MERDEKA CORPORATE FINANCE LIMITED
领智企业融资有限公司
Room 1108, 11/F., Wing On Centre, 111 Connaught Road Central, Hong Kong
香港干诺道中 111 号永安中心 11 楼 1108 室
Tel 电话: (852) 2115 7600 Fax 传真: (852) 2115 7698

18 October 2024

To: the Independent Board Committee and the Independent Shareholders of
Dragon Rise Group Holdings Limited

Dear Sir and Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the Letter from the Board (the "**Board Letter**") contained in the circular of Dragon Rise Group Holdings Limited (the "**Company**") dated 18 October 2024 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Company proposes the Share Consolidation and to implement the Rights Issue, on the basis of one (1) Rights Share for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date at the Subscription Price of HK$0.20 per Rights Share to raise gross proceeds of up to approximately HK$28.8 million before expenses by issuing 144,000,000 Rights Shares (assuming no change in the issued share capital of the Company on or before the Record Date). The Rights Issue will only be available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders.

On 10 September 2024, the Company entered into the Underwriting Agreement with the Underwriters in respect of the Rights Issue, pursuant to which, subject to the Company's compliance with the public float requirement under Rule 8.08(1) of the Listing Rules, the Underwriters have agreed to procure that a maximum of 55,000,000 Untaken Rights Shares shall be taken up as to (i) firstly, up to 38,000,000 Untaken Rights Shares by Fame Circle; and (ii) secondly, any Untaken Rights Shares in excess of 38,000,000 Untaken Rights Shares by Head & Shoulders which are intended to be taken up by subscribers procured by it and/or its sub-underwriters pursuant to the terms and subject to the conditions set out in the Underwriting Agreement. Fame Circle and Head & Shoulders confirmed that they have complied with Rules 7.19(1)(b) and 7.19(1)(a) of the Listing Rules, respectively.

On the same date, the Company and the Placing Agent also entered into the Placing Agreement, pursuant to which the Placing Agent has agreed to procure the Placee(s), on a best-effort basis, to subscribe for the Unsubscribed Rights Shares. The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price. The final price will be determined based on the demand for and market conditions of the Unsubscribed Rights Shares at the time of placement.

LISTING RULES IMPLICATIONS

Rights Issue

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue, if proceeded with, will increase the issued share capital of the Company by more than 50% within a 12-month period immediately preceding the date of the Announcement, the Rights Issue will be subject to the approval by the Independent Shareholders (comprising both the Qualifying Shareholders and the Non-Qualifying Shareholders) at the EGM by way of poll at which the 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 resolution(s) relating to the Rights Issue at the EGM. As such, the controlling shareholders of the Company, namely Mr. Yip, Fame Circle and their associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder at the EGM.

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

Connected Transaction

As Mr. Yip is a controlling shareholder of the Company and Fame Circle is wholly owned by Mr. Yip, therefore Mr. Yip and Fame Circle are regarded as connected persons of the Company. Accordingly, the transactions contemplated under the Underwriting Agreement constitutes connected transactions for the Company under the Listing Rules which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Shareholders with a material interest in the transactions contemplated under the Underwriting Agreement are required to abstain from voting on the relevant resolution at the EGM.

As Mr. Yip is materially interested in the Rights Issue, the Placing Agreement, the Underwriting Agreement and the transactions contemplated thereunder, he was required to abstain from voting at the Board resolutions approving such matters.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Chan Ka Yu, Mr. Lee Kwok Lun and Mr. Chan Wa Shing, has been established to advise the Independent Shareholders as to (i) whether the terms of the Rights Issue are fair and reasonable; (ii) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the resolution at the EGM in relation to the Rights Issue, taking into account the recommendation of the Independent Financial Adviser. We, Merdeka Corporate Finance Limited ("**Merdeka**"), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Rights Issue, there were no engagements between the Group or the Shareholders and Merdeka. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR ADVICE

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). Our review procedures include, among others, review of (i) the Underwriting Agreement and Placing Agreement; (ii) the annual report of the Group for the year ended 31 March 2024 (the "**23/2024 Annual Report**"); (iii) the Circular; (iv) other relevant information provided by the Company; (v) market information obtained from the official website of the Stock Exchange; and (vi) other public information available to us.

We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and its advisers, the Directors and the Management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Management in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading.

We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the management of the Company.

Our opinion is based on the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Rights Issue, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations in respect of the Rights Issue, we have taken into account the principal factors and reasons set out below.

1. Background information of the Group

The Company and its operating subsidiary, namely Kit Kee Engineering Limited, are a long-established subcontractor of foundation works services in Hong Kong. The Group's services are mainly required in the construction of commercial and residential buildings. The Group principally provides excavation and lateral support works, pile cap construction works, and the disposal of excavated materials from piling and ancillary services, including the dismantling of shoring, site formation, steel fixing, and site clearance, in Hong Kong

1.1 Financial Information of the Group

Set out below is a summary of the consolidated financial performance of the Group for the years ended 31 March 2023 ("**FY2023**") and 2024 ("**FY2024**") as extracted from the 23/2024 Annual Report.

Consolidated statement of profit or loss

	For the year ended 31 March	
	2024	**2023**
	HK$'000	*HK$'000*
Revenue	945,852	786,209
Direct costs	(906,389)	(762,014)
Gross profit	39,463	24,195
Profit before income tax	6,794	9,039
Profit for the year	4,168	7,923
Profit for the year attributable to:	4,168	7,923
– Equity holders of the Company	4,188	7,923
– Non-controlling interests	(20)	–

As illustrated above, the revenue of the Group has increased by approximately HK$159.7 million, or approximately 20.3% compared to FY2023, from approximately HK$786.2 million to approximately HK$945.9 million for FY2024. The increase was primarily attributable to an increase in contract revenue due to an increase in the number of projects with revenue contribution during FY2024.

The gross profit of the Group has increased by approximately HK$15.3 million, or approximately 63.2% compared to FY2023, from approximately HK$24.2 million to approximately HK$39.5 million for FY2024. The gross profit margin for FY2024 was approximately 4.2%, compared to that for FY2023 of approximately 3.1%. The increase in gross profit margin was mainly due to the relatively high-profit margin for certain projects.

For FY2024, the net profit amounted to approximately HK$4.2 million, as compared to approximately HK$7.9 million from FY2023. The net profit margin for FY2024 was approximately 0.4%, as compared with approximately 1.0% for FY2023. The decrease in the net profit margin for FY2024 was mainly due to the combined effect of the increase in expected credit losses allowance on trade receivables and contract assets, net and the decrease in other gains during FY2024.

Consolidated statement of financial position

	As at 31 March	
	2024	**2023**
	HK$'000	*HK$'000*
Total assets	419,180	308,025
Non-current assets	26,622	39,827
Current assets	392,558	268,198
Total liabilities	151,345	44,743
Non-current liabilities	4,312	1,395
Current liabilities	147,033	43,348
Net assets	267,835	263,282

As illustrated above, the total assets of the Group amounted to approximately HK$419.2 million as at 31 March 2024, representing an increase of approximately 36.1% as compared to approximately HK$308.0 million as at 31 March 2023. The Group's cash, bank balances and pledged deposits amounted to approximately HK$134.0 million as at 31 March 2024, representing an increase of approximately 39.2% as compared to that of approximately HK$96.3 million as at 31 March 2023.

Meanwhile, the Group's total liabilities substantially increased by approximately 238.3% to approximately HK$151.3 million as at 31 March 2024 from approximately HK$44.7 million as at 31 March 2023. As at 31 March 2024, the Group's borrowings primarily comprise secured bank loans repayable on demand and the unsecured corporate bond. The Group's gearing ratio, which was calculated on the basis of total borrowings (including lease liabilities) divided by the total equity, was approximately 23.0% (31 March 2023: 1.3%). Such an increase was primarily due to the increase in bank borrowings as at 31 March 2024.

The Group recorded net assets amounting to approximately HK$267.8 million as at 31 March 2024, representing a slight increase of approximately 1.7% as compared to the net assets of approximately HK$263.3 million as at 31 March 2023.

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

Use of proceeds

As disclosed in the Board Letter, assuming that there is no change in the number of issued Shares on or before the Record Date and all Rights Shares to be issued under the Rights Issue have been taken up in full, it is expected that the maximum gross proceeds and net proceeds from the Rights Issue will be approximately HK$28.8 million and HK$27.7 million respectively.

We noted that the Company has been actively expanding its business and has secured two sizeable construction projects with a total contract sum of approximately HK$490 million, in which one project has commenced work in late August 2024 ("**1st Sizeable Project**") and the other project is expected to commence in April 2025 ("**2nd Sizeable Project**", together with the 1st Sizeable Project, being the "**1st and 2nd Sizeable Projects**"). Based on the Management's experience, managing these sizeable projects requires significant upfront payments, with monthly cash outflows expected to be between approximately HK$30.0 million to HK$40.0 million at their early stage. Despite the Group recording approximately HK$134.0 million in cash and deposits as at 31 March 2024, approximately HK$71.6 million of cash has already been utilised for the Group's ongoing projects' construction cost as at the Latest Practicable Date, approximately HK$34.0 million was locked in restricted deposits required for bank borrowings, and it is anticipated that approximately HK$20.3 million of bank borrowings will be due for repayment in forthcoming six months from the Latest Practicable Date. Therefore, the Directors anticipated a shortage of funds for upcoming project expenses, repayment of bank borrowings and operational needs, leading to an imminent funding need for additional funding through a Rights Issue to maintain the Company's working capital.

The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately HK$19.4 million will be used for upfront costs of the on-going construction projects; (ii) approximately HK$4.2 million will be used for partial repayment of principal amounts of bank loan installments which will be due in January 2025; and (iii) the remaining balance of approximately HK$4.1 million will be used for general working capital of the Group including but not limited to directors' remuneration and staff costs, audit and other professional fees, administrative and general expenses as well as printing fees and listing fees. The Directors are of the opinion that, taking into account the financial resources available to the Group, including internally generated funds, credit facilities, cash and cash equivalents on hand and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital to satisfy its requirements for at least 12 months from the date of the Circular.

Upon our enquiry, the Management provided us with a summary list of ongoing construction projects which part of proceeds from the Rights Issue will be applied for. Based on the summary list, we noted that the Company anticipates the future average monthly cash outflow with reference to the contract sum, remaining workdone and the term of the relevant project. We also obtained the contract agreements for the 1st Sizeable Project and the letter of intent for the 2nd Sizeable Project. It is advised by the Company that a formal contract agreement will be entered into around 4th quarter 2024 for the 2nd Sizeable Project. Based on our review of the documents of the 1st and 2nd Sizeable Projects, we understood that (i) the 1st Sizeable Project is a real estate project, the documents of which involve contract sum, scope of works and details of design and construction works for the foundation with schedules specifying detailed items to be performed by the Group with quantities and unit rates; and (ii) the 2nd Sizeable Project is a school construction project, the letter of intent of which mentioned its contract sum and nature.

We then discussed with the Management and were advised that handling projects of this scale typically necessitates substantial initial payments which is approximately 10% of total contract sum, with an average expected monthly expenditures ranging from HK$30.0 million to HK$40.0 million based on the contract sum and the construction duration. As advised by the Management, the Company anticipates the average monthly cash outflows for the 1st and 2nd Sizeable Projects by following procedures similar to those used for other ongoing projects. The substantial initial payments are mainly due to the industry's general practice that requires the Group to cover the initial construction cost well in advance for the first few months before receiving any payments from the main contractor. Based on the documents and the terms reviewed, we noted that the average expected monthly expenditure for each of the 1st and 2nd Sizeable Projects is projected to be between HK$30.0 million to HK$40.0 million. For further assessment, we were also provided by the Management sample invoices issued by the Group and settlement receipts from relevant main contractors for 5 projects completed previously (the "**Sample Projects**"). We noted that the initial expenditure projected by the Group of approximately 10% of contract sum of each of the 1st and 2nd Sizeable Projects is consistent with the percentage paid by the Company initially under the Sample Projects.

Based on our further discussion with the Management and our review on the projected cashflow of ongoing projects prepared by the Company, we understand that the cash inflow from other ongoing break-even projects of the Group will support the expected monthly expenditures of these sizeable projects. Additionally, the proceeds from the Rights Issue are expected to provide the Group with an additional financial cushion, ensuring sufficient funding for the Group to cover the costs associated with these sizeable projects.

Therefore, we consider the average expected monthly expenditures ranging from HK$30.0 million to HK$40.0 million of the projects with a comparable scale of the 1st and 2nd Sizeable Projects and the substantial initial payments to be fair and reasonable and thereby concur with the Company's view that the Rights Issue would enable the Group to have enough funding to better handle these sizeable projects.

We have also obtained a summary list of the Group's commercial bank loans and understood from the discussion with the Management that the utilization of the HK$4.2 million of the net proceeds from the Rights Issue is to settle the partial repayment for a facility that was drawn down by the Company in January 2024 with an aggregate sum of HK$30.0 million, and pursuant to the bank facility letter as provided by the Company, such drawn down bears an interest rate of HIBOR plus 1.2% per annum, and approximately HK$4.375 million needs to be repaid in January 2025 according to the repayment schedule. The Company considers that the repayment of aforementioned bank loan installments by partial proceeds of the Rights Issue would allow the Group to save the associated interest expenses and improve the Group's gearing ratio.

It is also noted that the Rights Issue will proceed on a fully-underwritten basis. The conditions of the Underwriting Agreement were set after arm's length negotiations between the Company and the Underwriters, taking into account the Group's current financial status, the magnitude of the Rights Issue, and prevailing market conditions. Despite Fame Circle, one of the Underwriters, does not engage in underwriting share issues, its participation as an Underwriter for the Rights Issue, combined with the Irrevocable Undertaking, demonstrates strong support from the controlling shareholders for the Group and their confidence in the Group's future growth.

Other financing alternatives

We understand from the Board Letter that, apart from the Rights Issue, the Board also considered different types of fundraising alternatives available to the Group including but not limited to debt financing and other equity fundraising such as placement of shares.

We discussed with the Management regarding the aforesaid financing alternatives and noted that the Board considered (i) placing or subscription of new shares would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company; (ii) debt financing will incur additional finance costs especially under high global interest rate situation and the challenges the Group has faced in securing business loans with favorable terms; and (iii) comparing to open offer, which does not allow the trading of rights entitlements in the open market, a rights issue is the most suitable and equitable option after considering the Company's business strategy, financial situation, and core value of equality in treatment for the Shareholders. Hence, the Board considered that fund-raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

Regarding the debt financing, we understood from the Company that it would lead to higher finance costs and increase the Group's gearing ratio and may involve extensive due diligence and prolonged negotiations with lenders. Considering that the Company plans to use some of the net proceeds from the Rights Issue to pay off partial interest-bearing loans, debt financing is not the most suitable method of financing. Regarding the equity financing, we also understood from the Company that placing of new shares is not preferred as the Company expects that they may encounter difficulties in procuring placees for fund raising given the recent thin trading liquidity of the Shares as shown in the sub-section headed "b. Liquidity" below. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will allow the Qualifying Shareholders to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Group. Taking into account the feasibility of various fund-raising methods and the reasons of the Rights Issue compared to alternative methods as discussed above, the Directors consider and we concur with their view that the Rights Issue is the most suitable fund-raising method for the Group under the current circumstances.

Our view

Having considered the abovementioned alternatives and the reasons for the Rights Issue discussed above, we concur with the Board's view that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the proposed Rights Issue

3.1. Summary of the key terms

Basis of the Rights Issue:	One (1) Rights Share for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price:	HK$0.20 per Rights Share
Net price per Rights Share (i.e. Subscription Price less estimated cost and expenses incurred in the Rights Issue on a per Rights Share basis):	HK$0.192 per Rights Share
Number of Existing Shares in issue as at the Latest Practicable Date:	1,440,000,000 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective:	144,000,000 Consolidated Shares

Number of Rights Shares to be issued pursuant to the Rights Issue:	Up to 144,000,000 Rights Shares (assuming no change in the issued share capital of the Company on or before the Record Date, and all the Qualifying Shareholders taking up their respective allotment of Rights Shares in full)
Aggregate nominal value of the Rights Shares:	HK$14,400,000
Number of Rights Shares underwritten:	Up to 55,000,000 Rights Shares, being the maximum number of Rights Shares to be underwritten by the Underwriters pursuant to the terms of the Underwriting Agreement
Gross proceeds from the Rights Issue (before deducting the necessary expenses):	Approximately HK$28.8 million (assuming no change in the issued share capital of the Company on or before the Record Date, and all the Qualifying Shareholders taking up their respective allotment of Rights Shares in full)
Net proceeds from the Rights Issue (after deducting the estimated expenses of approximately HK$1.1 million):	Approximately HK$27.7 million (assuming no change in the issued share capital of the Company on or before the Record Date, and all the Qualifying Shareholders taking up their respective allotment of Rights Shares in full)

As at the Latest Practicable Date, the Group had no options outstanding under the Share Option Scheme or outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into Shares. The Company has no intention to issue or grant any Shares, convertible securities, warranties and/or options on or before the Record Date.

For further information on the Rights Issue, please refer to the Board Letter.

3.2. Subscription Price

The Subscription Price of HK$0.20 represents:

(i) a discount of approximately 58.3% to the closing price of HK$0.480 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 48.7% to the closing price of HK$0.390 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day (the "**LTD Discount Rate**");

(iii) a discount of approximately 48.2% to the average closing price of HK$0.386 per Consolidated Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day (the "**Average 5 LTD Discount Rate**");

(iv) a discount of approximately 61.7% to the average of the closing prices of approximately HK$0.522 per Consolidated 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 79.6% to the average of the closing prices of approximately HK$0.979 per Consolidated Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day;

(vi) a discount of approximately 33.1% to the theoretical ex-rights price of HK$0.299 per Consolidated Share based on the benchmarked price of HK$0.398 per Consolidated Share (the "**TERP Discount Rate**");

(vii) a discount of approximately 89.2% to the audited consolidated net asset value per Share of the Group of approximately HK$1.860 per Consolidated Share, which is calculated by dividing the audited consolidated net asset value of the Company of approximately HK$267,835,000 as at 31 March 2024 as shown in the Company's annual report by the number of Shares in issue as of the date of the Announcement (i.e. 144,000,000 Existing Shares) (the "**NAV Discount Rate**"); and

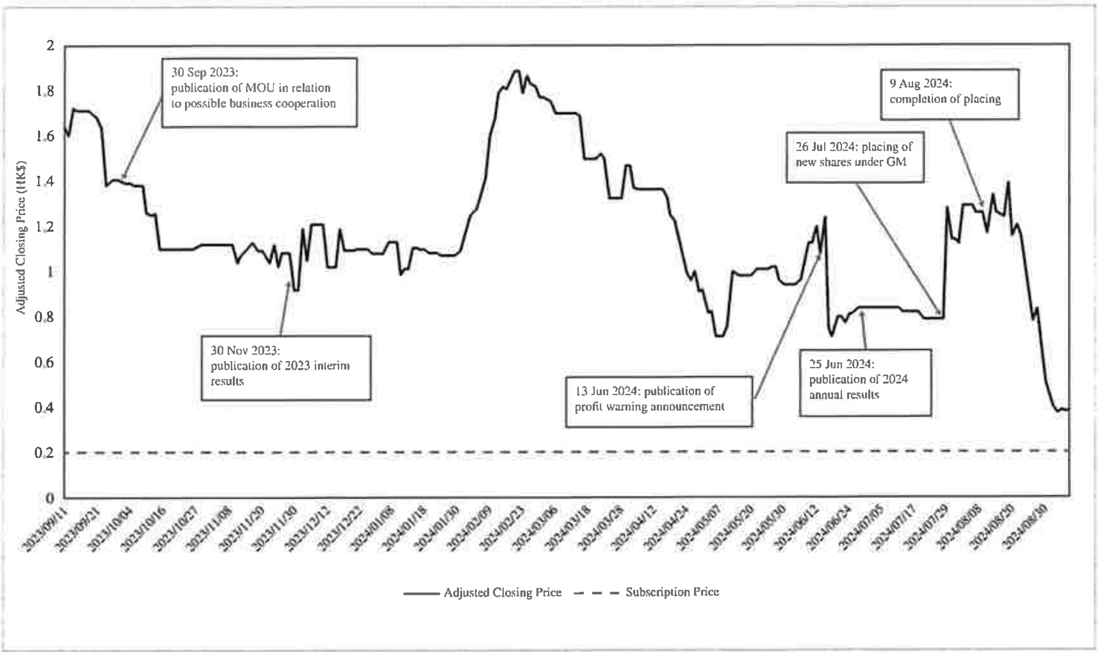
(viii) a theoretical dilution effect (as defined under rule 7.27B of the Listing Rules) represented by a discount of approximately 24.9% of the theoretical diluted price of HK$0.299 per Consolidated Share to the benchmarked price of HK$0.398 per Consolidated Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriters, having considered various factors including (i) the deteriorating financial condition with the net profit decreased by 46.8% for FY2024 compared to prior year and imminent funding requirements of the Group as discussed in "REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS" in the Board Letter; (ii) the recent downward trend of market price of the Existing Shares from HK$0.129 in early August 2024 to HK$0.039 on the Last Trading Day under the sluggish stock market sentiment; (iii) the recent volatility of the capital market in Hong Kong and the prevailing market conditions of high borrowing costs, which adversely affects investors' confidence in the market; (iv) the necessity to increase the attractiveness of the Rights Issue by offering Qualifying Shareholders the opportunity to participate in the Rights Issue at a considerable discount to the current market price of the Shares of the Company and accordingly allow them to maintain their shareholdings in the Company and participate in the future growth and development of the Group; and (v) the equal opportunity being offered to each of the Qualifying Shareholders for the subscription of the Rights Shares at the Subscription Price in proportion to his/her/its existing shareholding in the Company.

a. *Historical price performance*

Set out below is a chart illustrating the theoretical closing price (the "**Adjusted Closing Price**") of Consolidated Shares (after taking into account the effect of the Share Consolidation) during the period from 11 September 2023, being 12 months immediately preceding the Last Trading Day, up to and including the Last Trading Day (the "**Review Period**"). We consider that a period of 12 months, which reflects historical and prevailing market sentiment, is adequate to illustrate the recent price movement of the Shares for the purpose of conducting a reasonable comparison among the historical closing prices prior to the publication of the Announcement and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the share price before the publication of the Announcement represent a fair market value of the Company, while that after the publication of the Announcement, the value may have taken into account the potential upside of the Rights Issue which may distort the analysis.

Share price chart during the Review Period



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

As shown above, the Adjusted Closing Prices have been fluctuated during the entire Review Period. The Adjusted Closing Price dropped from HK$1.72 per Consolidated Share on 13 September 2023 to HK$0.92 per Consolidated Share on 30 November 2023 and 1 December 2023 and remained fluctuated before the end of January 2024. Subsequently, it rebounded back and reached its peak at HK$1.89 per Consolidated Share on 21 February 2024 and 22 February 2024, respectively. Afterward, the Adjusted Closing Price experienced a downward trend until early May 2024. From the latter point onwards and up to the Last Trading Day, the Adjusted Closing Prices experienced substantial fluctuations and reached its lowest point of HK$0.3 on 16 September 2024. Overall, we do not notice any specific reasons for the aforementioned movements of the Adjusted Closing Prices during the Review Period save for (i) the publication of a voluntary announcement memorandum of understanding in relation to possible business cooperation on 22 September 2023; (ii) the publication of the interim results for the six months ended 30 September 2023 on 30 November 2023; (iii) the publication of the profit warning for the annual results of the Group for the year ended 31 March 2024 on 13 June 2024; (iv) the publication of annual results for the year ended 31 March 2024 on 25 June 2024; (v) the publication of placing of new shares under general mandate on 26 July 2024; and (vi) the publication of completion of placing of new shares under general mandate on 9 August 2024. As advised by the Management, the Company is also not aware of any reasons for the aforementioned Share price fluctuations.

With reference to the sub-paragraph headed "c. Comparison with recent rights issue transactions" below, we note that it is a common market practice that the subscription price of a rights issue is set at a discount to the prevailing market prices of the relevant shares to encourage the existing shareholders to participate in a rights issue as to meet the need of equity fund raising. In this regard, the Subscription Price represents a discount of approximately 48.7% to the Adjusted Closing Price of HK$0.2 per Consolidated Share on the Last Trading Day. Therefore, we concur with the Directors' view that the Subscription Price, which is set at a discount to the prevailing market prices of the Shares, is in line with the general market practice and is acceptable.

b. Liquidity

Set out below is the average daily trading volume of the Shares on a monthly basis and the respective percentage of the average daily trading volume of the Shares during the Review Period as compared to (i) the total number of issued Shares as at the Latest Practicable Date; and (ii) the total number of issued Shares held by the public Shareholders as at the Latest Practicable Date.

Month	**Average daily trading volume of Shares**	**Average daily trading volume as a percentage to the total number of issued Shares as at the Latest Practicable Date** *(note 1)* *(%)*	**Average daily trading volume as a percentage to the total number of issued Shares held by public Shareholders as at the Latest Practicable Date** *(note 2)* *(%)*
2023			
11 – 30 September	34,000	0.0024%	0.0062%
October	37,000	0.0026%	0.0067%
November	114,091	0.0079%	0.0207%
December	111,579	0.0077%	0.0203%
2024			
January	27,273	0.0019%	0.0050%
February	121,053	0.0084%	0.0220%
March	58,500	0.0041%	0.0106%
April	277,500	0.0193%	0.0505%
May	189,524	0.0132%	0.0345%
June	200,526	0.0139%	0.0365%
July	122,273	0.0085%	0.0222%
August	1,132,727	0.0787%	0.2060%
September (up to and including the Last Trading Day)	12,020,000	0.8347%	2.1855%
Maximum	12,020,000	0.8347%	2.1855%
Minimum	27,273	0.0019%	0.0050%
Average	1,111,234	0.0772%	0.2020%

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

Notes:

1. Based on 1,440,000,000 Shares as at the Latest Practicable Date as disclosed under the Board Letter.

2. Based on 550,000,000 Shares held by the public as at the Latest Practicable Date as disclosed under the Board Letter.

As illustrated in the above table, the percentage of average daily trading volume to (i) the total number of issued Shares as at the Latest Practicable Date; and (ii) the total number of Shares held by public Shareholders as at the Latest Practicable Date, ranged from approximately 0.0019% to 0.8347% and approximately 0.0050% to 2.1855%, respectively. The average daily trading volume of the Shares during the Review Period was approximately 1,111,234 Shares, representing approximately 0.0772% and 0.2020% of the total number of issued Shares and the total number of Shares held by public Shareholders as at the Latest Practicable Date, indicating that the Shares were generally illiquid in the open market.

Given the thin trading volume of the Shares, we consider that the Company is unlikely to be able to raise equity funds from third parties without a discount to the prevailing Share price. Taking into account the low trading liquidity of the Shares, we are of the view that, from the perspective of trading liquidity of the Shares, the Rights Issue is an appropriate equity financing method for the Group and the Subscription Price thereunder is fair and reasonable.

c. Comparison with recent rights issue transactions

With a view to assessing the fairness and reasonableness of the terms of the Rights Issue, we have also conducted market research on recent proposed rights issue transactions based on the following selection criteria: (i) the shares of the company are listed on the Stock Exchange; and (ii) the proposed rights issue transaction was announced during the 3-month period commencing on 11 June 2024 up to and including the Last Trading Day (i.e. 10 September 2024), which we considered to be an appropriate timeframe to identify a representative sample set for the purpose of our analysis.

Based on the aforesaid criteria, we have identified an exhaustive list of 15 rights issues (which were not lapsed or terminated up to the Latest Practicable Date) (the "**Rights Issue Comparable(s)**"). Despite that the business activities of the Rights Issue Comparables may not be directly comparable to the business activities carried out by the Group and that there are only 6 out of 15 Rights Issue Comparables have been completed as at the Latest Practicable Date, having taken into account that (i) all of the Rights Issue Comparables and the Company are listed on the Stock Exchange; (ii) all the Rights Issue Comparables were not lapsed or terminated as at the Latest Practicable Date; (iii) the respective subscription price was determined by the underlying company of the Rights Issue Comparables with reference to the latest market sentiment up to the respective last trading day and there is no alternation on the subscription price of the Rights Issue Comparables as at the Latest Practicable Date; (iv) our analysis is mainly concerned with the comparison of subscription price to closing price as at the relevant last trading day, the average price for the last five consecutive trading days, the theoretical ex-rights price, and etc.; (v) a 3-month period for the selection of the Rights Issue Comparables has resulted in the generation of reasonable sample size; and (vi) the Rights Issue Comparables were included without any artificial selection or filtering on our part, we consider that the Rights Issue Comparables are suitable to serve as a general reference for an assessment on the Subscription Price. Since there are a sufficient number of Rights Issue Comparables under the selection criteria mentioned above, we are of the view that the Rights Issue Comparables are fair and representative for assessing the Rights Issue.

The details of which are set out in the following table:

No	Date of announcement	Company name (Stock code)	Basis of entitlement	Premium/ (discount) of the subscription price to the closing price per share on the last trading day immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately up to and including the last trading day immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the benchmarked price in relation to the respective rights issue	Premium/ (discount) of the subscription price to the then latest net asset attributable to owners of the company per share *(note 1)*	Excess application/ Placing arrangement	Underwriting commission (%) *(notes 2 & 4)*	Placing commission (%) *(notes 3 & 5)*	Completion as at the Latest Practicable Date(Y/N)
1	9-Sep-2024	Crown International Corporation Limited (727)	1 for 2	2.27%	14.80%	1.50%	162.35%	Excess application	NA	NA	N
2	4-Sep-2024	CHINA NEW CONSUMPTION GROUP LIMITED (8275)	1 for 2	-5.66%	-7.41%	-4.76%	-61.09%	Placing arrangement	NA	3.50% (note 6)	N
3	2-Sep-2024	Guangdong – Hong Kong Greater Bay Area Holdings Limited (1396)	1 for 2	-22.03%	-21.77%	-15.85%	-94.87%	Excess application	NA	NA	N
4	22-Aug-2024	BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED (2339)	1 for 2	-13.85%	-13.85%	-9.68%	-88.72%	Excess application	NA	NA	N
5	2-Aug-24	Asia Television Holding Limited (707)	1 for 2	-46.80%	-41.60%	-37.00%	Not applicable *(note 8)*	Placing arrangement	NA	2.00% *(note 7)*	Y
6	30-Jul-2024	Modern Living Investments Holdings Limited (8426)	1 for 10	-28.57%	-27.75%	-26.47%	28.06%	Excess application	7.07%	NA	N

No	Date of announcement	Company name (Stock code)	Basis of entitlement	Premium/ (discount) of the subscription price to the closing price per share on the last trading day immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately up to and including the last trading day immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the benchmarked price in relation to the respective rights issue	Premium/ (discount) of the subscription price to the then latest net asset attributable to owners of the company per share (note 1)	Excess application/ Placing arrangement	Underwriting commission (%) (notes 2 & 4)	Placing commission (%) (notes 3 & 5)	Completion as at the Latest Practicable Date(Y/N)
7	22-Jul-2024	ROMA (META) GROUP LIMITED (8072)	3 for 1	-23.08%	-23.08%	-7.41%	-97.23%	Placing arrangement	0	1.25% (note 9)	N
8	19-Jul-2024	Trendzon Holdings Group Limited (1865)	4 for 1	-14.30%	-17.40%	-4.30%	-93.70%	Placing arrangement	NA	1.00%	N
9	12-Jul-2024	Guan Chao Holdings Limited (1872)	4 for 1	-20.00%	-29.08%	-4.76%	-89.86%	Placing arrangement	NA	0.75%	N
10	2-Jul-2024	Tonking New Energy Group Holdings Limited (8326)	1 for 2	-41.18%	-41.18%	-33.30%	-33.30%	Placing arrangement	NA	1.00% (note 10)	Y
11	28-Jun-2024	JIADING INTERNATIONAL GROUP HOLDINGS LIMITED (8153)	3 for 1	-16.67%	-14.68%	-4.76%	-91.67%	Placing arrangement	NA	3.00%	Y
12	27-Jun-2024	HANVEY GROUP HOLDINGS LIMITED (8219)	1 for 2	-59.30%	-59.30%	-49.20%	-7.40%	Placing arrangement	NA	3.50% (note 11)	Y
13	26-Jun-2024	Ev Dynamics (Holdings) Limited (476)	3 for 2	-3.06%	-2.86%	-1.25%	-93.91%	Placing arrangement	NA	1.50% (note 12)	N
14	25-Jun-2024	Chong Fai Jewellery Group Holdings Company Limited (8537)	3 for 1	-32.20%	-32.60%	-10.40%	-87.40%	Excess application	NA	1.00% (note 13)	Y

No	Date of announcement	Company name (Stock code)	Basis of entitlement	Premium/ (discount) of the subscription price to the closing price per share on the last trading day immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately up to and including the last trading day immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the benchmarked price in relation to the respective rights issue	Premium/ (discount) of the subscription price to the then latest net asset attributable to owners of the company per share (note 1)	Excess application/ Placing arrangement	Underwriting commission (%) (notes 2 & 4)	Placing commission (%) (notes 3 & 5)	Completion as at the Latest Practicable Date(Y/N)
15	19-Jun-2024	BONNY INTERNATIONAL HOLDING LIMITED (1906)	1 for 4	-43.02%	-43.55%	-38.16%	-14.93%	Excess application	NA	NA	Y
			Max	2.27%	14.80%	1.50%	162.35%		7.07%	3.50%	
			Min	-59.30%	-59.30%	-49.20%	-97.23%		0.00%	0.75%	
			Average	-24.50%	-24.09%	-16.39%	-47.41%		3.54%	1.67%	
	13-Sep-2024	The Company	1 for 1	-48.70%	-48.20%	-33.10%	-89.20%	Placing arrangement	Head & Shoulders: 2.0% Fame Circle: 0.00%	1.00%	

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

Notes:

1. Based on the then latest published net assets value per share attributable to equity holders of the subject company prior to the date of announcement in relation to the relevant rights issue transaction.

2. "N/A" denotes that the subject rights issue was conducted on a non-underwritten basis.

3. "N/A" denotes that the subject rights issue was conducted without the involvement of any placing.

4. Analysis is based on the absolute percentage of the underwriting commission.

5. Analysis is based on the absolute percentage of the placing commission.

6. The placing commission is the higher of HK$250,000 or 3.5% of the gross proceeds from successful placement.

7. Whether or not the placing proceeds to completion, the company shall pay on the latest time for termination to the placing agent a fixed fee of HK$100,000. In addition, the company shall also pay a placing commission of 2.0% of the gross proceeds from successful placement.

8. The company recorded a premium of approximately HK$0.42 to the net deficit of the company of approximately HK$0.320 per share as at 31 December 2023.

9. Subject to a minimum charge of HK$100,000.

10. The placing commission is the higher of HK$100,000 or 1.0% of the gross proceeds from successful placement.

11. The placing commission is the higher of HK$100,000 or 3.5% of the gross proceeds from successful placement.

12. Subject to a minimum charge of HK$150,000.

13. The placing commission is the higher of HK$130,000 or 1.0% of the gross proceeds from successful placement.

As shown by the above table, the discount as represented by the subscription prices of the Rights Issue Comparables to (i) the respective closing price per share on last trading day immediately prior to publication of announcement in relation to the respective rights issue ranged from a discount of approximately 59.30% to a premium of approximately 2.27% with an average discount of approximately 24.50%; (ii) the respective average closing price per share for the last five (5) consecutive trading days immediately prior to publication of announcement in relation to the respective rights issue ranged from a discount of approximately 59.30% to a premium of approximately 14.80% with an average discount of approximately 24.09%; and (iii) the respective theoretical ex-rights price per share based on the benchmarked price in relation to the respective rights issue ranged from a discount of approximately 49.20% to a premium of approximately 1.50% with an average discount of approximately 16.39%. The premium/discount as represented by the subscription prices of the Rights Issue Comparables to the net asset attributable to owners of the subject company per share ranged from a discount of approximately 97.23% to a premium of approximately 162.35% with an average discount of approximately 47.41%. Therefore, the LTD Discount Rate, the Average 5 LTD Discount Rate, the TERP Discount Rate and the NAV Discount Rate are within the relevant range of the Rights Issue Comparables.

Having considered the above and that it is reasonable to offer a discount for the Subscription Price to promote its attractiveness given the generally thin liquidity of the Shares during the Review Period, we are of the view that the Subscription Price is fair and reasonable.

d. The Compensatory Arrangements and Placing

With reference to the Board Letter, pursuant to Rule 7.21(2) of the Listing Rules, as Fame Circle, being one of the Underwriters pursuant to the Underwriting Agreement, is wholly-owned by Mr. Yip who is a controlling shareholder of the Company, the Company must make arrangements as described in Rule 7.21(1)(b) of the Listing Rules to dispose of the Unsubscribed Rights Shares, comprising the Rights Shares that are not subscribed by the Qualifying Shareholders and the NQS Rights Shares that are not successfully sold by the Company, by offering the Unsubscribed Rights Shares to independent placees who are not Shareholders by way of a placing for the benefit of the relevant No Action Shareholders. As the Compensatory Arrangements are in place, there will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(2)(a) of the Listing Rules. Accordingly, on 10 September 2024 (after trading hours of the Stock Exchange), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has agreed to procure Placee(s), on a best-effort basis, to subscribe for the Unsubscribed Rights Shares.

Set out below is a summary of principal terms of the Placing Agreement as extracted from the Board Letter:

Date:	10 September 2024 (after trading hours of the Stock Exchange)
Issuer:	The Company
Placing Agent:	Head & Shoulders The Placing Agent was appointed to place, or procure the placing of, a maximum of 55,000,000 (assuming no change in the issued share capital of the Company on or before the Record Date) Unsubscribed Rights Shares, on a best-effort basis, to the Placee(s).
Placing commission payable to the Placing Agent:	(i) A fixed fee of HK$100,000 (the "**H&S Placing Charge**"); or (ii) 1.0% of the gross proceeds (the "**H&S Placing Commission Rate**"), whichever is higher, from the successful placement of Unsubscribed Rights Shares.
Placing price of the Unsubscribed Rights Shares:	The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price. The final price will be determined based on the demand for and market conditions of the Unsubscribed Rights Shares at the time of placement.

For detailed terms of the Placing Agreement, please refer to the section headed "Placing Agreement" of the Board Letter.

Based on the Rights Issue Comparables table as set out in the section headed "c. Comparison with recent rights issue transactions" above, we noted that 10 out of 15 Rights Issue Comparables involve placing arrangements (the "**Placing RI Comparables**") and the commission rates payable to placing agents of the Placing RI Comparables ranged from 0.75% to 3.50% with an average of approximately 1.67%. The Shareholders should also note that the subscription price of each Rights Issue Comparable may affect commission rate as it not only determines total proceeds to be placed by placing agent but also affects the investor demand for offering and the chance for the placing agent to place the shares successfully. Despite the aforesaid, having considered that the respective placing commission of the Placing RI Comparables was determined based on the arm's length negotiations between the underlying company of the Placing RI Comparables and the respective placing agent regarding, among others, the prevailing market situations, which is similar to the basis of the H&S Placing Commission Rate, we are of the opinion that the H&S Placing Commission Rate of 1.00% (which is also within the aforesaid range and below the average) is fair and reasonable.

In addition, we noted that the placing commissions of 7 out of 10 Placing RI Comparables were subject to a minimum charge of HK$100,000 to HK$250,000. Accordingly, we consider the H&S Placing Charge of HK$100,000 for the Placing to be fair and reasonable.

e. The Underwriting Agreement

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

Date:	10 September 2024 (after trading hours of the Stock Exchange)
Issuer:	The Company
Underwriters:	i. Fame Circle, the controlling Shareholder of the Company; and ii. Head & Shoulders
Number of Rights Shares to be underwritten by the Underwriters:	A maximum of 55,000,000 Rights Shares (assuming no Shares will be issued or repurchased on or before the Record Date), as to up to 38,000,000 Rights Shares and 17,000,000 Rights Shares to be underwritten by Fame Circle and Head & Shoulders respectively, representing approximately 69.1% and 30.9% of the total number of Rights Shares to be underwritten by each of the Underwriters respectively.

Subject to the Company's compliance with the public float requirement under Rule 8.08(1) of the Listing Rules, up to 38,000,000 Untaken Rights Shares will be firstly taken up by Fame Circle. Any Untaken Rights Shares in excess of 38,000,000 Untaken Rights Shares shall be underwritten by Head & Shoulders which are intended to be taken up by subscribers procured by it and/or its sub-underwriters, who shall be Independent Third Parties and not acting in concert with the Company's connected persons and the Underwriters.

Underwriting Commission:

(i) Fame Circle will not receive any underwriting commission; and

(ii) underwriting commission calculated at 2.0% of the Subscription Price in respect of the Rights Shares underwritten shall be payable by the Company to Head & Shoulders (the "**H&S Underwriting Commission Rate**").

For detailed terms of the Underwriting Agreement, please refer to the section headed "THE UNDERWRITING AGREEMENT" of the Board Letter.

We selected 15 Rights Issue Comparables that are fair and representative based on the consistent criteria outlined under the section headed "c. Comparison with recent rights issue transactions" and the selection process was conducted without any artificial filtering on our part. Although there are only 2 Rights Issue Comparables involve underwriting arrangement, we believe that they reflect prevailing market trends under the current economic environment. Thus, the 2 Rights Issue Comparables that are with underwriting arrangement are considered to be fair and representative for the assessment of the H&S Underwriting Commission Rate.

We consider that the aforesaid underwriting arrangement secured the Company's fund-raising through the Rights Issue to a certain extent and that (i) Fame Circle will not receive any underwriting commission, the arrangement of which is favourable to the Company; and (ii) the H&S Underwriting Commission Rate of 2.0% is within the relevant range of the Rights Issue Comparables from zero to 7.07%.

Taking into account the principal terms of the Rights Issue as highlighted above, we consider that the terms of the Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Possible financial effects of the Rights Issue

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, assuming that the Rights Issue had been completed and subscribed in full on 31 March 2024, the audited consolidated net tangible assets attributable to equity holders of the Company would have increased from approximately HK$267.5 million to the unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company of approximately HK$295.2 million immediately after the completion of the Rights Issue.

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

5. Possible dilution effect

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Referring to the section headed "SHAREHOLDING STRUCTURE" in the Board Letter, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and their aggregate shareholding interests in the Company may be reduced by a maximum of approximately 50%. It should be noted that the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including but not limited to the results of acceptance of the Rights Issue.

Having taken into account (i) all Qualifying Shareholders are provided an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company; (ii) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the Rights Issue entitlements; and (iii) shareholding dilution is generally inherent in rights issue with new shares being issued, we are of the view that the potential dilution effect on the shareholding is acceptable.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue (including the Subscription Price, potential dilution effect and the terms of each of the Placing Agreement and the Underwriting Agreement) are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) proposed at the EGM thereby approving the Rights Issue. However, we do not envisage our role as to opine on, and our opinion herein does not in any manner address to or imply, whether Qualifying Shareholders should or should not accept the Rights Shares.

Yours faithfully,
For and on behalf of
Merdeka Corporate Finance Limited

Wallace So
Managing Director

Mr. Wallace So is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 10 years of experience in corporate finance.