

LETTER FROM THE BOARD

C&N Holdings Limited
春能控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8430)

Executive Directors:

Mr. Chua Kang Lim

(Chairman and Chief Executive Officer)

Ms. Fung Mee Kuen

Independent non-executive Directors:

Mr. Cheung Wai Kin

Ms. Lo Suet Lai

Ms. Wong Shuk Yee Camilla

Registered office:

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Headquarters and Principal Place of
Business in Hong Kong:*

21st Floor, CMA Building

64 Connaught Road Central

Hong Kong

9 December 2022

Dear Sir or Madam,

**(1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED CHANGE IN BOARD LOT SIZE; AND
(3) PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE RIGHTS SHARES FOR EVERY ONE CONSOLIDATED SHARE
HELD ON THE RECORD DATE**

INTRODUCTION

Reference is made to the Announcement, in relation to, among other matters, the Share Consolidation, the Change in Board Lot Size and the Rights Issue. On 21 October 2022, the Company proposed that the consolidation of every twenty (20) issued and unissued Existing Shares of par value of HK\$0.01 each into one (1) Consolidated Share of par value of HK\$0.2 each and proposed to change the board lot size for trading in Shares on the Stock Exchange from 5,000 Shares to 10,000 Consolidated Shares upon the Share Consolidation becoming effective and proposed to raise up to approximately HK\$32.5 million on the basis of three (3) Rights Shares for every one (1) Consolidated Share held on the Record Date by issuing 125,126,400 Rights Shares at the Subscription Price of HK\$0.26 per Rights Share (assuming no further issue or repurchase of Shares or Consolidated Shares on or before the Record Date). The Subscription Price is payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders.

* For identification purposes only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) further details on the Share Consolidation, the Change in Board Lot Size and the Rights Issue; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iii) a letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Rights Issue; (iv) a notice convening the EGM; and (v) certain financial information and other general information on the Group.

PROPOSED SHARE CONSOLIDATION

The Board intends to put forward a proposal to the Shareholders to effect the Share Consolidation which involves the consolidation of every twenty (20) issued and unissued Existing Shares of par value of HK\$0.01 each into one (1) Consolidated Share of par value of HK\$0.2 each.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following:

- (i) the passing of the ordinary resolution(s) by the Shareholders to approve the Share Consolidation at the EGM;
- (ii) the compliance with all relevant procedures and requirements under the laws of the Cayman Islands (where applicable) and the GEM Listing Rules to effect the Share Consolidation; and
- (iii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation.

The Share Consolidation will become effective on Wednesday, 4 January 2023, being the second Business Day immediately following the fulfillment of the above conditions.

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$50,000,000 divided into 5,000,000,000 Existing Shares of HK\$0.01 each, of which 834,176,000 Existing Shares have been issued and are fully paid or credited as fully paid. Upon the Share Consolidation becoming effective but before the completion of the Rights Issue and assuming no further Shares will be issued or repurchased from the Latest Practicable Date to the effective date of the Share Consolidation, the authorised share capital of the Company will become HK\$50,000,000 divided into 250,000,000 Consolidated Shares of HK\$0.2 each, of which 41,708,800 Consolidated Shares (which are fully paid or credited as fully paid) will be in issue.

LETTER FROM THE BOARD

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other. No fractional Consolidated Shares will be issued by the Company. Any fractional entitlements of the Consolidated Shares will be aggregated and sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Group or the interests or rights of the Shareholders, save for any fractional Consolidated Shares which may arise.

Odd lots arrangements and matching services

In order to alleviate the difficulties arising from the existence of odd lots of the Consolidated Shares arising from the Share Consolidation, the Company has appointed Sorrento Securities Limited as an agent to stand in the market to provide matching services, on a best efforts basis, to the Shareholders for the sale and purchase of odd lots of the Consolidated Shares at the relevant market price per Consolidated Share and the matching period commences from 9:00 a.m. on Wednesday, 18 January 2023 to 4:00 p.m. on Friday, 10 February 2023 (both days inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or top up to a full board lot may, directly or through their brokers, contact Sorrento Securities Limited at 11/F, The Wellington, 198 Wellington Street, Central, Hong Kong or by phone at (852) 3959 9800 during office hours from 9:00 a.m. Wednesday, 18 January 2023 to 4:00 p.m. Friday, 10 February 2023.

Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares are not warranted. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders may, during the period from Wednesday, 4 January 2023 to Tuesday, 14 February 2023 (both days inclusive), submit the existing share certificates for the Existing Shares to the Registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, to exchange, at the expense of the Company, for new share certificates for the Consolidated Shares. Thereafter, existing share certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for Consolidated Shares at the expense of the Shareholders on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each existing share certificate cancelled or each new share certificate issued for Consolidated Shares (whichever is higher) but are not acceptable for delivery, trading and settlement purposes.

LETTER FROM THE BOARD

The new share certificates for the Consolidated Shares will be issued in yellow colour in order to distinguish them from the existing blue colour.

Listing and Dealings

Application will be made to the GEM Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Consolidated Shares in issue arising from the Share Consolidation and all necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange upon the Share Consolidation becoming effective, as well as compliance with the stock admission requirements of the HKSCC, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC.

PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Existing Shares are traded on the Stock Exchange in board lot of 5,000 Existing Shares. The Board proposes to change the board lot size for trading on the Stock Exchange from 5,000 Existing Shares to 10,000 Consolidated Shares upon the Share Consolidation becoming effective.

Based on the closing price of HK\$0.014 per Existing Share (equivalent to the theoretical closing price of HK\$0.3 per Consolidated Share) as at the Latest Practicable Date, (i) the value of each existing board lot of 5,000 Existing Shares is HK\$70; (ii) the value of each board lot of 5,000 Consolidated Shares would be HK\$1,400 assuming the Share Consolidation becoming effective; and (iii) the estimated value per board lot of 10,000 Consolidated Shares would be HK\$2,800 assuming that the Share Consolidation and the Change in Board Lot Size becoming effective.

The Change in Board Lot Size will not result in change in the relative rights of the Shareholders.

LETTER FROM THE BOARD

REASONS FOR THE SHARE CONSOLIDATION AND THE CHANGE IN BOARD LOT SIZE

Pursuant to Rule 17.76 of the GEM Listing Rules, where the market price of the securities of the issuer approaches the extremities of HK\$0.01 or HK\$9,995, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities.

Pursuant to the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and last updated on 1 October 2020, the expected board lot value should be greater than HK\$2,000 per board lot taking into account the minimum transaction costs for a securities trade. As at the Latest Practicable Date, the closing price of each Existing Share is HK\$0.014, with a board lot size of 5,000 Existing Shares, the Existing Shares are trading under HK\$70 per board lot.

It is expected that the Share Consolidation will increase the nominal value of the Existing Shares and would bring about a corresponding upward adjustment in the trading price per Consolidated Share, hence, upon the Share Consolidation becoming effective, the share price of the Company would be adjusted to HK\$0.28, with a board lot size of 5,000 Consolidated Shares, the new board lot value would be HK\$1,400, which would still be less than HK\$2,000. By increasing the board lot size from 5,000 Existing Shares to 10,000 Consolidated Shares, the new board lot value would be HK\$2,800, which would be more than the required HK\$2,000.

In view of the recent trading price of the Shares, the Board considers that the Share Consolidation and Change in Board Lot Size will enable the Company to comply with the trading requirements under the GEM Listing Rules and reduce the overall transaction and handling costs of dealings in the Shares as a proportion of the market value of each board lot, since most of the banks/securities houses will charge a minimum transaction costs for each securities trade. The Board considers that the Share Consolidation and the Change in Board Lot Size would maintain the trading amount for each board lot at a reasonable level and with a corresponding upward adjustment in the trading price of the Consolidated Shares will increase the attractiveness in investing the Shares from a broader range of investors, in particular to institutional investors, whose house rules might otherwise prohibit or restrict trading in securities that are priced below a prescribed floor, and thus would help to further broaden the shareholder base of the Company. The Board believes the Share Consolidation and the Change in Board Lot Size will not have any material adverse effect on the financial position of the Company nor result in change in the relative rights of the Shareholders and are in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, save for the Share Consolidation, the Company has no intention to carry out other corporate action or arrangement, including share consolidation, share sub-division and capital reduction, in the next 12 months.

As at the Latest Practicable Date, save for the Rights Issue, the Board has no intention or plan to conduct other equity fund raising activities in the next 12 months. However, if the net proceeds from the Rights Issue cannot satisfy the upcoming financing needs, the Board does not rule out the possibility that the Company may conduct further equity fund raising exercises

LETTER FROM THE BOARD

to support the business operations of the Group. The Company will make further announcement in this regard in accordance with the GEM Listing Rules as and when appropriate.

The Board believes that the Share Consolidation and the Change in Board Lot Size is in the interests of the Company and the Shareholders as a whole.

PROPOSED RIGHTS ISSUE

The Board proposes, subject to, amongst others, the Share Consolidation becoming effective, the Rights Issue with the terms set out as follows:

Issue statistics

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 Existing Shares in issue as at the Latest Practicable Date	:	834,176,000 Existing Shares
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
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	Up to 166,835,200 Consolidated Shares, assuming no further issue or repurchase of the Shares or Consolidated Shares on or before the completion of the Rights Issue
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

LETTER FROM THE BOARD

As at the Latest Practicable Date, there are 74,624,000 outstanding Share Options, details of the outstanding Share Options are set out below:

Date of grant	Exercisable period	Exercise price (HK\$)	Number of outstanding Share Options as at the Latest Practicable Date
21 May 2021	three years from the date of grant	0.285	51,200,000
20 January 2022	three years from the date of grant	0.1056	23,424,000

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

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 300.00% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and approximately 75% of the total number of issued Consolidated Shares as enlarged by the issue of the Rights Shares immediately after completion of the Rights Issue assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) or Consolidated Shares on or before completion of the Rights Issue.

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 places under the Compensatory Arrangements. Any Unsubscribed Rights Shares or ES Unsold Rights Shares remain not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue.

In addition, the Company had preliminarily consulted four brokerage companies (including the Placing Agent) for underwriting the Rights Issue but has not received any favourable feedback due to the current capital market situation apart from the Placing Agent who expressed its interest in acting as a placing agent on best effort basis. The Company considers that the placing obligation of the Placing Agent are more or less similar to an underwriter of the Rights Issue (except that the Placing Agent is on best

LETTER FROM THE BOARD

effort basis). As such, the Company subsequently decided to conduct the Rights Issue on non-underwritten basis and to adopt the Placing Arrangement simultaneously in order to ensure sufficient funds could be raised.

Having considered the other fund-raising alternatives, the costs and unfavourable feedback of underwriting services and the proposed terms of the Rights Issue and the Subscription Price, the Board considers that it is in the interests of the Company to proceed with the Rights Issue on a non-underwritten basis.

As the Rights Issue will proceed on a non-underwritten basis, the Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

The Optionholder's Undertakings

As at the Last Trading Day, each of the holders of the Share Options has signed an Optionholder's Undertaking for not exercising the Share Options granted to him/her on or before the Record Date.

Subscription Price

The Subscription Price for the Rights Shares is HK\$0.26 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, when a renounee 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) 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;

LETTER FROM THE BOARD

- (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 Last Trading Day of approximately HK\$0.015 per Share); and
- (vii) a discount of approximately 90.0% to the unaudited consolidation net asset value per Consolidated Share of approximately HK\$2.60 (based on the latest published unaudited consolidated net asset value of the Group of approximately HK\$108.6 million (or S\$19.0 million) as disclosed in the interim report of the Company for the six months ended 30 June 2022 (the “**Unaudited June 2022 NAV**”) and 41,708,800 Consolidated Shares assuming the Share Consolidation has become effective).

The Subscription Price was determined by the Company with reference to, among other things, (i) the recent market price of the Existing Shares since 1 September 2022 and up to the Last Trading Day, the average of which was approximately HK\$0.022 per Existing Share; (ii) the discount with reference to the rights issue exercises announced by companies listed on the Stock Exchange since 1 September 2022 and up to the Last Trading Day, which ranged from 6.3% to 66.1%; (iii) the prevailing market conditions; (iv) the loss attributable to owners of the Company of approximately HK\$19.8 million for the financial year ended 31 December 2021; (v) the amount of funds and capital needs; and (vi) the reasons for the Rights Issue as set out in the section headed “REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS” in this circular. As set out above, the Subscription Price represents a discount of approximately 90.0% to the consolidated net asset value per Share of approximately HK\$2.60 (“**NAV per Share**”) based on the latest published unaudited consolidated net asset value of the Company of approximately HK\$2.60 million as disclosed in the interim report of the Company for the six months ended 30 June 2022 and the issued share capital of the Company of 41,708,800

LETTER FROM THE BOARD

Consolidated Shares (assuming the Share Consolidation has become effective) as at the Latest Practicable Date. The Directors were of the view that the Shares had been consistently traded at a substantial discount to the NAV per Share during the period since the publication of the unaudited financial statements of the Group for the six months ended 30 June 2022 up to the Latest Practicable Date. As a matter of fact, the price of the Shares had been descending over the past year and had been trading below the net asset value per Share during the trading days in 2022, which implies that public investors may not be willing to purchase the Shares at a price as high as the net asset value per Share, and also indicates that the Subscriber and/or other interested investors can acquire the Shares on the market at a price which is at a substantial discount to the net asset value per Share. As such, the Directors considered that when determining the Subscription Price, it would be more appropriate to make reference to the prevailing market price of the Shares, which reflected the fair market value of the Shares traded on the Stock Exchange instead of making reference to the net asset value per Share. The attractiveness of the Rights Issue for the Shareholders to participate in the Rights Issue would be significantly reduced if the Subscription Price was made with reference to the NAV per Share.

All Qualifying Shareholders are entitled to subscribe for the Rights Shares in the same proportion to his/her/its existing shareholding in the Company held on the Record Date so as to maintain their proportionate interests in the Company and participate in the future growth of the Group. The following table sets forth the relevant details of the rights issue exercises announced by companies listed on the Stock Exchange since 1 September 2022 and up to the Last Trading Day (the “Comparables”):

Date of announcement	Name of Company (Stock Code)	Discount of subscription price over/to the share price as at the last trading day prior to the date of the announcement	Subscription price (HK\$)
23/9/2022	Tasty Concepts Holding Limited (8096)	14.3%	0.3
26/9/2022	Endurance RP Ltd (575)	21.5%	0.0785
11/10/2022	AMCO United Holding (630)	16.7%	0.1
13/10/2022	Great Wall Terroir Holdings Limited (524)	6.3%	0.045
18/10/2022	China Zenith Chemical Group Limited (362)	28.57%	0.2
18/10/2022	Cherish Sunshine International Limited (1094)	13.7%	0.63
20/10/2022	Crocodile Garments Limited (122)	66.1%	0.1
21/10/2022	E. Bon Holdings Limited (599)	20.0%	0.192
	Minimum:	6.3%	
	Maximum:	66.1%	
	Average:	23.4%	
	Median:	18.4%	

LETTER FROM THE BOARD

As shown in table above, the Company noted that the discount of the subscription prices of the Comparables ranged from a discount of approximately 6.3% to a discount of approximately 66.1%, with an average of a discount of approximately 23.4% and a median of a discount of approximately 18.4%. The discount of the Subscription Price of the Rights Issue are within the range of, and lower than the average discount and median discount of, the relevant discount ratios represented by the subscription prices of the Comparables. The Directors are of the view that the Comparables, which represent an exhaustive list, can fairly represent the recent market trend in relation to rights issue of other listed companies and consider that a period of approximately two months being a reasonable period to provide an overview of the recent rights issue exercises which are reflective of the latest market conditions and sentiments.

The Directors are of the view that the Subscription Price of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders.

The Directors (excluding the members of the Independent Board Committee whose opinion will be set forth in the circular of the Company after having been advised by the independent financial adviser) consider that, despite any potential dilution impact of the Rights Issue on the shareholding interests of the Shareholders, the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the following factors: (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil paid rights in the market; (ii) the Qualifying Shareholders who choose to accept their provisional entitlements in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; and (iii) the Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the recent market price of the Shares.

Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. The possible maximum dilution to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 75%. The theoretical dilution effect of the Rights Issue is approximately 3.7% which is below 25% as required under Rule 10.44A of the GEM Listing Rules.

The Directors (excluding the members of the Independent Board Committee whose opinion will be set forth in the circular of the Company after having been advised by the independent financial adviser) are of the view that the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders, and that all Qualifying Shareholders are treated equally. The net price per Rights Share (i.e. the Subscription Price less cost and expenses incurred in the Rights Issue) is estimated to be approximately HK\$0.251, if fully subscribed.

LETTER FROM THE BOARD

Basis of provisional allotments

The basis of the provisional allotment shall be three (3) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders as at the close of business on the Record Date.

The PAL relating to the Rights Shares will be enclosed with the Prospectus entitling the Qualifying Shareholders to whom it is addressed to accept for the Rights Shares as shown therein. Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being accepted for with the Registrar on or before the Latest Time for Acceptance.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date and not be an Excluded Shareholder. In order to be registered as members of the Company prior to the close of business on the Record Date, all transfer documents of the Consolidated Shares (together with the relevant share certificate(s)) must be lodged with the Registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. (Hong Kong time) on Friday, 6 January 2023.

It is expected that the last day of dealings in the Consolidated Shares on a cum-rights basis for the Rights Issue is Wednesday, 4 January 2023, and the Consolidated Shares will be dealt with on an ex-rights basis from Thursday, 5 January 2023.

Subject to the Share Consolidation having become effective, the passing of the resolution to approve the Rights Issue by the Independent Shareholders at the EGM and the registration of the Prospectus Documents in accordance with the applicable laws and regulations, the Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date and will despatch the Prospectus (without the PAL(s)) to the Excluded Shareholders for their information only.

The Qualifying Shareholders who take up their provisional allotment in full will not experience any dilution to their interests in the Company. **If a Qualifying Shareholder does not take up any of his/her/its entitlement in full under the Rights Issue, his/her/its proportionate shareholding in the Company will be diluted.**

As at the Last Trading Day and up to the Latest Practicable Date, the Company has not received any undertaking from any Shareholders of the Company of any intention as to whether such Shareholder will take up his/her entitlements under the Rights Issue.

LETTER FROM THE BOARD

Rights of Overseas Shareholders (if any)

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

The Company will comply with Rule 17.41(1) of the GEM Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to Overseas Shareholders, if any. If, based on the legal opinions to be provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s), the Rights Issue will not be extended to such Overseas Shareholders.

As at the Latest Practicable Date, there was no Shareholder whose address was outside Hong Kong (as shown on the register of members of the Company).

The Company will send the Prospectus to the Excluded Shareholders (if any) for their information only, but will not send any PAL to them.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders, to be sold in the market in their nil-paid form during the period from 9:00 a.m. on Thursday, 19 January 2023 to 4:00 p.m. on Tuesday, 31 January 2023 if a premium (net of expenses) can be obtained. The proceeds from such sale, less expenses, of more than HK\$100 will be paid on pro-rata basis to the relevant Excluded Shareholders.

In view of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

Any unsold Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders in nil-paid form, will be placed by the Placing Agent at the price at least equal to the Subscription Price under the Placing Arrangement together with the Unsubscribed Rights Shares. Any Unsubscribed Rights Shares and the ES Unsold Rights Shares remain not placed after completion of the Placing Arrangement will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. For the nil-paid Rights Shares that were sold as described above and the buyer of such nil-paid Rights Shares who will not take up the entitlement, such Unsubscribed Rights Shares will be subject to the Compensatory Arrangements.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

Status of Rights Shares

The Rights Shares, when allotted, fully paid or credited as fully paid and issued, will rank *pari passu* in all respects among themselves and with the Consolidated Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully paid Rights Shares. Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, FRC transaction levy or any other applicable fees and charges in Hong Kong.

Fractions of the Rights Shares

On the basis of provisional allotment of three (3) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

Procedures in respect of the Unsubscribed Rights Shares and the ES Unsold Rights Shares, and the Compensatory Arrangements

Pursuant to Rule 10.31(1)(b) of the GEM Listing Rules, the Company must make arrangements to dispose of the Unsubscribed Rights Shares and the ES Unsold Rights Shares by offering the Unsubscribed Rights Shares and the ES Unsold Rights Shares to independent placees for the benefit of the Shareholders to whom they were offered by way of the rights. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 10.31(1)(a) of the GEM Listing Rules.

The Company therefore appointed the Placing Agent to place the Unsubscribed Rights Shares and the ES Unsold Rights Shares after the Latest Time for Acceptance to independent placees on a best effort basis, and any premium over the Subscription Price for those Rights Shares that is realised will be paid to the No Action Shareholders and Excluded Shareholders on a pro-rata basis. The Placing Agent will, on a best effort basis, procure, by not later than 4:00 p.m., on Thursday, 16 February 2023, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the ES Unsold Rights Shares at a price not less than the Subscription Price.

LETTER FROM THE BOARD

Net Gain (if any) will be paid (without interest) on pro-rata basis (on the basis of all Unsubscribed Rights Shares and ES Unsold Rights Shares) to the No Action Shareholders and the Excluded Shareholders (but rounded down to the nearest cent) as set out below:

- (i) where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL (unless that person is covered by (iii) below);
- (ii) where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holder of those nil-paid rights in CCASS (unless that person is covered by (iii) below);
- (iii) if the Rights Issue is extended to the Overseas Shareholders and where an entitlement to the Rights Shares was not taken up by such Overseas Shareholders, to that Overseas Shareholders.

It is proposed that Net Gain to any of the No Action Shareholder(s) mentioned in (i) to (iii) above which is in an amount of HK\$100 or more will be paid to them in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit. Shareholders and the Excluded Shareholders may or may not receive any Net Gain.

THE PLACING AGREEMENT

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. Details of the Placing Agreement are as follows:

Date : 21 October 2022 (after trading hours)

Issuer : the Company

Placing Agent : Sorrento Securities Limited was appointed as the Placing Agent to procure, on a best effort basis, Placees to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares.

The Placing Agent confirmed that it is independent of and not connected with the Company and its connected persons or any of their respective associates.

LETTER FROM THE BOARD

- Placing price of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares : The placing price of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares shall be not less than the Subscription Price.
- The final price determination is depended on the demand and market conditions of the Unsubscribed Rights Shares and/or the ES Unsold Rights Shares during the process of placement.
- Commission : 1.5% of the amount which is equal to the Placing Price multiplied by the Unsubscribed Rights Shares and ES Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.
- The commission is not payable by the Company to the Placing Agent if the Placing Agreement has not become unconditional or is otherwise terminated in accordance with its terms.
- Places : The Unsubscribed Rights Shares and the ES Unsold Rights Shares are expected to be placed to the Placee(s) who and whose ultimate beneficial owner(s) shall not be the Shareholder(s) and shall be the Independent Third Party(ies) and who will not become substantial shareholders of the Company after completion of the Rights Issue.
- Ranking of Unsubscribed Rights Shares and the ES Unsold Rights Shares : Unsubscribed Rights Shares and the ES Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank *pari passu* in all respects among themselves and with the Shares then in issue.

LETTER FROM THE BOARD

- Conditions Precedent : The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable):
- (i) the GEM Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Rights Shares;
 - (ii) the approval of the Rights Issue by the Independent Shareholders at the EGM;
 - (iii) the Share Consolidation becoming effective;
 - (iv) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion; and
 - (v) the Placing Agreement not having been terminated in accordance with the provisions thereof.

The Placing Agent may, in its absolute discretion, waive the fulfillment of all or any or any part of the conditions precedent to the Placing Agreement (other than those set out in paragraph (i) above) by notice in writing to the Company. As at the Latest Practicable Date, none of the above conditions precedent may be waived by the Company or the Placing Agent.

LETTER FROM THE BOARD

Termination : The Placing Arrangement shall end on 28 February 2023 or any other date by mutual written agreement between the Placing Agent and the Company.

The engagement of the Placing Agent may also be terminated by Placing Agent in case of force majeure resulting in the Company and the Placing Agent being unable to fulfill its duties and responsibilities under the engagement. However, if during the course of the engagement it has come to the Placing Agent's knowledge that there is any material adverse change in the business and operational environment in the Company which, in the sole opinion of the Placing Agent, may make it inadvisable to continue the engagement, the Placing Agent shall have the right to terminate the engagement by written notice to the Company with immediate effect.

Placing Completion : Completion is expected to take place within six Business Days after publication of an announcement by the Company of the number of the Unsubscribed Rights Shares and the ES Unsold Rights Shares under the Compensatory Arrangements and upon fulfilment or waiver (as the case may be) of the conditions precedent to the Placing Agreement or such other date as the Company and the Placing Agent may agree in writing.

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

LETTER FROM THE BOARD

The engagement between the Company and the Placing Agent for the Unsubscribed Rights Shares and ES Unsold Rights Shares (including the commission payable) was determined after arm's length negotiation between the Company and the Placing Agent and is on normal commercial terms with reference to the market comparables, the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. The Directors consider that the terms of Placing Agreement for the Unsubscribed Rights Shares and ES Unsold Rights Shares (including the commission payable) are on normal commercial terms.

Given that the Compensatory Arrangements would provide (i) a distribution channel of the Unsubscribed Rights Shares and the ES Unsold Rights Shares to the Company; (ii) an additional channel of participation in the Rights Issue for independent Qualifying Shareholders; and (iii) a compensatory mechanism for No Action Shareholders and the Excluded Shareholders, the Directors consider that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority Shareholders.

Application for listing

The Company will apply to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue. The nil-paid Rights Shares shall have the same board lot size as the Consolidated Shares, i.e. 10,000 Rights Shares in one board lot. No part of the share capital of the Company is listed or dealt in or on which listing or permission to deal in is being or is proposed to be sought on any stock exchange other than the Stock Exchange.

Rights Shares will be eligible for admission in CCASS

Subject to the granting of the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from their respective commencement dates of dealings on the Stock Exchange or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

LETTER FROM THE BOARD

Stamp duty and other applicable fees

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, FRC transaction levy or any other applicable fees and charges in Hong Kong.

Taxation

Shareholders are advised to consult their professional advisers if they are in any doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the Rights Shares and, regarding the Excluded Shareholders, their receipt of the net proceeds, if any, from sale of the nil-paid Rights Shares on their behalf.

Share certificates and refund cheques for the Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully paid Rights Shares are expected to be posted on Thursday, 23 February 2023 by ordinary post to the allottees, at their own risk, to their registered addresses. Each Shareholder will receive one share certificate for all allotted Shares. If the Rights Issue is terminated, refund cheques are expected to be posted on Thursday, 23 February 2023 by ordinary post to the applicants, at their own risk, to their registered addresses.

Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (a) the passing by the Shareholders (or the Independent Shareholders, as the case may be) at the EGM of the necessary resolution(s) to approve the Share Consolidation and the Rights Issue, and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Rights Shares) by no later than the Prospectus Posting Date;
- (b) the Share Consolidation and the Change in Board Lot Size becoming effective;
- (c) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant and not having withdrawn or revoked the listing of, and permission to deal in, all the Rights Shares (in their nil-paid and fully-paid forms);

LETTER FROM THE BOARD

- (d) the delivery to the Stock Exchange and the filing and registration with the Registrar of Companies in Hong Kong respectively one duly certified copy of each of the Prospectus and the PALs (and all other documents required to be attached thereto) in compliance with the Companies (WUMP) Ordinance and the GEM Listing Rules by no later than the Prospectus Posting Date; and
- (e) the posting of the Prospectus Documents to Qualifying Shareholders and the posting of the Prospectus and the Overseas Letter to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Rights Issue by the Prospectus Posting Date.

The Company shall use all reasonable endeavours to procure the fulfilment of all the above conditions by the respective dates specified above.

As the proposed Rights Issue is subject to the above conditions, it may or may not proceed.

INFORMATION ABOUT THE PLACING AGENT

The Placing Agent is a company incorporated in Hong Kong with limited liability and a corporation licensed to carry out type 1 (dealing in securities) regulated activity under the SFO.

The Placing Agent confirmed that it is independent of and not connected with the Company or its connected persons. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Placing Agent and its respective ultimate beneficial owner(s) and/or associates are Independent Third Parties.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 834,176,000 Shares in issue. The following table sets out the possible changes in the shareholding structure of the Company arising from the proposed Share Consolidation and the Rights Issue which are for illustrative purpose only.

LETTER FROM THE BOARD

Set out below is 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; and (iii) immediately after completion of the Rights Issue, assuming no further issue or repurchase of Shares or Consolidated Shares up to completion of the Rights Issue save for the Rights Shares:

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue					
			Immediately after the Share Consolidation becoming effective but before completion of the Rights Issue		Assuming all Shareholders take up their respective allotment of Rights Shares in full		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 i)	Number of Consolidated Shares	Approx.% (note i)	Number of Consolidated Shares	Approx.% (note i)
Mr. Chua Kang Lim (note ii)	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 Places	—	—	—	—	—	—	125,126,400	75.00%
	<u>834,176,000</u>	<u>100.00%</u>	<u>41,708,800</u>	<u>100.00%</u>	<u>166,835,200</u>	<u>100.00%</u>	<u>166,835,200</u>	<u>100.00%</u>

Notes:

- (i) 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.
- (ii) 58,205,000 shares are held by Ventris Global Limited. The entire issued share capital of Ventris Global Limited is legally and beneficially owned by Mr. Chua Kang Lim.

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

LETTER FROM THE BOARD

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

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.

As set out in the interim report of the Company for the six months ended 30 June 2022, the cash and bank balances of Group was approximately HK\$43.0 million as at 30 June 2022. The Board wishes to update the Shareholders that the cash and bank balances of the Group has further reduced to approximately HK\$22.3 million as at the Last Trading Day, as a result of cash flow used in existing business operating activities and further cash flows used in investing activities in line with the Group's long term objective to enhance its capacity for transport and storage services. As at 30 June 2022, the Group's liabilities mainly comprised of trade payables of approximately HK\$9.7 million, accruals and other payables of approximately HK\$4.4 million and loans and other borrowings of approximately HK\$10.0 million.

As set out in the interim report of the Company for the six months ended 30 June 2022, the Group recorded net cash used in operating activities for the six months ended 30 June 2022 of approximately HK\$16.1 million. Due to the threat of the COVID-19, the Group has recorded a decline in revenue and increase in net loss for two consecutive years from approximately HK\$157.0 million and HK\$5.4 million for the year ended 31 December 2019 to HK\$143.3 million and HK\$19.7 million for the year ended 31 December 2021. The impact of the COVID-19 on the global economy is tremendous as concerns about the impact from the COVID-19 heightens and these weigh on the corporate earnings and the global economic outlook. The Group expects future adverse economic conditions would continue to negatively affect the Group's financial position and performance. As such the Group will continue to monitor the development and the volatile market conditions. In the current abnormal business conditions, the Group is conscious about the importance of liquidity in the Group's ongoing operations and managing cash flow is a very critical aspect during a period of crisis. Given that the net cash used in operating activities for the six months ended 30 June 2022 was already approximately HK\$16.1 million, the Board foresee the Group's forthcoming cash level might be further strained when the Group conducts its business activities. As a low cash level would not be ideal for the Group's business operations the Group is considering actions to increase liquidity with a view to strengthen the competitive edge of the Group over the competitors in the industry and will put efforts to evaluate any good investment opportunities should they arise, such as the feasibility of further enhancement to carry out transport and storage services and related operations in Singapore or in other countries, such as Hong Kong.

Having considered the impact of the outbreak of COVID-19 on the Group's business and financial position, the cash level of the Group, as well as the estimated working capital required for the Group's daily operation, the Board considers that the Rights Issue represents an opportunity for the Company to strengthen its capital structure without incurring debt financing cost, improve the financial position, and provide additional financial resources for capturing suitable business expansion and investment opportunities as they arise.

LETTER FROM THE BOARD

It is estimated that the Company will raise up to approximately HK\$32.5 million from the Rights Issue and the relevant expenses would be approximately HK\$1.1 million, which includes placing commission and professional fees payable to financial advisers, legal advisers, financial printer and other parties involved in the Rights Issue. The estimated net proceeds from the Rights Issue will accordingly be approximately HK\$31.4 million (equivalent to a net price of approximately HK\$0.251 per Rights Share). In line with the aforesaid business objectives, the Company intends to utilise the net proceeds from the Rights Issue as follows:

- (i) approximately HK\$6.2 million for the payment of rental expenses and management fee for the next 12 months;
- (ii) approximately HK\$20.0 million for the payment of salaries of the Group's employees for the next 6 months; and
- (iii) approximately HK\$5.2 million for the working capital for the existing business.

Payment of rental expenses and management fee for the next 12 months

As at the Last Trading Day, the Group leases the logistic yards in Singapore and a warehouse in Hong Kong. The monthly rental expenses and management fee for the warehouse and the logistic yards are approximately HK\$0.5 million. As such, the Group intends to apply approximately HK\$6.2 million from the Rights Issue for the payment of rental expense and management fee for the next 12 months.

Payment of salaries of the Group's employees for the next 6 months

As at the Last Trading Day, the Group has 164 staffs. Taking into account of the staff costs for the 170 staffs of approximately HK\$56.1 million for the year ended 31 December 2021, the Group intends to apply approximately HK\$20.0 million from the Rights Issue for the payment of salaries of the Group's employees for the next 6 months.

Working capital for the existing business

The Group is principally engaged in offering various transport and storage services to the logistics industry in Singapore and Hong Kong. However, our revenue declined during the year ended 31 December 2021 due to the threat of the COVID-19. Since 30 June 2022 and up to the Last Trading Day, the Group had commenced business relationship with two new customers and these new customers have placed orders regularly with stable amounts. In order to retain our customers, avoid causing disruption to the delivery schedule required by other customers, keep good relationships with the customers in long run and maintain the ability to capture potential new contracts, the Group would like to keep a healthy cash flow level in order to make payments on time for the corresponding cost of the services, even if there is any delay in payments made by the customers. As such, the Group intends to apply approximately HK\$3.0 million from the Rights Issue for the working capital for the existing business and HK\$2.2 million to repay part of the trade and other payables in order to improve the liquidity of the Group and satisfy certain repayment of current debts of the Group as and when they fall due.

LETTER FROM THE BOARD

The Board considers that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Qualifying Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

If the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue will be applied by the Company in the following order of priority:

- (i) for payment of rental expenses and management fee for the next 12 months;
- (ii) for payment of salaries of the Group's employees for the next 6 months; and
- (iii) for the working capital for the existing business.

As at the Latest Practicable Date, save for the Rights Issue, the Board has no intention or plan to conduct other equity fund raising activities in the next 12 months. However, if the net proceeds from the Rights Issue cannot satisfy the upcoming financing needs, the Board does not rule out the possibility that the Company may conduct further equity fund raising exercises to support the business operations of the Group. The Company will make further announcement in this regard in accordance with the GEM Listing Rules as and when appropriate.

Alternative fund-raising methods considered

The Directors have considered other financing alternatives including (i) other debt financing, and (ii) equity fund raising such as placement of new Shares and open offer. The Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole, for the reasons as follows:

- (i) The Board considers that the Rights Issue would give the Qualifying Shareholders the opportunity to maintain their respective prorated shareholding interest in the Company and provide an opportunity to all Qualifying Shareholders to participate in the growth of the Company in proportion to their shareholdings. Although those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Excluded Shareholders may make their shareholdings diluted, the Rights Issue requires the Independent Shareholders' approval so that the Independent Shareholders are given an opportunity to decide whether the Company shall proceed to the Rights Issue by voting for or against at the EGM to approve the Rights Issue;
- (ii) as for other debt financing, as at the date of this announcement, the Group has attempted to obtain other loan financing from independent third parties, but the interest rate offered is generally over 20% per annum;

LETTER FROM THE BOARD

- (iii) as for placement of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company; and
- (iv) as for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market.

As such, the Directors consider that equity financing does not involve recurring interest expense and the financing process is usually simpler and quicker than negotiating bank borrowings, and therefore would allow the Group to react promptly to market conditions and business opportunities.

FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activities involving issue of its securities in the past 12 months immediately preceding the Latest Practicable Date.

POSSIBLE ADJUSTMENTS RELATING TO THE SHARE OPTIONS

As at the Latest Practicable Date, there were 74,624,000 outstanding Share Options.

Pursuant to the terms of the Share Option Schemes, the Share Consolidation and the Rights Issue may lead to adjustments to, among others, the exercise price and/or the number of Shares to be issued upon exercise of the outstanding Share Options under the Share Option Schemes. The Company will notify the holders of such Share Options and the Shareholders by way of announcement (as and when appropriate) regarding adjustments to be made (if any) pursuant to the terms of the Share Option Schemes and such adjustment will be certified by an independent financial adviser or auditors of the Company (as the case may be).

Save for the foregoing, as at the Latest Practicable Date, the Company had no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into Shares prior to the Record Date. The Company has no intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date.

LETTER FROM THE BOARD

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 his respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, Mr. Chua Kang Lim, who is the executive Directors of the Company, holds 64,605,000 Existing Shares, representing approximately 7.74% of the existing issued share capital of the Company.

The Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the date of this announcement, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue, open offer and/or specific mandate placings within such 12-month period. The 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 10.44A of the GEM Listing Rules.

Closure of register of members

The register of members of the Company will be closed from Friday, 23 December 2022 to Friday, 30 December 2022 (both days inclusive) for determining the identity of the Shareholders entitled to attend and vote at the EGM.

The register of members of the Company will be closed from Monday, 9 January 2023 to Monday, 16 January 2023 (both days inclusive) for determining the entitlements to the Rights Issue.

No transfer of the Existing Shares or Consolidated Shares will be registered during the above book closure periods.

LETTER FROM THE BOARD

GENERAL

The EGM will be convened for the Shareholders to consider and, if thought fit, approve the Share Consolidation and the Rights Issue, and the transactions contemplated hereunder. 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 in accordance with Rule 10.29A of the GEM Listing Rules. To the best knowledge and information of the Directors, after reasonable enquiries, as at the Latest Practicable Date, Mr. Chua Kang Lim, who is the executive Directors of the Company, holds 64,605,000 Existing Shares, representing approximately 7.74% of the existing issued share capital of the Company. As such Mr. Chua Kang Lim and his respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue and the transactions contemplated thereunder at the EGM.

The notice convening the EGM to be held at No 3 Soon Lee Street, #06-03 Pioneer Junction, Singapore 627606 on Friday, 30 December 2022 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Union Registrars Limited, the branch share registrar of the Company in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM (i.e. 11:00 a.m. on Wednesday, 28 December 2022, Hong Kong time) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

Subject to the approval of the Share Consolidation by the Shareholders and the Rights Issue by the Independent Shareholders at the EGM, a Prospectus containing further information regarding, among other things, the Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and PAL(s) are expected to be despatched to the Qualifying Shareholders on Tuesday, 17 January 2023.

LETTER FROM THE BOARD

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Rights Issue is subject to the fulfilment of conditions including, among other things, the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms. Please refer to the section headed "Conditions of the Rights Issue" in this circular. Shareholders and potential investors of the Company should note that if the conditions to the Rights Issue are not satisfied, the Rights Issue will not proceed.

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. 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 fulfillment of the conditions of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level. In the event the Rights Issue is undersubscribed, any Unsubscribed Rights Shares will be placed to independent places under the Unsubscribed Arrangements. Any Unsubscribed Rights Shares not placed under the Unsubscribed Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Investors are advised to exercise caution when dealing in the Shares.

Any dealings in the Shares up to the date on which all the conditions of the Rights Issue are fulfilled, and any Shareholders dealing in the Rights Shares in nil-paid form will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or Rights Shares in their nil-paid form are recommended to consult their professional advisers.

RECOMMENDATIONS

The Independent Board Committee, which comprises 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 advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. Altus has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee set out on page 43 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from Independent Financial Adviser set out on pages 44 to 59 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

For and on behalf of the Board
C&N Holdings Limited
Chua Kang Lim
Chairman

