21 November 2022

To the Independent Board Committee and
the Independent Shareholders of
China Zenith Chemical Group Limited

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY TWO (2) ADJUSTED SHARES HELD ON RECORD DATE

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to (i) advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Rights Issue are fair and reasonable as far as the Independent Shareholders are concerned; (ii) give our recommendation as to whether the Rights Issue is in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the SGM. Details of the Rights Issue are set out in the section headed "Letter from the Board" (the "**Letter from the Board**") contained in the circular (the "**Circular**") of the Company to the Shareholders dated 21 November 2022, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless the context requires otherwise.

As stated in the Letter from the Board, the Board proposes to implement the Capital Reorganisation involving (i) the Share Consolidation whereby every twenty (20) Existing Shares will be consolidated into one (1) Consolidated Share; (ii) the Capital Reduction whereby the issued share capital of the Company will be reduced by (a) rounding down the total number by Consolidated Shares in the issued share capital of the Company to the nearest whole number of cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (b) cancelling the paid up capital of the Company to the extent of HK$1.9 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK$2.0 to HK$0.1; (iii) the Share Sub-division whereby each of the authorised but unissued Consolidated Shares will be divided into twenty (20) Adjusted Shares of HK$0.1 each; (iv) the Share Premium Reduction whereby the entire amount standing to the credit of the Share Premium Account will be reduced to nil; and (v) the transfer of all the credits arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company within the meaning of the Companies Act which will be applied to reduce the accumulated losses of the Company or be applied by the Board in any other manner in accordance with the bye-laws of the Company and all applicable laws of Bermuda from time to time without further authorization from the Shareholders.

As at the Latest Practicable Date, the total authorised share capital of the Company is HK$500,000,000 divided into 5,000,000,000 Existing Shares of HK$0.1 each, of which 3,014,560,978 Existing Shares have been issued and fully paid or credited as fully paid. Immediately following the Capital Reorganisation, 5,000,000,000 Existing Shares of HK$0.1 each will become 5,000,000,000 Adjusted Shares of HK$0.1 each, of which 150,728,048 Adjusted Shares will be in issue and the aggregate nominal value of the issued share capital of the Company will become HK$15,072,804.8 (assuming that no further Existing Shares are issued or repurchased or surrendered from the Latest Practicable Date until the Effective Date). A credit of HK$286,383,291.2 will arise as a result of the Capital Reduction becoming effective after the Capital Reorganisation. As at the Latest Practicable Date, the Company has a credit balance of approximately HK$172,006,081 standing in the Share Premium Account. The credit arising from the Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and be applied towards reducing the accumulated losses of the Company as at the effective date of the Capital Reduction and Share Premium Reduction.

Subject to the Capital Reorganisation becoming effective, the Board proposes to implement the Rights Issue on the basis of five (5) Rights Shares for every two (2) Adjusted Shares held by the Qualifying Shareholders on the Record Date at the Subscription Price of HK$0.2 per Rights Share, to raise gross proceeds up to approximately HK$79.5 million before expenses by way of a rights issue of up to 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date). The net proceeds from the Rights Issue (after deducting the estimated expenses) are estimated to be not more than approximately HK$77.6 million.

As the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the SGM by poll in accordance with the requirements of Rule 7.19A(1) of the Listing Rules and any Controlling Shareholder and the respective associates or where there is no Controlling Shareholder, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue.

As at the Latest Practicable Date, the Company does not have any Controlling Shareholder. Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, as the executive Directors or non-executive Director (as the case may be), who holds 2,860,000, 2,440,000 and 3,320,000 Existing Shares, respectively, will abstain from voting in favour of the resolution approving the

Rights Issue at the SGM. Save as disclosed, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors or their respective associates are interested in any Existing Share.

The Rights Issue (whether on its own or when aggregated with the 2021 Rights Issue) does not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit, 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 interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM.

OUR INDEPENDENCE

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

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

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's annual report for the financial year ended 30 June 2022 (the "**2022 Annual Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable

Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Rights Issue, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Rights Issue. The Company has been separately advised by its own professional advisers with respect to the Rights Issue and the preparation of the Circular (other than this letter).

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the parties

1.1 Background information and financial overview of the Group

As stated in the Letter from the Board, the Group is principally engaged in the manufacturing and sales of coal-related chemical products, the generation and supply of electricity and thermal energy and construction services. Certain summary financial information of the Group as extracted from the 2022 Annual Report for the two years ended 30 June 2021 and 2022 ("**FY2021**" and "**FY2022**" respectively) is set out below:

	For the year ended 30 June	
	2022	**2021**
	HK$'000	*HK$'000*
	(audited)	(audited)
Revenue	369,628	229,021
Gross (loss)/profit	(25,720)	49,894
(Loss) attributable to owners of the Company	(1,064,206)	(450,353)

The Group's consolidated revenue increased from approximately HK$229.0 million for FY2021 to approximately HK$369.6 million for FY2022, representing an increase of approximately HK$140.6 million or 61.4%. As per the 2022 Annual Report, the increase of revenue was primarily attributable to the increase in revenue of the calcium carbide segment. The Group turned around from a gross profit of approximately HK$49.9 million in FY2021 to a gross loss of approximately HK$25.7 million FY2022. As stated in the 2022 Annual Report, the Group's gross loss is mainly attributable to escalating coal price during FY2022 which has resulted in a gross loss of approximately HK$58 million in the heat and power segment. The Group recorded consolidated loss attributable to owners of the Company of approximately HK$1,064.2 million for FY2022, representing an increase of approximately HK$613.8 million or 136.3%, as compared to the consolidated loss attributable to owners of the Company of approximately HK$450.4 million for FY2021. Such increase in consolidated loss attributable to owners of the Company was mainly attributable to the combined effects of (i) the turnaround from gross profit to gross loss in FY2022 as discussed above; (ii) an impairment of property, plant and equipment in the amount of approximately HK$646.2 million during the FY2022 which was absent from FY2021; and (iii) a significant increase in impairment of right-of-use assets, partly offset by (i) a significant increase in other income and other gains or losses in FY2022; and (ii) significant decrease in other operating expenses.

	As at 30 June	
	2022	**2021**
	HK$'000	*HK$'000*
	(audited)	(audited)
Bank and cash balances	12,874	46,775
Current assets	149,983	325,533
Net current (liabilities)	(966,539)	(958,412)
Total assets	1,238,247	2,071,353
Current liabilities	1,116,522	1,283,945
Total liabilities	2,063,097	1,982,644
Net assets/(liabilities) attributable to owners of the Company	(873,168)	29,564

The Group's bank and cash balances amounted to approximately HK$12.9 million as at 30 June 2022, representing a decrease of approximately HK$33.9 million or 72.4%, as compared to that of approximately HK$46.8 million as at 30 June 2021. The aforementioned bank and cash balances as at 30 June 2022 represents approximately 16.6% of the estimated net proceeds of the Rights Issue of approximately HK$77.6 million and is therefore grossly insufficient for the purpose of the Rights Issue's use of proceeds. The Group recorded net current liabilities of approximately HK$966.5 million as at 30 June 2022, representing an increase of approximately HK$8.1 million or 0.8% as compared to that of approximately HK$958.4 million as at 30 June 2021. Such increase was mainly attributable to the combined effects from a decrease in current assets of approximately 53.9% and a decrease in current liabilities of approximately 13.0% as at 30 June 2022. We note from the 2022 Annual Report that the decrease in current assets is mainly attributable to the substantial decreases in prepayments, deposits and other receivables, amount due from a deconsolidated subsidiary and bank and cash balances. Meanwhile, the decrease in current liabilities is mainly due to the combined effects of increase in other payables and accruals, increase in other loans, substantial decrease in bonds payable (current portion) and increase in convertible bonds (current portion). The deterioration in liquidity and solvency gives rise to a decrease in current ratio from approximately 0.25 times as at 30 June 2021 to approximately 0.13 times as at 30 June 2022.

The Group's total liabilities increased by approximately HK$80.5 million, or 4.1%, from approximately HK$1,982.6 million as at 30 June 2021 to approximately HK$2,063.1 million as at 30 June 2022. Such increase was mainly attributable to the combined effects of the aforementioned factors related to the decrease in current liabilities together with the increase in bonds payable (non-current portion). As at 30

June 2022, bonds payable of the Group amounted to approximately HK$1,066.2 million, of which the bonds payable (non-current portion) amounted to approximately HK$916.8 million and bonds payable (current portion) amounted to approximately HK$149.4 million. Apart from the above, the Group also had other debts including bank loans (non-current portion) of approximately HK$13.3 million, convertible bonds (non-current portion) of approximately HK$16.5 million, other loans of approximately HK$120.4 million, bank loans (current portion) of approximately HK$9.1 million and convertible bonds (current portion) of approximately HK$29.9 million as at 30 June 2022.

The Group recorded net liabilities attributable to owners of the Company of approximately HK$873.2 million as at 30 June 2022, which represents a turnaround from net assets attributable to owners of the Company of approximately HK$29.6 million as at 30 June 2021. This was mainly attributable to significant decreases in the Group's property, plant and equipment and prepayments, right-of-use assets, prepayments, deposits and other receivables, amount due from a deconsolidated subsidiary and bank and cash balances as at 30 June 2022.

1.2 Information on the Underwriter

The Underwriter, Koala Securities Limited, is a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO and its ordinary course of business includes underwriting of securities.

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

It is stated in the Letter from the Board that as disclosed in the interim report of the Company for the six months ended 31 December 2021, the Company has issued bonds in 2013 and the aggregate principal amount of the bonds outstanding was HK$276 million with the maturity date on 11 September 2021. A settlement has been reached between the Company and bondholders to extend the maturity date of the bonds outstanding to 10 September 2025, and the bonds shall bear interest at the rate of 7.5% per annum from 11 September 2021 to 10 September 2025. The interest of the bonds shall accrue and be paid, together with the principal amount of the bonds, on the new maturity date, being 10 September 2025.

As at 31 December 2021, the bonds payable within one year amounted to approximately HK$212,939,000 and these bonds payable are unsecured and interest bearing at coupon rates of 3% to 12%.

The Company is in the process of negotiating for a settlement of a bond payable to several bondholders in the amount of HK$100 million. In the event that a settlement is reached between the Company and the bondholders, the Company expects the relevant bond payable in the amount of HK$100 million to be deferred or discounted.

The Directors currently intend to use the net proceeds of approximately HK$77.6 million as follows:

- approximately 87.11% of the net proceeds (approximately HK$67.6 million) will be used for repayment of the Company's indebtedness (i.e. the partial repayment of the bonds of the Company of approximately HK$186.1 million repayable within one year and for more details, please refer to the subparagraph headed "Bonds" in the statement of indebtedness set out in Appendix I to the Circular) and interest expenses (excluding those of Mudanjiang BD Power); and

- approximately 12.89% of the net proceeds (approximately HK$10 million) will be used for general working capital of the Group.

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

As disclosed in the announcement of unaudited results for FY2022 of the Company dated 29 September 2022, the operation of Mudanjiang BD Power was temporarily taken-over by Mudanjiang Authority of Housing and Urban-Rural Development and upon the cease of control over Mudanjiang BD Power, Mudanjiang BD Power should be deemed as deconsolidated from the consolidated financial statements of the Group and be classified as a discontinued operation as from 26 August 2022. None of the net proceeds of the Rights Issue will be utilized for repayment of the indebtedness of Mudanjiang BD Power.

Apart from the Rights Issue, the Directors have considered other debt/equity fund-raising alternatives such as bank borrowings, placing or an open offer. The Directors noted that bank borrowings will carry interest costs and may require the provision of security and creditors will rank before the Shareholders, and placings will dilute the interests of the Shareholders without giving them the opportunity to take part in the exercise. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered the abovementioned alternatives, the Directors consider raising funds by way of the Rights Issue is more attractive in the current market condition and the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and thus, in the interests of the Company and the Shareholders as a whole.

Based on the above, the Board considers that raising capital through the Rights Issue is in the interests of the Company and the Shareholders as a whole. In addition, having considered the capital needs of the Group, the terms of the Rights Issue and the Subscription Price, the Board also considers that it is in the interests of the Company to proceed with the Rights Issue. **However, those qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholder(s), if any, should note that their shareholdings will be diluted.**

The estimated expenses in relation to the Rights Issue, including financial, legal and other professional expenses, of approximately HK$1.9 million, will be borne by the Company. Assuming (1) full acceptance by the Qualifying Shareholders; (2) new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds; and (3) no other change in the share capital of the Company on or before the Record Date, the estimated net proceeds of the Rights Issue will be not more than approximately HK$77.6 million.

Based on our discussion with the Management, the main objectives of the Rights Issue are (i) securing sufficient financial resources to equip the Group for settlement negotiations on outstanding bonds with "haircut" on outstanding principal; and (ii) repayment of such outstanding principal after "haircut" and alleviate the Group's financial burden arising out of ongoing interests expenses. Based on information obtained from the Management, we have performed an estimation on the possible benefits on the repayment of six overdue bonds (the "**Bonds Under Negotiation**") of the Group with aggregate principal amount of approximately HK$36.9 million which the Group is already in advanced stage of settlement negotiations with the relevant creditors involving "haircut" on the outstanding principal. In the event that the Group can indeed successfully conclude a "haircut" on the Bonds Under Negotiation after completion of the Rights Issue, the Group is expected to be able to save approximately HK$12.5 million (the "**Estimated Savings**") in repayment of revised aggregate principal of approximately HK$24.4 million after "haircut". We are given to understand that the relevant creditors of the Bonds Under Negotiation have already agreed in principle the aforementioned settlement terms but the Group is unable to enter into any definitive settlement agreement given that it currently does not have the financial means to proceed with the above settlement proposal which is a prerequisite as required by the relevant creditors. Accordingly, the completion of the Rights Issue with its cash inflow is crucial in concluding the settlement of the Bonds Under Negotiation such that the Group can indeed benefit from the Estimated Savings. Meanwhile, the Bonds Under Negotiation generally carry interest at rates of 6% to 7.5% per annum before settlement negotiation. Accordingly, the annual interest expenses on the Bonds Under Negotiation before settlement negotiation is approximately HK$2.4 million which the Group can also save should it successfully procure settlement based on currently negotiated terms after completion of the Rights Issue. It is noted the aforementioned revised principal of approximately HK$24.4 million after "haircut" represents approximately 36.1% of the estimated net proceeds of the Rights Issue earmarked for the repayment of the Company's indebtedness and interests expenses of approximately HK$67.6 million. In that connection, we further understand from the Management that as at the Latest Practicable Date, the Group also has approximately HK$65 million in overdue bonds (the "**Other Bonds Under Negotiation**") which the Group is also having settlement negotiations with relevant creditors with regards to "haircut" on outstanding principal. The Group currently does not have the financial means to support negotiation on meaningful settlement from such creditors' perspective so no substantial progress has been made with the Other Bonds Under Negotiation. However, the Management is confident that it will be able to procure favorable outcome from such negotiations should the Rights Issue complete and the Group has obtained the necessary funding for repayment of principal amount of the Other Bonds Under Negotiation. Based on the above and the Group's cash position as discussed in section 1 of this letter, we consider that the Group has imminent need to proceed with the Rights Issue so as to (i) proceed with the settlement of Bonds Under Negotiation and enjoy the savings as discussed above; and (ii) secure favourable outcome in respect of lessening its financial burden on repayment by way of negotiating "haircut" on the outstanding principal of the Other Bonds Under Negotiation.

3. Other financing alternatives available to the Group

With reference to section 2 of this letter, the Directors have considered other debt/equity fund-raising alternatives such as bank borrowings, placing or an open offer. In that connection, we have further discussed the other financing alternatives with the Management and noted the followings:

With respect to placement/subscription of new Shares, it is a common market practice to conduct the placement/subscription under a general mandate to issue new Shares which would effectively limit the size of such fund-raising while resulting in immediate dilution to the existing Shareholders without offering an option to existing Shareholders to maintain their respective existing shareholding interests in the Company. Given the Company's market capitalization of approximately HK$30.1 million as at the Latest Practicable Date, it is expected that such placement/subscription of new Shares would not allow the Group to raise any meaningful amount of proceeds with reference to the proposed use of proceeds of the Rights Issue as mentioned in section 2 of this letter. On the contrary, the Rights Issue offers existing Shareholders an equal opportunity to maintain their proportional interests in the Company at a Subscription Price which is lower than historical market price, or to obtain additional shareholding of the Company by way of application for the Excess Rights Shares.

With respect to an open offer, it would also allow the Shareholders to maintain their respective shareholding interests in the Company, nevertheless, it generally does not facilitate a trading arrangement of nil-paid rights on the Stock Exchange where Qualifying Shareholders can still realise a gain on the disposal of the nil-paid rights without participation in the open offer.

As to issue of convertible debt instrument or raising additional debt/bank financing, we note that the Group is already in significant net liabilities attributable to owners of the Company and net current liabilities positions of approximately HK$873.2 million and HK$966.5 million respectively as at 30 June 2022 as discussed in section 1.1 of this letter. Furthermore, the Group suffered massive loss attributable to owners of the Company of approximately HK$1,064.2 million during the year ended 30 June 2022. Under such circumstances, we consider that it would be extremely difficult, if not impossible, for the Group to procure new creditors/lenders to raise any further debts, convertible or otherwise. In any event, issue of convertible debt instrument or raising additional debt/bank financing will likely result in interest expenses over the entire term of such debt which may diminish or even defeat the benefits of the main objective of the Rights Issue which is to lower the Company's indebtedness and interests expenses as discussed in section 2 of this letter.

Based on the above, we concur with the Management that the Rights Issue is currently a better option than the other equity, convertible or debt financing alternatives given that (i) issue of convertible bonds or raising additional debts to repay existing debts would not achieve the goal of the Rights Issue which is to decrease the debts of the Group and the associated interests expenses; (ii) raising additional debts is unlikely to be successful given the Company's financial position and circumstances; (iii) other equity financing alternatives are unlikely to generate the required level of funding for the Company; and (iv) the Rights Issue would allow the Company to strengthen its balance sheet by raising long term equity fund without the need for payment of interest and repayment of principal at maturity.

4. The proposed Rights Issue

4.1 Issue statistics

Basis of the Rights Issue:	Five (5) Rights Shares for every two (2) Adjusted Shares held on the Record Date
Subscription Price:	HK$0.2 per Rights Share
Number of the Adjusted Shares in issue upon the Capital Reorganisation becoming effective (assuming no further issue of Shares from the Latest Practicable Date up to the Record Date):	150,728,048 Adjusted Shares
Number of the Adjusted Shares which may be issued upon full exercise of the subscription rights attaching to the outstanding Share Options:	Up to 4,956,777 Adjusted Shares (after the Capital Reorganisation)
Number of the Adjusted Shares which may be issued upon full exercise of the conversion rights attaching to the Convertible Bonds:	Up to 3,257,328 Adjusted Shares (after the Capital Reorganisation)

Number of Rights Shares:	Up to 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Aggregate nominal value of the Rights Shares:	Up to HK$39,735,537.7 (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Maximum funds to be raised before expenses:	Up to approximately HK$79.5 million (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Number of Rights Shares undertaken to be taken up:	Mr. Chan has undertaken to take up an aggregate of 64,742,190 Rights Shares under his assured entitlement. As at the Latest Practicable Date, Mr. Chan holds 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the entire issued share capital of the Company. The Irrevocable Undertaking is subject to a cap and the maximum number of Rights Shares together with the Adjusted Shares already held by Mr. Chan shall not be more than 29.99% of the total enlarged issued share capital of the Company at completion of the Rights Issue so as not to trigger any obligation for a general offer under the Takeovers Code

	The Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of 312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Shares issuable (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking
Right of excess applications:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional entitlements
Total number of Shares in issue as enlarged by the Rights Shares upon completion of the Rights Issue:	527,548,168 Adjusted Shares (assuming no change in the number of Shares in issue on or before the Record Date) 556,297,528 Adjusted Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date)
Underwriter:	Koala Securities Limited

Assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date, 376,820,120 Rights Shares proposed to be allotted and issued pursuant to the terms of the Rights Issue represents approximately 250% of the Company's entire issued share capital as at the Latest Practicable Date (assuming the Capital Reorganisation has taken effect) and will represent approximately 71.43% of the Company's entire issued share capital as enlarged by the issue of the Rights Shares immediately after the completion of the Rights Issue.

Save for the Share Options and the Convertible Bonds, the Company has no outstanding derivatives, convertible securities, options, warrants or other similar securities in issue which would otherwise confer any right to subscribe for, convert or exchange into Shares. The Company has no intention to issue or grant any Shares, convertible securities and/or options on or before the Record Date.

The Rights Issue is only underwritten on a best effort basis and is not on a fully unwritten basis. Pursuant to the Company's constitutional documents and the Companies Act, there are no requirements for minimum levels of subscription in respect of the Rights Issue. Subject to fulfilment or satisfaction of the conditions precedent of the Rights Issue, the Rights Issue shall proceed regardless of the conditions of its level of acceptances, and up to 64,742,190 Rights Shares are committed to be subscribed pursuant to the Irrevocable Undertaking subject, however, to any Scaling-down vis-à-vis the MGO Obligation.

In the event of under-subscription, any Rights Shares not taken up by the Qualifying Shareholders whether under PAL(s) or EAF(s), or transferees of nil-paid Rights Shares, are not subscribed by subscribers procured by the Underwriter will not be issued, and hence, the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

4.2 The Subscription Price

The Subscription Price of HK$0.20 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renounce of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

(i) the equivalence of the theoretical closing price of HK$0.20 per Adjusted Share with reference to the closing price of HK$0.010 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation;

(ii) a discount of approximately 28.57% to the Last Closing Price;

(iii) a discount of approximately 25.93% to the theoretical average closing price of approximately HK$0.27 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the five (5) consecutive trading days ending on and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(iv) a discount of approximately 25.93% to the theoretical average closing price of approximately HK$0.27 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days ending on and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(v) a discount of approximately 33.33% to the theoretical average of the closing prices of approximately HK$0.30 per Adjusted Share with reference to the average closing price per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(vi) a discount of approximately 9.10% to the theoretical ex-right price of approximately HK$0.22 per Adjusted Share, based on the theoretical ex-right price of approximately HK$0.011 per Share and the Last Closing Price;

(vii) a premium over the audited net liabilities value per Adjusted Share of approximately HK$5.47 (based on the latest published consolidated net liabilities value of the Group of approximately HK$824,850,000 as at 30 June 2022 as disclosed in the annual report of the Company for the year ended 30 June 2022 and 150,728,048 Adjusted Shares based on 3,014,560,978 Shares in issue as at the Latest Practicable Date for the effect of the Capital Reorganisation);

(viii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 21.43%, represented by the theoretical diluted price of approximately HK$0.22 per Adjusted Share to the benchmarked price of approximately HK$0.28 per Adjusted Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK$0.014 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the date of the Announcement of HK$0.0136 per Share); and

(ix) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) in aggregation with the 2021 Rights Issue represented by a discount of approximately 21.80%, represented by the cumulative theoretical diluted price of approximately HK$2.08 per Adjusted Share to the theoretical benchmarked price of HK$2.66 per Adjusted Share in respect of the 2021 Rights Issue (after taking into account the effect of the Capital

Reorganisation) (as defined under Rule 7.27B of the Listing Rules, taking into account the benchmarked price of the 2021 Rights Issue, being HK$0.133 per Share).

The par value of each Rights Share is HK$0.10.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK$0.195.

The Subscription Price and the subscription ratio were determined by the Directors with reference to (i) the market price of the Shares prior to and including the Last Trading Day; (ii) the prevailing market conditions; and (iii) the fund-raising size intended by the Company after taking into consideration of the par value per Share of the Company. According to the relevant Bermuda laws, the Company shall not issue shares at a price below its par value.

It is a common market practice that, in order to enhance the attractiveness of rights issue to existing shareholders, the subscription price would be set at a discount to the prevailing market prices of the relevant shares. The Company considers that the Subscription Price provides a more attractive opportunity to encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company and is therefore fair and reasonable.

The Directors consider that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4.3 Underwriting arrangement and undertaking

4.3.1 The Shareholders' undertaking

It is stated in the Letter from the Board that as at the Latest Practicable Date, Mr. Chan, a substantial Shareholder of the Company, directly holds 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the issued share capital of the Company.

On 18 October 2022, the Company received the Irrevocable Undertaking from Mr. Chan, pursuant to which Mr. Chan has irrevocably undertaken to the Company and the underwriter, among other things, to:

(i) subscribe for 64,742,190 Rights Shares, which will be provisionally allotted to Mr. Chan nil-paid in respect of the 25,896,876 Adjusted Shares (after the Capital Reorganisation) legally and beneficially owned by Mr. Chan, pursuant to the terms of the Rights Issue

Documents provided that the total number of the Rights Shares to be subscribed will be scaled down (if necessary) to the extent that his percentage shareholding in the Company will not be more than 29.99% immediately after completion of the Rights Issue; and

(ii) ensure that the 25,896,876 Adjusted Shares (after the Capital Reorganisation) currently legally and beneficially owned by Mr. Chan will remain legally and beneficially owned by Mr. Chan on the Record Date.

As at the Latest Practicable Date, Mr. Chan holds 25,896,876 Adjusted Shares (after the Capital Reorganisation), representing approximately 17.18% of the entire issued share capital of the Company. The Irrevocable Undertaking is subject to a cap and the maximum number of Rights Shares together with the Shares already held by Mr. Chan shall not be more than 29.99% of the total enlarged issued share capital of the Company at completion of the Rights Issue so as not to trigger any obligation for a general offer under the Takeovers Code.

The Company has not received, as at the Latest Practicable Date, any information or irrevocable undertaking from any other substantial Shareholder of the Company of any intention in relation to the Rights Shares to be provisionally allotted to that Shareholder under the Rights Issue.

4.3.2 The Underwriting Agreement

The principal terms of the Underwriting Agreement as extracted from the Letter from the Board are set out below:

Date:	18 October 2022 (after trading hours)
Issuer:	The Company
Underwriter:	Koala Securities Limited
	The Underwriter is a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO and its ordinary course of business includes underwriting of securities. The Underwriter has complied with Rule 7.19(1)(a) of the Listing Rules.

Number of Underwritten Shares:	312,077,930 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date) or 332,613,187 Rights Shares being the maximum total number of Rights Shares issuable (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), excluding the Rights Shares which Mr. Chan will take up in accordance with the Irrevocable Undertaking, underwritten by the Underwriter on a best effort basis pursuant to the terms and conditions of the Underwriting Agreement
Underwriting Commission:	1% of the aggregate Subscription Price in respect of the actual number of Underwritten Shares procured by the Underwriter for subscription pursuant to the Underwriting Agreement

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owners are independent of the Company and its connected persons. As at the date of the Underwriting Agreement, the Underwriter is not interested in any Shares.

The said commission rate was determined after arm's length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Directors (including the independent non-executive Directors) consider that the terms of the Underwriting Agreement (including the commission rate) are fair and reasonable so far as the Company and the Shareholders are concerned.

Save for the Underwriting Agreement, the Company has not entered into any agreement, arrangement, understanding or undertaking in regard of the Rights Issue with the Underwriter or any of its connected persons and their respective associate.

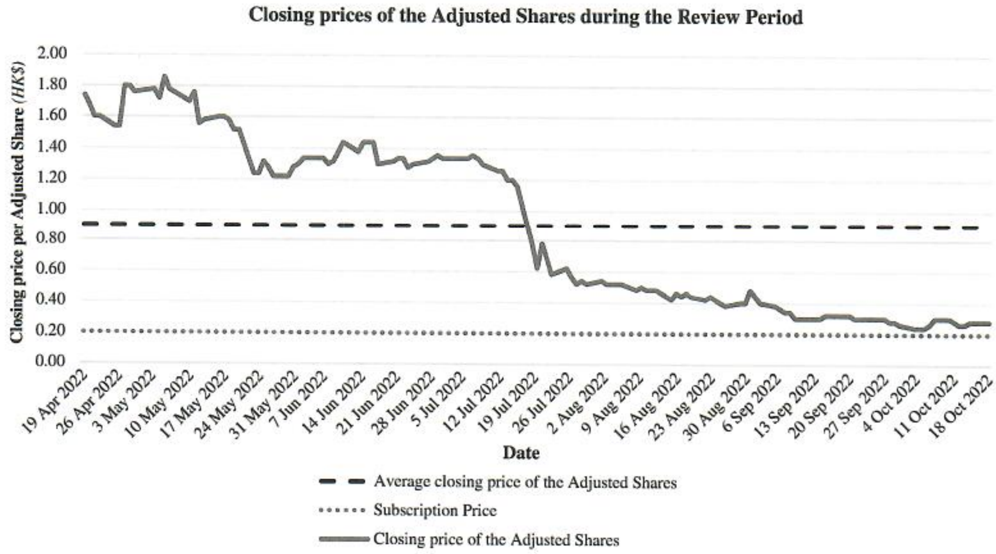
In our review of the relevant clause of the Underwriting Agreement and as confirmed by the Management, it only provides for the 1% underwriting commission on the aggregate Subscription Price in respect of the actual number of Underwritten Shares procured by the Underwriter for subscription pursuant to the Underwriting Agreement. Accordingly, there is no minimum underwriting commission in connection with the Underwriting Agreement.

5. Historical price and trading volume of the Adjusted Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have taken into account (i) the daily closing prices of the Adjusted Shares as quoted on the Stock Exchange during the 6 months ended the date of the Announcement, i.e. 18 October 2022 (the "**Review Period**"); and (ii) the average daily trading volumes of the Adjusted Shares for each of the months during the Review Period.

In relation to the 6 months Review Period adopted in our analysis, we note that (i) it represents a reasonable period to provide a general overview of the recent price performance of the Adjusted Shares which has fully reflected relevant information of the Group's performance; (ii) a shorter period (e.g. 3 months) may not sufficiently illustrate a meaningful historical trend for a proper assessment; and (iii) a longer period (e.g. 12 months) may have been too distant in time making such historical trend less relevant within the context of the Rights Issue and with reference to the dynamic financial markets. Accordingly, we consider that the sampling period of 6 months for the Review Period is appropriate when conducting an analysis on the historical closing prices of the Adjusted Shares, trading volumes and the Subscription Price.

5.1 Closing price movement of the Adjusted Share during the Review Period



Source: website of the Stock Exchange

As illustrated in the chart above, the closing prices of the Adjusted Shares exhibited a generally downward trend during the Review Period. Starting from

HK$1.74 per Adjusted Share at the beginning of the Review Period on 19 April 2022, the closing price of the Adjusted Shares experienced a period of volatility reaching HK$1.52 per Adjusted Share on 20 May 2022. Subsequently, the closing price of the Adjusted Shares experienced a somewhat sharp drop to HK$1.24 per Adjusted Share on 24 May 2022. The Adjusted Shares then experienced a period where they closed within a somewhat narrow band between HK$1.44 per Adjusted Share on 10, 14, 15 and 16 June 2022 and HK$1.16 per Adjusted Share on 15 July 2022. The closing price of the Adjusted Shares then experienced a sharp drop reaching HK$0.62 per Adjusted Share on 19 July 2022 and then went into a phase of gentle downward trend ultimately reaching HK$0.28 per Adjusted Share on the date of the Announcement on 18 October 2022. In relation to the sharp decrease of the closing price per Adjusted Share from HK$1.16 per Adjusted Share on 15 July 2022 to HK$0.62 per Adjusted Share on 19 July 2022, we note that such sharp decline in closing price of the Adjusted Shares was coupled with a marked increase in trading volume on 19 July 2022. We are unable to point out the definitive reason for such fluctuations in our capacity as the Independent Financial Adviser but in any event, we note that the Company had published an announcement dated 18 July 2022 in connection with updates on jointly producing raw materials of electrolyte for lithium batteries of electric vehicles. We have made inquiry to the Management which is also not aware of any other reasons for the aforementioned sharp decline in the closing price of the Adjusted Shares. We have made further inquiry to the Management in relation to the latest development and financial status of the aforementioned project and we are given to understand that there is no material development subsequent to the Company's announcement dated 18 July 2022 as various areas in the Heilongjiang province has seen intermittent outbreaks of COVID-19 pandemic resulting in large-scale lock-down since September 2022 leading to lack of interest in cooperating investors in the joint development of the project.

During the Review Period, the closing prices of the Adjusted Shares ranged from HK$0.24 per Adjusted Share (recorded on 3 and 5 October 2022) to HK$1.86 per Adjusted Share (recorded on 5 May 2022). The Subscription Price of HK$0.2 per Rights Share, is below the low end of the abovementioned range and represents a discount of approximately 16.7% and discount of approximately 89.2% to the lowest and highest closing price of the Adjusted Shares during the Review Period respectively. In relation to the Rights Issue being conducted when the Shares closed near to its lowest point during the Review Period, we have inquired the Management and understand that the Rights Issue is proposed with reference to the Group's imminent funding needs in relation to the Bonds Under Negotiation and Other Bonds Under Negotiation as discussed in section 2 of this letter. In particular, we are given to understand that the Company procured the agreement in principle from the relevant creditors of the Bonds Under Negotiation in the August to October 2022 timeframe. After having procured sufficient positive feedback from these creditors, the Group concluded that timing was right to launch the Rights Issue so as to capture the benefits arising out of the Estimated Savings. Accordingly, the Rights Issue was launched which coincided with the Shares closing at its lowest point during the

Review Period. Given that the main objective of the Group was to take the necessary measures to deal with the Bonds Under Negotiation and Other Bonds Under Negotiation in a timely manner before such an opportunity fades away, we consider that it is in the interest of the Company and the Shareholders to proceed with the Rights Issue at this juncture.

5.2 Average daily trading volume for each month during the Review Period

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

Month	**Number of trading days**	**Average daily trading volume of the Adjusted Shares during the month/ period** *(Note 1)* (approximate)	**Average daily trading volume of the Adjusted Shares during the month/ period to the total number of issued Shares** *(Note 2)* (approximate)
2022			
April (from 19 April 2022)	9	335,925	0.22%
May	20	1,434,736	0.95%
June	21	1,260,745	0.84%
July	20	3,841,403	2.55%
August	23	2,160,981	1.43%
September	21	1,848,234	1.23%
October (up to the date of the Announcement)	11	819,907	0.54%

Source: website of the Stock Exchange

Notes:

1. The average daily trading volumes are calculated by dividing the total trading volume of the Adjusted Shares for the month/period by the number of trading days during the month/period.

2. As at the Latest Practicable Date, the total number of issued Adjusted Shares is 150,728,048.

During the Review Period, the average daily trading volume of the Adjusted Shares in each month ranged from a low of approximately 336,000 Adjusted Shares in April 2022 to a high of approximately 3,841,000 Adjusted Shares in July 2022, representing approximately 0.22% and 2.55% to the total number of issued Adjusted Shares as at the Latest Practicable Date.

5.3 Our observations

According to the Management, the Company intends to offer a discount to the Qualifying Shareholders so that the Qualifying Shareholders have a fair opportunity to participate in the potential growth of the Company while maintaining their respective pro rata shareholding interests in the Company by subscribing to the Rights Shares at a lower than historical prevailing price, or to obtain additional shareholding of the Company by way of the Excess Rights Shares. Given the critical financial position the Group is experiencing as discussed in section 1 to this letter, we concur with the Management that a reasonable amount of pricing discount may increase the overall appeal or attractiveness of the Rights Issue to the Qualifying Shareholders and the Underwriter. Accordingly, we consider that it is reasonable to set the Subscription Price at a discount to the prevailing historical closing prices of the Adjusted Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue, and to maintain their respective shareholding interest in the Company.

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

6.1 The Comparables

In order to assess the fairness and reasonableness of the proposed terms of the Rights Issue, we have identified an exhaustive list of 13 companies (the "**Comparable(s)**") listed on the Main Board and GEM of the Stock Exchange which announced a rights issue or an open offer during three-month period ended on the date of the Announcement, i.e. 18 October 2022.

Although the Comparables include rights issues and open offer in different scale, engaged in different business or have different financial performance and funding needs from the Company, having considered (i) all of the Comparables and the Group are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issues and open offer and we are not aware of any established evidence showing any correlation between scale of the rights issue and its underlying principal terms; (iii) including transactions conducted by the Comparables with different funding needs and business represents a more comprehensive overall market sentiment in our comparable analysis; (iv) given that the only major difference between rights issue and open offer is that open offer lacks the trading of nil-paid rights while all other terms together with its nature and objective (i.e. fund-raising) are comparable with that of a rights issue, the inclusion of a sole open offer case (i.e. Huscoke Holdings Limited (stock code: 704) as one of the Comparables provides a more complete analysis for the consideration of the Independent Shareholders; (v) a 3-month period for the selection of the Comparables has generated a reasonable and meaningful number of samples size of 13 Hong Kong listed issuers to reflect the market practice regarding recent rights issue or open offer, whereas if a longer period (e.g. 6 months) is used, that would have generated way too many comparable issues making the analysis less meaningful with a wider range of premium and discount of the relevant subscription prices; and (vi) the Comparables were included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers, we consider that the Comparables are fair and representative samples.

Based on the above, we are of the view that our comparable analysis based on the above criteria is meaningful for us to form our view regarding the fairness and reasonableness of the Subscription Price. To the best of our knowledge and as far as we are aware of, the Comparables represent an exhaustive list of all relevant companies fitting our search criterion mentioned above, and we consider that such Comparables can provide a reference on the recent rights issues and open offer given the sufficient number of transactions in such period resulting in a reasonable sample size.

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

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

Company name (Stock code)	Rights Issue/Open Offer	Announcement date	Basis of entitlement	Maximum amount of total fund raised HK$ million	Closing price: premium/(discount) Date of announcement	5-day average	10-day average	(Discount)/ premium of subscription price (to)/over the theoretical ex-rights/ entitlement price	Potential maximum dilution of shareholding[1]	Theoretical dilution effect[2]	Compensatory Arrangements/ Excess Application (CA/EA)	Fully Underwritten/ Partially Underwritten/ Underwritten on best effort basis/ Placing (FU/ PU/UBE/P)	Underwriting Commission	Placing Commission	Minimum Underwriting/ Placing fee HK$
Cherish Sunshine International Limited (1094)	Rights Issue	18 October 2022	5 for 8	120	(13.70)%	(17.11)%	(17.65)%	(11.27)%	38.46%	6.58%	CA	FU, P	1.00%[5]	1.00%[5]	100,000
Great Wall Terroir Holdings Limited (524)	Rights Issue	13 October 2022	1 for 4	18	(6.30)%	(15.70)%	(14.60)%	(5.10)%	20.00%	3.15%	EA	N[6]	n/a[6]	n/a[10]	N
AMCO United Holdings Limited (630)	Rights Issue	11 October 2022	1 for 1	48	(16.70)%	(16.70)%	(16.70)%	(9.10)%	50.00%	8.33%	CA	P[6]	n/a[6]	2.50%	N
Endurance RP Limited (575)	Rights Issue	26 September 2022	1 for 1	188	(21.50)%	(25.24)%	(27.98)%	(15.59)%	50.00%	12.62%	CA	PU[9], P	1.00%[7]	2.00%[11]	150,000
Tasty Concepts Holdings Limited (8096)	Rights Issue	23 September 2022	5 for 2	41	(14.30)%	(14.30)%	(16.67)%	(4.50)%	71.43%	10.20%	CA	P[6]	n/a[6]	2.50%	N
China International Capital Corporation Limited (3908)	Rights Issue	13 September 2022	3 for 10	14,322	n/a[3]	(20.00)%[4]	n/a[3]	n/a[3]	23.08%	7.16%	EA	n/a[8]	n/a[8]	n/a[10]	N
Huscoke Holdings Limited (704)	Open Offer	19 August 2022	2 for 1	122	(30.50)%	(31.40)%	n/a[3]	(12.80)%	66.67%	20.93%	EA	N[6]	n/a[6]	n/a[10]	N

Company name (Stock code)	Rights Issue/Open Offer	Announcement date	Basis of entitlement	Maximum amount of total fund raised HK$ million	Closing price: premium/(discount) Date of announcement	5-day average	10-day average	(Discount)/premium of subscription price (to)/over the theoretical ex-rights/entitlement price	Potential maximum dilution of shareholding[1]	Theoretical dilution effect[2]	Compensatory Arrangements/Excess Application (CA/EA)	Fully Underwritten/Partially Underwritten/Underwritten on best effort basis/Placing (FU/PU/UBE/P)	Underwriting Commission	Placing Commission	Minimum Underwriting/Placing fee HK$
Easy Repay Finance & Investment Limited (8079)	Rights Issue	10 August 2022	1 for 2	14	(44.95)%	(47.83)%	(47.83)%	(35.14)%	33.33%	15.94%	CA	P[6]	n/a[6]	7.07%	N
Jia Yao Holdings Limited (1626)	Rights Issue	5 August 2022	1 for 1	180	(14.29)%	(12.02)%	(16.20)%	(7.69)%	50.00%	7.14%	EA	FU	5.00%	n/a[10]	N
Xinyi Electric Storage Holdings Limited (8328)	Rights Issue	4 August 2022	1 for 10	394	(18.82)%	(8.03)%	(7.63)%	(17.41)%	9.09%	1.71%	EA	N[6]	n/a[6]	n/a[10]	N
SJM Holdings Limited (880)	Rights Issue	3 August 2022	1 for 4	2,954	(33.80)%	(34.80)%	(36.00)%	(29.00)%	20.00%	6.96%	EA	FU	2.00%	n/a[10]	N
Kwan On Holdings Limited (1559)	Rights Issue	3 August 2022	1 for 4	59	0.00%	(0.40)%	(0.53)%	(0.42)%	20.00%	0.08%	EA	N[6]	n/a[6]	n/a[10]	N
China Financial Leasing Group Limited (2312)	Rights Issue	28 July 2022	2 for 1	44	(29.10)%	(29.20)%	(29.30)%	(12.10)%	66.67%	19.49%	EA	FU	1.00%	n/a[10]	N
			Average:	1,424	(20.33)%	(20.98)%	(21.01)%	(13.34)%	39.90%	9.06%			1.80%	3.01%	
			Minimum:	14	(44.95)%	(47.83)%	(47.83)%	(35.14)%	9.09%	0.08%			0.00%	1.00%	
			Maximum:	14,322	0.00%	(0.40)%	(0.53)%	(0.42)%	71.43%	20.93%			5.00%	7.07%	
			Median:	120	(17.76)%	(17.11)%	(16.70)%	(11.69)%	38.46%	7.15%			1.00%	2.50%	
Company (362)	**Rights Issue**	**18 October 2022**	**5 for 2**	**78**	**(28.57)%**	**(25.93)%**	**(25.93)%**	**(9.10)%**	**71.43%**	**21.43%**	**EA**	**UBE[12]**	**1.00%**	**n/a[10]**	**N**

Source: website of the Stock Exchange

Notes:

1. The potential maximum dilution effect of each Comparable is calculated by the number of new rights shares divided by the total number of issued shares as enlarged by the issue of the new rights shares.

2. Theoretical dilution effect of an offer is calculated according to Rule 7.27B of the Listing Rules and refers to the discount of the "theoretical dilution price" to the "benchmarked price" of shares. "Theoretical diluted price" refers to the sum of (i) the issuer's total market capitalization (by reference to the "benchmarked price" and the number of issued shares immediately before the issue) and (ii) the total funds raised and to be raised from the issue, divided by the total number of shares as enlarged by the issue. While the "benchmarked price" means the higher of: (i) the closing price on the date of the agreement involving the issue; and (ii) the average closing price in the 5 trading days immediately prior to the earlier of: (1) the date of announcement of the issue; (2) the date of the agreement involving the issue; and (3) the date on which the issue price is fixed. If there is a premium or no discount of subscription price over to the closing price per share on the respective last trading day, the dilution impact is deemed to be not applicable.

3. This information is not disclosed in the relevant announcement/circular of this Comparable.

4. Given that it is stated in the announcement of this Comparable that "*The Rights Issue Price of the H Shares shall not be lower than 80% of the average closing price in Hong Kong dollars of the Company's H Shares on the Hong Kong Stock Exchange in the five trading days immediately prior to the publication date...*", a discount of 20% is assumed for illustrative purpose.

5. Given that it is stated in the announcement of this Comparable that its placing commission is "*The sum of (a) a fee of HK$100,000 or 0.5% of the portion of the Placing Amount that is equal to or less than HK$20,000,000, whichever is higher; and (b) if the total Placing Amount is over HK$20,000,000, a fee of 1.5% of the portion of the Placing Amount that exceeds HK$20,000,000*", an average placing commission of 1.00% is assumed for illustrative purpose.

6. The rights issue of this Comparable is on a non-underwritten basis as disclosed in the relevant announcement.

7. It is stated in the announcement of this Comparable that its underwriting commission is "*Approximately HK$1.23 million (or approximately US$0.16 million), being 1% of the aggregate subscription amount in respect of the maximum number of Underwritten Shares (i.e. 1,569,711,046 Rights Shares) committed to be underwritten, subscribed for or procured subscription for by the underwriter.*"

8. The rights issue of this Comparable is underwritten but whether it is fully underwritten and the underwriting commission are not disclosed in the relevant announcement/circular.

9. The rights issue of this Comparable is on a partially underwritten basis as disclosed in the announcement. The number of rights shares to be underwritten by the underwriter is up to 1,569,711,046 underwritten rights shares out of a total of up to 2,400,347,881 rights shares or 2,468,728,881 rights shares, as the case maybe.

10. There is no placing arrangement for this Comparable/the Company as disclosed in the relevant announcement/circular.

11. Given that it is stated in the announcement of this Comparable that its placing commission is "*(i) a fixed fee of HK$150,000 (or approximately US$19,000 or (ii) 2% of the gross proceeds, whichever is higher, from the successful placement of Unsubscribed Rights Shares*", a placing commission of 2.00% is assumed for illustrative purpose.

12. The Rights Issue is on a underwritten on best effort basis as disclosed in the Announcement. The Underwriter has conditionally agreed to underwrite, on a best effort basis, the Underwritten Shares of (i) 312,077,930 Rights Shares out of a total of 376,820,120 Rights Shares (assuming no new Shares are allotted and issued pursuant to any exercise of the Share Options and pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company on or before the Record Date); or (ii) 332,613,187 Rights Shares out of a total of 397,355,377 Rights Shares (assuming new Shares are allotted and issued on or before the Record Date pursuant to the full exercise of all outstanding Share Options and the full conversion of the Convertible Bonds but otherwise no other change in the share capital of the Company on or before the Record Date), both being all the Rights Shares other than the 64,742,190 Rights Shares committed to be subscribed pursuant to the Irrevocable Undertaking.

6.2 The Subscription Price and dilution

As illustrated in the table above, we note that variance of the subscription price to the closing price on the respective last trading day of the Comparables ranges from a discount of approximately 44.95% to a discount of 0.00%, with an average figure being a discount of approximately 20.33%. The Subscription Price's discount to closing price on Last Trading Day of approximately 28.57% therefore falls within the range of the discount to the last trading day of the Comparables and represents a higher discount than the average figure thereof.

We note that the variance of the subscription price to the average closing price of the last five trading days of the Comparables ranges from a discount of approximately 47.83% to a discount of approximately 0.40%, with an average figure being a discount of approximately 20.98%. The Subscription Price's discount to the average closing price for the five trading days up to and including the Last Trading Day of approximately 25.93% therefore falls within the range of discount to the average closing price of the last five trading day of the Comparables and represents a slightly higher discount than the average figure thereof.

We further note that the variance of the subscription price to average closing price of the last ten trading days of the Comparables ranges from a discount of approximately 47.83% to a discount of approximately 0.53%, with an average figure being a discount of approximately 21.01%. The Subscription Price's discount to the average closing price for the ten trading days up to and including the Last Trading Day of approximately 25.93% therefore falls within the range of discount to the average closing price of the last ten trading day of the Comparables and represents a slightly higher discount than the average figure thereof.

In determining the current subscription ratio and the Subscription Price, we understand from the Management that the Company has considered various factors, including (i) as in other market precedents, that a reasonable discount to the closing price of the Adjusted Shares is necessary to attract the Qualifying Shareholders to participate in the Rights Issue; (ii) the funding needs of the Group; (iii) the Subscription Price has to be set at a discount to the closing price of the Adjusted Shares that is acceptable to the independent Underwriter; and (iv) the dilution effect to the existing Shareholders as further discussed immediately below and in section 7 of this letter.

It is noted that the potential maximum dilution on shareholding of the Comparables ranged from approximately 9.09% to approximately 71.43% (the "**Shareholding Dilution Range**") with an average of approximately 39.90%. The potential dilution effect of Rights Issue of approximately 71.43% therefore (i) is at the high end of the Shareholding Dilution Range; and (ii) is significantly above the average figure thereof. We note that the dilution effect is determined by the basis of entitlement of the rights issue which also determines the number of rights shares available for subscription while the basis of entitlement is mainly based upon the Company's actual funding needs as discussed in section 2 of this letter.

It is noted that the theoretical dilution effect (the calculation of which is explained in note 2 above) of the Comparables ranged from approximately 0.08% to approximately 20.93% (the "**Theoretical Dilution Effect Range**") with an average of approximately 9.06%. The Rights Issue's theoretical dilution effect of approximately 21.43% therefore (i) is slightly above the high end of the Theoretical Dilution Effect Range; and (ii) is significantly above the average figure thereof. As the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 7.27B of the Listing Rules.

In view of (i) although the Subscription Price represents higher discount than the closing price of the last trading day, average closing price of the last five trading days and the average closing price of the last ten trading days of the Comparables respectively, it still falls within the ranges of such Comparables; (ii) the Subscription Price is available to all Qualifying Shareholders and the independent Underwriter without any prejudice or favoritism towards any particular party; (iii) a relatively higher discount as represented by the Subscription Price may increase the overall appeal or attractiveness of the Rights Issue to the Qualifying Shareholders in light of the dire circumstances faced by the Company as discussed in section 1 of this letter; (iv) the potential maximum dilution on shareholding of the Rights Issue is at the high end of the Shareholding Dilution Range but such a situation might have been necessitated by the Company's relatively low market capitalization as at the date of the Underwriting Agreement and its funding needs as discussed in section 2 of this letter; and (v) the theoretical dilution effect of the Rights Issue is above the high end of the range of the Theoretical Dilution Effect Range but such a situation might have also been necessitated by the Company's relatively low market capitalization as at the date of the Underwriting Agreement and its funding needs as discussed in section 2 of this letter, we consider that the principal terms of the Rights Issue (including the Subscription Price) and potential dilution of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole.

6.3 Underwriting or placing commission

As illustrated in the analysis set out in section 6.1 of this letter, the underwriting commission of the Comparables range from a low of 0.00% to a high of 5.00%, with the average figure being approximately 1.80%. Accordingly, the underwriting commission of 1% pursuant to the Underwriting Agreement is closer to the low end of the range of the Comparables and is below the average figure thereof. In addition, the placing commission (which is similar to the underwriting commission under the Underwriting Agreement given it is only on a best effort basis) of the Comparables range from a low of 1.00% to a high of 7.07%, with the average figure being approximately 3.01%. Accordingly, the underwriting commission of 1% pursuant to the Underwriting Agreement is at the low end of the range of the Comparables and is below the average figure thereof. Given the relatively lower underwriting commission set out in the Underwriting Agreement will lead to lower costs to the Group, we consider that the underwriting commission payable to the Underwriter is in line with the market practice and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6.4 Excess application

As stated in the Letter from the Board, Qualifying Shareholders may apply for Rights Shares in excess of their provisional entitlements. We are of the view that the excess application arrangements for the Excess Rights Issue are in compliance with Rule 7.21(1)(a) of the Listing Rules. As there are already excess application arrangements in place for the Rights Issue, there will be no compensatory arrangements in relation to the Rights Issue in compliance with Rule 7.21(1) of the Listing Rules. We note that 8 out of 13 Comparables have facilitated excess application arrangements. Therefore, we consider that the excess application arrangements for the Excess Rights Issue are in line with the market practice, are not out of the ordinary and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Possible dilution effect on interests of other public Shareholders

The attention of the Independent Shareholders is drawn to the section headed "Changes in the shareholding structure of the Company arising from the Capital Reorganisation and Rights Issue" in the Letter from the Board for the analysis on shareholding under various scenarios. As noted in the aforementioned section, the shareholding of the "other public Shareholders" is approximately 82.54% as at the Latest Practicable Date. The shareholding interests of the Qualifying Shareholders who take up their provisional allotments of the Rights Shares in full will not suffer from any dilution. Under scenario (1) which assumes no new Shares are allotted and issued pursuant to any exercise of the Share Options and/or pursuant to the conversion of the Convertible Bonds and no other change in the share capital of the Company from the Latest Practicable Date up to the Record Date, the shareholding of the "other public Shareholders" will be diluted to approximately 23.58% under the worst case scenario where there is no acceptance by the Qualifying Shareholders (other than Mr. Chan) and the Untaken Shares are taken up by the Underwriter and the subscribers procured by it, representing a decrease in shareholding by approximately 58.96%.

We are aware of the above-mentioned potential dilution effects. However, we consider that the dilutive effect should be considered in conjunction with the following factors:

(1) Independent Shareholders are given the chance to express their views on the terms of the Rights Issue through their votes at the SGM;

(2) Qualifying Shareholders have the choice to accept or not accept the Rights Issue;

(3) the Rights Issue offers the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market prices of the Adjusted Shares;

(4) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue;

(5) those Qualifying Shareholders who wish to take advantage of the discount as represented by the Subscription Price and increase their shareholding in the Company can choose to do with by way of excess application of Excess Rights Shares; and

(6) despite the Non-Qualifying Shareholders will not be offered and allotted the nil-paid Rights Shares, as stated in the Letter from the Board, arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders had they been Qualifying Shareholders, to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and in any event before dealings in the nil-paid Rights Shares end, if a premium in excess of all expenses of sale can be obtained. The aggregate net proceeds of such sale will be distributed by the Company to the Non-Qualifying Shareholders (pro-rata to their respective entitlements on the Record Date and round down to the nearest cent) in Hong Kong dollars, provided that if any of such Non-Qualifying Shareholders would be entitled to a sum not less than HK$100. In view of administrative costs, the Company will retain individual amount of less than HK$100 for its own benefit. Any unsold nil-paid Rights Shares to which such Non-Qualifying Shareholders (if any) would otherwise have been entitled will be made available for excess application by the Qualifying Shareholders under the EAFs. Such arrangement allows Non-Qualifying Shareholders to also enjoy the premium of a sale of the nil-paid Rights Shares.

Having considered (i) the principal terms of the Rights Issue are fair and reasonable as discussed in sections 6.2, 6.3 and 6.4 of this letter; (ii) any form of non-pro rata equity fund-raising activities would also have an immediate dilution effect to other Shareholders; (iii) if the Company satisfies future funding needs through other equity financing such as placement/subscription of new Shares and/or issue of convertible bonds or raising additional debts to satisfy its funding needs, such equity/debt financing methods will either have an immediate dilution effect to all existing Shareholders or further increase gearing of the Group as discussed in section 3 of this letter; (iv) the Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the equal opportunity to maintain their proportional interests in the Company at a lower than historical prevailing market price, or to obtain additional shareholding of the Company by way of the Excess Rights Shares; (v) the reasons for the Rights Issue and use of proceeds as discussed in section 2 of this letter; and (vi) our further reasoning regarding the Shareholding Dilution Range and the Theoretical Dilution Effect Range as discussed in section 6.2 of this letter, we are of the view that the dilution effect to the shareholding interests of the non-participating Shareholders is acceptable.

8. Financial effects of the Rights Issue

8.1 Net asset value

We note from the "Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group" set out in Appendix II to the Circular that the Group's audited consolidated net tangible liabilities attributable to owners of the Company as at 30 June 2022 is approximately HK$873.2 million, while unaudited consolidated net tangible liabilities attributable to owners of the Company per Share as at 30 June 2022 immediately after the completion of the Share Consolidation but before the completion of the Rights Issue is approximately HK$6.56. After pro forma adjustments, the unaudited pro forma adjusted consolidated net tangible liabilities attributable to the owners of the Company as at 30 June 2022 immediately after the completion of the Share Consolidation and Rights Issue would improve to approximately HK$795.6 million, while unaudited pro forma adjusted consolidated net tangible liabilities attributable to owners of the Company per Share as at 30 June 2022 immediately after the completion of the Share Consolidation and Rights Issue would improve to approximately HK$1.71.

As per the Letter from the Board, the Group is expected to raise net proceeds of approximately HK$77.6 million (assuming full acceptance by Qualifying Shareholders or the Untaken Shares are fully taken up by the Underwriter). Accordingly, the Rights Issue is expected to have a positive impact on the Group's net assets position upon completion of the Rights Issue. In addition, the Rights Shares which will be issued at a premium to the net liabilities attributable to owners of the Company per Share as mentioned above are expected to improve the net liabilities attributable to owners of the Company per Share upon the completion of the Rights Issue.

8.2 Working Capital

The Rights Issue is expected to have a positive effect on the Group's working capital upon completion as the proceeds from the Rights Issue will bring in net proceeds of approximately HK$77.6 million (assuming full acceptance by Qualifying Shareholders or the Untaken Shares are fully taken up by the Underwriter) to the Group.

8.3 Gearing

As per the 2022 Annual Report, the Group had total debts of approximately HK$1,255.4 million (comprising of (i) bank loans (non-current portion) of approximately HK$13.3 million; (ii) bonds payable (non-current portion) of approximately HK$916.8 million; (iii) convertible bonds (non-current portion) of approximately HK$16.5 million; (iv) other loans of approximately HK$120.4 million; (v) bank loans (current portion) of approximately HK$9.1 million; (vi) bonds payable (current portion) of approximately HK$149.4 million; and (vii) convertible bonds (current portion) of approximately HK$29.9 million) and total assets of approximately HK$1,238.2 million as at 30 June 2022, which give rise to a debt ratio (total debts/total assets x 100%) of approximately 101.4%.

As approximately 87.11% of the estimated net proceeds of the Rights Issue will be used for the repayment of the Company's indebtedness and interest expenses, it is expected that the Group's total debts will be reduced and the debt ratio of the Group would decrease as a result.

8.4 Liquidity

As per the 2022 Annual Report, the Group had current assets of approximately HK$150.0 million and current liabilities of approximately HK$1,116.5 million as at 30 June 2022. Accordingly, the Group's current ratio (current assets/current liabilities) as at 30 June 2022 was approximately 0.13 times.

The estimated net proceeds from the Rights Issue is expected to enhance the Group's current assets by approximately HK$77.6 million (assuming full acceptance by Qualifying Shareholders or the Untaken Shares are fully taken up by the Underwriter) and the Rights Issue is expected to improve the Group's liquidity position immediately after its completion.

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

RECOMMENDATION

Having considered the above principal factors and in particular:

(i) the critical financial position the Group is experiencing as discussed in section 1 to this letter;

(ii) the intended use of approximately 87.11% of the net proceeds (approximately HK$67.6 million) for the repayment of the Company's indebtedness and interest expenses as discussed in section 2 of this letter;

(iii) the Group is already in advanced stage of settlement negotiations with the relevant creditors involving "haircut" on the outstanding principal on the Bonds Under Negotiation and the Group is expected to enjoy the Estimated Savings of approximately HK$12.5 million after completion of the Rights Issue, with another approximately HK$65 million in Other Bonds Under Negotiation which the Management is confident that it will be able to procure favorable outcome from such negotiations should the Rights Issue complete and the Group has obtained the necessary funding for repayment of principal amount after "haircut";

(iv) other equity or debt financing options are either, not suitable to fulfill the Group's funding needs, have an immediate dilutive effect on existing Shareholders, not in the best interest of the Shareholders or simply not feasible given the Group's financial position as discussed in section 3 of this letter;

(v) the Rights Issue allows all Qualifying Shareholders to have a fair opportunity to participate in the potential growth of the Company while maintaining their respective pro rata shareholding interests in the Company by subscribing to the Rights Shares at a lower than historical prevailing price, or to obtain additional shareholding of the Company by way of the Excess Rights Shares;

(vi) the principal terms of the Rights Issue (including the Subscription Price) of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole as discussed in section 6.2 of this letter;

(vii) the underwriting commission charged by the Underwriter is fair and reasonable as discussed in section 6.3 of this letter and in the interests of the Company and the Shareholders as a whole;

(viii) the excess application arrangements for the Excess Rights Issue are in line with the market practice, are not out of the ordinary and are fair and reasonable and in the interests of the Company and the Shareholders as a whole as discussed in section 6.4 of this letter; and

(ix) given the Company's circumstances, the potential dilution effect to the non-participating Shareholders is acceptable as discussed in section 7 of this letter,

we are of the opinion that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interest of the Company and Shareholders as a whole. Accordingly, we would advise (i) the Independent Board Committee to recommend the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited

Kevin So
Director – Investment Banking Department

Note: Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.