PELICAN FINANCIAL
百利勤金融

PELICAN FINANCIAL LIMITED

28/F, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong

25 September 2024

To the Independent Board Committee and the Independent Shareholders of
Guan Chao Holdings Limited

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue of 432,000,000 Rights Shares at the Subscription Price of HK$0.40 per Rights Share on the basis of four (4) Rights Share for every one (1) Share held by the Qualifying Shareholders on the Record Date, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 25 September 2024 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 12 July 2024, the Company proposes to raise gross proceeds of up to approximately HK$172.8 million before expenses by way of the Rights Issue of 432,000,000 Rights Shares at the Subscription Price of HK$0.40 per Rights Share on the basis of four (4) Rights Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be available to Non-Qualifying Shareholders.

Assuming that there is no change to the total issued share capital of the Company on or before the Record Date and full acceptance of the Rights Issue, the maximum net proceeds from the Rights Issues (after deducting the estimated expenses) are estimated to be approximately HK$170.68 million.

On 12 July 2024, the Company also entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares to independent placees on a best effort basis. Pursuant to the Placing Agreement, the Company has appointed the Placing Agent to place the Unsubscribed Rights Shares during the Placing Period 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 those No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis.

LISTING RULES IMPLICATIONS

As the Rights Issue will increase the total issued share capital of the Company by more than 50% within the 12-month period immediately preceding the Latest Practicable Date, the Rights Issue is conditional on minority Shareholders' approval at the EGM in accordance with the requirements of Rule 7.19A of the Listing Rules.

Pursuant to Rule 7.27A(1) of the Listing Rules, where Shareholders' approval is required for a rights issue under rule 7.19A, the Rights Issue must be made conditional on approval by the Shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding 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 at the Latest Practicable Date, Gatehouse Ventures Limited is the controlling Shareholder of the Company (a company wholly-owned by Mr. Tan Shuay Tarng Vincent ("**Mr. Vincent Tan**"), an executive Director and the chairman of the Company), holds 38,140,000 Shares, representing 35.32% of the Shares in issue. Mr. Vincent Tan and his spouse Ms. Beng Lee Ser Marisa ("**Mrs. Marisa Tan**") directly hold 900,000 share options respectively and Mr. Vincent Tan is therefore deemed to be interested in all the shares and/or underlying shares that Mrs. Marisa Tan is interested in by virtue of the SFO. Accordingly, Mr. Vincent Tan and his associates are interested in total of 39,940,000 shares, representing 36.98% of the Shares in issue. Consequently, Mr. Vincent Tan and his associate is required to abstain from voting in favour of the proposed resolutions to approve the Rights Issue, and the transactions contemplated thereunder at the EGM. Save as the above disclosure, no Shareholders and Directors are required to abstain from voting in favour of the proposed resolution approving the Rights Issue and the transactions contemplated thereunder at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of four executive directors, one non-execution director, and three independent non-executive directors. The Independent Board Committee, comprising Mr. Chow Wing Tung, Mr. Hui Yan Kit and Mr. Tam Yat Kin Ken, has been established to advise the Independent Shareholders on the Rights Issue and the transactions contemplated thereunder. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on these matters.

OUR INDEPENDENCE

Pelican Financial Limited ("**Pelican**") is not connected (financially or otherwise) with the Company, the Directors, chief executive or substantial shareholders of the Company or any of their respective associates and concert parties and we are not aware of any relationships or interests between us and the Company or any of their respective substantial shareholders, directors or chief executives, or of their respective associates, and parties acting in concert with any one of them, that could reasonably be regarded as relevant to our independence.

In the last two years, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as the Independent Financial Adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive or substantial shareholders of the Company or any of their respective associates and concert parties that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser. Accordingly, we consider that we are eligible to give independent advice on the Rights Issue and the transactions contemplated thereunder at the EGM.

Our role is to provide you with our independent opinion and recommendation as to whether (i) the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable; (ii) the Rights Issue and the transactions contemplated thereunder are in the interest of the Company and the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of or against the relevant resolution(s) to be proposed at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Placing Agreement, the Announcement, the annual report of the Company for the financial year ended 31 December 2023 (the "**2023 Annual Report**"), the interim results of the Company for the six months ended 30 June 2024 (the "**2024 Interim Results**") and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading.

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, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of an in-depth investigation into the business and affairs or the prospects of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In arriving at our opinion and recommendation with regard to the terms of the Rights Issue, we have taken into account the principal factors and reasons set out below:

1 Background and financial information of the Group

The Company was incorporated in the Cayman Islands on 4 July 2017 as an exempted company with limited liability. The Group is principally engaged in selling new parallel-import motor vehicles and pre-owned motor vehicles, with the main business being the sales of brand new parallel-import motor vehicles in Singapore. Apart from the sales of motor vehicles, the Group also provides related services and products, such as (i) provision of motor vehicle financing services; (ii) provision of motor vehicle insurance agency services; and (iii) sales of motor vehicle spare parts and accessories.

Set out below is a summary of financial information of the Group extracted from the 2023 Annual Report and the 2024 Interim Results.

Table 1: Summarised financial results of the Group

	For the six months ended 31 December		For the financial year ended 31 December	
			2023	2022
	2024	2023	("FY2023")	("FY2022")
	S$'000	*S$'000*	*S$'000*	*S$'000*
	(Unaudited)	(Unaudited)	(audited)	(audited)
Revenue by segment				
Sales of motor vehicles and provision of related services	77,001	109,466	175,442	174,128
Rental income from operating leases of motor vehicles	3,112	2,746	5,414	4,902
Sales of spare parts and accessories	7	1	22	56
Total revenue	**80,120**	**112,213**	**180,878**	**179,086**
Gross profit	**9,079**	**14,314**	**22,436**	**23,749**
Other gains — net	209	1,964	2,742	171
Selling & distribution expenses	(1,844)	(2,087)	(3,266)	(4,517)
General & administrative expenses	(5,908)	(5,488)	(10,308)	(11,888)
Finance expenses-net	(1,503)	(1,515)	(2,920)	(2,009)
Profit and total comprehensive income for the year	**650**	**6,398**	**7,743**	**5,024**

For the six months ended 30 June 2024

The Group recorded a revenue of S$80.1 million for the six months ended 30 June 2024, representing a decrease of approximately S$32.1 million or 28.6% from approximately S$112.2 million for the six months ended 30 June 2023. Such decrease in revenue was mainly attributable to the decrease in sales of motor vehicles amounted to approximately S$32.2 million or 30.5%. According to the 2024 Interim Results, the decrease in sales of motor vehicles was mainly due to the decrease in average selling price of new motor vehicles sold from approximately S$205,000 for the six months ended 30 June 2023 to approximately S$135,000 for the six months ended 30 June 2024.

The Group's cost of sales decreased by approximately S$26.9 million or 27.5% from approximately S$97.9 million for the six months ended 30 June 2023 to approximately S$71.0 million for the six months ended 30 June 2024. The decrease was in line with the decrease in the Group's total revenue. As a result, the Group's total gross profit decreased by approximately S$5.2

million or 36.4% from approximately S$14.3 million for six months ended 30 June 2023 to approximately S$9.1 million for the six months ended 30 June 2024. The overall gross profit margin remained stable at approximately 12.8% for the six months ended 30 June 2023 and approximately 11.3% for the six months ended 30 June 2024. the Group's profit and total comprehensive income for the six months ended 30 June 2024 decreased by approximately S$5.7 million or 89.8% from approximately S$6.4 million for the six months ended 30 June 2023 to approximately S$0.7 million.

For the year ended 31 December 2023

The Group's revenue increased slightly from approximately S$179.1 million in FY2022 to S$180.9 million in FY2023, representing a year-on-year growth of approximately 1.0%. This growth was driven by an increase in new motor vehicle sales from 731 units to 770 units between the two financial years, while pre-owned motor vehicle sales slightly decreased from 371 units to 360 units. The average selling price of pre-owned motor vehicles sold increased from approximately S$100,000 in FY2022 to approximately S$116,000 in FY2023 despite the units sold decreased from 371 units to 360 units.

Despite the slightly increase of the revenue, the gross profit decreased by approximately S$1.3 million or 5.5% from approximately S$23.7 million for FY2022 to approximately S$22.4 million for FY2023, which was mainly attributable to the decrease in the gross profit from sales of motor vehicles business. The overall gross profit margin decreased from approximately 13.3% for FY2022 to approximately 12.4% for FY2023 which was mainly due to the decrease of profit margin from sales of motor vehicles business.

However, the profit and total comprehensive income increased from approximately S$5.0 million in FY2022 to S$7.7 million in FY2023, which is mainly due to (i) an increase in other gains-net by S$2.5 million mainly contributed by the gain in disposal of property, plant and equipment of in FY2023; (ii) a decrease in selling and distribution expenses by S$1.3 million mainly contributed by the decrease in advertising and marketing expenses and sales commission to salespersons for FY2023; (iii) a decrease in general and administrative expenses of approximately S$1.6 million mainly contributed by decrease in employee benefit expense, forfeiture of trade deposit paid and pre-delivery inspection expenses, offset by the (iv) decrease in gross profit of S$1.3 million and (v) increase in financial expenses-net of S$1 million.

	As at 30 June 2024	As at 31 December 2023
	S$'000	*S$'000*
	(Unaudited)	(Audited)
Cash and bank balances	8,622	12,975
Borrowings *(current portion)*	(20,095)	(20,110)
Borrowings *(non-current portion)*	(45,173)	(51,466)
Total Current Asset	84,116	78,697
Total Current Liabilities	(33,327)	(30,478)
Net Current Assets	**50,789**	**48,219**
Total Assets	**153,087**	**153,939**
Total Liabilities	**(78,500)**	**(81,944)**
Total Equity	**74,587**	**71,995**
Gearing Ratio *(total borrowings divided by total assets)*	**42.6%**	**46.5%**

As at 30 June 2024, the Group's total assets amounted to approximately S$153.1 million, which mainly included (i) inventories of approximately S$41.5 million; (ii) finance lease receivables after one year of approximately S$32.8 million; (iii) property, plant and equipment of approximately S$32.5 million; (iv) trade and other receivables and prepayments of approximately S$24.1 million; (v) finance lease receivables within one year of approximately S$9.9 million; (vi) cash and bank balances of approximately S$8.6 million; (vii) investments in associates of approximately S$2.1 million; and (viii) investment in joint ventures of approximately S$1.3 million.

As at 30 June 2024, the Group had total liabilities of approximately S$78.5 million, which mainly consisted of (i) non-current borrowings of approximately S$45.2 million; (ii) current borrowings of approximately S$20.1 million; (iii) trade and other payables and provision for warranty of approximately S$11.5 million; and (iv) income tax liabilities of approximately S$1.7 million.

As at 31 December 2023, the Group's total assets amounted to approximately S$153.9 million, which mainly included (i) finance lease receivables after one year of approximately S$37.9 million; (ii) inventories of approximately S$36.7 million; (iii) property, plant and equipment of approximately S$33.6 million; (iv) trade and other receivables and prepayments of approximately S$19.9 million; (v) cash and bank balances of approximately S$13.0 million; (vi) finance lease receivables within one year of approximately S$9.1 million; (vii) investments in associates of approximately S$2.2 million; and (viii) investment in joint ventures of approximately S$1.2 million.

As at 31 December 2023, the Group had total liabilities of approximately S$81.9 million, which mainly consisted of (i) non-current borrowings of approximately S$51.5 million; (ii) current borrowings of approximately S$20.1 million; (iii) trade and other payables and provision for warranty of approximately S$8.1 million; and (iv) income tax liabilities of approximately S$2.2 million.

2 Reasons for the Rights Issue and the use of proceeds

2.1. The funding needs

As disclosed in the Board Letter, the Board believes that the Rights Issue will raise the Group's corporate profile and enhance its capital base, enabling it to expand the scale and scope of its operations further.

The net proceeds of the Rights Issue to be received by the Company after deducting all estimated expenses payable by the Group and assuming full acceptance of the Rights Issue and no new Shares will be allotted or issued on or before the Record Date are estimated to be up to approximately HK$170.68 million. The Directors plan to use such proceeds as follows:

i) approximately 70.0% or approximately HK$119.48 million will be used for the expansion of the Motor Vehicle Business network into Thailand;

ii) approximately 10.0% or approximately HK$17.07 million will be used for the development of the Group's newly commenced AEM Business;

iii) approximately 10.0% or approximately HK$17.07 million will be used to expand the Group's sales and service network and marketing and enhance its brand awareness. The Group's specific plans include (a) promotions and advertisements on automobile vertical media and social platforms, community nurturing, and potential upgrades to the online platform if applicable; (b) increasing investment in offline marketing activities, including increase advertisement placements, participation in auto shows, and the organization of offline events; (c) expanding the sales network coverage through the establishment of more directly operated stores and expanded collaboration with channel partners; and (d) recruiting additional sales and marketing staff, along with systematic training to enhance their sales and service skills for improved customer service. The Group aims to enhance market exposure in order to attract new customers and enhance its brand image; and

iv) approximately 10.0% or approximately HK$17.06 million will be used for the Group's general and corporate administrative purposes, including but not limited to directors' remuneration, wages and salaries, external sales commissions legal and professional fees and rental expenses.

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

(i) Acquire EVs to meet the demand in Thailand

The Group intends to allocate approximately 70.0% or HK$119.48 million of the net proceeds to acquire EVs, including the brands "Seres 3", "Sokon" and "Aion" (the "**EV Vehicles Manufacturers**") to meet the demand in Thailand. Such a portion of the net proceeds is anticipated to be completely utilised within three months following the Completion.

The Group is primarily focused on the sale of motor vehicles and the provision of related services and products, including (i) motor vehicle financing services, (ii) motor vehicle insurance agency services, and (iii) sales of motor vehicle spare parts and accessories. Presently, the Group's operations are concentrated in Singapore through its subsidiaries, Vincar Pte Ltd and Vincar Leasing & Rental Pte Ltd.

Over the past few years, the Group has expanded its business to include EVs. The Group accomplished this by forming SEV, an associated company of Vincar Pte Ltd. As the leading commercial EV fleet company in Singapore, SEV provides a wide range of digital platform services to its clients, including vehicle performance data, battery efficiency, and on-road usage metrics.

As of the Latest Practicable Date, the Group is focused on expanding its EV business network in Thailand. In June 2024, Planet EV signed the Collaboration Agreement with Grabtaxi, a technology company that connects individuals in need of transportation, delivery, and other services through its software application in Thailand. Planet EV is currently owned 10% by SEV, with Vincar Pte Ltd serving as the strategic partner for the supply of EVs.

GrabTaxi has been collaborating with key partners to introduce a financing model offering financial assistance to the traditional taxi and ride-hailing drivers, enabling them to rent electric taxis and provide on-demand transportation service via the mobile app, with a daily rental fee. The goal of this initiative is to facilitate the provision of transportation services with EVs and to ease the financial burden of GrabTaxi Drivers wanting to use EVs.

In 2024, a trilateral partnership plans to provide 5,000 EVs to GrabTaxi drivers by the end of 2025. Under the Collaboration Agreement, Planet EV will offer, promote, advertise, and implement a hire-purchase program. This program will supply EVs and related services to GrabTaxi drivers for their personal use and for providing transportation and delivery services to passengers via the GrabTaxi application in Thailand. To support this initiative, the Group will facilitate the supply of EVs to Planet EV, fulfilling critical funding requirements to expand its EV portfolio and meet increasing supply demands.

As of the Latest Practicable Date, the Group has placed orders for 750 units of EVs under the Sokon brand, totaling US$10.65 million (equivalent to approximately HK$83.07 million), and 200 units of EVs under the Seres 3 brand, totaling US$3.74 million (equivalent to approximately HK$29.17 million). Additionally, Planet EV has agreed to accept and place orders with the Group to acquire all of the aforementioned ordered EVs. Consequently, the Group has an imminent need for financial resources to satisfy the working capital for a possible return.

We note that the EV market in Thailand is experiencing rapid growth, with the Thai government targeting 30% of total car production of 2.5 million vehicles to be EVs by 2030. This regulatory push, coupled with increasing environmental awareness among consumers, creates a significant market opportunity for the Group. The partnership with GrabTaxi is particularly strategic, as it provides immediate access to a large customer base and aligns with Thailand's goal to have 53,000 electric taxi cabs by 2025.

For our work done, we have conducted interviews and discussed the commercial rationale behind expanding the EV project and understanding on the background and relationship with Planet EVand performed desktop search on the relevant news in relation to the EV policy in Thailand. According to Thailand Board of Investment's news published on 21 February 2024[1], the Thailand's National Electric Vehicle Policy Committee (EV Board), approved incentives to encourage companies to transition their commercial fleets of large trucks and buses to battery electric vehicles and cash grants for EV battery cells manufacturers. These policies will further expand the country's supports to the whole EV ecosystem and reinforce its status as an EV manufacturing hub. The support to the use of electric powered vehicles will come in the form of

1 Please refer to the news published by Thailand Board of Investment, a government agency under the Office of the Prime Ministerat of Thailand, at https://www.boi.go.th/index.php?page=press_releases_detail&topic_id=135055&_module=news&from_page=press_releases2

special tax deduction granted to companies eligible under this scheme and will be effective until 31 December 2025. Companies buying vehicles manufactured domestically will be able to deduct expenses of 2 times the actual price of the vehicles, without a price ceiling being set. For the purchases of imported vehicles, the deduction will be equal to 1.5 time the actual price of the vehicles.

We have reviewed (i) the purchase agreements entered between the Group (as the buyer) and the EV Vehicles Manufacturers (as the seller) and (ii) the sale agreements entered between the Group (as the seller) and Plant EV (as the buyer). This review was undertaken to gain insights into the background, scope of products and service and payment terms. By leveraging its extensive network with the EV Vehicles Manufacturers, the Group operates on a cost-plus profit model. Upon analyzing the unit prices outlined in both purchase and sale agreements, we affirm that these trading arrangements are beneficial and profitable to the Group. Furthermore, we are of the view that the terms and pricing of the agreements between the Group, the EV Vehicles Manufacturers and Plant EV are in normal commercial terms and are both fair and reasonable. We concur with the Group that this expansion not only positions the Group as a key player in Thailand's growing EV market but also has the potential to significantly boost its financial performance in the medium to long term, thus serving the interests of both the Company and its Shareholders. As the Group faces an urgent need for financial resources, with total borrowings of S$65.3 million and cash and bank balances totaling only approximately S$8.6 million as of 30 June 2024, and considering the substantial market opportunity, strategic partnerships, we concur that there is an imminent need for the Company for financial resources through the Rights Issue.

(ii) Develop the Group's newly commenced AEM Business

The Group intends to allocate approximately 10.0% or HK$17.07 million to develop its newly commenced anion exchange membrane (AEM) water electrolysis business.

In June 2024, the Group formed a joint venture with a reputable Chinese enterprise to focus on the research, development, production, and supply of AEM water electrolysis hydrogen fuel cell systems. AEM water electrolysis technology is an advanced technology aiming to mitigate the limitations of the traditional alkaline water electrolysis and proton exchange membrane water electrolysis. From our discussion with the Company, the AEM business aims to leverage this technology to produce more efficient and cost-effective hydrogen production systems, positioning itself to meet the growing demand for hydrogen fuel cells in China's emerging clean energy market.

As disclosed in the Board Letter, the Directors has conducted a comprehensive feasibility study on the industry landscape prior to entering the industry. Through this study, the Directors ascertained that China has implemented industrial policies with the specific goal of advancing hydrogen fuel cell development. These policies focus on fostering industrial synergy and providing increased research and development support. Notably, the Chinese government actively promotes the use of hydrogen fuel cells in stationary power generation by implementing incentive policies. A key example is the Medium and Long-term Development Plan for the Hydrogen Industry (2021–2035) (氫能產業發展中長期規劃(2021–2035年))[2], which urges local governments to deploy custom-made hydrogen fuel cell stationary power generation devices based on local conditions. Additionally, the plan encourages the facilitation of demonstration projects showcasing the comprehensive integration of hydrogen energy across various settings.

Further, according to the White Paper on Hydrogen Energy and Hydrogen Fuel Cells (中國氫能源及燃料電池產業白皮書)[3], China is projected to produce up to 20,000 units of hydrogen fuel cell stationary power generation devices annually by the year 2050. Given this outlook, the Group believes that expansion into this sector, specifically through the development and sale of hydrogen production equipment, aligns with the industry's anticipated growth trajectory and offers substantial opportunities for advancement.

According to the business plan, the Joint Venture is scheduled to begin pre-research on $50m^3$ AEM electrolysers in September 2024, with an initial start-up capital of RMB10 million. This will cover the procurement of research and development equipment for $50m^3$ AEM electrolysers, pre-research on membrane electrodes and key technologies, and the expansion of the research and development team. The official launch of the $50m^3$ electrolyser development is scheduled for 30 September 2024, with an estimated cost of RMB20 million (equivalent to approximately HK$21.49 million) and completion of the initial $50\ m^3$ electrolyser is expected by 30 June 2025. Such a portion of the net proceeds is anticipated to be completely utilised before the first half of 2025.

In order to access the reasonableness of the AEM business, we have reviewed the Joint Venture agreement, analyzed the Directors' feasibility study, examined the proposed timeline and milestones, and assessed the breakdown of costs. Based on our independent due diligence, we note that the Chinese government has implemented policies supportive of hydrogen fuel cell development, aligning with the Group's industry assessment.

2 Please refer to the policy published on the government website of National Development and Reform Commission of the People's Republic of China , at *https://www.ndrc.gov.cn/xxgk/zcfb/ghwb/202203/t20220323_1320038.html*

3 Please refer to the white paper published by China Hydrogen Alliance, an organization with members covering the core enterprises, major universities and research institutes in the field of hydrogen and fuel cell in China, at *http://www.zg-kg.com/files/%E3%80%8A%E4%B8%AD%E5%9B%BD%E6%B0%A2%E8%83%BD%E6%BA%90%E5%8F%8A%E7%87%83%E6%96%99%E7%94%B5%E6%B1%A0%E4%BA%A7%E4%B8%9A%E7%99%BD%E7%9A%AE%E4%B9%A6%E3%80%8B.pdf*

Moreover, we have reviewed the business plan of the AEM business, the funding plan for the $50m^3$ AEM electrolyzer project includes: (i) RMB4 million for membrane electrode equipment, which is to build essential parts of the electrolyzer; (ii) RMB5 million for electrolyzer equipment; (iii) RMB2 million for raw material procurement; and (iv) RMB9 million for management expenses, comprising RMB7 million for research and operational staff costs and RMB2 million for operating expenses.

We acknowledge that the Group has secured a minimum of three quotations from the market when formulating the funding plan of the AEM electrolyzer project. We have analyzed the independent quotations provided by the Group, and our comparisons indicate that unit prices for the items listed in the funding plan align with the prevailing market prices. Based on this comparison approach to verify market conformity, we are of the view that the prices associated with the items in the funding plan are fair and reasonable.

Further, from our discussion with the Company, it is confident in its strategic roadmap and the potential for this technology to contribute to its revenue starting in 2026. Given the growing demand for hydrogen technologies and the Company's preparedness, it is a positive development in line with industry trends.

Upon our review of the joint venture agreement, we note that the terms of the agreement are commercially reasonable. Furthermore, the JV Partner's technical know-how and possession of a portfolio of hydrogen production equipment and intellectual property rights represent significant advantages, potentially enhancing the Group's prospects in this field.

In view of the above factors, we are of the opinion that the AEM investment represents a rational strategic move for the Group, considering the current market dynamics and the potential for growth in the hydrogen fuel cell sector. The alignment with Chinese government policies, the structured business plan, and the Joint Venture's intellectual property assets provide a foundation for potential growth. As such, it is in the long-term interest of the Company and the Shareholders as a whole.

(iii) Expand the Group's sales and service network and marketing and enhance its brand awareness

The Group intends to allocate approximately 10.0% or HK$17.07 million to expand the Group's sales and service network and marketing and enhance its brand awareness. The Group's specific plans include expanding its service network, further developing targeted online and offline service channels, enlarging its service team, and improving service quality overall.

Following our discussion with the Company, we understand that it is continuously exploring strategies to enhance its branding, sales and marketing efforts in order to solidify their position as the leading parallel-import motor vehicle dealer in Singapore. Additionally, it is actively looking for ways to differentiate itself from competitors to boost sales performance and profitability. Therefore, we believe it is reasonable for the Company to allocate funds towards expanding its sales and service network through increased advertising and marketing campaigns, as well as participation in road shows and selected promotional events with a high potential customer turnout. We believe these initiatives align with the Company's strategic objectives and could contribute positively to its market position and financial performance, without compromising its ability to meet existing financial obligations, which in turn is in the interest of the Company and the Shareholders as a whole.

(iv) Use for the Group's general and corporate administrative purposes

The Group intends to allocate approximately 10.0% or HK$17.06 million for the Group's general and corporate administrative purposes.

It is widely acknowledged that allocating 10-15% for general working capital in a fund-raising activity is a common practice. Hence, we consider that the 10% allocation is reasonable.

According to the latest 2024 Interim Result, while the Group had a cash and bank balance of approximately S$8.6 million as at 30 June 2024, it also faces a potential of cash outflows including repayment of borrowings of approximately S$65.2 million (current portion of S$20 million and non-current portion of S$45.2 million). It is our understanding that the Group has implemented robust cash flow management strategies to adequately cover its liabilities. Given the circumstances, it is reasonable for the Group to seek additional funding to sustain its foundational business and growth initiatives.

In conclusion, having considered the strategic rationale, potential growth opportunities, current financial position of the Group and the allocation of proceeds, we are of the view that the reasons for and benefits of the Rights Issue and the intended use of proceeds are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

2.3. Fund-raising alternatives

Upon our enquiry, the Directors advised us that they have also considered other forms of fundraising methods for the Group, such as debt financing (i.e. bank borrowings) and other equity financing (i.e. placing and open offer), before entering into the Rights Issue.

For debt financing, it would cause the Group to incur additional financing costs such as interest expenses, which is not preferable given the Group's existing relatively high level of borrowings. According to the statement of indebtedness set out in Appendix I to the Circular, the Group's total amount of bank borrowings with interest approximately S$62.2 million as at 31 July 2024. Moreover, in the prevailing high-interest-rate environment, the Group may be subject to lengthier negotiations with financial institutions and potentially resulting in less favourable terms and higher interest expenses. Hence it would be commercially reasonable to prioritize equity financing as the first option.

In respect of equity financing, as opposed to the Rights Issue, the Company considered that both placing of new Shares and open offer do not offer nil-paid rights options to the existing Shareholders, including (i) allowing the Shareholders to maintain their respective shareholdings in the Company; and (ii) increasing their shareholding interests in the Company by acquiring additional rights entitlements in the open market or reducing their shareholding interests in the Company by disposing their rights entitlements in the open market.

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

In the event that the proceeds raised by the Rights Issue or Placing is less than the aforesaid estimated net proceeds of approximately HK$170.68 million, the Company will allocate the use of proceeds proportionately and will further evaluate options including, amongst others, reducing the proposed investment amount or exploring other financing, and/or fund-raising alternatives. The Group remains committed to improving its profitability.

2.4 Fundraising activities in the past twelve months

As set out in the Board Letter, the Company has conducted the following equity fundraising activities in the past twelve months immediately prior to the Latest Practicable Date:

Date of relevant announcements	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
28 May 2024 and 7 June 2024	Subscription of new shares under general mandate	HK$11.24 million	Expand its motor vehicle portfolio	Fully utilised as intended

Save as disclosed above, the Company has not conducted any equity fundraising activities in the past twelve months immediately preceding the Latest Practicable Date.

3 Principal terms of the Rights Issue

Below is a summary of the principal terms of the Rights Issue:

Basis of the Rights Issue	:	Four (4) Rights Shares for every one (1) Share held by the Qualifying Shareholders as the close of business on the Record Date
Subscription Price	:	HK$0.40 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	108,000,000 Shares
Number of Rights Shares	:	Up to 432,000,000 Rights Shares (assuming there is no change to the total issued share capital of the Company on or before the Record Date)
Gross proceeds from the Rights Issue	:	Up to approximately HK$172.8 million before expenses (assuming there is no change to the total issued share capital of the Company on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)

Assuming there is no change to the total issued capital of the Company on or before the Record Date, 432,000,000 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 400% of the total issued share capital of the Company as at the date of the Latest Practicable Date; and (ii) 80% of the total issued share capital of the Company as enlarged by the allotment and issuance of the Rights Shares immediately upon Completion.

As at the Latest Practicable Date, there are outstanding 9,000,000 share options entitling the holders thereof to subscribe for up to an aggregate of 9,000,000 Shares under the Share Option Scheme. Save as disclosed, as at the Latest Practicable Date, the Company has no outstanding share options, warrants, options or convertible securities, or other similar rights that are convertible or exchangeable into Shares.

4 Our analysis of the principal terms of the Rights Issue

4.1. Subscription price

The Subscription Price of HK$0.40 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares and, where applicable, when a transferee of the nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price was arrived at after an arm's length negotiation, based on, among other things, the prevailing market price of the Shares and the Group's financial conditions.

The Subscription Price of HK$0.40 per Rights Share represents:

(i) a discount of approximately 66.94% to the closing price of HK$1.210 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 20.00% to the closing price of HK$0.500 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 29.08% to the closing price of HK$0.564 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 13.98% to the average closing price of approximately HK$0.465 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 4.76% to the theoretical ex-rights price of approximately HK$0.420 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK$0.500 per Share as quoted on the Stock Exchange on the Last Trading Day;

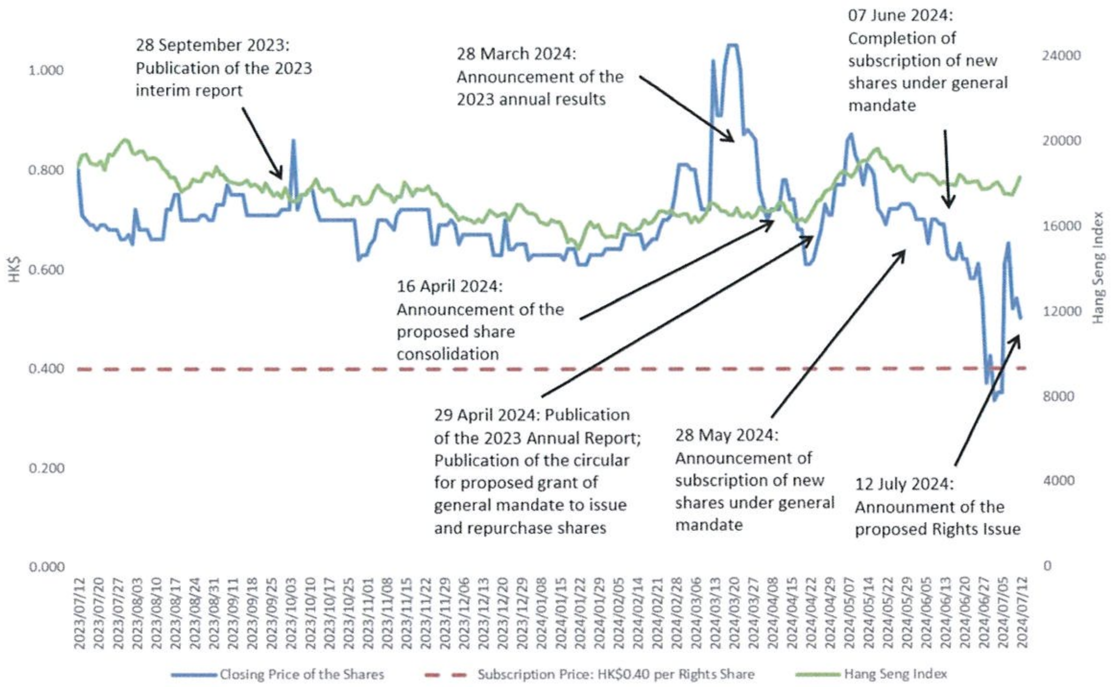
(vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 20.07%, which is calculated based on the theoretical diluted price of approximately HK$0.534 per Share (as defined under Rule 7.27B of the Listing Rules, taking account the higher of (i) the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day and (ii) the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days up to and including the Last Trading Day); and

(vii) a discount of approximately 89.86% to the audited net asset value per Share of approximately S$0.667 (equivalent to approximately HK$3.943) based on the latest audited consolidated net asset value of the Group of approximately S$71,995,000 (equivalent to approximately HK$425,836,000) as at 31 December 2023 and the number of Shares in issue as at the Latest Practicable Date (i.e. 108,000,000 Shares).

4.2. Historical Share price performance

In assessing the fairness and reasonableness of the Subscription Price, we have taken into account the daily closing price of the Shares as quoted on the Stock Exchange commencing on 12 July 2023 up to and including the Last Trading Day (the "**Review Period**"). We consider that such a sampling period of approximately 12-month is adequate as it represents a reasonable period to provide a general overview of the recent price performance of the Shares. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

Chart: Historical closing prices of the Shares during the Review Period



Source: the website of the Stock Exchange

As illustrated in the chart above, during the Review Period, the Shares were traded within the range of HK$0.335 and HK$1.050 per Share with an average of approximately HK$0.697 per Share.

Upon reviewing the closing Share prices, it has been observed that the closing prices of the Shares were above the Subscription Price and fluctuated between HK$0.61 per Share and 0.86 per Share from 12 July 2023 to 12 March 2024. During this period, the Company announced its interim results for the six months ended 30 June 2023 on 31 August 2023 and published its interim report for the six months ended 30 June 2023 on 28 September 2023. Subsequently, the Share price experienced a significant increase, reaching a peak of HK$1.050 per Share on 19 March 2024. After our discussions with the Company and our review of the Company's announcements, we are unaware of any events or information that led to such a surge.

Following the peak, the Share prices showed a general decreasing trend with fluctuations, reaching its lowest point of HK$0.335 on 3 July 2024, which fell below the Subscription Price of HK$0.40. During this downturn, the Company (i) has consolidated its share on 27 May 2024; and (ii) completed the subscription of new shares under general mandate on 7 June 2024. Subsequently, the closing Share prices recovered to HK$0.8 on the Last Trading Day. Apart from the above events, we noted that the movement of the closing Share prices in general correlated with the overall market performance as reflected by the Hang Seng Index.

4.3. Historical trading volume and liquidity analysis

In order to understand the market demand for the Shares, we have studied the trading liquidity of the Shares. The following table sets out the total trading volume and average daily trading volume of the Shares, as well as the percentage of the average daily trading volume of the Shares to the total number of issued Shares for each month during the Review Period:

Table 3: Trading Liquidity of the Shares

Month	**Number of trading days** *(days)*	**Average daily volume** *(Shares)*	**% of average daily trading volume to total issued Shares** *(Note)* *(%)*
2023			
July	13	47,731	0.005%
August	23	38,870	0.004%
September	19	2,789	0.0003%
October	20	8,075	0.001%
November	22	14,432	0.002%
December	19	8,474	0.001%
2024			
January	22	5,932	0.001%
February	19	18,263	0.002%
March	20	46,625	0.005%
April	20	28,400	0.003%
May	21	17,500	0.019%
June	19	49,605	0.046%
July (up to and including the Last Trading Day)	9	2,788,000	2.581%
		Minimum	**0.0003%**
		Mean	**0.204%**
		Maximum	**2.581%**

Source: the website of the Stock Exchange

Note:

Based on the number of Shares at the end of each respective month as reference to the published monthly return of the Company. Share consolidation became effective on 27 May 2024 whereby every ten (10) issued and unissued shares of HK$0.01 each in the share capital of the Company were consolidated into one (1) share of HK$0.10 each. For details, please refer to the Company's announcements dated 16 April 2024 and the Circular dated 8 May 2024. There were 90,000,000 issued Shares as at the end of May 2024, 108,000,000 issued Shares as at the end of June 2024, and 108,000,000 issued Shares as at the end of July 2024.

As illustrated in the above table, the average daily trading volume of the Shares per month to the total issued Shares ranged from approximately 0.0003% to 2.581%, with the average daily trading volume of the Shares to the total issued Shares of approximately 0.204% during the Review Period.

We noted from the above table that the liquidity of the Shares was thin during the Review Period. The majority of the months had an average of less than 0.01% of issued Shares traded daily, with the exception of June 2024 and July 2024, which experienced a higher average daily trading volume of approximately 0.046% and 2.581% of issued Shares, respectively. Given the thin trading volume of the Shares, we consider that the Company is unlikely to be able to raise equity funds without offering a discount to the prevailing Share price.

4.4. Comparable analysis

To further assess the fairness and reasonableness of the terms of the Rights Issue, we have further considered recent market rights issue listed on the Stock Exchange (the "**Comparable Transactions**") announced from 12 April 2024 up to and including the Last Trading Day, being a sampling period of approximately three months (the "**Comparable Review Period**"). The Comparable Transactions were selected on the basis that (i) they were conducted by companies that are listed on the Stock Exchange; (ii) they were conducted during a three-month Comparable Review Period, which we consider provides a reasonable sample size to reflect the recent market practice regarding rights issue transactions; and (iii) there was no artificial selection or filtering on our part, ensuring that the Comparable Transactions represent a reasonable reference to the recent market trends on similar rights issue transactions conducted by other issuers listed on the Stock Exchange. Nonetheless, it should be noted that the issue ratio of the Comparable Transactions, as well as the market capitalisation, industry, financial performance and funding needs of the companies which conducted Comparable Transactions, may not be the same as those of the Company and we have not conducted any investigation into these aspects. Accordingly, we have prepared the Comparable Transactions here only for cross-checking purposes. Set out below is a fair and exhaustive list of the 13 Comparable Transactions we were able to identify based on the aforementioned selection criteria during the Comparable Review Period.

Table 4: Analysis of the Comparable Transactions

Date of announcement	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the closing price per share on the last trading day *(Note 1)* *(Approx. %)*	Premium/ (Discount) of subscription price per rights issue share over/to average closing price per share for the five consecutive trading days *(Note 1)* *(Approx. %)*	Premium/ (Discount) of the subscription price over/to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Note 1)* *(Approx. %)*	Premium/ (Discount) of subscription price per rights issue share over/to the latest published consolidated net asset value attributable to the shareholders per share *(Note 1)* *(Approx. %)*	Theoretical dilution effect *(Notes 1 and 2)* *(Approx. %)*	Underwriting commission *(Note 3)* *(Approx. %)*	Excess application *(Yes/No)*	Placing commission *(Note 3)* *(Approx. %)*
02 July 2024	Tonking New Energy Group Holdings Limited	8326	1 for 2	(41.18)	(41.18)	(33.30)	(69.70)	(11.76)	N/A	No	1.00
28 June 2024	Jiading International Group Holdings Limited	8153	3 for 1	(16.67)	(14.68)	(4.67)	(91.67)	(12.50)	N/A	No	3.00
27 June 2024	Hanvey Group Holdings Limited	8219	2 for 1	(59.30)	(59.30)	(49.20)	(7.40)	(19.78)	N/A	No	3.50
26 June 2024	Ev Dynamics (Holdings) Limited	476	2 for 3	(3.06)	(3.06)	(24.50)	(92.93)	(1.84)	N/A	No	1.50
25 June 2024	Chong Fai Jewellery Group Holdings Company Limited	8537	3 for 1	(32.20)	(32.60)	(10.40)	(87.40)	(24.60)#	N/A	Yes	1.00

Date of announcement	Company name	Stock code	Basis of entitlement	Premium/ (Discount) of the subscription price over/to the closing price per share on the last trading day *(Note 1)* *(Approx. %)*	Premium/ (Discount) of subscription price per rights issue share over/to average closing price per share for the five consecutive trading days *(Note 1)* *(Approx. %)*	Premium/ (Discount) of the subscription price over/to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Note 1)* *(Approx. %)*	Premium/ (Discount) of subscription price per rights issue share over/to the latest published consolidated net asset value attributable to the shareholders per share *(Note 1)* *(Approx. %)*	Theoretical dilution effect *(Notes 1 and 2)* *(Approx. %)*	Underwriting commission *(Note 3)* *(Approx. %)*	Excess application *(Yes/No)*	Placing commission *(Note 3)* *(Approx. %)*
19 June 2024	Bonny International Holding Limited	1906	1 for 4	(43.02)	(43.55)	(38.16)	(14.93)	(8.71)	N/A	Yes	N/A
04 June 2024	MMG Limited	1208	2 for 5	(31.41)	(35.59)	(24.65)	(32.51)	(10.17)	2.25 *(Note 4)*	Yes	N/A
29 May 2024	Icon Culture Global Company Limited	8500	1 for 1	(36.71)	(37.19)	(22.84)	N/A *(Note 5)*	(18.59)	N/A	No	0.50
16 May 2024	Futian Holdings Limited	8196	1 for 2	0.00	(10.71)	0.00	8.70	(4.60)	N/A	Yes	N/A
10 May 2024	Sky Blue 11 Company Limited	1010	1 for 1	(33.30)	(34.90)	(20.00)	N/A *(Note 5)*	(17.90)	N/A	No	5.00
30 April 2024	Goldway Education Group Limited	8160	3 for 1	(27.50)	(27.86)	(8.66)	(88.40)	(20.90)	N/A	No	1.00
26 April 2024	Flying Financial Service Holdings Limited	8030	3 for 1	(24.20)	(22.80)	(7.40)	(64.80)	(23.70)	N/A	Yes	3.00

Date of announcement	Company name	Stock code	Basis of entitlement	Premium/(Discount) of the subscription price over/to the closing price per share on the last trading day *(Note 1)* *(Approx. %)*	Premium/(Discount) of subscription price per rights issue share over/to average closing price per share for the five consecutive trading days *(Note 1)* *(Approx. %)*	Premium/(Discount) of the subscription price over/to the theoretical ex-right price per share based on the closing price per share on the last trading day *(Note 1)* *(Approx. %)*	Premium/(Discount) of subscription price per rights issue share over/to the latest published consolidated net asset value attributable to the shareholders per share *(Note 1)* *(Approx. %)*	Theoretical dilution effect *(Notes 1 and 2)* *(Approx. %)*	Underwriting commission *(Note 3)* *(Approx. %)*	Excess application *(Yes/No)*	Placing commission *(Note 3)* *(Approx. %)*
18 April 2024	Shin Hwa World Limited	582	2 for 1	(33.33)	(32.29)	(22.31)	(98.22)	(22.22)	1.00	Yes	N/A
				Maximum	**0.00**	**(3.06)**	**0.00**	**8.70**	**(1.84)**	**2.25**	**5.00**
				Minimum	**(59.30)**	**(59.30)**	**(49.20)**	**(98.22)**	**(24.60)**	**1.00**	**0.50**
				Average	**(29.38)**	**(30.44)**	**(20.47)**	**(58.11)**	**(15.17)**	**1.63**	**2.17**
				Median	**(32.20)**	**(32.60)**	**(22.31)**	**(69.70)**	**(17.90)**	**1.63**	**1.50**
12 July 2024	**The Company**	**1872**	**4 for 1**	**(20.00)**	**(29.08)**	**(4.76)**	**(89.86)**	**(20.07)**	**N/A**	**No**	**0.75**

Source: the website of the Stock Exchange

Notes:

1) Relevant percentages of the Comparable Transactions have been extracted from the relevant announcements of their rights issue. For those Comparable Transactions (marked with # above) of which the relevant percentages were not shown in their rights issue announcements and/or for consistency in the calculation, their percentages are recalculated based on financial figures extracted from their other publications including financial reports.

2) The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules or Rule 10.44A of the GEM Listing Rules, or extracted from announcement, circular or prospectus in respect of the relevant right issue.

3) For calculating the average, minimum and maximum percentage of the placing commission of the Comparable Transactions, we have excluded the fixed fee of placing commissions (placing commissions may include a fixed fee plus a percentage of placing commission) in order to make an apple to apple comparison to this transactions.

4) MMG Limited (1208) paid the underwriters the sum of (i) 2% fixed commission; and (ii) an additional discretionary incentive fee up to 0.5% of the aggregate subscription price in respect of the underwritten shares. An average underwriting commission of 2.25% is assumed for illustrative purpose.

5) The reference of subscription price to the consolidated net asset value per share is not applicable as the company is currently at net liabilities position.

From the above comparable analysis, (i) the discount of the Subscription Price per Rights Issue Share of approximately 20.00% over the closing price of the Last Trading Day (the "**LTD Discount**"); (ii) the discount of the Subscription Price per Rights Issue Share of approximately 29.08% over the closing share prices for the last five consecutive trading days prior to the date of the announcement of Rights Issue (the "**5 Days Discount**"), both fall within the above ranges of the Comparable Transactions and higher than their average discounts; (iii) the discount of the Subscription Price of approximately 4.76% over the theoretical ex-right price per share based on the closing price per share on the Last Trading Day (the "**Ex-right Discount**"), fall within the above ranges of the Comparable Transactions and higher than their average discounts; and (iv) the discount of the Subscription Price of approximately 89.86% to the audited net asset value per Share based on the latest audited consolidated net asset value Group of approximately S$71,995,000 (equivalent to approximately HK$425,836,000) as at 31 December 2023 and the number of Shares in issue as at the Latest Practicable Date (i.e. 108,000,000 Shares) (the "**NAV Discount**"), fall within the above ranges of the Comparable Transactions.

As the Rights Shares are offered to all Qualifying Shareholders, we understand that the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Rights Issue. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (excluding the independent non-executive Directors) consider the Subscription Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered that (i) the LTD Discount, the 5 Days Discount and the Ex-right Discount are within the range of those of the Comparable Transactions and higher than their average discounts; (ii) the NAV Discount is within the ranges of those of the Comparable Transactions; (iii) the liquidity of the Shares was low during the Review Period; (iv) the Group needs to develop its businesses and strengthen its working capital base as detailed in the above section headed

"Reasons for the Rights Issue and the use of proceeds"; (v) the reasons for and benefits of the Rights Issue and the intended use of proceeds is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; (vi) the Rights Issue is considered to be a better financing alternative over bank borrowings, placing or an open offer, especially when the Rights Issue allows the Company to strengthen its capital base and liquidity without incurring interest costs; (vii) it is common for listed issuers in Hong Kong to issue rights shares at a discount to prevailing market prices in order to enhance the attractiveness of a rights issue as illustrated in this sub-section; and (viii) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares under the Rights Issue and are offered the same discounts of the Subscription Price to the closing price of the Share on the Last Trading Day and to the theoretical ex-rights price and the same potential maximum dilution, we are of the view that the Subscription Price (together with its dilution effect) is fair and reasonable so far as the Independent Shareholders are concerned, and also in alignment with the market practice.

5 Non-underwritten basis of the Rights Issue

The Rights Issue is proceeded on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares, subject to the fulfilment of the conditions of the Rights Issue. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will be placed to independent placees under the Compensatory Arrangements. Any Unsubscribed 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. It is noted that 11 of the 13 Comparable Transactions were conducted on a non-underwritten basis. As such we are of the view that the Rights Issue being conducted on a non-underwritten basis is a normal commercial term.

5.1. *The Placing Agreement*

The principal terms of the Placing Agreement are summarised below:

Date	:	12 July 2024
Issuer	:	The Company
Placing Agent	:	Orient Securities Limited As at the Latest Practicable Date, the Placing Agent and its ultimate beneficial owner(s) are Independent Third Parties.
Placing Price	:	The placing price of the Unsubscribed Rights Shares shall be at least equal to the Subscription Price and the final price determination will depend on the demand for and the market conditions of the Unsubscribed Rights Shares during the placement process.
Placing commission	:	Subject to the completion of the Placing, the Company shall pay the Placing Agent a placing commission, being 0.75% of the amount which is equal to the Placing Price multiplied by the total number of the Unsubscribed Rights Shares which are successfully placed by the Placing Agent.
Placees	:	The placees shall be professional, institutional and other investors. The Placing Agent shall ensure that the placees, and whose ultimate beneficial owner(s), shall be third party(ies) independent of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.
Ranking of the Unsubscribed Rights Shares	:	The placed Unsubscribed Rights Shares (when allotted, issued and fully paid, if any) shall rank pari passu in all respects among themselves and with the Shares in issue as at the date of completion of the Placing.

Conditions of the Placing Agreement : The obligations of the Placing Agent under the Placing Agreement are conditional upon the following conditions being fulfilled:

i) the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Rights Shares;

ii) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained; and

iii) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events.

For the avoidance of doubt, if all the Rights Shares are fully subscribed under the Rights Issue, the Placing will not proceed.

The Company shall use its best endeavour to procure the fulfilment of the conditions to the Placing and undertakes to inform the Placing Agent promptly of any matter or circumstance which comes to the attention of it and indicating that any of such conditions being unable or fail to fulfil. If any of such conditions have not been fulfilled by the Placing Long Stop Date (as defined below) or become incapable of being fulfilled (unless extended by mutual consent of the Company and the Placing Agent), then all respective 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 and none of the parties thereto shall have any claim against any other in respect of the Placing.

Termination : If any of the following events occur at any time prior to 6:00 p.m. on the third Business Day after the last day of the Placing Period (the "**Placing Long Stop Date**"), the Placing Agent may (after such consultation with the Company and/or its advisers as the circumstances shall admit or be necessary), by giving a written notice to the Company, at any time prior to the date of completion of the Placing provided that such notice is received by the Company prior to 6:00 p.m. on the Placing Long Stop Date, terminate the Placing Agreement without liability to the other parties and, subject to clauses in the Placing Agreement which survives termination, the Placing Agreement shall thereupon cease to have effect and none of the parties to the Placing Agreement shall have any rights or claims by reason thereof save for any rights or obligations which may accrue under the Placing Agreement prior to such termination:

(a) in the reasonable opinion of the Placing Agent there shall have been since the date of the Placing Agreement such a change in national or international financial, political or economic conditions or taxation or exchange controls as would be likely to prejudice materially the consummation of the Placing; or

(b) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any matter whatsoever which may adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(c) any material breach of any of the representations and warranties by the Company comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date of the Placing Agreement and prior to the date of completion of the Placing which if it had occurred or arisen before the date of the Placing Agreement would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing Agreement; or

(d) any moratorium, suspension or restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances; or

(e) there is any adverse change in the financial position of the Company which in the reasonable opinion of the Placing Agent is material in the context of the Placing.

The Unsubscribed Arrangements are in compliance with the requirements under Rule 7.21(1)(b) under which the No Action Shareholders may be compensated even if they do nothing (i.e. neither subscribe for Rights Shares nor sell their nil-paid rights) given that the Unsubscribed Rights Shares will be first offered to Independent Third Parties and any premium over the Subscription Price will be paid to the No Action Shareholders. The commission payable to the Placing Agent and the related fees and expenses in relation to such placing will be borne by the Company.

Given that the Company has put in place the Unsubscribed Arrangements as required by Rule 7.21(1)(b) of the Listing Rules, there will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules.

5.2. Our view on the Placing Agreement

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

Given that (i) the Placing Price shall be at least equal to the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraph headed "4.4. Comparable analysis" above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

Pursuant to the Placing Agreement, the Company shall pay the Placing Agent a placing commission (the "**Placing Commission**") of 0.75% of the amount which is equal to the Placing Price multiplied by the total number of the Unsubscribed Rights Shares which are successfully placed by the Placing Agent. As advised by the Company, the Placing Commission was determined after arm's length negotiation between the Company and the Placing Agent with reference to the prevailing market rate and is on normal commercial terms, and the Placing Agent confirms that it is an Independent Third Party.

As illustrated in Table 4 above, our analysis of Comparable Transactions shows that the placing commission rates ranged from 0.5% to 5.0%. It is noted that the Placing Commission is within the range and below the average placing commission rate of the Comparable Transactions. Accordingly, we consider that the Placing Commission is fair and reasonable.

We have also reviewed other major terms of the Placing Agreement, including but not limited to the conditions and termination clause of the Placing Agreement (details of which are set out in the Board Letter) and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Placing Agreement are fair and reasonable so far as the Shareholders are concerned.

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

6 Possible dilution effect

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market.

Based on the 108,000,000 Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date, upon completion of the Rights Issue, 432,000,000 Rights Shares will be allotted and issued. If the Existing Share Options (other than those undertaken not to be exercised pursuant to the Irrevocable Undertakings) were exercised in full on or before the Record Date, upon completion of the Rights Issue, 432,000,000 Rights Shares will be allotted and issued.

If none of the Qualifying Shareholders will take up their respective entitlements of the Rights Shares and all the Unsubscribed Rights Shares will be successfully placed by the Placing Agent under the Placing, the maximum dilution effect on the Qualifying Shareholders' shareholding interests will be 39.93%. Details of such dilution effect are presented in the section headed "Effects on the Shareholding structure of the Company" in the Board Letter.

Furthermore, based on the Subscription Price, the Rights Issue will have a theoretical dilution effect (as defined in Rule 7.27B of the Listing Rules) of approximately 20.07%.

However, having considered that (i) the shareholding interests of the Qualifying Shareholders who take up their provisional allotments of the Rights Issue in full will not be diluted; (ii) the proposed Rights Issue offers the Qualifying Shareholders an equal opportunity to subscribe for the Rights Shares for the purpose of maintaining their proportionate interests in the Company at a discount as compared to the prevailing market prices of the Shares; (iii) all Qualifying Shareholders are offered the same discounts of the Subscription Price to the closing price of the Share as well as the same potential maximum dilution; (iv) the Qualifying Shareholders who do not wish to take up the Rights Shares would have the opportunity to sell their nil-paid Rights Shares in the market and (v) the Compensatory Arrangements would provide adequate safeguard to protect the interest of the Company's minority Shareholders and ensure the Placee(s) will not be in a more favourable position than the Shareholders as they would provide (1) a channel of participation in the Rights Issue for independent investors; and (2) a compensatory mechanism for No Action Shareholders given that the Unsubscribed Rights Shares will be first offered to Independent Third Parties and any premium over the Subscription Price will be paid to the No Action Shareholders, we are of the view that the dilution effect of the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned.

7 Financial effects of the Rights Issue

7.1. Working capital

According to the 2024 Interim Results, the cash and cash equivalents of the Group amounted to approximately S$8.6 million as at 30 June 2024. As part of the net proceeds from the Rights Issue will be applied as additional working capital of the Group, the Group's liquidity position would be improved upon completion of the Rights Issue.

7.2. NAV

According to the 2024 Interim Results, the unaudited NAV of the Group as at 30 June 2024 amounted to approximately S$74.6 million. According to the Company, the unaudited pro forma adjusted consolidated NAV of the Group would have increased up to approximately HK$170.68 million immediately after the Completion from the net proceeds of the Rights Shares. Accordingly, there will be a positive impact on the NAV of the Group.

7.3. Gearing

According to the 2024 Interim Results, the Group's gearing ratio ("**Gearing Ratio**"), which is calculated on the basis of the Group's total borrowings divided by the total assets, was approximately 42.6% as at 30 June 2024. Since the capital base of the Group is expected to be enlarged by the Rights Shares upon Completion. Accordingly, the gearing ratio of the Group will be improved as a result of the Rights Issue and Placing.

Based on the above analysis, we noted that the Rights Issue is expected to have a positive effect on the Group's working capital, NAV and gearing position, accordingly, we are of the view that the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the view that (i) the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and (ii) the Rights Issue and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour on the resolutions at the EGM in relation to the Rights Issue and the transactions contemplated thereunder. We also recommend the Independent Shareholders to vote in favour of the relevant resolution(s) at the EGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited

Charles Li*
Managing Director

* *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*