

ALTUS CAPITAL LIMITED

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22 November 2024

To the Independent Board Committee and the Independent Shareholders

Far East Holdings International Limited
Unit D1, 8/F
Kingston International Centre
19 Wang Chiu Road
Kowloon Bay, Hong Kong

Dear Sirs,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
TWO (2) RIGHTS SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS**

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" contained in the circular of the Company dated 22 November 2024 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Company proposes to raise gross proceeds of up to approximately HK\$72.75 million (assuming full subscription under the Rights Issue) by issuing up to 217,823,718 Rights Shares at the Subscription Price of HK\$0.334 per Rights Share (assuming no change in the number of Consolidated Shares in issue on or before the Record Date and that no new Consolidated Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue) on the basis of two (2) Rights Shares for every one (1) Consolidated Share held on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholder(s) (if any).

There will be no excess application arrangements in relation to the Rights Issue and the Rights Issue is not underwritten. Any Unsubscribed Rights Shares and ES Unsold Rights Shares will be placed to Independent Placees on a best effort basis under the Compensatory Arrangements. Any of the Rights Shares which remain unsold in the market will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. On 11 November

2024 (after trading hours of the Stock Exchange), the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and ES Unsold Rights Shares to Independent Placees on a best effort basis.

LISTING RULES IMPLICATIONS

In compliance with Rules 7.19A and 7.27A of the Listing Rules, the Rights Issue must be made conditional on approval of the Independent Shareholders by way of poll at the EGM at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

As at the Last Practicable Date, there are no controlling shareholders. As such, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM.

As at the Last Practicable Date, the Placing Agent is ultimately controlled by Mrs. Chu Yuet Wa, who is a substantial shareholder of a subsidiary of the Company. Therefore, the Placing Agent is an associate (as defined in the Listing Rules) of Mrs. Chu Yuet Wa and is a connected person at the subsidiary level of the Company under Chapter 14A of the Listing Rules. Accordingly, the engagement of the Placing Agent in consideration of placing commission under the Placing Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As all the percentage ratios (as defined in the Listing Rules) (other than the profit ratio) of the Placing Agreement are less than 25% and the total consideration is less than HK\$10,000,000, the Placing Agreement and the transactions contemplated thereunder fall below the de minimis threshold as stipulated under Rule 14A.76(2) of the Listing Rules, and therefore are subject to reporting and announcement requirements but are exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Mak Ka Wing, Patrick, Mr. Lam Wai Hung and Mr. Lam Cheung Shing, Richard 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 resolutions at the EGM in relation to the Rights Issue, taking into account the recommendations of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders on (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.

We have not acted as an independent financial adviser or financial adviser for other transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Rights Issue is at market level and not conditional upon successful passing of the resolution, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the annual report of the Company for the year ended 31 December 2023 (the “**Annual Report**”); (ii) the interim report of the company for the six months ended 30 June 2024 (the “**Interim Report**”); and (iii) other information contained or referred to in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any of such statements, information, opinions or representations are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

The Company is an investment holding company mainly engaged in property investment. The Company operates its business through two segments, comprising the property investment segment and the securities investment segment. The property investment segment is focus on commercial units located in Hong Kong, while the securities investment segment is involved in short term securities investment.

1.1 Financial information of the Group

Set out below is a summary of financial information of the Group extracted from the Annual Report and Interim Report:

Extract of the Group's consolidated statement of profit or loss

	For the year ended 31 December 2023 ("FY2023") (audited) HK\$'000	For the year ended 31 December 2022 ("FY2022") (audited) HK\$'000	For the six months ended 30 June 2024 ("1H2024") (unaudited) HK\$'000	For the six months ended 30 June 2023 ("1H2023") (unaudited) HK\$'000
Revenue	9,256	4,696	6,746	4,024
Other gains and losses, net	(83,120)	(84,530)	(487,540)	690
Finance costs	(40,799)	(20,498)	(23,511)	(17,781)
Loss for the year/period	(122,582)	(107,980)	(506,910)	(17,564)

Source: Annual Report and Interim Report

Extract of the Group's consolidated statement of financial position

	As at 31 December 2022 (audited) HK\$'000	As at 31 December 2023 (audited) HK\$'000	As at 30 June 2024 (unaudited) HK\$'000
Non-current assets	1,434,764	1,348,070	862,674
<i>Investment properties</i>	1,418,100	1,331,800	846,600
Current assets	7,001	7,812	4,834
<i>Bank balances and cash</i>	762	1,670	1,014
Current liabilities	(624,899)	(661,598)	(680,134)
<i>Bank borrowing</i>	(431,079)	(410,551)	(400,288)
<i>Loan from a non-controlling interest</i>	(152,700)	(152,700)	(152,700)
<i>Other loans</i>	(4,000)	(27,200)	(38,911)
Net current liabilities	(617,898)	(653,786)	(675,300)
Net assets	816,866	694,284	187,374
Gearing ratio (<i>Note</i>)	139.3%	169.1%	776.0%

Source: Annual Report and Interim Report

Note: Gearing ratio is calculated on the basis of the Group's total debts (including the bank borrowing, loan from a non-controlling interest and other loans) divided by equity attributable to owners of the Company.

FY2023 compared to FY2022

The Group's revenue is derived from property rental income. The increase in revenue from approximately HK\$4.70 million in FY2022 to approximately HK\$9.26 million in FY2023 was mainly due to new leases by tenants for the Group's property located at Silver Fortune Plaza, 1 Wellington Street, Hong Kong.

The Group's other losses amounting to approximately HK\$83.12 million for FY2023 and HK\$84.53 million for FY2022 were primarily derived from fair value losses on the Group's investment properties; the Group's fair value loss on investment properties amounts to approximately HK\$86.30 million and HK\$79.70 million for FY2023 and FY2022 respectively.

The increase in finance cost from approximately HK\$20.50 million in FY2022 to approximately HK\$40.80 million in FY2023 was primarily due to increases in interest rates on the Group's bank borrowing and loan from a non-controlling interest. Interest on bank borrowing amounted to approximately HK\$23.35 million and HK\$10.36 million in FY2023 and FY2022 respectively, while interest on loan from a non-controlling interest amounted to approximately HK\$15.15 million in FY2023 and HK\$8.13 million in FY2022.

As a result of the above, the Group recorded loss for the year of approximately HK\$122.58 million and HK\$107.98 million in FY2023 and FY2022 respectively.

1H2024 vs 1H2023

The Group's revenue continued to be derived from leasing of investment properties. The significant increase in other losses was primarily due to fair value losses on the Group's investment properties; such fair value losses amounted approximately HK\$485.20 million in 1H2024. The portfolio of investment properties, which comprised of commercial units located in Hong Kong, had a carrying amount of approximately HK\$846.60 million as at 30 June 2024 (31 December 2023: approximately HK\$1,331.80 million).

Finance costs represent interest on bank borrowing, loan from a non-controlling interest and other loans. As a result of the above, and mainly due to the substantial fair value loss recorded in 1H2024, the Group's loss for the period increased from approximately HK\$17.56 million in 1H2023 to approximately HK\$506.91 million in 1H2024.

31 December 2022 vs 31 December 2023

Non-current assets of the Group mainly comprise its investment properties, all of which are located in Hong Kong. The decrease in balance from approximately HK\$1.42 billion as at 31 December 2022 to HK\$1.33 billion as at 31 December 2023 was mainly due to decrease in fair values of the properties.

Current assets of the Group represent a relatively immaterial balance of the Group's net assets. As at 31 December 2022 and 2023, current assets represent approximately 0.86% and 1.13% of the Group's net assets respectively.

The Group recorded net current liabilities of approximately HK\$617.90 million as at 31 December 2022 and HK\$653.79 million as at 31 December 2023 mainly due to its substantial balances of bank borrowing and loan from a non-controlling interest. As at 31 December 2022 and 2023, the Group's bank borrowing and loan from a non-controlling interest totalled to approximately HK\$583.78 million and HK\$563.25 million respectively. As at 31 December 2023, the Group's other loans balance also increased to HK\$27.20 million from HK\$4.00 million as at 31 December 2022.

In view of the significant amount of debt that the Group has, its gearing ratio remained relatively high at approximately 139.3% and 169.1% as at 31 December 2022 and 2023 respectively.

31 December 2023 vs 30 June 2024

As at 30 June 2024, the fair value of the Group's investment properties decreased substantially as discussed above. Due to the fact that the Group's non-current assets comprise mainly investment properties, the Group's non-current assets decreased from approximately HK\$1.33 billion as at 31 December 2023 to HK\$0.85 billion as at 30 June 2024. As the Group's current assets level remained low, while its level of debt continued to be substantial to its overall asset value, the Group's continued to record a net current liability position of approximately HK\$675.30 million as at 30 June 2024. In addition, due to the operational needs, the Group's other loans balance increased from approximately HK\$27.20 million as at 31 December 2023 to HK\$38.91 million as at 30 June 2024.

In addition, due to the significant fair value loss on the Group's investments properties, the net assets of the Group decreased from approximately HK\$694.28 million to HK\$187.37 million as at 30 June 2024. The Group's gearing ratio also increased substantially to 776.0% as at 30 June 2024.

1.2 Outlook of the Group

Management will continue to review its investment properties and tenants portfolio from time to time with aims to generate stable income to the Group and for capital appreciation. The Group is devoted to increasing the occupancy rate of the properties and looking for potential acquisition/disposal of properties to generate stable income and capital appreciation from the properties. Management will diversify its tenant mix, if necessary, in order to minimise the financial impact to the Group. In addition, the Group will seek to optimise the composition of the property portfolio based on the outlook of the property market and expand the property portfolio with suitable additional investment properties.

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

2.1 The funding needs

With reference to the information provided in the paragraph headed “1.1 Financial information of the Group” above, we noted that the Group, as at 30 June 2024, had total assets of approximately HK\$867.51 million, financed by current liabilities of approximately HK\$680.13 million.

The gearing ratio, expressed as a percentage of total debts (including the bank borrowing, loan from a non-controlling interest, and other loans) to equity attributable to owners of the Company, was approximately 776.0% as at 30 June 2024, representing a significant increase from the gearing ratio of approximately 169.1% as at 31 December 2023. Such increase was primarily attributable to the significant fair value loss recorded on the Group’s investment properties during 1H2024, which resulted in the substantial drop in the Group’s equity, causing the gearing ratio to increase to approximately 776.0%.

The Group has a loan in the amount of approximately HK\$49.43 million with interest rate of 15% per annum falling due. Such loan has been extended to a maturity date falling on 9 January 2026 as at the Latest Practicable Date, on the condition that part of the net proceeds (i.e., approximately HK\$44.00 million if the Rights Issue is fully-subscribed; or approximately 63.26% of the net proceeds if the Rights Issue is undersubscribed) from the Rights Issue will be used to settle the loan upon the completion of the Rights Issue. The loan will be repaid wholly or partly upon completion of the Rights Issue on or before 12 February 2025 based on the use of proceeds as discussed below under the paragraph headed “2.3 The proposed use of proceeds”.

As at 30 June 2024, the Group’s current assets, which mainly included held-for-trading investments and bank balance and cash, were approximately HK\$4.83 million only. On the same date, the cash and cash equivalents of the Group amounted to approximately HK\$1.01 million. As at the Latest Practicable Date, the Group’s cash and cash equivalents increased to approximately HK\$1.98 million.

Taking into consideration (i) the total loan amounts of approximately HK\$591.90 million as at 30 June 2024; (ii) the net current liabilities position of the Group of HK\$675.30 million, and (iii) the cash and bank balances of approximately HK\$1.98 million as at the Latest Practicable Date, the Management is of the view, and we concur, that there is a need for the Company to seek opportunities to raise funds to lower its debts and maintain its working capital.

2.2 Alternative fund-raising methods

To alleviate its liquidity pressure, the Company considered various fund-raising methods, including (i) debt financing and (ii) other equity fund-raising methods such as placing new Shares and open offer, and decided to propose the Rights Issue due to the following reasons.

In respect of debt financing, the Directors noted that bank borrowing will result in additional interest burden, increase the gearing ratio of the Group and subject the Group to repayment obligations. Given (i) the Group's total loan amounts of approximately HK\$591.90 million as at 30 June 2024; and (ii) the Group's high gearing ratio of approximately 776.0% as at 30 June 2024, we concur with the Management that debt financing may not be achievable on favourable terms in a timely manner.

In respect of equity financing, as opposed to the Rights Issue, the Management considered that both the placing of new shares under general mandate and open offer do not offer options to the existing Shareholders, including (i) allowing Shareholders to maintain their shareholdings; and (ii) increasing their shareholding interests by acquiring additional rights entitlements or reducing their shareholding interests in the Company by disposing of their rights entitlements in the open market. As rights issues offer shareholders an option of maintaining their shareholdings of a company, while equity financing such as placing does not have such element and instead would immediately dilute existing shareholders' shareholding in a company, we are of the view that the Rights Issue is in the interest of Shareholders, as compared to placing. In addition, while equity financing through an open offer allows qualifying shareholders to participate, it does not allow free trading of rights entitlement in the open market. Therefore, we are also of the view that the Rights Issue is in the interest of Shareholders, as compared to open offers.

In the event that the Rights Issue is not fully-subscribed, as at the Latest Practicable Date, the Company has no plan or intention to conduct other fundraising activities in the next twelve (12) months. However, the Company may consider further debt and/or equity fundraising exercises when suitable opportunities arise to support the future development of the Group.

Considering (i) the feasibility of fund-raising methods, (ii) the Group's outstanding liabilities as well as the available internal resources, and (iii) the additional flexibility provided by the Rights Issue for existing Shareholders, the Directors are of the view, and we concur, that the Rights Issue is the most appropriate fund-raising option under the current circumstances compared to the abovementioned alternative fund-raising methods.

2.3 The proposed use of proceeds

As stated in the "Letter from the Board" in the Circular, assuming that there will be no change to the total issued share capital of the Company on or before the Record Date and full acceptance of the Rights Issue, the maximum net proceeds from the Rights Issue (after deducting the estimated expenses) are estimated to be approximately HK\$69.55 million (equivalent to a net subscription price of approximately HK\$0.3193 per Rights Share).

The Company intends to use approximately HK\$44.00 million (representing approximately 63.26%) of the net proceeds from the Rights Issue for the partial repayment of a loan due to Mrs. Chu Yuet Wah ("**Mrs. Chu**") (who is a substantial shareholder of a subsidiary of the Company), while the remaining amount of approximately HK\$25.55 million (representing approximately 36.74%) will be used for

the general working capital of the Group. In the event that there is an undersubscription of the Rights Issue, the use of proceeds raised from the Rights Issue will be allocated on a pro-rata basis for the purpose of disclosed above, i.e., (i) approximately 63.26% of the net proceeds from the Rights Issue will be used for the partial repayment of a loan due to Mrs. Chu; and (ii) approximately 36.74% of the net proceeds from the Rights Issue will be used for the Group's general working capital.

Considering (i) that the proposed use of proceeds can mitigate cash flow pressure on the Group, and (ii) the potential benefits of repaying a portion of the payable loan interests on the Group's financial position, we are of the view that the proposed use of proceeds is fair, reasonable, and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Rights Issue and the Placing

3.1 Summary of the key terms of the Rights Issue

Basis of the Rights Issue:	Two (2) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders as the close of business on the Record Date
Subscription Price:	HK\$0.334 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	1,089,118,593 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation having become effective:	108,911,859 Consolidated Shares
Number of Rights Shares:	Up to 217,823,718 Rights Shares (assuming no change to the total issued share capital of the Company on or before the Record Date)
Number of Consolidated Shares as enlarged by the allotment and issue of the Right Shares:	326,735,577 Consolidated Shares (assuming no change in the number of Consolidated Shares in issue on or before the Record Date and that no new Consolidated Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)

Gross proceeds from the Rights Issue:	Approximately HK\$72.75 million before expenses (assuming full subscription under the Rights Issue and assuming no change in the number of Consolidated Shares in issue on or before the Record Date)
Net proceeds from the Rights Issue	Approximately HK\$69.55 million after expenses (assuming full subscription under the Rights Issue and assuming no change in the number of Consolidated Shares in issue on or before the Record Date)
Compensatory Arrangements	Any Unsubscribed Rights Shares and ES Unsold Rights Shares will be placed to Independent Placees on a best effort basis under the Compensatory Arrangements. Any of the Rights Shares which remain unsold in the market will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

As at the Latest Practicable Date, the Group has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible into or giving rights to subscribe for, convert or exchange into any Existing Shares or Consolidated Shares, as the case may be. For further information of the Rights Issue and the Placing, please refer to the “Letter from the Board” in the Circular.

3.2 Subscription Price

As stated in the “Letter from the Board”, the Subscription Price was arrived at after arm’s length negotiation with reference to, among other things, the prevailing market price of the Shares and the financial conditions of the Group. For details of the Directors’ rationale for determining the Subscription Price, please refer to the paragraph headed “Subscription Price” under the “Letter from the Board” in the Circular.

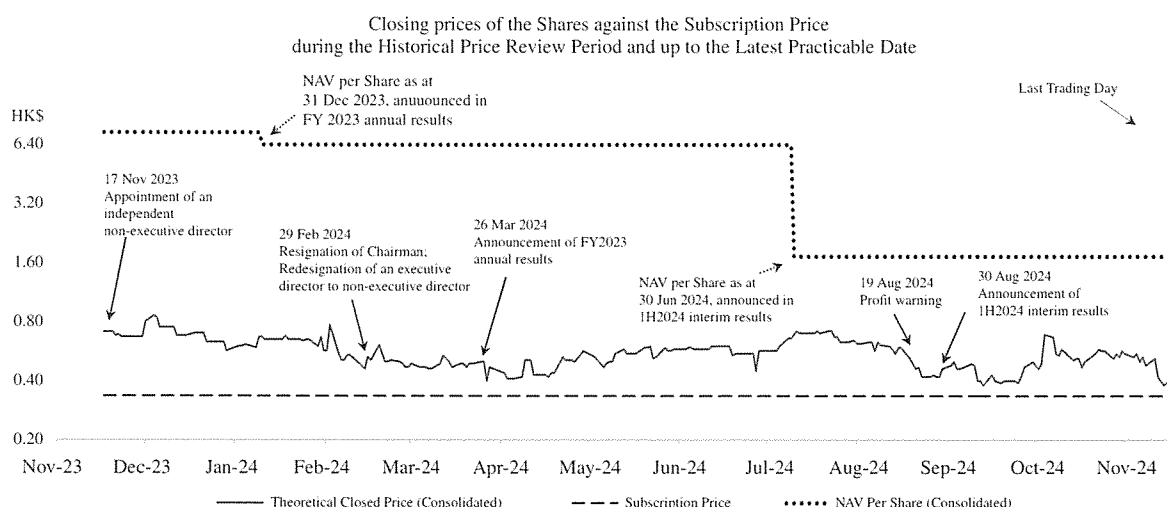
The Subscription Price of HK\$0.334 per Rights Share represents:

- (i) A discount of approximately 12.11% to the theoretical closing price of HK\$0.380 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.0380 per Existing Share as quoted on the Stock Exchange on the Last Practicable Date;
- (ii) A discount of approximately 35.77% to the theoretical closing price of HK\$0.5200 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.0520 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

- (iii) A discount of approximately 35.27% to the theoretical average closing price of HK\$0.5160 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.0516 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) A discount of approximately 37.10% to the theoretical average closing price of HK\$0.5310 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.0531 per Existing 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 15.66% to the theoretical ex-rights price of HK\$0.3960 per Consolidated Share, based on the theoretical closing price of HK\$0.5200 per Consolidated Share (after taking into account the effect of the Share Consolidation, based on the closing price of HK\$0.0520 per Existing Share as quoted on the Stock Exchange on the Last Trading Day);
- (vi) A theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 23.85%, represented by the theoretical diluted price of HK\$0.3960 per Consolidated Share to the theoretical benchmarked price of HK\$0.5200 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 7.27B of the Listing Rules, taking account the higher of (i) the closing price on the Last Trading Day of HK\$0.0520 per Existing Share and (ii) the average of the closing prices of the Existing Shares as quoted on the Stock Exchange for the five (5) consecutive trading days prior to the Last Trading Day of HK\$0.0518 per Existing Share); and
- (vii) a discount of approximately 80.59% to the unaudited consolidated net asset value per Consolidated Share of approximately HK\$1.7204 (based on the consolidated net asset value of the Company as at 30 June 2024 of approximately HK\$187.37 million and the total number of issued Consolidated Shares after the Share Consolidation, which will be 108,911,859).

Historical price performance of the Shares

Set out below is a chart illustrating the historical closing price of the Shares during the period from 11 November 2024, being 12 months immediately preceding the Last Trading Day, to the Last Trading Day (the “**Historical Price Review Period**”) and up to the Latest Practicable Date. 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.



Source: Website of the Stock Exchange

As shown in the chart above, the Company's trading prices during the Historical Price Review Period had been consistently and substantially below the net asset value per share of the Company. As such, the reasonableness of the Subscription Price shall be primarily assessed against the historical trading prices of the Company, which represent the market's perceived value of the Group.

We also noted that the closing price of the Shares on consolidated basis was above the Subscription Price at all times during the Historical Price Review Period, ranging from HK\$0.380 recorded on 13 September 2024 to HK\$0.860 recorded on 4 December 2023. The Subscription Price of HK\$0.334 represents a discount ranging from approximately 12.11% to 61.16% compared to the closing prices of the Shares during the Historical Price Review Period. Furthermore, the Subscription Price also represented a discount of approximately 40.41% to the average daily closing price per Share on consolidated basis during the Historical Price Review Period, which was HK\$0.561. As it is a normal market practice for companies to set subscription prices at discounts to trading prices to enhance the attractiveness of a rights issue and encourage qualifying shareholders to take part in the rights issue, we are of the view that the Subscription Price, being set at a discount to the historical trading prices, is on normal commercial terms. Furthermore, taking into consideration of the financial position of the Group where it had been recording net current liabilities in its latest financial statements as discussed under the paragraph headed "1.1. Financial information of the Group", we are of the view that the aforementioned discounts (i.e. 12.11% to 61.16%) of the Subscription Price as compared to the historical trading prices are acceptable and fair and reasonable.

During the Historical Price Review Period, except for the surges observed (i) from early December 2023, (ii) early February 2024, (iii) early July 2024, and (iv) early October 2024, the closing price of the Shares generally showed a downward trend. The reasons for these surges remain unclear, aside from possible market reactions to announcements by the Company during that time. Despite the observed movements, the overall trend indicates a consistent decrease in the closing prices throughout the Historical Price Review Period.

Trading liquidity of the Shares

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 Historical Price Review Period compared to (i) the total number of issued Shares as of the end of each month/period and (ii) the total number of issued Shares held by public Shareholders as of the end of each month/period.

Month	Trading days	Average daily trading volume of Shares	Average daily trading volume as a percentage to the total number of issued Shares as at the end of each month/period (%)	Average daily trading volume as a percentage to the total number of issued Shares held by public Shareholders as at the end of each month/period (%)
2023				
November (from 11 November 2023)	13	139,923	0.013%	0.013%
December	19	101,784	0.009%	0.009%
2024				
January	22	56,815	0.005%	0.005%
February	19	826,194	0.076%	0.076%
March	20	633,450	0.058%	0.058%
April	20	230,850	0.021%	0.021%
May	21	150,067	0.014%	0.014%
June	19	35,779	0.003%	0.003%
July	22	539,255	0.050%	0.050%
August	22	351,955	0.032%	0.032%
September	19	285,158	0.026%	0.026%
October	21	1,198,714	0.110%	0.110%
November (up to the Last Trading Day)	13	2,525,769	0.232%	0.232%
Max		2,525,769	0.232%	0.232%
Min		35,779	0.003%	0.003%
Average		499,401	0.050%	0.050%

Source: Website of the Stock Exchange

We noted from the above table that the liquidity of the Shares was generally thin during the Historical Price Review Period, with an average daily trading volume of 499,401 Shares, representing about 0.050% of the total issued Shares. Given the low trading volume, the Company would likely face difficulty in raising equity funds from third parties without offering a substantial discount to the prevailing Share price. Considering the low trading liquidity and the prevailing weak market sentiment in Hong Kong, as well as the Company's high gearing ratio, we are of the view that the Rights Issue is an appropriate equity financing method for the Group, and the Subscription Price is fair and reasonable.

Comparison with other rights issues

In order to assess the fairness and reasonableness of the Subscription Price, we have identified 31 companies (the “**Comparables**”) based on the following criteria: (i) companies listed on the Stock Exchange; and (ii) companies that conducted rights issue since 11 May 2024 up to the Last Trading Day (being a six-month period immediately prior to and including the Last Trading Day) (the “**Review Period**”).

Shareholders should note that the subject companies in the Comparables may have different principal business activities, market capitalisations, profitability and financial positions as compared to those of the Company. Although the circumstances surrounding such Comparables may be different from those relating to the Company, we consider that the Review Period is adequate and fair and reasonable to capture the prevailing market conditions of companies listed on the Stock Exchange conducting rights issues.

The Comparables listed below have been identified through our research using public information. We believe that it is an exhaustive list based on our selection criteria.

The major terms of the rights issue conducted by the Comparables are summarised below.

Prospectus date	Company name	Stock code	Basis for entitlement	Market Capitalisation as at the prospectus date	Expected maximum gross proceeds	Fundraising scale (Gross Proceeds/Market Capitalisation)	Premium/(Discount) of the subscription price over/to	Theoretical dilution effect ^{note}	Excess application or compensatory arrangements	Placing commission	Underwritten
				<i>HK\$'million</i>	<i>HK\$'million</i>		the closing price on the last trading day (%)	the theoretical ex-right price based on the closing price on the last trading day (%)	(%)		
05 Nov 24	Innovax Holdings Limited	2680	1 for 2	61.32	12.00	0.20	(67.39)	(59.02)	22.78	Compensatory arrangement	1.00% No
25 Oct 24	V&V Technology Holdings Limited	8113	2 for 1	55.24	24.20	0.44	(31.51)	(23.47)	10.50	Excess application	N/A — No No
24 Oct 24	China New Consumption Group Limited	8275	1 for 2	49.92	24.00	0.48	(5.66)	(4.76)	2.47	Compensatory arrangement	3.50% No
22 Oct 24	Shougang Fushan Resources Group Limited	639	1 for 30	14,041.49	425.40	0.03	1.96	0.06	0.00	Excess application	N/A — No No
04 Oct 24	Guangdong — Hong Kong Greater Bay Area Holdings Limited	1396	1 for 2	217.09	62.41	0.29	(22.03)	(15.85)	8.28	Excess application	N/A — No No
02 Oct 24	Shougang Century Holdings Limited	103	1 for 5	616.89	129.30	0.21	8.20	1.37	0.00	Excess application	N/A — No No
29 Sep 24	Ev Dynamics (Holdings) Limited	476	3 for 2	80.73	132.20	1.64	(3.06)	(1.04)	1.84	Compensatory arrangement	N/A — No No
25 Sep 24	BeijingWest Industries International Limited	2339	1 for 2	95.34	48.20	0.51	(13.85)	(9.68)	4.62	Excess application	1.00% Yes
23 Sep 24	Trendzon Holdings Group Limited	1865	4 for 1	27.34	102.00	3.73	(14.30)	(3.23)	14.60	Compensatory arrangement	N/A — No Yes
17 Sep 24	Ziyuanyuan Holdings Group Limited	8223	1 for 5	799.80	86.00	0.11	(66.44)	(62.26)	11.09	Excess application	1.25% Yes
10 Sep 24	ROMA (Meta) Group Limited	8072	3 for 1	8.59	25.30	2.94	(23.08)	(7.41)	18.18	Compensatory arrangement	N/A — No No
30 Aug 24	Emperor International Holdings Limited	163	1 for 2	904.68	459.70	0.51	(30.06)	(23.60)	10.50	Excess application	1.50% Yes
28 Aug 24	Guoen Holdings Limited	8121	2 for 1	24.17	17.30	0.72	(64.20)	(14.30)	23.50	Excess application	N/A — No No

Prospectus date	Company name	Stock code	Basis for entitlement	Capitalisation as at the prospectus date	Expected maximum gross proceeds	Fundraising scale (Gross Proceeds/Market Capitalisation)	Premium/(Discount) of the subscription price over the theoretical	theoretical or compensatory arrangements ^{Note}	Excess application	Placing commission	Underwritten		
23 Aug 24	Jiading International Group Holdings Limited	8133	3 for 1	HK\$ million	9.81	26.00	0.44	(16.67)	(4.76)	12.50	Compensatory arrangement	3.00% No	
23 Aug 24	Asia Television Holdings Limited	707	1 for 2	HK\$ million	159.95	71.09	2.65	(46.80)	(37.00)	15.60	Compensatory arrangement	2.00% No	
21 Aug 24	Chong Fai Jewellery Limited	8337	3 for 1	HK\$ million	11.03	27.00	2.45	(32.20)	(10.40)	24.72	Excess application	1.00% No	
16 Aug 24	Bonny International Company Limited	1906	1 for 4	HK\$ million	312.00	73.50	0.24	(43.02)	(37.66)	8.71	Excess application	N/A — No	placing
29 Jul 24	Hanvey Group Holdings Limited	8219	1 for 2	HK\$ million	30.53	8.25	0.38	(59.30)	(49.20)	19.80	Compensatory arrangement	3.50% No	placing
29 Jul 24	Tonking New Energy Group Holdings Limited	8326	1 for 2	HK\$ million	106.34	40.90	0.27	(41.18)	(33.33)	11.76	Compensatory arrangement	N/A — No	placing
24 Jul 24	Wuxi Life International Limited	8148	2 for 1	HK\$ million	17.18	30.54	1.78	(20.00)	(10.45)	17.28	Excess application	Not disclosed No	
15 Jul 24	Icon Culture Global Company Limited	8500	1 for 1	HK\$ million	142.56	54.00	0.38	(36.71)	(22.84)	18.59	Compensatory arrangement	0.50% No	
28 Jun 24	Goldway Education Group Limited	8160	3 for 1	HK\$ million	5.63	15.80	4.00	(27.50)	(8.66)	20.90	Compensatory arrangement	1.00% No	
28 Jun 24	Flying Financial Service Holdings Limited	8030	3 for 1	HK\$ million	25.44	63.60	2.50	(24.20)	(9.40)	23.79	Compensatory arrangement	3.00% No	
28 Jun 24	Zijing International Financial Holdings	8340	5 for 1	HK\$ million	13.44	53.80	2.81	(20.53)	(4.00)	20.25	Compensatory arrangement	0.70% Yes	
27 Jun 24	Shin Hwa World Limited	582	2 for 1	HK\$ million	139.47	263.70	1.89	(33.33)	(22.31)	22.22	Excess application	N/A — No	placing

Prospectus date	Company name	Stock code	Basis for entitlement	Market Capitalisation as at the prospectus date	Expected maximum gross proceeds	Fundraising scale (Gross Proceeds/Market Capitalisation)	Premium/(Discount) of the subscription price over/to	the theoretical ex-right price based on the closing price on the last trading day	Theoretical dilution effect ^{Note}	Excess application or compensatory arrangements	Placing commission	Underwritten
				HK\$'million	HK\$'million		(%)	(%)	(%)			
21 Jun 24	China Uptown Group Company Limited	2330	2 for 1	76.34	91.61	1.20	(31.80)	(22.70)	21.20	Excess application	2.50%	Yes
20 Jun 24	MMG Limited	1208	2 for 5	26,822.45	8,986.00	0.34	(31.41)	(24.65)	10.17	Excess application	N/A —	No
13 Jun 24	Futian Holdings Limited	8196	1 for 2	76.50	45.00	0.59	0.00	0.00	4.60	Excess application	N/A —	No
05 Jun 24	Basetrophy Group Holdings Limited	8460	3 for 1	16.56	41.40	2.50	(31.82)	(10.45)	23.86	Compensatory arrangement	3.50%	No
04 Jun 24	SingAsia Holdings Limited	8293	2 for 1	7.99	14.40	1.80	(11.50)	(3.85)	14.17	Compensatory arrangement	1.50%	No
20 May 24	Space Group Holdings Limited	2448	4 for 1	40.04	157.80	3.94	(19.05)	(4.49)	15.24	Compensatory arrangement	0.50%	No
	Maximum					4.00	(3.06)	(1.04)	1.84		3.50%	
	Minimum					0.20	(67.39)	(62.26)	24.72		0.50%	
	Average					1.93	(31.02)	(18.31)	14.96		1.82%	
	Median					1.80	(30.74)	(10.45)	15.24		1.50%	
	The Company	36	2 for 1	41.39	72.75	1.76	(35.77)	(15.66)	23.85		2.50%	No
				(as at the Latest Practicable Date)								

Source: Website of the Stock Exchange

Note: Theoretical dilution effect as referred to Rule 7.27B of the Listing Rules

To assess the reasonableness of the fundraising scale of the Group pursuant to the Rights Issue, we have (i) further identified a selection of 19 companies from the Comparables based on a market capitalisation of up to HK\$82.77 million (being up to two times of the Group's market capitalisation as at the Last Practicable Date) (the "**Fundraising Comparables**"), and (ii) noted that the fundraising scale of the Fundraising Comparables ranged from 0.20 and 4.00 times, a median value of 1.80 times and a mean of 1.93 times (calculated on the basis of the Fundraising Comparables' maximum expected gross proceeds received from the rights issue divided by the Fundraising Comparables' market capitalisation at the respective prospectus date). Considering the Group's fundraising scale of 1.76 times, which falls within the range of the Fundraising Comparables and approximates to the mean and median, we are of the view that the fundraising scale of the Group is acceptable and fair and reasonable.

In addition, the theoretical dilution effect of the rights issue conducted by these 19 comparables ranged from approximately 1.84% to 24.72%, with mean and median of approximately 16.43% and 18.18% respectively. The theoretical dilution effect of the Rights Issue, approximately 23.85%, falls within the range of those of the Fundraising Comparables. While the theoretical dilution effect of the Subscription Price is higher than the mean and median of the Fundraising Comparables, considering the financial situation of the Group, which includes (i) the net current liabilities position, with a high gearing ratio of 776.0%, as detailed in sections "1.1 Financial information of the Group" and "2.1 The funding needs,"; as well as (ii) the generally thin average daily trading volume for the six months preceding the Last Trading Day as mentioned above, we are of the view that the theoretical dilution effect is acceptable.

We noted from the above table that all Comparables had set the subscription price of their rights issues at a discount to (i) the prevailing market closing price (the "**LTD Price**") of the relevant shares on the last trading day related to the respective rights issue (except for two Comparables); and (ii) the theoretical ex-rights prices (the "**Ex-right Price**") based on the LTD Price. Therefore, we consider it normal market practice for listed companies to set the subscription price of rights issues at a discount to the LTD Price and Ex-right Price to encourage shareholder participation.

We also noted that (i) 15 out of the 31 Comparables had adopted excess application arrangements in relation to their rights issues; and (ii) 16 out of the 31 Comparables had adopted compensatory arrangements. As such, we are of the view that the decision of the Company to not adopt excess application arrangements and to instead adopt the Compensatory Arrangements is on normal commercial terms and is in line with market practice.

The discount of the subscription prices to the LTD Price of the Comparables ranged from approximately 3.06% to 67.39%, with mean and median of approximately 31.02% and 30.74% respectively. The discount of approximately 35.77% of the Subscription Price to the closing price of the Shares on the Last Trading Day falls within the range of those of the Comparables. Although the

discount of the Subscription Price is above the mean and median of the Comparables, considering the financial situation of the Group as discussed under the paragraphs headed “1.1 Financial information of the Group” and “2.1 The funding needs,” we are of the view that a discount relatively higher than the Comparables is reasonable.

The discount of the subscription prices to the Ex-right Price of the Comparables ranged from approximately 1.04% to 62.26%, with mean and median of approximately 18.31% and 10.45% respectively. The discount of approximately 15.66% of the Subscription Price to the Ex-right Price falls within the range of those of the Comparables and below the mean and above the median. Hence, we are of the view that a discount to the Ex-right Price is reasonable.

Furthermore, the theoretical dilution effect of the rights issue conducted by the Comparables ranged from approximately 1.84% to 24.72%, with mean and median of approximately 14.96% and 15.24% respectively. The theoretical dilution effect of the Rights Issue, approximately 23.85%, falls within the range of those of the Comparables. Although the theoretical dilution effect of the Subscription Price is higher than the mean and median of the Comparables, considering the (i) financial situation of the Group, being the net current liabilities position, with a high gearing ratio of 776.0% as discussed under the paragraphs headed “1.1 Financial information of the Group” and “2.1 The funding needs,”; and (ii) the generally thin average daily trading volume for the six months preceding the Last Trading Day as mentioned above, we are of the view that the theoretical dilution effect is acceptable.

Taking into account that (i) it is a normal market practice to set a subscription price at a discount to the LTD Price and Ex-right Price to enhance the attractiveness of a rights issue and encourage qualifying shareholders to take part in the rights issue, as demonstrated by the majority of the Comparables; (ii) the discounts of the Subscription Price to the LTD Price and to the Ex-right Price reflect market norms and fall within the discount ranges observed in the Comparables; (iii) the theoretical dilution effect of the Rights Issue falls within the range of dilution effects observed in the Comparables; (iv) the Subscription Price was determined with reference to the prevailing market price of the Shares, the low liquidity of the Shares, the financial conditions of the Group (in particular, with the high gearing ratio as at 30 June 2024); and (v) the Subscription Price will be the base price of the placing and the terms of the engagement between the Company and the Placing Agent were determined after arm’s length negotiation, we consider the Subscription Price to be fair and reasonable.

3.3 Other terms

Non-underwritten basis of the Rights Issue

The Rights Issue is proceeded on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares, subject to the fulfilment of the conditions of the Rights Issue. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will

be placed to Independent Placees under the Compensatory Arrangements. Any Unsubscribed Rights Shares and ES Unsold Rights Shares that remain not placed under the Compensatory Arrangements will not be issued by the Company, and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue. It is noted that 25 of the 31 Comparables were conducted on a non-underwritten basis. As such, we are of the view that the Rights Issue being conducted on a non-underwritten basis is a normal commercial term.

The Placing

The Company has entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights and ES Unsold Rights Shares to Independent Placees on a best effort basis. The Placing will proceed only if the Rights Shares are not fully subscribed by the Qualifying Shareholders.

Considering the funding needs of the Company and the difficulties in conducting alternative fund-raising methods as discussed under the paragraphs headed “2.1 The funding needs” and “2.2 Alternative fund-raising methods” above in this letter, as the Placing offers additional means to facilitate the subscription of the untaken portion of the Rights Issue to the maximum extent, we consider that adopting the Placing is in the interests of the Company and the Shareholders.

The Placing Price

The placing price of the Unsubscribed Rights Shares and ES Unsold Rights Shares shall not be less than the Subscription Price, and the final price determination will depend on the demand for and the market conditions of the Unsubscribed Rights Shares during the placement process. As we consider that the Subscription Price is fair and reasonable as discussed in the paragraph headed “3.2 Subscription Price” above in this letter, we also consider the arrangement of setting the placing price at or above the Subscription Price to be fair and reasonable.

The Placing Commission

According to the Placing Agreement, the Company will pay the Placing Agent a placing commission (the “**Placing Commission**”) of 2.5% of the amount equal to the Placing Price multiplied by the total number of Unsubscribed Rights Shares and ES Unsold Rights Shares successfully placed by the Placing Agent. To assess the fairness and reasonableness of the Placing Commission, we have considered the commission charged by placing agents of the Comparables, where applicable. We noted that the placing commission paid by these companies ranged from 0.5% to 3.5%. The Placing Commission of 2.5% falls within the range of the Comparables. Hence, we consider that the Placing Commission pursuant to the Placing Agreement is fair and reasonable.

Taking into consideration (i) the Subscription Price and the Placing Price are fair and reasonable; (ii) the Placing offers additional means to raise funds for the Company; (iii) the competitive nature of the Placing Commission relative to market norms, we concur with the Management that the terms of the Rights Issue and the Placing are fair and reasonable.

4. Financial impact

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

4.1 Net tangible assets

With reference to “Unaudited pro forma financial information of the Group” as set out in Appendix II to the Circular, the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2024 amounted to approximately HK\$76.3 million and the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 30 June 2024 before the Share Consolidation and the completion of the Rights Issue amounted to approximately HK\$0.07, calculated based on the aforesaid unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2024 divided by 1,089,118,693 Existing Shares which represents Shares in issue as at 30 June 2024.

Assuming (i) the total number of issued Shares of 108,911,859 Consolidated Shares after the Share Consolidation; and (ii) completion of the Rights Issue, resulting in the issuance of an additional 217,823,718 Rights Shares, the unaudited proforma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2024 would be approximately HK\$145.8 million and the unaudited proforma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share as at 30 June 2024 immediately after the Share Consolidation and the completion of the Rights Issue would be approximately HK\$0.45. For details, please refer to the notes under the paragraph headed “A. Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group” under Appendix II to the Circular.

4.2 Gearing

As at 30 June 2024, the Group’s gearing ratio, which is measured on the basis of the Group’s total debts divided by equity attributable to owners of the Company, was approximately 776.0%. Upon the completion of the Rights Issue, a portion of the net proceeds from the Rights Issue will be used for the repayment of the Group’s current liabilities. Therefore, the gearing ratio would be reduced after completion of the Rights Issue and the Placing.

Hence, the Directors consider that the Rights Issue and the Placing will enable the Group to improve the financial position and future fundraising opportunities of the Group.

Considering that (i) the financial position would be improved; (ii) the gearing ratio of the Group would be enhanced; and (iii) the Group's negotiation power for future fundraising opportunities will be strengthened, we are of the view that the overall financial impact to the Group upon completion of the Rights Issue and the Placing is in the interests of the Company and the Shareholders.

5. Possible dilution effect

All 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. Qualifying Shareholders who do not take up the Rights Issue can, subject to the then-prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and the Placing.

For those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue and the Placing will be diluted by up to a maximum of approximately 66.7%.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; and (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is acceptable and justifiable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the terms of the Rights Issue and the Placing are fair and reasonable; and (ii) the Rights Issue and the Placing are in the interests of the Company and the Shareholders. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour on the resolution at the EGM in relation to the Rights Issue and the Placing.

Yours faithfully,
For and on behalf of
Altus Capital Limited



Jeanny Leung
Responsible Officer



Leo Tam
Responsible Officer

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Leo Tam (“**Mr. Tam**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over ten years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*