited	880	20%	33.80%	29.00%	7.10%
2 Sep 2022	Zioncom Holdings Limited	8287	33%	16.70%	11.76%	5.60%
26 Sep 2022	Besunyen Holdings Company Limited	926	67%	14.22%	5.91%	10.58%
30 Sep 2022	Wan Cheng Metal Packaging Company Limited	8291	50%	25.00%	14.30%	16.50%
3 Oct 2022	Jia Yao Holdings Limited	1626	50%	14.29%	7.69%	7.14%
3 Oct 2022	China Financial Leasing Group Limited	2312	67%	29.10%	12.04%	19.60%
10 Oct 2022	Life Concepts Holdings Limited	8056	60%	6.98%	2.91%	9.28%
		Maximum		**44.95%**	**35.14%**	**21.11%**
		Minimum		**0.00%**	**0.00%**	**0.13%**
		Mean		**22.60%**	**14.63%**	**9.88%**
		Median		**18.82%**	**12.04%**	**10.46%**
	The Company	**8430**	**75%**	**13.30%**	**3.70%**	**10.00%**

Source: The Stock Exchange's website

Based on the above analysis, save for one, all the other Comparables have set the subscription prices of their rights issues at discounts to (i) the prevailing market closing prices of the relevant last trading days (the "**LTD Price(s)**") of their rights issues; and (ii) the theoretical ex-rights prices (the "**Ex-rights Price(s)**") based on LTD Prices.

Discounts to LTD Prices range from approximately 45.0% to 2.9%, with mean and median of approximately 23.7% and 21.9% respectively. Meanwhile, discounts to Ex-rights Prices range from approximately 35.1% to 1.1%, with mean and median of approximately 15.3% and 12.6% respectively. For the remaining one Comparable, its rights issue subscription price has been set at the same price as its LTD Price and Ex-rights Price.

It can be concluded that, as with the case of this Rights Issue, it is common for subscription prices of rights issues to be at discounts to their respective LTD Prices and Ex-rights Prices. The discounts of the Subscription Price to this Rights Issue's LTD Price and Ex-rights Price of 13.3% and 3.7% fall within the above ranges of the Comparables.

In terms of theoretical dilution effect (as defined in the Listing Rules), the Comparables' range is between approximately 21.1% and 0.1%, with both mean and median of approximately 10%. The theoretical dilution effect of this Rights Issue of 10.0% is within the range and approximates the mean and median of the Comparables.

Based on the above, from the perspective of discounts to LTD Prices and Ex-rights Prices as well as theoretical dilution effect, we are of the view that the Subscription Price is fair and reasonable.

3.3 No excess application

Among the Comparables, we noted that six of the 21 Comparables do not have excess application arrangements in relation to their rights issues. Of the six Comparables without excess application arrangements, placing agents were engaged to procure placees to subscribe for unsubscribed rights shares. The Company has entered into the Placing Agreement with the Placing Agent for similar arrangements, and hence we consider that it is acceptable for the Rights Issue not to have excess application arrangements. Please refer to the paragraph headed "3.4 The Placing Agreement" for details of the Placing Agreement.

3.4 Non-underwritten basis

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will be placed to independent placees under the Compensatory Arrangements, on a best effort basis. It is noted that eight of the 21 Comparables are on a non-underwritten basis. As such, we are of the view that it is not uncommon for rights issues to be conducted on a non-underwritten basis. In addition, we noted that the Company had consulted brokerage companies for underwriting the Rights Issue but has not received any favourable feedback due to the current capital market situation, apart from the Placing Agent who expressed its interests in acting as a placing agent on best effort basis.

Despite that there is no guarantee of minimum amount to be raised by the Rights Issue, given that the Rights Issue provides an opportunity for the Group to raise funds for its financials needs, we consider the Rights Issue to be in the interests of the Company and Shareholders as a whole.

3.5 The Placing Agreement

As stated in the "Letter from the Board" of the Circular, the Rights Shares will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. The Company and the Placing Agent have entered into the Placing Agreement on 21 October 2022 (after trading hours), pursuant to which the Placing Agent has conditionally agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares. For terms of the Placing Agreement, please refer to the paragraph headed "The Placing Agreement" in the "Letter from the Board" of the Circular.

According to the Placing Agreement, the Company will pay the Placing Agent a placing commission (the "**Placing Commission**") of 1.5% of the amount which is equal to the Placing Price (as defined below) multiplied by the Unsubscribed Rights Shares and ES Unsold Rights Shares that have been successfully placed by the Placing Agent.

To assess the fairness and reasonableness of the Placing Commission, we have identified the placing commission for those rights issue of the aforementioned six Comparables (i.e. those which do not have excess application arrangements) (the "**Comparables Commissions**"). We noted that the Comparables Commissions ranged from 0.5% to 7.0% with a mean and median of approximately 2.8% and 2.5% respectively. The Placing Commission of 1.5% falls within range and is lower than the mean and median of the Comparables Commissions. Hence, we consider that the Placing Commission pursuant to the Placing Agreement is fair and reasonable.

3.6 The placing price

The placing price (the "**Placing Price**") of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares shall be not less than the Subscription Price. By setting the Placing Price at not less than the Subscription Price, the Placing will not be prejudicial to the Qualifying Shareholders. Given that we consider the Subscription Price is fair and reasonable for the reasons above, we hence consider the Placing Price to be fair and reasonable.

3.7 Section summary

Taking into consideration (i) the Subscription Price is fair and reasonable; (ii) the Placing offers additional means to facilitate the subscription of the untaken portions of the Rights Issue to the maximum extent considering the funding needs of the Company and the difficulties in conducting alternative fund raising methods as mentioned in the paragraph headed "2. Reasons for the Rights Issue" above; and (iii) the Placing Commission and Placing Price are fair and reasonable, we concur with the Management that the terms of the Rights Issue are fair and reasonable.

4. Financial impacts of the Rights Issue

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

5.1 Liquidity

According to the 2022 Interim Report, the cash and bank balances of the Group amounted to approximately S$7.9 million as at 30 June 2022. Since part of the net proceeds from the Rights Issue will be applied as working capital for the existing business of the Group (i.e. (i) approximately HK$6.2 million for payment of rental expenses and management fee for the next 12 months; (ii) HK$20.0 million for the payment of salaries of the Group's employees for the next 6 months; and (iii) HK$5.2 million for general working capital), the Group's liquidity position would be improved upon completion of Rights Issue.

5.2 Net tangible assets

According to the "Unaudited pro forma financial information of the Group" as set out in Appendix II to the Circular, assuming that the Rights Issue had been completed on 30 June 2022, given the discount of the Subscription Price over the unaudited net assets value per Consolidated Share as discussed above, the Group's net tangible assets per Share would be decreased from approximately S$0.45 per Consolidated Share (after taking into account the effect of the Share Consolidation) to approximately S$0.15 per Consolidated Share.

Given the above, we are of the view that the overall financial impact to the Group upon completion of the Rights Issue is in the interests of the Company and the Shareholders as a whole.

6. Possible dilution effect

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

For those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 75.0%

For illustrative purposes only, set out below are the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Consolidation becoming effective but before completion of the Rights Issue; (iii) immediately after completion of the Rights Issue assuming all Shareholders take up their respective allotment of

Rights Shares in full; and (iv) immediately after completion assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and ES Unsold Rights Shares have been placed by the Placing Agent:

	As at the Latest Practicable Date		**Immediately after the Share Consolidation becoming effective but before completion of the Rights Issue**		**Immediately after completion of the Rights Issue assuming all Shareholders take up their respective allotment of Rights Shares in full**		**Immediately after completion assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and all Unsubscribed Rights Shares and ES Unsold Rights Shares have been placed by the Placing Agent**	
	Number of Shares	*Approx.% (note)*	*Number of Shares*	*Approx.% (note)*	*Number of Shares*	*Approx.% (note)*	*Number of Shares*	*Approx.% (note)*
Mr. Chua Kang Lim	64,605,000	7.74%	3,230,250	7.74%	12,921,000	7.74%	3,230,250	1.94%
Wang Hufei	209,435,000	25.11%	10,471,750	25.11%	41,887,000	25.11%	10,471,750	6.28%
Public Shareholders	560,136,000	67.15%	28,006,800	67.15%	112,027,200	67.15%	28,006,800	16.78%
Independent placees	—	—	—	—	—	—	125,126,400	75.00%
Total	834,176,000	100.00%	41,708,800	100.00%	166,835,200	100.00%	166,835,200	100.00%

Note: The above percentage figures are subject to rounding adjustments. Accordingly, figures shown as total may not be an arithmetic aggregation of the figures preceding it.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; and (ii) the Qualifying Shareholders have the opportunity to sell in the market, subject to availability, their nil-paid rights to subscribe for the Rights Shares, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is acceptable and justifiable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the terms of the Rights Issue (including the Subscription Price) are fair and reasonable; and (ii) the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour on the resolution at the EGM in relation to the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Chang Sean Pey	**Leo Tam**
Executive Director	*Executive Director*

*Mr. Chang Sean Pey ("**Mr. Chang**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Leo Tam ("**Mr. Tam**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over eight years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*