Grande Capital Limited
均富融資有限公司

10 January 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to (i) advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Rights Issue are fair and reasonable as far as the Independent Shareholders are concerned; (ii) give our recommendation as to whether the Rights Issue is in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 10 January 2025 (the "**Circular**"). Capitalised 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$44.0 million by way of the issue of up to 151,637,790 Rights Shares at the Subscription Price of HK$0.29 per Rights Share on the basis of three (3) Rights Share for every one (1) Share held on the Record Date. The Rights Issue is not underwritten and is only available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules.

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Assuming full subscription of the Rights Issue, the net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK$41.6 million (assuming no change in the total number of Shares in issue on or before the Record Date). The Company intends to apply the net proceeds as to (i) approximately HK$17.0 million for investment in potential opportunity in both the PRC and Hong Kong; (ii) approximately HK$15.0 million for the repayment of debt of the Group; and (ii) approximately HK$9.6 million for the general working capital.

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. There are no applicable statutory requirements regarding minimum subscription levels in respect of the Rights Issue.

The Rights Shares, when allotted, issued and fully paid, will rank *pari passu* in all respects among themselves and with the Shares in issue at the time. Holders of fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid by the Company after the date of allotment and issue of the Rights Shares in their fully paid form.

According to Rule 7.21(1)(b) of the Listing Rules, the Company will make the Compensatory Arrangements to dispose of the Placing Shares by offering these Shares to independent Placees for the benefit of the Shareholders to whom they are offered by way of the Rights Issue. Accordingly, on 10 December 2024 (after trading hours), the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the independent Placees on a best effort basis.

LISTING RULES IMPLICATIONS

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of issued Shares or the market capitalisation of the Company by more than 50% within the 12 months period immediately preceding the date of the Announcement, the Rights Issue must be made conditional on approval by the Shareholders at the EGM, and any controlling shareholders of the Company 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 resolution(s) in relation to the proposed Rights Issue.

As at the Last Practicable Date, the Company has no controlling Shareholder as defined under the Listing Rules. Mr. Chong Sik, the Chairman, the executive Director and the Chief Executive Officer of the Company, beneficially owns 11,797,500 Shares in aggregate, representing approximately 23.34% of the entire issued share capital of the Company as at the Last Practicable Date. Mr. Chong Pun, the executive Director of the Company, beneficially owns 2,500 Shares in aggregate, representing approximately 0.005% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, Mr. Chong Sik and Mr. Chong

Pun are required to abstain from voting in favour of the proposed resolution(s) to approve the Rights Issue at the EGM in accordance with Rule 7.27A of the Listing Rules. Save as disclosed above, no other Director are interested in the Shares of the Company as at the Last Practicable Date. Accordingly, no other Shareholder is required to abstain from voting in favour of the relevant resolution(s) of the proposed Rights Issue at the EGM.

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

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Chan Kai Chung, to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM.

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 as far as the Independent Shareholders are concerned; (ii) give our recommendation as to whether the Rights Issue is in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM.

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of 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 March 2024 (the "**Annual Report**"); (ii) the interim report of the company for the six months ended 30 September 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 taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made, or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates. We have assumed that the Rights Issue will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Rights Issue, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Rights Issue. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date. We will notify the shareholders of any material change of information in the circular up to the date of EGM.

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

1. Background information of the Group

1.1 The Group is principally engaged in the manufacturing and sale of bridesmaid dresses, bridal gowns and special occasion dresses, accessories, fashion apparels, fabrics and other accessories.

1.2 ***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 March 2024 ("FY2024") (audited) *HK$'000*	**For the year ended 31 March 2023 ("FY2023")** (audited) *HK$'000*	**For the six months ended 30 September 2024 ("1H2024")** (unaudited) *HK$'000*	**For the six months ended 30 September 2023 ("1H2023")** (unaudited) *HK$'000*
Revenue	54.312	71,667	40,206	22,468
Other gains and losses, net	(649)	(461)	(1,026)	575
Finance costs	(1,230)	(897)	(847)	(465)
Loss for the year/period	(24,444)	(31,284)	(10,194)	(14,665)

Source: Annual Report and Interim Report

FY2024 compared to FY2023

The Group's revenue is derived from the sale of bridesmaid dresses, bridal gowns, special occasion dresses, accessories, fashion apparels and fabrics and other garment accessories. The revenue decreased by approximately HK$17.4 million or approximately 24.3% from approximately HK$71.7 million FY2023 to approximately HK$54.3 million for FY2024, which was primarily attributable to the decrease in revenue generated from the sale of bridesmaid dresses of approximately HK$9.8 million, the decrease in revenue generated from the sale of special occasion dresses of approximately HK$3.8 million, and the decrease in revenue generated from the sale of accessories of approximately HK$3.5 million. The decrease in sales quantity of bridesmaid dresses and special occasion dresses was attributable to fewer orders from customers which facing keen competition.

The increase in finance cost from approximately HK$0.9 million in FY2023 to approximately HK$1.2 million in FY2024 was primarily due to increases in the borrowings during FY2024.

For FY2024, the Group recorded a loss for the year of approximately HK$24.4 million and as compared to approximately HK$31.3 million for FY2023. The decrease in loss was mainly attributable to the increase in gross profit margin and decrease in administrative expenses for FY2024.

1H2024 vs 1H2023

The significant increased by approximately HK$17.7 million or approximately 78.7% from approximately HK$22.5 million 1H2023 to approximately HK$40.2 million for 1H2024 was primarily attributable to the increase in sales quantity of bridesmaid dresses was attributable to orders from a new customer during 1H2024, which resulting in the increase in revenue generated from the sale of bridesmaid dresses of approximately HK$15.3 million and the increase in revenue generated from the sale of special occasion dresses of approximately HK$3.0 million.

Finance costs slightly increased by approximately HK$0.4 million from approximately HK$0.5 million for 1H2023 to approximately HK$0.9 million for 1H2024 was mainly attributable to the increase in the average borrowings during 1H2024.

The Group's loss for the period decreased from approximately HK$14.7 million in 1H2023 to approximately HK$10.2 million in 1H2024 was mainly attributable to the increase in revenue as mentioned above.

Extract of the Group's consolidated statement of financial position

	As at 31 March 2024 (audited) *HK$'000*	As at 31 March 2023 (audited) *HK$'000*	As at 30 September 2024 (unaudited) *HK$'000*
Non-current assets	40,945	48,431	40,205
Property, plant and equipment	29,604	33,445	28,980
Investment properties	11,200	12,300	11,200
Current assets	69,189	65,675	58,598
Bank balances and cash	4,432	3,155	1,652
Deposits, prepayments and other receivables	36,699	34,734	41,259
Current liabilities	(58,658)	(36,005)	(57,392)
Bank overdrafts	(5,876)	(5,962)	(5,782)
Amount due to directors	(17,077)	(7,500)	(14,117)
Borrowing	(16,599)	(9,260)	(14,361)
Net current assets	10,531	29,670	1,206
Net assets	46,531	72,573	36,555
Gearing ratio *(Note)*	48.3%	21.0%	55.1%

Source: Annual Report and Interim Report

Note: Gearing ratio is calculated on the basis of the Group's total debts (including the bank borrowing, and bank overdrafts) divided by equity attributable to owners of the Company.

31 March 2023 vs 31 March 2024

As illustrated above, non-current assets of the Group mainly comprise its property, plant and equipment and investment properties. The total assets of the Group amounted to approximately HK$110.1 million as at 31 March 2024, representing a decrease of approximately 3.5% as compared to approximately HK$114.1 million as at 31 March 2023. As at 31 March 2023 and 2024, the Group's bank balance and cash amounted to approximately HK$3.2 million and HK$4.4 million respectively.

The Group recorded current liabilities of approximately HK$36.0 million as at 31 March 2023 and HK$58.7 million as at 31 March 2024 mainly due to its substantial balances of bank borrowing and amount due to directors. As at 31 March 2023 and 2024, the Group's bank borrowing and amount due to directors in aggregate amounted to approximately HK$16.8 million and HK$33.66 million respectively. In view of the significant amounts of debts above, its gearing ratio increased significantly from approximately 21.0% to approximately 48.3% as at 31 March 2023 and 2024 respectively.

31 March 2024 vs 30 September 2024

As at 30 September 2024, the Group's bank balances and cash decreased to approximately HK$1.7 million and the net assets of the Group decreased from approximately HK$46.5 million as at 31 March 2024 to HK$36.6 million as at 30 September 2024, representing a decrease of approximately 21.2%. Meanwhile, due to increase in amount due to directors, the Group's gearing ratio continue to increase to 55.1% as at 30 September 2024.

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

As disclosed in the Letter from the Board, assuming full subscription under the Rights Issue, the expected gross proceeds of the Rights Issue will be up to approximately HK$44.0 million and the relevant expenses would be approximately HK$2.4 million, which includes placing commission and professional fees payable to financial adviser, legal advisers and other parties involved in the Rights Issue. Accordingly, the estimated net proceeds of the Rights Issue, after deducting the related expense, will be up to approximately HK$41.6 million.

We understood from the Management that 2024 was a volatile and challenging year to the Group. The global economy has been adversely affected by the protracted trade war between the United States of America and China. The downturn in the global market was continued to be aggravated by the outbreak of novel coronavirus disease in past three years which brought unprecedented challenges and uncertainties. The business of the Group was inevitable being affected. The Group continued to experience a challenging operating environment in view of prolonged trade disputes between the United States and China, tariffs imposed, political tensions and continuing uncertainties in the global economy. Since the Group's revenue was mostly derived from customers based in the United States, these factors in aggregate led to a certain extent of impact on the overall business performance of the Group. The Group, therefore, would like to mitigate the operating risk and adverse effects of trade disputes as well as to diversify its customer base as mentioned above by investing in potential opportunity in southeast Asia markets.

The Group expects that the business environment and outlook for the coming financial year would remain highly challenging and uncertain while these uncertainties have resulted in the deterioration of financial and cashflow of the Company. As discussed in the section headed "Background information of the Group – 1.2 Financial information of the Group" above in this letter, the Group only had bank balances and cash of approximately HK$1.7 million as at 30 September 2024 as compared with the total borrowings of approximately HK$19.8 million. We have obtained and reviewed the list of borrowings and the expected repayment schedule. The Company intends to apply approximately HK$15.0 million from the net proceeds from the Rights Issue for the repayment of debt of the Group. Based on the preliminary estimation by the Management in the repayment schedule that we have reviewed, assuming the Rights Issue is fully subscribed, the repayment of debts by the net proceeds from the Rights Issue will reduce the financial costs of approximately HK$0.5 million.

We consider that the Rights Issue could (i) provide funds with no additional financial burden to the Group to satisfy its funding needs in repayment of debts; (ii) reduce the debt level and the gearing ratio as discussed in the section headed "4. Possible financial effects of the Rights Issue" below in this letter; and (iii) reduce the financial costs from the debts, which will in turn reduce the financial burden on the financial performance of the Group as the Group has been making loss for FY2023, FY2024 and IH2024.

As stated in the Letter from the Board, in view of the unprecedented business environment, the management is actively exploring new business opportunities with a view to diversifying the income stream of the Group and mitigating risks. Therefore, the Company considers that the proceeds from the Rights Issue will provide the necessary resources to seize investment opportunities as they arise, ensuring that the Group remains agile and well-positioned for future growth. As discussed with the Management, they would like to invest in potential opportunity in southeast Asia which could mitigate the adverse effects of trade disputes and diversify its customer base, thereby enhancing its resilience and positioning the Group for sustainable growth in a more stable market environment. Therefore, the Group intends to apply (i) approximately HK$17.0 million for investment in potential opportunity in southeast Asia, among which approximately HK$12.0 million for investment in further expanding and/or diversifying the manufacturing business of the Group and approximately HK$5.0 million for investment in new business segment opportunity for diversifying the business operation of the Group.

We also noted that the economic growth in southeast Asia market in the next 10 years from the "Southeast Asia Outlook 2024–2034" jointly issued by Singapore Angsana Council, Bain &Co and DBS Bank, the report predicts that the GDP of six major economies in Southeast Asia, Malaysia, the Philippines, Singapore, Thailand and Vietnam will grow at an average annual rate of 5.1% by 2034, which is higher than China's expected growth of 3.5% to 4.5% and other countries in the world, which demonstrated there is reasonable potential growth in the southeast Asia market. We also concurred with the Management that investing in potential opportunity in southeast Asia which could mitigate the adverse effects of trade disputes and potentially diversifying its customer base in new markets.

We have further discussed with the Management and understood that pursuant to some local agency on business sales in manufacturing industry in southeast Asia market, the price-to assets ratio is approximately 1 to 5 times, and the net assets level that the Management considered would be appropriate would be small to medium size (i.e. below HK$10 million). Whilst for new business segment, it will be highly depending on the industry which the Management considered will be suitable and create synergy to the Group.

Therefore, we consider the amounts allocated for potential investment in the southeast Asia for expanding and/or diversifying the manufacturing business and new business segment opportunity for diversifying the business operation of the Group to be fair and reasonable and thereby concur with the Company's view that the Rights Issue would enable the Group to have enough funding to expanding and/or diversifying its business. Nonetheless, as at the Last Practicable Date, the Company has not identified any potential targets or joint venture in relation to its planned development of the Group's business. As at the Latest Practicable Date, the Company is not in any negotiation and/or any discussion for any potential investment, whether concluded or not. Meanwhile, it is the intention of the Company that the Group will maintain its existing principal business activities and has no plans to downsize these operations in light of any potential acquisition or investment opportunity. As at the Latest Practicable Date, the Company does not has any intention to dispose of or deinvest in the Company's existing assets and/or businesses.

We have also obtained the details of proceeds for the general working capital. Based on the information provided by the management of the Company, we note that the Company would allocate the proceeds from the Rights Issue of approximately HK$9.6 million for its operational costs, staff costs, rental expenses, professional fees and other office overheads for around three to six months.

After considering (i) the Group's financial position and latest debt level; (ii) the reduction of the gearing ratio after the completion of the Rights Issue as discussed in the section headed "4. Possible financial effects of the Rights Issue" below in this letter; (iii) the reduction of the financial costs from the debts which will reduce the financial burden on the financial performance of the Group; (iv) the funding needs for the potential investment opportunity in southeast Asia; (v) the use of proceeds for the general working capital of the Group; and (vi) the potential fund size from the Rights Issue, we consider that the equity fund raising by the Rights Issue can reduce the Group's debt level and provide a sizeable financial resources for the repayment of debts and the business development of the Group, therefore the Rights Issue is in the interest of the Company and the Shareholders as a whole.

2.1 Intended use of proceeds

Assuming full subscription under the Rights Issue, the Company intends to apply the net proceeds of approximately HK$41.6 million from the Rights Issue (assuming no other change in the number of Shares in issue on or before the Record Date) as to as to (i) approximately HK$17.0 million for investment in potential opportunity in southeast Asia, among which approximately HK$12.0 million for investment in further expanding and/or diversifying the manufacturing business of the Group and approximately HK$5.0 million for investment in new business segment opportunity for diversifying the business operation of the Group; (ii) approximately HK$15.0 million for the repayment of debt of the Group; and (iii) approximately HK$9.6 million for the general working capital, including but not limited to operational costs, staff costs, rental expenses, professional fees and other office overheads of the Group.

The Rights Issue will proceed irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that there is an under-subscription of the Rights Issue, the net proceeds of the Rights Issue will be allocated and utilised in accordance with the same proportion to the above uses.

2.2 Fund-raising alternatives

We have discussed with the management of the Company that the Board has considered the pros and cons of alternative fund-raising methods, including but not limited to debt financing and equity financing such as placing of the new Shares and open offer, before resolving to the Rights Issue, which are summarized as follows:

Apart from the Rights Issue, the Board has considered various fund-raising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing of new shares and open offer. In respect of debt financing, the Directors considered that the cost of debt financing may increase together with additional requirements with asset pledging or guarantees to be provided by the Group and may not be achievable on favourable terms in a timely manner. Also, the Board noted that bank borrowings, if available, would result in additional interest burden of the Company and create pressure to the liquidity of the Company. Hence, the Board does not consider it to be beneficial to the Company. As for placing of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company and it is relatively smaller in scale as compared to fund raising through rights issue. As for open offer, while it is similar to a rights issue, offering Qualifying Shareholders to participate, it does not allow free trading of rights entitlements in the open market. As opposed to open offer, Rights Issue would allow Qualifying Shareholders to participate in the future development of the Company and at the same time offer more flexibility to the Qualifying Shareholders to choose whether to maintain their respective pro-rata shareholding interests in the Company and dealing with the Shares.

In light of the above, in particular that (i) the Group intends to repay the debts and improve its financial position; (ii) the placing will dilute the interests of existing Shareholders without offering them the opportunity to take part in the exercise; and (iii) the open offer does not offer flexibility to the existing Shareholders in dealing with the nil-paid rights attaching to the Rights Shares while the Rights Issue offers flexibility to the Qualifying Shareholders to dispose of their entitled nil-paid rights in the open market if they do not wish to take up the entitlements, the Rights Issue is an equitable means to raise funding for the Group by allowing pro-rata participation of the Qualifying Shareholders after considering other financing alternatives by the Directors. We consider that the Rights Issue represents an opportunity to raise fund for the Group and it is in the interests of the Company and the Shareholders as a whole to proceed with the Rights Issue.

3. Principal terms of the Rights Issue and the Placing

(a) Terms of the Rights Issue

Set out below is the summary of the principal terms of the Rights Issue, further details of which are set out in the Letter from the Board:

Basis of the Rights Issue	:	Three (3) Rights Share for every one (1) Shares held by the Shareholders at the close of business on the Record Date
Subscription Price	:	HK$0.2900 per Rights Share
Net subscription price per Rights Share (i.e. Subscription Price less Rights Issue expenses)	:	Approximately HK$0.2743 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	50,545,930 Shares
Number of Rights Shares to be issued under the Rights Issue	:	Up to 151,637,790 Rights Shares (assuming there is no change to the total number Shares in issue on or before the Record Date)
Total number of Shares in issue as enlarged by the allotment and issue of the Rights Shares	:	Up to 202,183,720 Shares (assuming there is no change to the total number of Shares in issue on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)
Maximum amount to be raised before expenses (assuming the Rights Issue is fully subscribed)	:	Up to approximately HK$44.0 million before expenses (assuming there is no change to the total number of Shares in issue on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)
Aggregate nominal value of the Rights Shares	:	HK$30.3 million (assuming there is no change to the total number of Shares in issue on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)

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.

Assuming there is no change in the total number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the 151,637,790 Rights Shares to be issued pursuant to the terms of the proposed Rights Issue represents (i) 300.0% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) 75% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

(b) Terms of the Placing Agreement

The Company has entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights and the NQS Unsold Rights Shares as part of the Compensatory Arrangements. Details of the Placing Arrangement are as follows:

Date:	10 December 2024 (after trading hours)
Issuer:	the Company
Placing Agent:	Gransing Securities Co Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, was appointed as the Placing Agent to procure, on a best-efforts basis, independent Placees to subscribe for Unsubscribed Rights Shares and the NQS Unsold Rights Shares. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner(s) are Independent Third Parties.
Placing Period:	The period from Friday, 21 March 2025 up to 4:00 p.m. on Tuesday, 1 April 2025, or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Placing.

Placing fee:	Subject to the completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong Dollars of 3.0% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares and NQS Unsold Rights Shares successfully placed by the Placing Agent and/or its sub-placing agent(s) pursuant to the terms of the Placing Agreement. No fees shall be paid by the Company if the Placing is not completed.
Placing price:	The placing price of each of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares (as the case may be) shall be not less than the Subscription Price. The determination of the final price is dependent on the demand and market conditions for the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares during the process of Placing.
Placees:	The Unsubscribed Rights Shares and the NQS Unsold Rights Shares are expected to be placed to the Placee(s) who and whose ultimate beneficial owner(s) shall be the Independent Third Party(ies).
Ranking:	Unsubscribed Rights Shares and the NQS Unsold Rights Shares (when placed, allotted, issued and fully paid) shall rank *pari passu* in all respects among themselves and with the Shares then in issue.

Condition Precedent:

The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among other things, the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable):

(i) the passing by the Shareholders or Independent Shareholders (as the case may be) at the EGM of the necessary resolution(s) to approve the Rights Issue, the Placing Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Rights Shares);

(ii) the Listing Committee having granted the approval for the listing of, and the permission to deal in, the Rights Shares, including the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares;

(iii) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion of the Placing Agreement; and

(iv) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the termination events,

the Placing Agent may, in its absolute discretion, waive the fulfilment of all or any or any part of the conditions (other than those set out in paragraphs (i) to (ii) above) by notice in writing to the Company.

In the event that the above condition precedents have not been fulfilled on or before the Placing Long Stop Date, all rights, obligations and liabilities of the parties thereunder in relation to the Placing shall cease and determine and none of the parties shall have any claim against the other in respect of the Placing (save for any antecedent breaches thereof).

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

Termination: Notwithstanding anything contained in the Placing Agreement, the Placing Agent shall be entitled, without any liability to the Company, by notice in writing to the Company served prior to the 4:00 p.m. on Wednesday, 2 April 2025, to terminate the Placing Agreement, if, prior to the Latest Placing Time:

(a) in the reasonable opinion of the Placing Agent, the success of the Placing would be materially and adversely affected by:

   (i) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Placing Agent materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Placing; or

(iii) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares (for more than ten (10) consecutive trading days) generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(iv) any adverse change in the business or in the financial or trading position of any members of the Group, which in the reasonable opinion of the Placing Agent, is material in the context of the Placing; or

(b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions which includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs in Hong Kong, the United States of America or the PRC which in the reasonable opinion of the Placing Agent makes it inexpedient or inadvisable to proceed with the Placing; or

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

Upon the giving of such notice as referred to above by the Placing Agent, all obligations of the Placing Agent under the Placing Agreement shall cease and determine and no party shall have any claim against any other party, save for any prior breaches of this Agreement.

Considering the funding needs of the Company and the difficulties in conducting alternative fund-raising methods as discussed under the paragraph headed "2.1 Intended use of proceeds" and "2.2 Fund-raising alternatives" 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/or NQS 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 "3.1 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**") in Hong Kong Dollars of 3.0% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares and NQS Unsold Rights Shares successfully placed by the Placing Agent and/or its sub-placing agent(s). To assess the fairness and reasonableness of the Placing Commission, we have considered the commission charged by placing agents of the Comparables (as defined below), where applicable. We noted that the placing commission paid by these companies ranged from 0% to 3.5%. The Placing Commission of 3.0% 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.

3.1 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$0.2900 per Rights Share represents:

(i) a discount of approximately 9.38% to the closing price of HK$0.3200 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 10.22% to the average closing price per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day of approximately HK$0.3230 per Share;

(iii) a discount of approximately 12.78% to the average closing price per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK$0.3325 per Share;

(iv) a discount of approximately 2.52% to the theoretical ex-rights price of approximately HK$0.2975 per Share based on the closing price of HK$0.3200 per Share as quoted on the Stock Exchange on the Last Trading Day and number of Shares in issue as at the date of the Announcement;

(v) a discount of approximately 68.50% to the latest published audited consolidated net asset value per Share as at 31 March 2024 of approximately HK$0.9206 (based on the annual report 2024 of the Company published on 25 July 2024 in relation to, among others, the annual results of the Company for FY2024). The Directors consider the discount represented by the Subscription Price to the audited consolidated net asset value per Share as at 31 March 2024 to be fair and reasonable with reasons set out above in the Letter from the Board of this circular;

(vi) a discount of approximately 59.90% to the latest published unaudited consolidated net asset value per Share as at 30 September 2024 of approximately HK$0.7232 (based on the interim results announcement of the Company published on 26 November 2024 in relation to, among others, the interim results of the Company for 1H2024). The Directors consider the discount represented by the Subscription Price to the unaudited consolidated net asset value per Share as at 30 September 2024 to be fair and reasonable with reasons set out above in the Letter from the Board of this circular; and

(vii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 8.08%, represented by the theoretical diluted price of approximately HK$0.2988 per Share to the benchmarked price (as defined under 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.3200 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of the Announcement of approximately HK$0.3250 per Share) of approximately HK$0.3250 per Share.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK$0.2743.

The Subscription Price was determined by the Company with reference to, among others, (i) the recent market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong; (iii) the financial position of the Group; and (iv) the amount of funds the Company intends to raise under the Rights Issue as discussed under the paragraph headed "2.2 the intended use of proceeds".

The Subscription Price was determined after taking into account factors including the recent market price of the Shares and the current market conditions, in particular,

(i) the prevailing trading price of the Shares over the period from 2 September 2024 to the Last Trading Day, being three months prior and up to the Last Trading Day which presented a fluctuation in the range of HK$0.3200 to HK$0.7600 which presented a downward trend;

(ii) throughout the period from 2 September 2024 to the Last Trading Day, the price of the Share ranged between HK$0.3200 to HK$0.7600, representing (a) a discount ranging from approximately 17.44% to 64.24% to the latest published audited net asset value per Share of approximately HK$0.9206 as at 31 March 2024; and (b) ranging from a premium of approximately 5.09% to a discount of approximately 55.75% to the latest published unaudited net asset value per Share of approximately HK$0.7232 as at 30 September 2024;

(iii) whilst the Subscription Price represents a discount of approximately 68.50% to the latest published audited consolidated net asset value per Share as at 31 March 2024 and 59.90% to the latest published unaudited consolidated net asst value per Share as at 30 September 2024, the Board is of the view that the net asset value per Share is not a relevant factor to determine the Subscription Price due to the fact that (a) the price of the Share ranged between HK$0.3200 to HK$0.7600 throughout the period from 2 September 2024 to the Last Trading Day which presented a downward trend; (b) the price of the Share traded below the net asset value per Share continuously since 2 September 2024 to the Last Trading Day. The Board considers that the period under review is adequate and representative to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Last Trading Day and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price. In addition, the period under review enables the Board to account for market conditions and macroeconomic factors that may influence investor sentiment.

The Board recognizes that the net asset value per Share is not a relevant factor in determining the Subscription Price for the following reasons:

(i) The Share price has exhibited a consistent downward trend throughout the period under review. This trend indicates that market sentiment to the Shares is relatively negative, which diminishes the relevance of net asset value in price determination; and

(ii) Since 2 September 2024, the Share has traded below its net asset value continuously. This persistent undervaluation suggests that market participants do not perceive the net asset value as reflective of the Share's current value, further supporting the decision to exclude it as a basis for setting the Subscription Price.

The Board considers that under the current market condition of the capital market in Hong Kong and with reference to the recent market performance of the Shares, it would not be practical and make any commercial sense to set a subscription price which is significantly higher than the prevailing market price and net asset value per Share, which would defeat the whole purpose of attracting the Shareholders and/or investors for new funding.

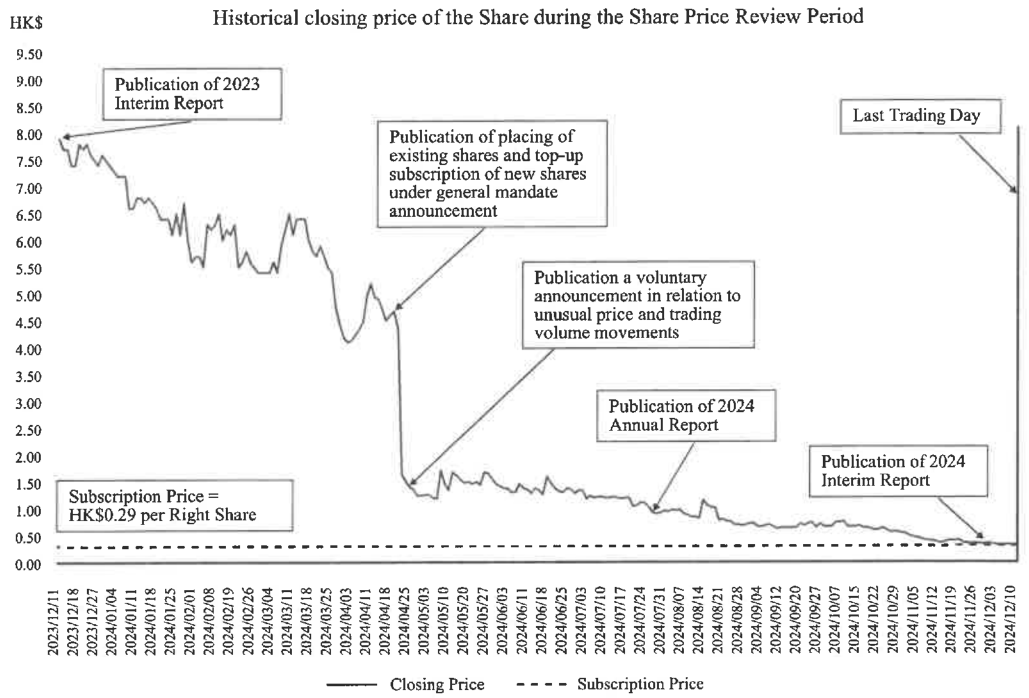
The Directors consider that the discount of the Subscription Price would encourage Shareholders to participate in the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future growth and development of the Group. After taking into consideration the reasons for the Rights Issue as discussed under the paragraph headed "Our View on reasons for the Rights Issue and the intended use of proceeds", the Directors consider the terms of the Rights Issue, including the Subscription Price, to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.2 Non-Underwriting Basis

Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will be placed to independent Placees under the Compensatory Arrangements. Any Unsubscribed Rights Shares or NQS Unsold Rights Shares which are 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. There are no applicable statutory requirements regarding minimum subscription levels in respect of the Rights Issue. It is noted that 34 of the 39 Comparable Transactions were conducted on a non-underwritten basis. Further analysis is set out in the below section.

3.3 Historical price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 11 December 2023 up to and including the Last Trading Day (the "**Share Price Review Period**") (being a period of 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider that the Share Price Review Period is adequate and representative to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Announcement and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the share price before the Announcement represent a fair market value of the Company the Shareholders had expected, while that after the Announcement, the value may have taken into account the potential effect of the Rights Issue which may distort the analysis.



Source: the website of the Stock Exchange

During the Share Price Review Period, the closing prices of the Shares were fluctuated between a low of HK$0.32 per Share and a high of HK$7.90 per Share, with an average closing price of approximately HK$2.76 per Share. As shown in the chart, the closing price of the Share generally showed a decreasing trend from the highest closing price of HK$7.9 per Share on 11 December 2024 to the lowest closing price of HK$0.32 per Share on 10 December 2024, which represents a decrease of approximately 59.5% from the highest closing price of the Shares. Overall, we did not notice any specific reasons for the aforementioned movements of the closing prices during the Share Price Review Period save for (i) the publication of 2023 Interim Report on 14 December 2023; (ii) the publication of placing of existing shares and top-up subscription of new shares under general mandate on 11 April 2024; (iii) the publication of a voluntary announcement in relation to unusual price and trading volume movements on 23 April 2024; (iv) the publication of 2024 Annual Report on 25 July 2024; and (iv) the publication of 2024 Interim Report on 2 December 2024. As advised by the Management, the Company is also not aware of any reasons for the aforementioned Share price fluctuations. The reasons for these surges remain unclear, aside from possible market reactions to announcements by the Company during that time. Despite the obvious movements in April 2024, the overall trend indicates a consistent decrease in the closing prices throughout the Share Price Review Period.

The Subscription Price of HK$0.29 represents (i) discount of approximately 96.33% to the highest closing price of HK$7.90 per Share; (ii) discount of approximately 9.38% to the lowest closing price of HK$0.32 per Share; and (iii) discount of approximately 89.4% to the average closing price of HK$2.76 per Share over the Share Price Review Period. Although the Subscription Price is out of range of the closing price of the Shares during the Share Price Review Period as mentioned above, after considering that (i) the closing price of the Shares has been decreasing during the Share Price Review Period which indicates that market sentiment to the Shares is relatively negative; (ii) the low liquidity of the Shares as discussed in sub-section headed "3.4 Historical trading liquidity of the Shares" below in this letter indicating that the Shares were generally illiquid in the open market and thus we consider that the Company is unlikely to be able to raise equity funds from third parties without a discount to the prevailing Share price; (iii) the funding needs to repay the debts of the Group and other intended usages as discussed in the section headed "2. Our view on the reasons for the Rights Issue and the intended use of proceeds" above in this letter; and (iv) we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue and the Subscription Price represents a discount of approximately 48.7% to the Adjusted Closing Price of HK$0.2 per Consolidated Share on the Last Trading Day to encourage the existing shareholders to participate in a rights issue as to meet the need of equity fund raising. Such price discount is also within the range in the comparable analysis as discussed in the sub-section headed "3.5 Comparison with recent rights issue exercises" below in this letter, we consider that the discount of the Subscription Price is fair and reasonable and the Rights Issue is in the interests of the Company and the Shareholders as a whole.

3.4 Historical trading liquidity of the Shares

The table below sets out the average daily trading volume of the Shares for each month during the Share Price Review Period.

Month	**Trading days**	**Trading volume**	**Average daily trading volume of Shares**	**Average daily trading volume as a percentage to the total number of issue Shares as at the end of each month/period** *(Note 1)* (%)
2023				
December (from 11 December 2023)	13	510,400	39,262	0.0047%
2024				
January	22	1,711,400	77,791	0.0092%
February	19	5,214,900	274,468	0.0326%
March	20	16,479,000	823,950	0.0978%
April	20	25,870,700	1,293,535	0.1535%
May	21	21,671,250	1,031,964	0.1225%
June	19	3,564,600	187,611	0.0223%
July	22	1,253,800	56,991	0.0068%
August	22	3,088,600	140,391	0.0167%
September	19	4,496,100	236,637	0.0281%
October	21	17,844,100	849,719	0.1009%
November	21	2,063,600	98,267	0.1944%
December (up to the Last Trading Day)	7	204,400	29,200	0.0578%
Max			1,293,535	0.1944%
Min			29,200	0.005%
Average			395,368	0.065%

Source: Website of the Stock Exchange

Note 1: Calculated based on the total number of the Shares at the end of each month.

We noted from the above table that the liquidity of the Shares was generally thin during the Share Price Review Period, with an average daily trading volume of 395,368 Shares, representing about 0.065% of the total issued Shares. The percentage of the average daily trading volume of the Shares over total number of Shares in issue were in the range of approximately 0.005% to approximately 0.1944% with an average of approximately 0.065%. Upon our review of the "HKEx Monthly Market Highlights" for the period from December 2023 to November 2024 (the "**Relevant Period**") available on the website of the Stock Exchange (https://www.hkex.com.hk/Market-Data/Statistics/Consolidated-Reports/HKEX-Monthly-Market-Highlights?sc_lang=en), we note that the average daily trading turnover over total market capitalisation of listed securities (including Main Board and GEM listed issuers) (the "**Market Trading Turnover Ratio**") during such period ranged from approximately 0.299% to approximately 0.725% with the average of approximately 0.394%. We consider that the Market Trading Turnover Ratio, as extracted from "HKEx Monthly Market Highlights", is a representative indicator for overall trading volume of the securities listed on the Stock Exchange. Given that the percentage of the average daily trading volume of the Shares over total number of Shares in issue during the Share Price Review Period is below the Market Trading Turnover Ratio, we consider that the trading of the Shares as a listed issuer of the Stock Exchange are relatively thin during the Share Price Review Period. Given the closing price of the Shares has been decreasing since April 2024 as shown above and the trading of the Shares was relatively thin during the Share Price Review Period as discussed above, we consider that 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 from the Market Trading Turnover Ratio and the closing price of the Shares has been decreasing during the Share Price Review Period, as well as the Company's high gearing ratio of approximately 55.1% as at 30 September 2024 which hinder the Group from obtaining further fundings from financial institutions, 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.

3.5 Comparison with recent rights issues exercise

In order to assess the fairness and reasonableness of the Subscription Price, we have identified an exhaustive list of 39 rights issue transactions (the "**Comparables**") announced by other companies listed on the Stock Exchange during the period from 10 June 2024 up to the Last Trading Day (being a six-month period immediately prior to and including the Last Trading Day) (the "**Comparable Review Period**"), excluding those rights issue transactions that have been terminated as at the Latest Practicable Date or were proposed by companies, which the shares were in prolonged suspension on the date of the relevant announcement with trading suspension for over three months or more according to the "Prolonged Suspension Status Report" released monthly by the Stock Exchange. Although the Comparables include rights issue in different basis, engaged in different business or have different financial performance and funding needs from the Company, having considered that: (i) all of the Comparables and the Company are listed on the Stock Exchange; and (ii) our analysis is mainly concerned with the principal terms of the rights issue and we are not aware of any established evidence showing any correlation between the entitlement basis of the rights issue and its underlying principal terms; (iii) including transactions conducted by the Comparables with different funding needs and business represent a more comprehensive overall market sentiment in our comparable analysis; (iv) an approximately six months period for the selection of the Comparables has generated a reasonable samples size to reflect the market practice regarding rights issue in the recent period; and (v) the Comparables were included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar rights issue transactions conducted by other issuers listed on the Stock Exchange, we consider that the list of Comparables are fair and representative samples. In addition, we consider that the Comparable Review Period is adequate and fair and representative given that (i) such period would provide us with the recent and relevant information in relation to the rights issue to demonstrate the prevailing market practices prior to the Last Trading Day under the prevailing market conditions; and (ii) we are able to identify sufficient number of samples of 39 representative Comparables that meet the aforesaid criteria for comparison analysis in such period.

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:

Announcement date	Company name	Stock code	Basis for entitlement	Premium/(Discount) of the subscription price over/to Closing price (%)	the theoretical ex-right entitlement price (%)	the latest net asset value per share (%)	Theoretical dilution effect Note (%)	Excess application or compensatory arrangements	Placing commission	Underwritten
6-Dec-24	Xinming China Holdings Limited	2699	4 for 1	(13.80)	N/A	N/A	16.90	Compensatory arrangement	3.00%	No
3-Dec-24	Graphex Group Limited	6128	3 for 1	(32.00)	(10.53)	(51.51)	24.00	Compensatory arrangement	1.50%	No
2-Dec-24	Luxxu Group Limited	1327	1 for 1	(44.44)	N/A	(79.45)	22.22	Compensatory arrangement	1.50%	No
21-Nov-24	Legend Strategy International Holdings Group Company Limited	1355	1 for 1	(49.71)	(33.08)	N/A	24.86	Excess application	N/A	No
21-Nov-24	Elife Holdings Limited	223	5 for 1	(6.54)	(9.09)	(96.10)	0.61	Excess application	N/A	No
19-Nov-24	China Wood International Holdings Co., Limited	1822	1 for 1	(45.00)	(29.10)	N/A	24.90	Excess application	N/A	No
15-Nov-24	Global Strategic Group Limited	8007	1 for 4	(12.50)	(3.20)	(91.60)	11.30	Excess application	N/A	No
12-Nov-24	HG Semiconductor Limited	6908	4 for 1	(36.00)	(31.00)	(44.20)	8.30	Compensatory arrangement	1.00%	No
11-Nov-24	Far East Holdings International Limited	36	2 for 1	(35.77)	(15.66)	(80.59)	23.85	Compensatory arrangement	2.50%	No
31-Oct-24	Yuzhou Group Holdings Company Limited	1628	49 for 100	(73.68)	(65.27)	N/A	24.23	Excess application	N/A	No
22-Oct-24	IRC Limited	1029	1 for 2	(15.00)	(10.50)	(67.30)	4.90	Excess application	N/A	No
21-Oct-24	China 33 Media Group Limited	8087	3 for 2	(7.41)	(3.23)	(55.62)	5.12	Compensatory arrangement	1.50%	No
18-Oct-24	Kingkey Financial International (Holdings) Limited	1468	1 for 2	(2.56)	(4.04)	124.60	2.06	Excess application	N/A	No
18-Oct-24	Gaodi Holdings Limited	1676	1 for 2	(37.90)	(12.10)	(65.50)	0.00	Compensatory arrangement	1.00%	No
15-Oct-24	Eminence Enterprise Limited	616	2 for 1	(8.00)	(2.85)	(98.98)	21.30	Excess application	N/A	No
8-Oct-24	V&V Technology Holdings Limited	8113	2 for 1	(31.51)	(23.47)	(32.23)	10.50	Excess application	N/A	No
7-Oct-24	China Water Industry Group Limited	1129	1 for 1	(49.44)	(32.84)	(91.65)	21.72	Compensatory arrangement	2.00%	No
4-Oct-24	Palinda Group Holdings Limited	8179	1 for 2	(18.70)	(13.29)	(66.10)	6.23	Excess application	N/A	No

Announcement date	Company name	Stock code	Basis for entitlement	Premium/(Discount) of the subscription price over/to Closing price (%)	Premium/(Discount) of the subscription price over/to the theoretical ex-right entitlement price (%)	Premium/(Discount) of the subscription price over/to the latest net asset value per share (%)	Theoretical dilution effect *Note* (%)	Excess application or compensatory arrangements	Placing commission	Underwritten
2-Oct-24	China National Culture Group Limited	745	1 for 2	(31.97)	N/A	(53.36)	21.31	Compensatory arrangement	N/A	No
26-Sep-24	Innovax Holdings Limited	2680	1 for 2	(67.39)	(59.02)	(88.59)	22.78	Compensatory arrangement	1.00%	No
23-Sep-24	Hatcher Group Limited	8365	3 for 1	(31.50)	(10.40)	(94.10)	23.60	Compensatory arrangement	N/A	Yes
23-Sep-24	Shougang Fushan Resources Group Limited	639	1 for 30	1.96	1.90	(20.49)	0.06	Excess application	N/A	No
13-Sep-24	Dragon Rise Group Holdings Limited	6829	1 for 1	(48.70)	(33.10)	(89.20)	24.90	Compensatory arrangement	1.00%	Yes
13-Sep-24	Shougang Century Holdings Limited	103	1 for 5	8.20	1.37	(62.50)	0.00	Excess application	N/A	No
9-Sep-24	Crown International Corporation Limited	727	2 for 1	2.27	1.50	162.35	less than 25%	Excess application	N/A	No
4-Sep-24	China New Consumption Group Limited	8275	1 for 2	(5.66)	(4.76)	(61.09)	2.47	Compensatory arrangement	3.50%	No
2-Sep-24	Guangdong – Hong Kong Greater Bay Area Holdings Limited	1396	1 for 2	(22.30)	(15.85)	(90.50)	8.28	Excess application	N/A	No
22-Aug-24	BeijingWest Industries International Limited	2339	1 for 2	(13.85)	(9.68)	(88.72)	4.62	Excess application	1.00%	Yes
2-Aug-24	Asia Television Holdings Limited	707	1 for 2	(46.80)	(37.00)	36.38	15.60	Compensatory arrangement	2.00%	No
31-Jul-24	Emperor International Holdings Limited	163	1 for 2	(30.60)	(23.60)	(96.10)	10.50	Excess application	1.50%	Yes
22-Jul-24	ROMA (Meta) Group Limited	8072	3 for 1	(23.08)	(7.41)	(97.23)	18.18	Compensatory arrangement	N/A	No
19-Jul-24	Trendzon Holdings Group Limited	1865	4 for 1	(14.30)	(3.23)	(93.70)	14.60	Compensatory arrangement	N/A	Yes
12-Jul-24	Guan Chao Holdings Limited	1872	4 for 1	(20.00)	(4.76)	(89.86)	20.07	Compensatory arrangement	0.75%	No
2-Jul-24	Tonking New Energy Group Holdings Limited	8326	1 for 2	(41.18)	(33.33)	(69.70)	11.76	Compensatory arrangement	1.00%	No
28-Jun-24	Jiading International Group Holdings Limited	8153	3 for 1	(16.67)	(4.76)	(91.67)	12.50	Compensatory arrangement	3.00%	No
27-Jul-24	Hanvey Group Holdings Limited	8219	1 for 2	(59.30)	(49.20)	(7.40)	19.80	Compensatory arrangement	3.50%	No
26-Jun-24	Ev Dynamics (Holdings) Limited	476	3 for 2	(3.06)	(1.04)	(93.79)	1.84	Compensatory arrangement	1.50%	No
25-Jun-24	Chong Fai Jewellery Group Holdings Company Limited	8537	3 for 1	(32.20)	(10.40)	(87.40)	24.60	Excess application	1.00%	No

Announcement date	Company name	Stock code	Basis for entitlement	Premium/(Discount) of the subscription price over/to Closing price (%)	Premium/(Discount) of the subscription price over/to the theoretical ex-right entitlement price (%)	Premium/(Discount) of the subscription price over/to the latest net asset value per share (%)	Theoretical dilution effect Note (%)	Excess application or compensatory arrangements	Placing commission	Underwritten
19-Jun-24	Bonny International Holding Limited	1906	1 for 4	(43.02)	(38.16)	(14.93)	8.71	Excess application	N/A	No
	Maximum			8.20	1.90	124.60	24.90		3.50%	
	Minimum			(73.68)	(65.27)	(98.98)	0.00		0.80%	
	Average			(27.16)	(17.78)	(56.80)	13.66		1.74%	
	Median			(30.60)	(10.52)	(79.45)	13.55		1.50%	
	The Company		3 for 1	(9.38)	(2.52)	(59.90)	8.08	Compensatory arrangement	3.00%	

Source: website of the Stock Exchange

Notes:

1. "N/A" denotes that the announcement did not disclose such information.

2. The theoretical dilution effect is calculated in according to Rule 10.44A of the Rules Governing of the Listing of Securities on GEM or Rule 7.27B of the Listing Rules.

As set out in the table above, we noted that:

(a) the discount of subscription price to the closing price on the last trading day of the Comparables ranged from approximately 73.68% to approximately positive 8.20%, with the average of discounts being approximately 27.16%. The Subscription Price represents a discount of approximately 9.38% to the closing price on the Last Trading Day, which is within the range and also much lower than the average discount of the Comparables;

(b) the discount of subscription price to the theoretical ex-rights price of the Comparables ranged from approximately 65.27% to approximately positive 1.90%, with the average of discounts of approximately 17.78%. The Subscription Price represents a discount of approximately 2.52% to the theoretical ex-rights price per Share on the Last Trading Day which is close to the lowest in the Comparables;

(c) the theoretical dilution effect of the Rights Issue Comparables ranged from 0% to approximately 24.90%. The theoretical dilution effect of the Rights Issue of approximately 8.08% is within the theoretical dilution range of the Comparables;

(d) the discount of subscription price to the latest net asset value per Share of the Comparables ranged from approximately 98.98% to approximately positive 124.60%, with the average of discounts of approximately 56.80%. The Subscription Price represents a discount of approximately 59.90% to the net asset value as at 30 September 2024 per Share which is close to the average in the Comparables;

(e) 18 out of 39 Comparables have facilitated excess application arrangements. Despite that the arrangement of excess application is less popular among the Comparables, such arrangement is permissible under Rule 7.21(1)(a) of the Listing Rules and allows fair participation of all Shareholders in the subscription of untaken rights should they wish to;

(f) the Rights Issue is on a non-underwritten basis, which is considered to be in line with market practice, given that 34 out of 39 Comparables were also conducted on a non-underwritten basis; and

(g) the placing commission rate of 3.0% under the Placing Agreement is within the range of the placing commission rates provided by the placing agents of the Comparables, which was ranged from nil to 3.50% of the fund raised.

We noted that the Subscription Price represents a significant discount to the Company's net asset value as at 31 March 2024 and 30 September 2024 as understand from the Management that the huge discount to the Company's unaudited net asset value per Share is due to the fact that the Shares have been traded at a price representing a low price-to-book ratio (PB ratio). The fact that (i) since 2 September 2024, the Share has traded below its net asset value continuously and this persistent undervaluation suggests that market participants do not perceive the net asset value as reflective of the Share's current value and (ii) the Subscription Price represents a discount of approximately 59.90% to the net asset value as at 30 September 2024 per Share which is within the range and close to the average in the Comparables, we are of the view that it is not relevant and practical to set a subscription price that benchmarks against the net asset value of the Company which would be significantly higher than the prevailing market price and defeat the purpose of attracting the Shareholders to participate in this fund raising exercise.

Whilst it is a common market practice to set the subscription price of a rights issue at a discount to the closing share prices on the last trading day and the theoretical ex entitlement prices in order to enhance the attractiveness of the rights issue for encouraging qualifying shareholders to participate in the rights issue.

In view of (i) the recent general downward trend of the closing price of the Shares and the trading volume of the Shares during the Share Price Review Period was generally thin as discussed in the section headed "3.4 Historical trading liquidity of the Shares" above; (ii) the discounts represented by the Subscription Price all fall within the range of the Comparables,; and (iii) the Rights Issue is available to all Qualifying Shareholders, we consider that the principal terms of the Rights Issue (including the Subscription Price) to be fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

4. Possible financial effects of the Rights Issue

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 September 2024 amounted to approximately HK$36.5 million. Upon completion of the Rights Issue, the Group will have unaudited consolidated net tangible assets of the Group attributable to owners of the Company being approximately HK$78.1 million.

4.2 Gearing

As at 30 September 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 55.1%. 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 debts. Therefore, the gearing ratio would be reduced after completion of the Rights Issue. Hence, the Directors consider that the Rights Issue 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 with the third parties financial institutions will be strengthened assuming the lowering of the gearing ratio and improved financial performance, we are of the view that the overall financial impact to the Group upon completion of the Rights Issue is in the interests of the Company and the Shareholders.

We draw attention to the shareholders and the Independent Board Committee and Independent Shareholders that the above analysis is based on full subscription basis. Subject to the fulfilment of conditions, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of provisionally allotted Rights Shares. Accordingly, if the Rights Issue is undersubscribed, the size of the Rights Issue will be reduced.

5. Possible dilution effect on interests of other public Shareholders

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.

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 will be diluted by up to a maximum of approximately 75.0%.

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

We are of the opinion that the terms of the Rights Issue (including the Subscription Price and the potential dilution effect) are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Grande Capital Limited

Erica Mak
Responsible Officer

Ms. Erica Mak is a Responsible Officer of Grande Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 12 years of experience in accounting and corporate finance in Hong Kong.