



# 红日资本有限公司

## RED SUN CAPITAL LIMITED

1 November 2024

*To: The independent board of committee and the independent shareholders of  
Virtual Mind Holding Company Limited*

**PROPOSED SHARE CONSOLIDATION  
AND  
CONNECTED TRANSACTIONS IN RELATION TO  
(1) SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE; AND  
(2) SALE AND PURCHASE OF SHARES UNDER SHARES TRANSFER  
SPECIFIC MANDATE**

### 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 Subscription, the Shares Transfer and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 1 November 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the Letter from the Board, (i) the Company (as the issuer) and King Castle (as the subscriber) entered into the Subscription Agreement on 10 October 2024 (as supplemented by the Supplemental Subscription Agreement), pursuant to which the Company contemplates to allot and issue, and King Castle is desirous of subscribing for 25,000,000 Subscription Shares at the Subscription Price of HK\$0.40 per Subscription Share; and (ii) the Company (as the vendor) and King Castle (as the purchaser) entered into the Shares Transfer Agreement on 10 October 2024 (as supplemented by the Supplemental Shares Transfer Agreement), pursuant to which the Company shall sell and King Castle shall purchase 60,000,000 Sale Shares (or 15,000,000 Consolidated Shares) at the Sale Price of HK\$0.088 (or HK\$0.352) per Sale Share (as the case may be)..

## **LISTING RULES IMPLICATIONS**

As at the date of the Subscription Agreement and Shares Transfer Agreement, King Castle is a substantial shareholder of the Company holding 330,000,000 Shares, representing approximately 13.19% of the total issued Shares, and is wholly and beneficially owned by Mr. Wong Kin Ting, the father of Mr. Wong who is an executive Director. As such, King Castle is an associate of Mr. Wong and regarded as a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription and the Shares Transfer respectively constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and are subject to Independent Shareholders' approval by way of poll at the EGM. As Mr. Wong is considered to have material interests in the Subscription and the Shares Transfer, he had abstained from voting on the Board resolutions of the Company in relation to the Subscription, the Shares Transfer and the transactions contemplated thereunder. King Castle has a material interest in the Subscription and the Shares Transfer, is required to abstain from voting at the EGM on the resolutions in respect of the Subscription Agreement, the Shares Transfer Agreement and the transactions contemplated thereunder.

The Shares Transfer contemplated under the Shares Transfer Agreement (as supplemented by the Supplemental Shares Transfer Agreement) regarded as the sale of treasury shares under Rule 13.36 of the Listing Rules which is subject to the approval by the Independent Shareholders at the EGM.

As no Shareholders have a material interest in the Share Consolidation, no Shareholders will be required to abstain from voting on the resolution to approve the Share Consolidation.

## **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tang Shu Pui Simon, Mr. Hon Ming Sang and Ms. Lo Wing Sze *BBS, JP*, has been established to advise the Independent Shareholders as to whether the terms of the Subscription and the Shares Transfer are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM. We have been appointed as the Independent Financial Adviser and approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any business relationship with or interest in the Company or King Castle that could reasonably be regarded as relevant in assessing our independence. Save for our appointment as the Independent Financial Adviser, Red Sun Capital Limited did not act as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

## **BASIS OF OUR ADVICE**

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “Management”). We have reviewed, among other things, (i) the Subscription Agreement; (ii) the Shares Transfer Agreement; (iii) the annual report of the Company for the year ended 31 December 2023; and (iv) the interim report of the Company for the six months ended 30 June 2024. We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular, nor statements, information, opinions or representation provided to us to be untrue, inaccurate or misleading.

We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group or its respective history, experience and track records, or the prospects of the markets in which it operates.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the transactions as contemplated under the Subscription Agreement and the Shares Transfer Agreement, 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 purposes, without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Subscription and the Shares Transfer, we have taken into consideration the following principal factors and reasons:

### **1. Background and financial information of the Group**

The Group is principally engaged in (i) design, manufacturing and trading of apparels; (ii) provision of money lending business; and (iii) sale of trendy and cultural products business.

Set out below is a summary of (i) the audited consolidated financial performance of the Group for each of the years ended 31 December 2022 and 2023 as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report"); and (ii) the unaudited financial performance of the Group for the six months ended 30 June 2023 and 2024 as extracted from the Company's interim report for the six months ended 30 June 2024 (the "2024 Interim Report").

*Summary of consolidated statement of comprehensive income*

	For the year ended 31 December		For the six months ended 30 June	
	2023	2022	2024	2023
	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	66,328	89,620	29,930	31,932
Cost of sales	(55,095)	(75,560)	(24,409)	(25,733)
Gross profit	11,233	14,060	5,521	6,199
Loss before income tax	(94,639)	(58,403)	(28,403)	(21,324)
Loss for the year/period	(94,018)	(65,875)	(28,427)	(21,324)
Loss for the year/period attributable to owners of the Company	(93,749)	(65,895)	(28,162)	(21,251)
Total comprehensive loss for the year/period attributable to owners of the Company	(95,792)	(68,253)	(29,506)	(23,889)

*Financial performance for the year ended 31 December 2023*

As set out in the 2023 Annual Report, the Group recorded revenue of approximately HK\$66.3 million for the year ended 31 December 2023, representing a decrease of approximately 26.0% compared to approximately HK\$89.6 million for the year ended 31 December 2022. The decrease was mainly driven by the challenging economic environment in Mainland China and Hong Kong which affected the Group's apparel and money lending businesses. The Group recorded a decrease of approximately 27.1% in cost of sales, amounting at approximately HK\$75.6 million for the year ended 31 December 2022 and dropping to approximately HK\$55.1 million for the year ended 31 December 2023 which was incurred by the Group's apparel operation and IP application and products operation; and marked a gross profit of approximately HK\$11.2 million for the year ended 31 December 2023, representing a decrease of approximately 20.1% from approximately HK\$14.1 million for the year ended 31 December 2022 which was attributable to the decrease of revenue from money lending business.

The Group recorded a loss for the year attributable to owners of the Company of approximately HK\$93.7 million for the year ended 31 December 2023, which represents an increase of approximately 42.2% as compared to approximately HK\$65.9 million for the year ended 31 December 2022. Such increase was mainly attributable to (i) incurrence of losses of approximately HK\$447,000 in other gains and losses for the year ended 31 December 2023 (2022: gains

HK\$66,221,000) as there was no more disposal gain for 2023 after the one-off net gain from disposal of land and buildings of approximately HK\$74,762,000 in 2022, (ii) revenue decreased for the year due to difficult environment.

*Financial performance for the six months ended 30 June 2024*

As set out in the 2024 Interim Report, the Group recorded revenue of approximately HK\$29.9 million for the six months ended 30 June 2024, representing a slightly decrease of approximately 6.3% compared to approximately HK\$31.9 million for the six months ended 30 June 2023, which was primarily attributable to weakened economy in the first half of 2024. The Group recorded a slightly decrease of approximately 5.1% in cost of sales, amounting at approximately HK\$25.7 million for the six months ended 30 June 2023 and dropping to approximately HK\$24.4 million for the six months ended 30 June 2024 which was incurred by the Group's apparel operation and IP application and products operation; and marked a gross profit of approximately HK\$5.5 million for the six months ended 30 June 2024, representing a decrease of approximately 11.3% from approximately HK\$6.2 million for the six months ended 30 June 2023 which was attributable to the decrease of revenue from apparel and money lending businesses.

The Group recorded a loss for the year attributable to owners of the Company of approximately HK\$28.2 million for the six months ended 30 June 2024, which represents an increase of approximately 32.4% as compared to approximately HK\$21.3 million for the six months ended 30 June 2023. Such increase was mainly attributable to the provision for expected credit loss on loans and interest receivables for the reporting period.

*Summary of the consolidated statement of financial position*

	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000	2022 (audited) HK\$'000
<b>Non-current assets</b>	49,907	51,262	50,322
<b>Current assets</b>	197,518	162,923	238,051
Trade Receivables	42,186	31,662	39,065
Loan and interest receivables	39,520	44,560	98,163
Deposits, prepayments and other receivables	61,846	34,468	29,003
Financial assets at fair value through profit or loss	21,914	12,555	13,189
Cash and bank balances	8,320	31,243	52,012
<b>Current liabilities</b>	90,528	39,048	53,857
Trade payables	24,404	7,743	17,586
Accruals and other payables	24,030	22,749	22,074
Other borrowings	39,475	4,400	4,760
<b>Non-current liabilities</b>	1,403	26,425	25,216
<b>Net current assets</b>	106,990	123,875	184,194
<b>Non-controlling interests</b>	334	599	868
<b>Equity attributable to owners of the Company</b>	155,160	148,113	208,432

*Note:* For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above.

*Financial position as at 30 June 2024*

As at 30 June 2024, the Group's total assets were approximately HK\$247.4 million, representing an increase of approximately 15.5% as compared to approximately HK\$214.2 million as at 31 December 2023, but the cash and bank balances were decreased from approximately HK\$31.2 million as at 31 December 2023 to approximately HK\$8.3 million as at 30 June 2024 which was mainly attributable to the net cash used in operating and investing activities of approximately HK\$65.4 million and only partly offset by net cash generated from financing activities of approximately HK\$43.8 million. Deposits, prepayments and other receivables increased from approximately HK\$34.5 million as at 31 December 2023 to approximately HK\$61.8 million as at 30 June 2024, which was mainly attributable to deposits paid for existing projects business development and deposits paid to suppliers to purchase materials.

As at 30 June 2024, the total liabilities of the Group amounted to approximately HK\$91.9 million, representing an increase of approximately 40.4% as compared to approximately HK\$65.5 million as at 31 December 2023.

The equity attributable to the owners of the Company amounted to approximately HK\$155.2 million as at 30 June 2024, representing an increase of approximately 4.8% as compared to approximately HK\$148.1 million as at 31 December 2023.

The current ratio of the Group (current assets divided by current liabilities) decreased from approximately 4.17 times as at 31 December 2023 to approximately 2.18 times as at 30 June 2024.

#### *Financial position as at 31 December 2023*

As at 31 December 2023, the Group's total assets amounted to approximately HK\$214.2 million, representing a decrease of approximately 25.7% as compared to approximately HK\$288.4 million as at 31 December 2022 which was mainly attributable to the decrease in loan and interest receivables and cash and bank balances.

As at 31 December 2023, the total liabilities of the Group amounted to approximately HK\$65.5 million, representing a decrease of approximately 17.2% as compared to approximately HK\$79.1 million as at 31 December 2022.

The equity attributable to the owners of the Company amounted to approximately HK\$148.1 million as at 31 December 2023, representing a decrease of approximately 28.9% as compared to approximately HK\$208.4 million as at 31 December 2022.

The current ratio of the Group (current assets divided by current liabilities) decreased from approximately 4.42 times as at 31 December 2022 to approximately 4.17 times as at 31 December 2023.

## **2. Reasons for the Subscription and the Shares Transfer and the use of proceeds**

As stated in the Letter from the Board, the Subscription and the Shares Transfer reflect the confidence and support for the development of the Company by King Castle. The Subscription and the Shares Transfer will further strengthen the capital base and financial position of the Company.

The gross proceeds from the Subscription will be HK\$10,000,000. The net proceeds from the Subscription (after deduction of relevant expenses of the Subscription) will amount to approximately up to HK\$9.85 million. The net price per Subscription Share upon the completion of the Subscription will be approximately HK\$0.394 per Subscription Share (as adjusted by the Share Consolidation). The Company intends to apply the net proceeds as general working capital of the Group.

The gross proceeds from the Shares Transfer will be HK\$5,280,000. The net proceeds from the Shares Transfer (after deduction of relevant expenses of the Shares Transfer) will amount to approximately HK\$5.13 million. The Company intends to apply the net proceeds as general working capital of the Group.

The Directors (excluding Mr. Wong who abstained since he is considered to have material interests in the Subscription and the Shares Transfer) consider that the respective Subscription Agreement and the Shares Transfer Agreement is on normal commercial terms, the terms of the Subscription Agreement (including the Subscription Price) and the Shares Transfer Agreement (including the Sale Price) are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Completion of the Subscription Agreement and the Shares Transfer Agreement is not inter-conditional upon each other.

As advised by the Directors, in light of the prevailing financial conditions of the Group, the Board considers the Subscription and the Shares Transfer to be suitable financial options as compared to other means of financing as it enables the Group to raise capital without increasing interest burden on the Group. The Directors further advised that they also considered other forms of fundraising methods for the Group, such as other equity financing (i.e. rights issue or open offer) and debt financing, before conducting the Subscription and the Shares Transfer. In respect of the debt financing, it will incur additional finance costs and increase gearing level of the Group and may be subject to lengthy due diligence and negotiations with lenders. In respect of rights issue or open offer, the Directors considered that (i) such fundraising activities may incur additional costs, including but not limited to underwriting commission and other professional fees; (ii) given the Group's loss-making position for each of the two financial years ended 31 December 2023 and the six months ended 30 June 2024, the Company may have difficulties in seeking underwriter; and (iii) if the rights issue or open offer is not underwritten, its results will be uncertain. Based on the above factors, the Directors considered that the Subscription and the Shares Transfer are suitable financial options as compared to other means of financing.

Having consider that (i) debt financing will result in additional interest burden, higher gearing ratio of the Group and debt financing may not be achievable on favourable terms in a timely manner; (ii) rights issue and open offer may incur additional costs, including but not limited to underwriting commission and other professional fees; and (iii) the net proceeds from the Subscription and the Shares Transfer will enhance the Group's cash position, we concur with the Company and consider that the current fund-raising method by way of the Subscription and the Shares Transfer are appropriate and acceptable for the Company and its Shareholders as a whole.

### 3. Previous fund raising exercises involving issue of securities in the prior 12-month period

The Company has conducted the following equity fund raising activities during the twelve months immediately before the Latest Practicable Date:

Date of announcement	Fund raising activity	Net proceeds raised	Intended use of the net proceeds	Actual use of proceeds
29 November 2023, 18 January 2024 and 4 March 2024	Issue of new shares under general mandate by way of subscription	approximately HK\$3.45 million	approximately HK\$3.45 million for provision of general working capital of the Group	Used the net proceeds of approximately HK\$3.45 million for provision of general working capital of the Group
20 October 2023, 10 November 2023, 13 November 2023, 5 December 2023, 5 January 2024 and 2 February 2024	(I) Placing of new shares under general mandate; and	approximately HK\$10.9 million	(i) approximately HK\$19 million for repayment of outstanding liabilities; and (ii) approximately HK\$20.2 million for provision of general working capital (as disclosed in the announcement dated 5 December 2023, as the Placing Shares were not fully placed, the Group proposed to use the net proceeds of HK\$9.1 million for repayment of outstanding liabilities and the balance of HK\$1.8 million as general working capital)	Used the net proceeds of HK\$9.1 million for repayment of outstanding liabilities and the balance of HK\$1.8 million as general working capital

Date of announcement	Fund raising activity	Net proceeds raised	Intended use of the net proceeds	Actual use of proceeds
	(II) Previous Subscription	Nil	(i) approximately HK\$37 million for existing projects' business development; and (ii) approximately HK\$12.5 million for future possible investment opportunities	The subscription agreement was lapsed on 31 January 2024
2 February 2024, 27 February 2024, 8 April 2024, 16 May 2024 and 30 May 2024	(I) Issue of new shares under specific mandate by way of subscription; and	Nil	(i) approximately HK\$9.79 million for repayment of outstanding liabilities; (ii) approximately HK\$11.88 million for provision of general working capital; and (iii) approximately HK\$18.05 million for existing projects' business development	The conditions precedent of the subscription agreement were not fulfilled, satisfied and/or waived, and the subscription was not completed on 30 May 2024

Date of announcement	Fund raising activity	Net proceeds raised	Intended use of the net proceeds	Actual use of proceeds
	(II) Connected transaction in relation to the issue of new shares under specific mandate by way of subscription	approximately HK\$32.4 million	(i) approximately HK\$9.79 million for repayment of outstanding liabilities; (ii) approximately HK\$11.88 million for provision of general working capital; and (iii) approximately HK\$18.05 million for existing projects' business development (as disclosed in the announcement dated 30 May 2024, as the subscription was under subscribed, the Group re-allocated the net proceeds of (i) HK\$5.4 million for repayment of outstanding liabilities; (ii) HK\$10.6 million for provision of general working capital; and (iii) HK\$16.4 million for existing projects' business development)	Used the net proceeds of (i) approximately HK\$5.4 million for repayment of outstanding liabilities; (ii) approximately HK\$10.6 million for provision of general working capital; and (iii) approximately HK\$16.4 million for existing projects' business development

Save as disclosed above, the Company has not conducted any other equity fund-raising activities during the past twelve months immediately preceding the Latest Practicable Date. Given that the fund raised during the past twelve months immediately preceding the Latest Practicable Date has been fully utilised with no unutilised proceeds from the equity fund-raising activities as set out in the table above, we consider that the Group is in need to conduct further fund raising to satisfy its funding needs.

#### 4. Principal terms of the Subscription and the Shares Transfer

##### *The Subscription Price*

As set out in the Letter from the Board, the Subscription Price is HK\$0.10 or HK\$0.40 per Subscription Share (as adjusted by the Share Consolidation), which represents:

- (i) a premium of approximately 13.64% to the adjusted closing price of HK\$0.352 per Consolidated Share as quoted on the Stock Exchange on the date of the Subscription Agreement (the “Last Trading Day”);
- (ii) a premium of approximately 38.89% to the average adjusted closing price of HK\$0.288 per Consolidated Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 61.29% to the adjusted unaudited net asset value per Consolidated Share of approximately HK\$0.248 (based on the unaudited consolidated net asset value attributable to the owners of the Company of approximately HK\$155.2 million as at 30 June 2024 and 625,491,455 Consolidated Shares in issue as at the Latest Practicable Date); and
- (iv) a discount of 43.50% to the adjusted closing price of HK\$0.708 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was determined with reference to the prevailing market price of the Shares and in line with the subscription price of 330,000,000 Shares by King Castle at HK\$0.10 per subscription share completed on 30 May 2024, and was negotiated on an arm’s length basis between the Company and King Castle. The Directors (excluding Mr. Wong who abstained since he is considered to have a material interest in the Subscription) consider that the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable based on the current market conditions and are in the interests of the Company and the Shareholders as a whole.

##### *The Sale Price*

As set out in the Letter from the Board, the Sale Price is HK\$0.088 per Sale Share (or HK\$0.352 per Consolidated Share taking into account the Share Consolidation becomes effective), which is/represents:

- (i) equivalent to the closing price of HK\$0.088 or adjusted closing price of HK\$0.352 per Consolidated Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 22.22% over the average closing price of approximately HK\$0.072 per Share or the average adjusted closing price of approximately HK\$0.288 per Consolidated Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;

- (iii) a premium of approximately 41.94% to the unaudited net asset value attributable to the Shareholders of approximately HK\$0.062 per Share or the adjusted unaudited net asset value of approximately HK\$0.248 per Consolidated Share (based on the unaudited consolidated net asset value attributable to the owners of the Company of approximately HK\$155.2 million as at 30 June 2024 and 2,501,965,820 Shares (or adjusted 625,491,455 Consolidated Shares) in issue as at the Latest Practicable Date); and
- (iv) a discount of 50.28% to the adjusted closing price of HK\$0.708 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Sale Price was determined with reference to the prevailing market price of the Shares and was negotiated on an arm's length basis between the Company and King Castle. The Directors (excluding Mr. Wong who abstained since he is considered to have a material interest in the Shares Transfer) consider that the terms of the Shares Transfer Agreement (including the Sale Price) are fair and reasonable based on the current market conditions and are in the interests of the Company and the Shareholders as a whole.

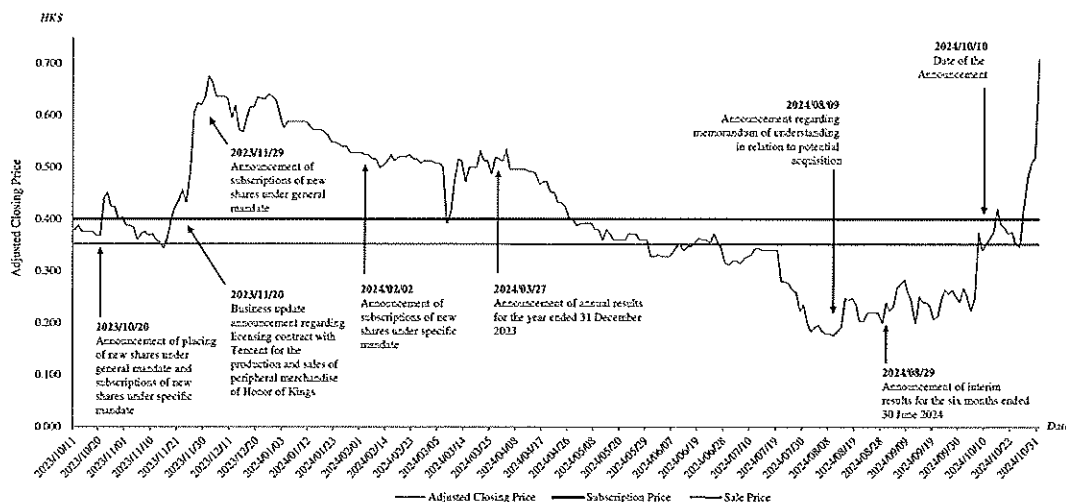
#### *Analysis on the Subscription Price and the Sale Price*

In order to assess the fairness and reasonableness of the Subscription Price and the Sale Price, we set out the following analysis for illustrative purposes:

#### *Analysis on historical Share price performance*

In order to assess the fairness and reasonableness of the Subscription Price and the Sale Price, we have reviewed the movements in the closing price per Consolidated Share during the period from 11 October 2023, being 12 months immediately preceding the Last Trading Day, to the Latest Practicable Date (the "Share Price Review Period"), which is commonly adopted for share price analysis. We consider that a period of not less than 12 months is adequate and long enough to illustrate the recent price movements and covered the seasonal factors of the Consolidated Shares for conducting a reasonable comparison between the Subscription Price, the Sale Price and the closing price of the Consolidated Shares for assessing the reasonableness and fairness of the Subscription Price and the Sale Price.

### Share price chart during the Share Price Review Period



Source: [www.hkex.com.hk](http://www.hkex.com.hk)

During the Share Price Review Period and including the Latest Practicable Date, the average adjusted closing price was approximately HK\$0.410 per Consolidated Share (the “Average Closing Price”). The daily adjusted closing price ranged from HK\$0.176 per Consolidated Share recorded on 9 August 2024 (the “Lowest Closing Price”) to HK\$0.708 per Consolidated Share recorded as at the Latest Practicable Date (the “Highest Closing Price”). The Subscription Price of HK\$0.40 represents (i) a premium of approximately 127.3% to the Lowest Closing Price; (ii) a discount of approximately 43.5% to the Highest Closing Price; and (iii) a discount of approximately 2.4% to the Average Closing Price while the Sale Price of HK\$0.352 represents (i) a premium of approximately 100.0% to the Lowest Closing Price; (ii) a discount of approximately 50.3% to the Highest Closing Price; and (iii) a discount of approximately 14.1% to the Average Closing Price.

As illustrated in the chart above, during the Share Price Review Period, we noted that: (i) from 3 October 2023 to 1 December 2023, the adjusted closing price per Consolidated Share was in an increasing trend and reached its peak of HK\$0.676 on 1 December 2023; (ii) from 2 December 2023 to 9 August 2024, the adjusted closing price per Consolidated Share was in a decreasing trend and reached its bottom of HK\$0.176 (i.e. the Lowest Closing Price) on 9 August 2024 and (iii) from 10 August 2024 to the Latest Practicable Date, the adjusted closing price per Consolidated Share gradually increased to HK\$0.708 as at the Latest Practicable Date after the publication of a voluntary announcement of the Company dated 9 August 2024 in relation to the entering into a memorandum of understanding for a potential acquisition of a target company engaging in security services.

Considering the Share price was in an overall decreasing trend and only bounced back from bottom since 9 August 2024, we consider that the Subscription Price and the Sale Price set at premium and equivalent to the closing price on the Last Trading Day are fair and reasonable so far as the Company and its Shareholders are concerned.

*Our analysis on historical trading volume and liquidity*

We have also reviewed the historical trading volume of the Shares during the Share Price Review Period. The number of days with trading of Shares in the month/period, the average daily trading volume of Shares in the month/period and the percentages of average daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public are set out in the table below.

Month/period	Number of days with trading of Shares in the month/period	Average daily number of Shares traded per trading days in the month/period	Percentage of average daily number of Shares traded to the total number of Shares in issue as at the end of the month/period (Note 1)	Percentage of average daily number of Shares traded to the total number of Shares held by public Shareholders (Note 2)
<b>2023</b>				
October (from 11 October 2023)	13	2,063,143	0.10%	0.12%
November	20	3,639,000	0.18%	0.20%
December	19	7,093,579	0.33%	0.40%
<b>2024</b>				
January	13	1,593,852	0.07%	0.09%
February	15	988,421	0.05%	0.06%
March	17	2,383,800	0.11%	0.13%
April	15	1,128,600	0.05%	0.06%
May	19	1,370,857	0.05%	0.08%
June	16	1,191,474	0.05%	0.07%
July	16	1,971,818	0.08%	0.11%
August	19	3,212,182	0.13%	0.18%
September	18	7,014,632	0.28%	0.39%
October (up to the Latest Practicable Date)	21	16,230,571	0.65%	0.91%
<b>Minimum</b>			0.05%	0.06%
<b>Maximum</b>			0.65%	0.91%
<b>Average</b>			0.16%	0.21%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

*Notes:*

1. Calculated based on the total number of the Shares in issue at the end of month/period.
2. Calculated based on the total number of the Shares held by public Shareholders as set out in the Letter from the Board as at the Latest Practicable Date.

As set out in the table above, during the Share Price Review Period, the percentages of average daily trading volume of the Shares by month/period were in the range of approximately 0.05% to approximately 0.65% with an average of approximately 0.16% (the “Average Trading Percentage”) as to the total number of issued Shares.

Having considered (i) the financial conditions of the Group as analysed under the section headed “1. Background and financial information of the Group” in this letter; (ii) the benefits and costs of each of the alternative fundraising methods; and (iii) the trading liquidity of the Shares has been low in the open market given the Average Trading Percentage of approximately 0.16% and the closing price of the Shares generally showed a decreasing trend during the Share Price Review Period as discussed under the section headed “Analysis on historical Share price performance” above, we concur with the Directors (excluding Mr. Wong who abstained since he is considered to have material interests in the Subscription and the Shares Transfer) that the Subscription Price and the Sale Price are fair and reasonable so far as the Company and its Shareholders are concerned.

*Analysis on recent market comparables*

To further assess the fairness and reasonableness of the Subscription Price and the Sale Price, we have conducted a search on the website of the Stock Exchange for transactions which (i) involved the subscription of new shares of listed companies by either their connected person(s) or independent third party(ies); and (ii) were announced since 1 January 2024 and up to the Last Trading Day (the “Review Period”).

The selection of the comparable transactions (the “Comparable Transactions”) is based on the following criteria: (i) subscription of new shares for cash under specific mandate carried out by the companies listed on the Main Board of the Stock Exchange (except those terminated or lapsed); (ii) excluding issues of shares inter-conditional with, or pursuant to, placing through placing agent(s), as part of consideration in acquisition, or under share award plan or restricted stock unit scheme, or for emolument, or restructuring scheme; and (iii) excluding issues of A shares or domestic shares due to a possible difference in capital structure and circulation scheme to that of the Company.

We considered our selection criteria for these Comparable Transactions and the length of the Review Period as fair and reasonable given that (i) the selection of subscription exercises with subscribers therein being connected persons and/or independent third parties of the relevant issuers would provide a more comprehensive view of prevailing market conditions; and (ii) there is a sufficient number of Comparable Transactions conducted during the Review Period for our analysis.

We have assessed and considered the suitability of our Comparable Transactions, among other things, business nature and market capitalisation, (i) such inclusion would provide a more comprehensive reference point compared to a limited number of comparable transactions which are announced only by other companies having similar businesses as those of the Company and listed on the Stock Exchange, and/or by those with a market capitalisation that is close to that of the Company; (ii) the market sentiment toward a company's shares which are often affected by, among others, the company's financial performance, industry news, market capitalisation, are already reflected in their recent share prices and hence the premium/discount represented by the Comparable Transactions' subscription prices over/to the recent share prices already provides a relevant and direct reference with regards to the market practice in determining the subscription price; (iii) company listed on the GEM of the Stock Exchange has a relatively small market capitalisation, may have a material impact on the premium/discount represented by its subscription price over/to its recent share prices, therefore company listed on the GEM of the Stock Exchange was excluded; and (iv) the table including the same type of transaction as the Subscription and similar type of transaction of the Shares Transfer, which could facilitate meaningful comparison purpose. The selection of the Comparable Transactions without considering the connected relationship of the subscriber(s) with the listed companies could instead provide a more balanced and comprehensive reference as terms given to connected person(s) shall be no more favourable than terms given to independent third party(ies) under the general regulatory framework. Taking into account these factors, we consider that our selection criteria for the Comparable Transactions are fair and reasonable and provide a meaningful reference for our assessment of the Subscription Price and the Sale Price.

Based on our selection criteria, we have identified 18 Comparable Transactions which we consider to be exhaustive and sufficient for our assessment of the fairness and reasonableness of the Subscription Price and the Sale Price. Independent Shareholders should note that the businesses, operations and prospects of the Group may not be the same as those companies involved in the Comparable Transactions. However, we consider that the Comparable Transactions are comparable as the issued shares of these companies are all listed on the Stock Exchange. Accordingly, we are of the view that the Comparable Transactions provide a meaningful reference in our assessment of the fairness and reasonableness of the Subscription Price and the Sale Price.

Company name (Stock Code)	Date of announcement	Connected transaction	Subscription Amount	Percentage of shares issued over its issued share capital (%)	Premium/ (discount) of the subscription price to the closing price per share on the date of the agreement (%)	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to the date of the agreement (%)	Status
Hao Tian International Construction Investment Group Limited (1341)	3 Oct 2024	No	1,524,224,000	16.67	(21.6)	(12.5)	Ongoing
China Zenith Chemical Group Limited (362)	20 Sep 2024	No	600,000,000	30.74	13.6	12.4	Ongoing
Changan Minsheng APLL Logistics Co., Ltd (1292)	22 Aug 2024	Yes	40,000,000	19.80	47.9	45.6	Ongoing
Kiu Hong International Holdings Limited (381)	16 Jul 2024	No	470,000,000	63.85	(1.8)	(6.6)	Completed
Winshine Science Company Limited (209)	8 Jul 2024	Yes	23,000,000	15.80	(9.1)	(9.1)	Completed
Aidigong Maternal & Child Health Limited (286)	20 Jun 2024	No	44,350,000	23.08	(14.3)	(15.2)	Ongoing
Wenye Group Holdings Limited (1802)	7 Jun 2024	Yes	237,600,000	28.60	(3.5)	(14.1)	Ongoing
China Zenith Chemical Group Limited (362)	20 May 2024	No	300,000,000	22.20	(2.0)	(4.2)	Completed
Television Broadcast Limited (511)	13 May 2024	Yes	20,000,000	4.36	7.2	12.7	Completed
Labixiaoxin Snacks Group Limited (1262)	13 May 2024	Yes	85,518,388	39.15	(5.2)	(15.8)	Completed

Company name (Stock Code)	Date of announcement	Connected transaction	Subscription Amount	Percentage of shares issued over its issued share capital (%)	Premium/ (discount) of the subscription price to the closing price per share on the date of the agreement (%)	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to the date of the agreement (%)	Status
Volcano Spring International Holdings Limited (1715)	10 May 2024	No	42,310,000	35.88	(14.8)	(15.6)	Completed
China Silver Technology Holdings Limited (515)	19 Apr 2024	No	330,000,000	29.12	(16.3)	(16.2)	Completed
Longhui International Holdings Limited (1007)	8 Apr 2024	No	62,223,721	37.50	(37.7)	(29.4)	Completed
Apollo Future Mobility Group Limited (860)	15 Mar 2024	Yes	445,652,177	43.59	(9.8)	(16.4)	Completed
Virtual Mind Holding Company Limited (1520)	2 Feb 2024	Yes	330,000,000	27.20	(23.7)	(24.8)	Completed
Renaissance Asia Silk Road Group Limited (274)	30 Jan 2024	No	800,000,000	27.50	(39.1)	(31.7)	Completed
Eminence Enterprise Limited (616)	23 Jan 2024	No	235,000,000	69.50	(4.8)	(5.8)	Completed
ZO Future Group (2309)	12 Jan 2024	Yes	43,697,478	5.35	(15.0)	(11.4)	Completed
		The Company	25,000,000	3.84	13.64	38.90	

As illustrated in the table above, the subscription prices in the Comparable Transactions:

- (i) ranged from a discount of approximately 39.1% to a premium of approximately 47.9%, with an average premium of approximately 1.0%, to/over their respective closing share prices on the date of the respective subscription agreements; and
- (ii) ranged from a discount of approximately 31.7% to a premium of approximately 45.6%, with an average discount of approximately 31.7%, to/over their respective average closing prices for the last five consecutive trading days prior to the date of the respective subscription agreements; and

As such, (i) the premium of the Subscription Price of approximately 13.64% to the closing price on the date of the Subscription Agreement (the “Subscription LTD Premium”) falls within the above ranges of the Comparable Transactions; (ii) the premium of the Subscription Price of approximately 38.89% to the average closing price for the last five consecutive trading days immediately prior to the date of the Subscription Agreement (the “Subscription Five Days Premium”) falls within the above ranges of the Comparable Transactions; (iii) no premium or discount of the Sale Price to the closing price on the date of the Shares Transfer Agreement (the “Sales LTD Closing Price”) falls within the above ranges of the Comparable Transactions, and (iv) the premium of the Sale Price of approximately 22.22% to the average closing price for the last five consecutive trading days immediately prior to the date of the Shares Transfer Agreement (the “Sales Five Days Premium”) falls within the above ranges of the Comparable Transactions.

Having considered that (i) the Subscription LTD Premium and the Subscription Five Days Premium are within the ranges of those of the Comparable Transactions; (ii) the Sales LTD Closing Price and the Sales Five Days Premium are within the ranges of those of the Comparable Transactions; (iii) the net losses recorded by the Group for the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024; (iv) the net current asset position and net asset value of the Group have been on a declining trend since 31 December 2022; (v) the liquidity of the Shares had been relatively low during the Review Period; (vi) the reasons for and benefits of the Subscription and the Shares Transfer; (vii) the Subscription and the Shares Transfer are appropriate fundraising methods currently available to the Group; and (viii) the premium of the Subscription Price and the Sale Price to the closing price of the Shares are justifiable, we are of the view that the Subscription Price and the Sale Price are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### *Difference between the Subscription Price and Sale Price*

With reference to the Letter from the Board, the Subscription Price and the Sale Price was negotiated on an arm’s length basis between the Company and King Castle with reference to the prevailing market price of the Shares. It is noted that, upon the Share Consolidation becoming effective, (i) the Subscription Price of HK\$0.40 represents a premium to the recent trading prices of the Shares and to the unaudited consolidated net asset value attributable to the Shareholders as at 30 June 2024 (“NAV”) (i.e. HK\$0.248); and (ii) the Sale Price represents a premium to the recent trading prices of the Shares.

Considering (i) the Sales Five Days Premium falls within the above ranges of the Comparable Transactions; (ii) the Sale Price represents a premium to the NAV which is in favour to the Company; (iii) the Subscription Price represents a premium to the recent market prices of the Shares, which is in line with the subscription price (i.e HK\$0.40 as adjusted for illustration purpose assuming the Share Consolidation becomes effective) of 330,000,000 Shares by King Castle conducted on 30 May 2024; (iv) the difficulty in disposing the 60,000,000 Shares (or 15,000,000 Consolidated Shares, as the case may be) on the market, given the recent trading volume of the Shares on the Stock Exchange; (v) the Sale Price reflects an opportunity to dispose the said Shares efficiently and effectively; and (vi) the higher premium as represented by the Subscription Price act as a furtherance of the Sale Price, is in favour to the Company as a reflection of support by King Castle and is justifiable given both of the Subscription Price and the Sale Price are fair and reasonable, and in the interests of the Company and the Shareholders as a whole as mentioned above in our analysis, we concur with the Management that the difference between the Subscription Price and Sale Price is justifiable and in the best interests of the Company.

*Potential change of shareholding after the Subscription and the Shares Transfer*

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) assuming immediately upon the Share Consolidation becoming effective; (iii) assuming immediately upon the allotment and issue of 25,000,000 Subscription Shares (assuming the Share Consolidation becoming effective and there is no other change to the number of the issued Shares from the Latest Practicable Date to the Subscription Completion Date); (iv) assuming immediately upon the Shares Transfer Completion (assuming the Share Consolidation becoming effective and there is no other change to the number of the issued Shares from the Latest Practicable Date to the Shares Transfer Completion Date); and (v) assuming immediately upon the allotment and issue of 25,000,000 Subscription Shares and the Shares Transfer Completion (assuming the Share Consolidation becoming effective and there is no other change to the number of the issued Shares from the Latest Practicable Date to the Subscription Completion Date and the Shares Transfer Completion Date).

	(i) As at Latest Practicable Date		(ii) Assuming immediately upon the Share Consolidation becoming effective		(iii) Assuming immediately after completion of the Subscription		(iv) Assuming immediately after the Shares Transfer Completion		(v) Assuming immediately after completion of the Subscription and the Shares Transfer Completion	
	Number of Existing Shares		Approx. %		Number of Consolidated Shares		Approx. %		Number of Consolidated Shares	
<b>Directors</b>										
Mei Waiji	15,000,000	0.60	3,750,000	0.60	3,750,000	0.58	3,750,000	0.60	3,750,000	0.58
Tang Shu Pui Simon (Note 1)	5,000,000	0.20	1,250,000	0.20	1,250,000	0.19	1,250,000	0.20	1,250,000	0.19
Chan Ming Leung Terence (Note 2)	15,840,000	0.63	3,560,000	0.63	3,560,000	0.61	3,560,000	0.63	3,560,000	0.61
<b>Substantial Shareholders</b>										
King Castle	330,000,000	13.19	82,500,000	13.19	107,500,000	16.51	97,500,000	13.59	122,500,000	18.83
World Field Industries Limited	283,594,000	11.35	70,593,500	11.35	70,593,500	10.91	70,593,500	11.35	70,593,500	10.91
<b>Others</b>										
Treasury Shares	60,000,000	2.40	15,000,000	2.40	15,000,000	2.39	—	—	—	—
Public Shareholders	1,792,131,830	71.63	448,032,855	71.63	448,032,955	68.83	448,032,855	71.63	448,032,855	68.89
<b>Total</b>	<b>2,501,555,830</b>	<b>100.00</b>	<b>625,491,455</b>	<b>100.00</b>	<b>650,491,455</b>	<b>100.00</b>	<b>625,491,455</b>	<b>100.00</b>	<b>650,491,455</b>	<b>100.00</b>

**Notes:**

- These 5,000,000 Shares are beneficially owned by Tang Shu Pui Simon, an independent non-executive Director. He is also the beneficial owner of 2,000,000 options of the Company.
- These 15,840,000 Shares are beneficially owned by Chan Ming Leung Terence, an executive Director. He is also the beneficial owner of 2,060,000 options of the Company.
- Based on the disclosure of interests forms filed on 19 July 2022, World Field Industries Limited is owned as to 100% by Green Astute Limited, which is in turn owned as to 100% by Hao Tian Media & Culture Holdings Limited, which is in turn owned as to 100% by Aceso Life Science Group Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 474).

Shareholders should note that there is no shareholding dilution effect in relation to the Shares Transfer. Taking into account: (i) the Subscription would enable the Group to improve its financial position; and (ii) the Subscription Price is higher than the adjusted market price as at the Last Trading Day and the adjusted net asset value per Consolidated Share of the Group, we are of the view that the potential dilution effect of the Subscription is fair and reasonable so far as the Independent Shareholders are concerned. We are of the view that the implementation of the Subscription is beneficial to the Company and the Shareholders as a whole despite the potential dilution impact to the shareholding interests of the existing public Shareholders.

## 5. Financial effects of the Subscription and the Shares Transfer

### *Net Assets*

It is expected that upon completion of the Subscription, the unaudited consolidated net assets of the Group attributable to the owners of the Company would be improved. For the Shares Transfer, considering the adjusted market price of the Consolidated Shares was at HK\$0.316 per Consolidated Share as at 30 June 2024, it is expected that a gain on disposal will be recorded from the Shares Transfer.

### *Liquidity*

According to the 2024 Interim Report, as at 30 June 2024, the Group had cash and bank balances of approximately HK\$8.3 million, current assets of approximately HK\$197.5 million and current liabilities of approximately HK\$90.5 million. Accordingly, the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 June 2024 was approximately 2.2 times. Immediately upon completion of the Subscription and the Shares Transfer, the cash and bank balances of the Group is expected to increase by the net proceeds from the Subscription and the Shares Transfer of approximately HK\$14.98 million. As such, the current ratio and the liquidity of the Group will be improved upon the completion of the Subscription and the Shares Transfer Completion.

Having considered that the Subscription and the Shares Transfer will (i) improve the unaudited consolidated net assets attributable to the owners of the Company; and (ii) improve the overall liquidity position of the Group, we are of the view that the Subscription and the Shares Transfer are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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 Subscription and the Shares Transfer Completion.

## RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, including

- (i) the net proceeds of approximately HK\$14.98 million from the Subscription and the Shares Transfer will enhance the cash level, the liquidity and the current ratio of the Group;
- (ii) the fund raised during the past twelve months immediately preceding the Latest Practicable Date has been used up;
- (iii) the Subscription Price and the Sale Price, which were determined as discussed above and at the prevailing market prices of the Shares before the Last Trading Day, ensure that the Company would raise the required funding from the Subscription and the Shares Transfer to improve its overall liquidity position and fulfil its capital requirements;

- (iv) taking into account the benefits and costs of each of the alternative fundraising methods, the Subscription and the Shares Transfer represent an appropriate means for fundraising to improve the Group's financial position as discussed under the section headed "2. Reasons for the Subscription and the Shares Transfer and the use of proceeds" in this letter;
- (v) the Subscription Price and the Sale Price are above the adjusted net asset value per Consolidated Share of the Company;
- (vi) the liquidity of the Shares is low; and
- (vii) the dilution effect of the Subscription is reasonable as discussed in the section headed "4. Principal terms of the Subscription and the Shares Transfer" in this letter,

we are of the opinion that (i) the terms of the Subscription and the Shares Transfer and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) on the Subscription and the Shares Transfer to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**



**Robert Siu**  
*Managing Director*

*Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry.*