



Gram Capital Limited  
嘉林資本有限公司

28 January 2025

To: *The independent board committee and the independent shareholders  
of China Wood International Holding Co., Limited*

Dear Sir/Madam,

**PROPOSED RIGHTS ISSUE  
ON THE BASIS OF ONE RIGHTS SHARE  
FOR EVERY ONE EXISTING SHARE HELD ON RECORD DATE**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular dated 28 January 2025 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 19 November 2024, the Company announced its proposal to implement the Rights Issue on the basis of one Rights Share for every one existing Share held on the Record Date at the Subscription Price of HK\$0.111 per Rights Share, to raise gross proceeds of approximately HK\$45.6 million by issuing 411,219,340 Rights Shares to the Qualifying Shareholders.

With reference to the Board Letter, as the Rights Issue will increase the issued share capital of the Company by more than 50%, under Rule 7.19A and 7.27A of the Listing Rules, the Rights Issue is subject to approval of the Independent Shareholders at the EGM.

The Independent Board Committee comprising Mr. Zhao XianMing, Mr. Chan Lik Shan and Mr. So Yin Wai (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Rights Issue are on normal commercial terms and 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 in relation to the Rights Issue at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

## BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Rights Issue. 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.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Rights Issue. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### Information on the Group

With reference to the Board Letter, the principal activity of the Company is investment holding. The Group is principally engaged in wood-related business, including the processing and distribution of furniture wood, and the manufacturing and sales of antique-style wood furniture and other wooden products.

Set out below are the consolidated financial information of the Group as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report") and the Company's interim report for the six months ended 30 June 2024 (the "2024 Interim Report"):

	For the six months ended 30 June 2024 HK\$'000 (unaudited)	For the six months ended 30 June 2023 HK\$'000 (unaudited)	Year-on-year change %	For the year ended 31 December 2023 HK\$'000 (audited)	For the year ended 31 December 2022 HK\$'000 (audited)	Year-on-year change %
Revenue	175,090	102,259	71.22	323,411	145,378	122.46
– Car rental	4,822	5,321	(9.38)	11,326	11,901	(4.83)
– Wood-related business	170,268	96,938	75.65	312,085	133,049	134.56
– Others	–	–	N/A	–	428	(100.00)
Gross profit	15,519	22,105	(29.79)	38,772	24,112	60.80
(Loss)/profit for the period/year attributable to owners of the Company	(2,361)	(58,210)	(95.94)	1,200,803	(150,133)	N/A
	As at 30 June 2024 HK\$'000 (unaudited)	As at 31 December 2023 HK\$'000 (audited)	As at 31 December 2022 HK\$'000 (audited)			
Cash and cash equivalents	701	3,522	4,060			
Net liabilities	(44,005)	(41,711)	(1,402,852)			

As depicted from the table above, the Group's revenue increased significantly by approximately 122.46% from approximately HK\$145.38 million for the year ended 31 December 2022 ("FY2022") to approximately HK\$323.41 million for the year ended 31 December 2023 ("FY2023"). With reference to the 2023 Annual Report, such increase mainly resulted from increase in revenue generated from wood-related business from approximately HK\$133.05 million for FY2022 to approximately HK\$312.09 million for FY2023. In addition, the Group's gross profit also increased by approximately 60.80% from FY2022 to FY2023 and the Group recorded profit attributable to owners of the Company for FY2023 in contrast to loss attributable to owners of the Company for FY2022. With reference to the 2023 Annual Report and as advised by the Directors, such improvements were mainly due to (i) the aforesaid increase in the Group's revenue; (ii) decrease in net allowances for expected credit losses on trade and other receivables; and (iii) substantial gain on the scheme of arrangement (which became effective on 11 July 2023) as detailed in the Company's circular dated 5 August 2022.

As depicted from the table above, the Group's revenue increased substantially by approximately 71.22% from approximately HK\$102.26 million for the six months ended 30 June 2023 ("1H2023") to approximately HK\$175.09 million for the six months ended 30 June 2024 ("1H2024"). With reference to the 2024 Interim Report, such increase mainly resulted from increase in revenue generated from wood-related business from approximately HK\$96.94 million for 1H2023 to approximately HK\$170.27 million for 1H2024. In contrast, the Group's gross profit for 1H2024 decreased by approximately 29.79% as compared to that for 1H2023. With reference to the 2024 Interim Report, such decrease was the result of downward pressure on profit margin by general slowdown of the wood-related business market. In addition, the Group's loss for the period attributable to owners of the Company decreased significantly from approximately HK\$58.21 million for 1H2023 to approximately HK\$2.36 million for 1H2024. With reference to the 2024 Interim Report and as advised by the Directors, such decrease was mainly due to substantial decrease in the finance costs, as partially offset by decrease in gross profit and increase in administrative expenses.

As depicted from the table above, the Group recorded (i) net liabilities of approximately HK\$1,402.85 million, approximately HK\$41.71 million and approximately HK\$44.01 million as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively; and (ii) cash and cash equivalents of approximately HK\$4.06 million, approximately HK\$3.52 million and approximately HK\$0.70 million as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively.

With reference to the 2024 Interim Report, the Group has been actively studying business opportunities in areas including the functional food and beverage industry; and the health and beauty industry in the PRC. In this regard, the Group is contemplating to conduct fundraising exercise(s) to finance such business opportunities.

#### **Reasons for the Rights Issue and use of proceeds**

With reference to the Board Letter, the Rights Issue will allow the Qualifying Shareholders who elect not to participate in the Rights Issue are able to sell the nil-paid Rights Shares in the market while the Qualifying Shareholders who wish to increase their shareholding in the Company through the Rights Issue are able to acquire additional nil-paid Rights Shares in the market and/or through application for excess Rights Shares.

The Directors consider that the Rights Issue provides a good opportunity for the Group to strengthen its capital base without incurring debt financing cost and to enhance its financial position, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company. Therefore, the Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

#### *Financing alternatives*

With reference to the Board Letter and as confirmed by the Directors:

- The Company has considered fund raising by issuing debt security or debt financing but the Board considers that any further debt financing or borrowings would worsen the gearing ratio (we noticed from the 2023 Annual Report and 2024 Interim Report that the Group's gearing ratio was approximately 431.74% as at 31 December 2022, approximately 11.00% as at 31 December 2023 and approximately 19.49% as at 30 June 2024) and incur further interest expenses of the Company (we noticed from the 2023 Annual Report and 2024 Interim Report that the Group's finance costs was approximately HK\$113.74 million for FY2022, approximately HK\$68.76 million for FY2023 and approximately HK\$1.20 million for 1H2024).

- The Board also considered the option of placing of new Shares, but taking into account (i) the engagement of a placing agent which would incur additional costs and expenses on the part of the Company; and (ii) the dilution of the interests of Shareholders without giving them the opportunity to take part in the exercise, it was not considered by the Board to be the most suitable fund-raising method for the Company on this occasion.
- The Board considered that a rights issue would be more favourable and attractive to the Shareholders than an open offer because it would allow Shareholders to have more flexibility in dealing with the Shares and the nil paid rights attaching thereto.
- The Board considered that the Rights Issue will allow the Qualifying Shareholders who elect not to participate in the Rights Issue are able to sell the nil-paid Rights Shares in the market while the Qualifying Shareholders who wish to increase their shareholding in the Company through the Rights Issue are able to acquire additional nil-paid Rights Shares in the market and/or through application for excess Rights Shares.
- The Directors consider that the Rights Issue provides a good opportunity for the Group to strengthen its capital base without incurring debt financing cost and to enhance its financial position, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company.

Given the above, we consider that the Rights Issue is an appropriate fund-raising method currently available to the Group.

*Use of proceeds*

With reference to the Board Letter, the net proceeds from the Rights Issue (after deducting the estimated expenses) are estimated to be approximately HK\$44.6 million (the “Net Proceeds”). The Group has been actively studying business opportunities in areas including the functional food and beverage industry; and the health and beauty industry in the PRC. The Company intends to apply the Net Proceeds from the proposed Rights Issue as follows:

- (i) approximately 44.8% of the Net Proceeds, or approximately HK\$20.0 million, for investment in functional food and beverage business in the PRC. The Company currently intends to apply the net proceeds allocated for the development of the functional food and beverage business of the Group in the PRC as follows during the 12 months following the completion of the Rights Issue: (a) approximately HK\$8.0 million for the acquisition of research and development equipment for the development of proprietary rights and technology related to functional food products; (b) approximately HK\$3.0 million for costs associated with the continuous testing and development of functional food products; (c) approximately HK\$3.0 million for the recruitment of management and technical staff with established knowledge and over five years of experience in the Hong Kong and/or PRC food and beverage industry; and (d) approximately HK\$6.0 million for setting up a sales and marketing team and engaging opinion leaders to promote the functional food and beverage products developed by the Group; and
- (ii) approximately 55.2% of the Net Proceeds, or approximately HK\$24.6 million, for general working capital of the Group, including but not limited to operational costs, staff costs, rental expenses, professional fees and other office overheads of the Group.

With reference to the Board Letter, in the fourth quarter of 2024, the Company has established Shenzhen Weijianbao Food Technology Co. Ltd.\* (深圳維健寶食品科技有限公司) (i.e. Shenzhen Weijianbao), a wholly-owned subsidiary of the Company in the PRC, to conduct functional food and beverage business in the PRC. The Group has allocated up to HK\$2 million out of its working capital for the initial setup and operation of Shenzhen Weijianbao. To assist in the initial setup and operation of Shenzhen Weijianbao, out of the HK\$2 million allocated, the Group has appointed an independent consultant who holds a degree in business administration and having over 10 years of business development management experience in the food and beverage industry; and another independent consultant who holds a degree in bio-science and having over 10 years of research development management experience in the food and beverage industry. To minimize business risk and on the strength of the Group expertise and experience in PRC marketing,



the Group initially has marketed functional food and beverage products, supplied by ODM supplier, under its own branding through direct sales channel and achieved a revenue of approximately HK\$1 million in the fourth quarter of 2024. Given the initial positive response, the Group believes that it will be beneficial to further develop the functional food and beverage business in the PRC. As at the Latest Practicable Date, the Company has not identified any potential targets for acquisition or formation of joint venture in relation to its planned development of functional food and beverage business in the PRC. To further develop the business in the functional food and beverage industry, the Group also plans (the “Plans”) to (i) recruit additional management and technical staff with established knowledge and experience in the functional food and beverage industry; (ii) conduct research activities for the development of proprietary rights and technology related to functional food and beverage to enhance competitive advantages of the Group’s products, production of the Group’s products will remain to be outsourced to external independent suppliers; and (iii) set up a sales and marketing team and engaging opinion leaders designated for the promotion of functional food and beverage products and the development of its functional food and beverage business in the PRC through direct sales channels. The Group has no plan to change the development of its wood-related business. In light of the robust growth in the PRC functional foods market, the Board considers that it is in the interests of the Company and the Shareholders as a whole for the Group to develop its functional food and beverage business in the PRC.

To further understand the market conditions of the functional food and beverage industry in the PRC, we searched for relevant market information as follows:

We noted from the Board Letter and confirmed with the Directors that the Company made reference to a market research report titled “China Functional Foods Market Size & Outlook, 2023-2030” (<https://www.grandviewresearch.com/horizon/outlook/functional-foods-market/china>) published by Grand View Research when considering the functional food and beverage business in the PRC. Based on our independent search, we identified the aforesaid report overview which illustrated that (i) the PRC functional foods market generated revenue of US\$36,776.7 million in 2023 and is expected to reach US\$67,692.3 million by 2030; and (ii) the PRC functional foods market is expected to grow at a compound annual growth rate of 9.1% from year 2024 to 2030. According to the website of Grand View Research, Grand View Research is an India & United States based market research and consulting company, registered in the State of California and headquartered in San Francisco. Grand View Research provides syndicated research reports, customized research reports, and consulting services. Grand View Research database is used by the world’s renowned academic institutions and Fortune 500 companies to understand the global and regional business environment. Its database features thousands of statistics and in-depth analysis on 46 industries in 25 major countries worldwide. Having considered Grand View Research’s profile as stated above, we consider that it is justifiable for the Company to make reference to the above data.

Having taken into account:

- (i) the Group's experience in PRC business;
- (ii) that the Group has engaged two experienced independent consultants relating to food and beverage industry;
- (iii) the Plans;
- (iv) that in the fourth quarter of 2024, after Shenzhen Weijianbao's incorporation, it achieved revenue of approximately HK\$1 million; and
- (v) the positive market outlook as set out in the above paragraph,

we do not doubt the feasibility of the Group's business development in the functional food and beverage business in the PRC.

As illustrated in the section headed "Information on the Group" above, the Group's cash and cash equivalents decreased from approximately HK\$4.06 million as at 31 December 2022 to (a) approximately HK\$3.52 million as at 31 December 2023; and (b) approximately HK\$0.70 million as at 30 June 2024. The Group also recorded net liabilities of approximately HK\$44.01 million as at 30 June 2024.

In light of the above, we consider that intended use of the Net Proceeds could (a) support the Group's business expansion in the functional food and beverage industry in the PRC and the Group's business operation; and (b) enhance the Group's financial position.

Having considered (i) reasons for the Rights Issue as mentioned above; (ii) that the Rights Issue is an appropriate fund-raising method currently available to the Group; and (iii) the intended use of the Net Proceeds as set out above could (a) support the Group's business expansion in the functional food and beverage industry in the PRC and the Group's business operation; and (b) enhance the Group's financial position, we are of the view that although the Rights Issue is not conducted in the Group's ordinary and usual course of business, it is in the interest of the Company and the Shareholders as a whole.

### Principal terms of the Rights Issue

Set out below are the principal terms of the Rights Issue as extracted from the Board Letter:

Basis of the Rights Issue:	One Rights Share for every one existing Share held on the Record Date
Subscription Price:	HK\$0.111 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	411,219,340 Shares
Number of Rights Shares:	Up to 411,219,340 Rights Shares (assuming no Shares are issued or repurchased on or before the Record Date)
Amount to be raised by the Rights Issue before expenses:	Up to approximately HK\$45.6 million

For further details of the Rights Issue, please refer to the section headed "PROPOSED RIGHTS ISSUE" of the Board Letter.

### *Analysis on the Subscription Price*

With reference to the Board Letter, the Subscription Price of HK\$0.111 per Rights Share represents:

- (i) a discount of approximately 68.3% to the closing price of HK\$0.350 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 45.0% to the closing price of HK\$0.202 per Share as quoted on the Stock Exchange on the Last Trading Day (the "LTD Discount");
- (iii) a discount of approximately 48.6% to the average of the closing prices of approximately HK\$0.216 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day (the "5 Days Discount"); and

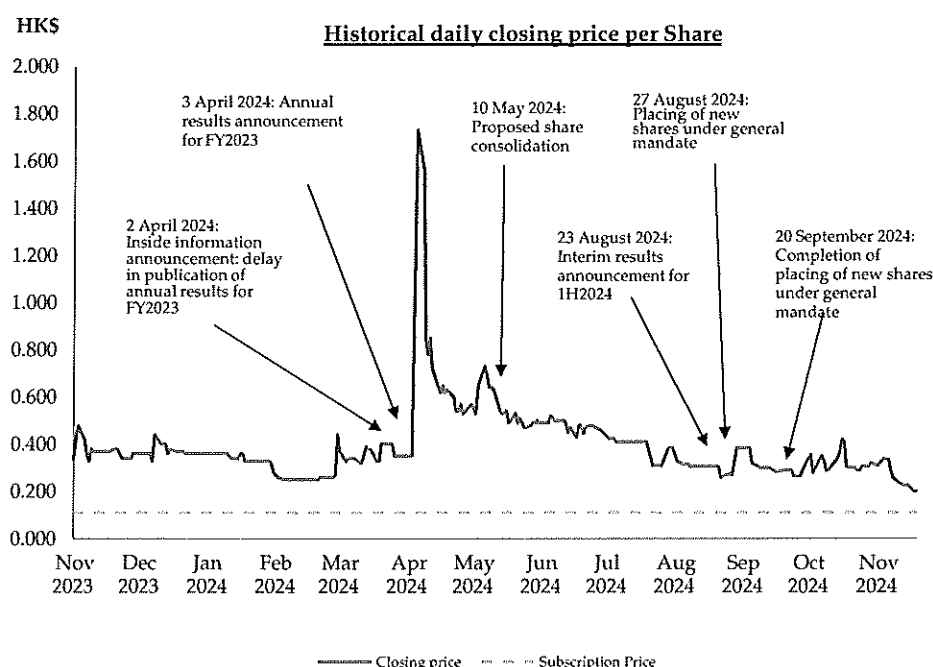
- (iv) a discount of approximately 29.1% to the theoretical ex-rights price of HK\$0.1565 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.202 per Share as quoted on the Stock Exchange on the Last Trading Day (the “TERP Discount”).

With reference to the Board Letter, the Rights Issue will result in a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 24.95%, represented by the theoretical diluted price of approximately HK\$0.1663 per Share to the benchmarked price of HK\$0.2216 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account 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).

With reference to the Board Letter, the Subscription Price was determined with reference to, among others, (i) the market prices of the Shares under the prevailing market conditions and the relevant discount to the closing prices; (ii) the latest business performance and financial position of the Group; and (iii) the reasons for and benefits of proposed Rights Issue as discussed in the section headed “REASONS FOR AND BENEFITS OF THE PROPOSED RIGHTS ISSUE AND INTENDED USE OF PROCEEDS” in the Board Letter.

a) *Share price performance*

In order to assess the fairness and reasonableness of the Subscription Price, we reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 1 November 2023 up to and including the Last Trading Day (the “Review Period”), being a period of approximately one year up to and including the Last Trading Day, which is commonly adopted for analysis, and the number of trading days during the Review Period is sufficient for us to perform a thorough analysis on the historical closing prices of Shares with the Subscription Price. Hence, we consider the duration of the Review Period is adequate and appropriate. The comparison of daily closing prices of the Shares and the Subscription Price is illustrated as follows:



Source: The Stock Exchange's website

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.20 recorded on 18 November 2024 and HK\$1.73 recorded on 5 April 2024 respectively.

From the start of the Review Period to 3 April 2024, the closing price of the Shares fluctuated between HK\$0.25 and HK\$0.48. Subsequently, the closing price of the Shares surged and reached its highest of HK\$1.730 on 5 April 2024. Thereafter, the closing price of Shares decreased significantly and recorded HK\$0.62 on 16 April 2024. Since then, the closing price of Shares formed a general downward trend and hit the lowest of HK\$0.20 on 18 November 2024. The closing price of Shares was HK\$0.202 on the Last Trading Day.

The Subscription Price of HK\$0.111 is below the closing prices of Shares during the Review Period.

*b) Liquidity*

Set out below are (i) the number of trading days; (ii) the percentage of the Shares' average daily trading volume (taking into account the Group's share consolidation as disclosed in the Company's announcement dated 10 May 2024, which became effective on 18 June 2024) (the "Average Volume") as compared to the total number of issued Shares held by the Public Shareholders as at the Latest Practicable Date; and (iii) the percentage of the Average Volume as compared to the total number of issued Shares as at the Latest Practicable Date, during the Review Period:

Month	No. of trading days in each month	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date %	% of the Average Volume to total number of issued Shares held by the Public Shareholders as at the Latest Practicable Date %
<b>2023</b>			
November	22	0.03	0.08
December	19	0.00	0.01
<b>2024</b>			
January	22	0.00	0.00
February	19	0.02	0.04
March	20	0.01	0.03
April	20	0.45	0.99
May	21	0.10	0.21
June	18	0.01	0.03
July	22	0.00	0.01
August	22	0.01	0.02
September	19	0.01	0.02
October	21	0.08	0.17
November (up to and including the Last Trading Day)	13	0.08	0.18

Source: The Stock Exchange's website

Notes:

1. Based on 185,121,255 Shares held by the Public Shareholders as at the Latest Practicable Date as disclosed under the Board Letter.
2. Based on 411,219,340 issued Shares as at the Latest Practicable Date as disclosed under the Board Letter.

We noted from the above table that the liquidity of the Shares was thin during the Review Period. The Average Volume during the Review Period was below 1% of (i) the total number of issued Shares held by the Public Shareholders; and (ii) the total number of issued Shares, as at the Latest Practicable Date.

As aforementioned, the Subscription Price of HK\$0.111 is below the closing prices of Shares during the Review Period. Given (i) the thin liquidity of the Shares during the Review Period; (ii) the downward trend of the Shares closing prices from 8 April 2024 to the Last Trading Day; and (iii) the Group's net liabilities as at 31 December 2023 and 30 June 2024, we consider that it is reasonable to offer discount for the Subscription Price to promote the attractiveness of the Rights Shares to the Qualifying Shareholders who are entitled to subscribe for the Rights Shares.

c) *Comparables*

As part of our analysis, we also searched for rights issue transactions (i) which were not lapsed or terminated up to the Latest Practicable Date; and (ii) involving issuance of ordinary shares, announced from 19 August 2024 up to the Last Trading Day (being a period of three months to generate a reasonable and meaningful number of sample size of 22 Hong Kong listed companies and include sufficient comparables for analysis), by companies listed on the Stock Exchange. To the best of our knowledge and as far as we are aware of, we found 22 rights issue transactions (the "Comparables") which met the aforesaid criteria and they are exhaustive. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables and we have not conducted any independent verification with regard to the businesses and operations of such companies. Although the scale, entitlement and size of fundraising of Rights Issue are not the same as the those of the Comparables, the Comparables can demonstrate the recent market practices of rights issue transactions conducted by Hong Kong listed companies.

Company name (stock code)	Date of announcement	Basis of entitlement	Premium/ (discount) of the subscription price to the closing price per share on the last trading day immediately prior to publication of announcement in relation to the respective rights issue %	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to publication of announcement in relation to the respective rights issue %	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price on last trading day in relation to the respective rights issue %	Theoretical dilution effect in relation to the respective rights issue (the "Theoretical Dilution Effect") %	Excess application/ Placing arrangement
BeijingWest Industries International Limited (2339)	22 August 2024	1 for 2	(13.85)	(14.29)	(9.68)	(4.66)	Excess application
Guangdong – Hong Kong Greater Bay Area Holdings Limited (1396)	2 September 2024	1 for 2	(22.03)	(21.77)	(15.84)	(8.27)	Excess application
China New Consumption Group Limited (8275)	4 September 2024	1 for 2	(5.66)	(7.24)	(3.85)	(2.32)	Placing arrangement



Company name (stock code)	Date of announcement	Basis of entitlement	Premium/ (discount) of the subscription price to the closing price per share on the last trading day immediately prior to publication of announcement in relation to the respective rights issue %	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to publication of announcement in relation to the respective rights issue %	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price on last trading day in relation to the respective rights issue %	Theoretical dilution effect in relation to the respective rights issue (the "Theoretical Dilution Effect") %	Excess application/ Placing arrangement
Crown International Corporation Limited (727)	9 September 2024	1 for 2	2.27	32.74	1.47	0.80	Excess application
Shougang Century Holdings Limited (103)	13 September 2024	1 for 5	10.00	8.20	8.20	1.38	Excess application
Dragon Rise Group Holdings Limited (6829)	13 September 2024	1 for 1	(48.72)	(48.19)	(32.20)	(24.36)	Placing arrangement
Shougang Fushan Resources Group Limited (639)	23 September 2024	1 for 30	1.56	2.36	1.51	0.05	Excess application
Hatcher Group Limited (8365)	23 September 2024	3 for 1	(31.51)	(24.01)	(10.33)	(23.62)	Placing arrangement
Innovax Holdings Limited (2680)	26 September 2024	1 for 2	(67.39)	(68.35)	(57.94)	(22.46)	Placing arrangement
China National Culture Group Limited (745)	2 October 2024	2 for 1	(31.97)	(31.51)	(2.85)	(21.29)	Placing arrangement
Palinda Group Holdings Limited (8179)	4 October 2024	1 for 2	(18.70)	(9.42)	(13.27)	(6.26)	Excess application
V & V Technology Holdings Limited (8113)	8 October 2024	1 for 2	(31.51)	(26.04)	(23.43)	(10.55)	Excess application
Eminence Enterprise Limited (616)	15 October 2024	2 for 1	(8.00)	(24.34)	(13.53)	(21.30)	Placing arrangement
Gaodi Holdings Limited (1676)	18 October 2024	1 for 2	37.93	38.89	22.44	12.66	Placing arrangement
Kingkey Financial International (Holdings) Limited (1468)	18 October 2024	1 for 2	Nil	8.59	Nil	Nil	Excess application
China 33 Media Group Limited (8087)	21 October 2024	3 for 2	(7.41)	(8.31)	(3.10)	(4.44)	Excess application
IRC Limited (1029)	22 October 2024	1 for 2	(15.00)	(17.15)	(10.53)	(6.07)	Excess application
Yuzhou Group Holdings Company Limited (1628)	31 October 2024	49 for 100	(73.68)	(72.99)	(65.28)	(24.21)	Excess application
China Water Industry Group Limited (1129)	6 November 2024	1 for 1	(49.85)	(49.54)	(33.20)	(24.92)	Placing arrangement
Far East Holdings International Limited (36)	11 November 2024	2 for 1	(35.77)	(35.27)	(15.66)	(23.85)	Placing arrangement
HG Semiconductor Limited (6908)	12 November 2024	1 for 4	(36.00)	(40.00)	(31.03)	(8.29)	Placing arrangement
Global Strategic Group Limited (8007)	15 November 2024	4 for 1	(12.50)	(14.63)	(2.78)	(10.00)	Excess application

Company name (stock code)	Date of announcement	Basis of entitlement	Premium/ (discount) of the subscription price to the closing price per share on the last trading day immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to publication of announcement in relation to the respective rights issue	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price on last trading day in relation to the respective rights issue	Theoretical dilution effect in relation to the respective rights issue (the "Theoretical Dilution Effect")	Excess application/ Placing arrangement
			%	%	%	%	
Maximum			37.93	38.89	22.44	12.66	
Minimum			(73.68)	(72.99)	(65.28)	(24.92)	
Average			(20.81)	(19.19)	(14.13)	(10.55)	
Median			(16.85)	(19.46)	(10.43)	(8.28)	
The Company	19 November 2024	1 for 1	(45.05)	(48.61)	(29.07)	(24.95)	Excess application

Source: the Stock Exchange's website

Note: As defined under Rule 7.27B of the Listing Rules or Rule 10.44A of the rules governing the listing of securities on GEM of the Stock Exchange (as the case may be).

As shown by the above table, the premium/discount as represented by the subscription prices of Comparables to (i) the respective closing price per share on last trading day immediately prior to publication of announcement in relation to the respective rights issue ranged from discount of approximately 73.68% to premium of approximately 37.93% (the "LTD Discount/Premium Market Range"); (ii) the average closing price per share for the last five consecutive trading days immediately prior to publication of announcement in relation to the respective rights issue ranged from discount of approximately 72.99% to premium of approximately 38.89% (the "5 Days Discount/Premium Market Range"); and (iii) the respective theoretical ex-rights price per share based on the closing price on last trading day in relation to the respective rights issue ranged from discount of approximately 65.28% to premium of approximately 22.44% (the "TERP Discount/Premium Market Range"). In addition, the Theoretical Dilution Effect of the Comparables ranged from discount of approximately 24.92% to premium of approximately 12.66% (the "Theoretical Dilution Effect Market Range").

We noted that, although the Theoretical Dilution Effect of the Rights Issue is slightly below the Theoretical Dilution Effect Market Range, the LTD Discount, the 5 Days Discount and the TERP Discount fall within the LTD Discount Market Range, 5 Days Discount Market Range and TERP Discount Market Range respectively.

Having considered that:

- (i) the Subscription Price of HK\$0.111 is below the closing prices of Shares during the Review Period;
- (ii) it is reasonable to offer discount for the Subscription Price to promote the attractiveness of the Rights Shares; and
- (iii) although the Theoretical Dilution Effect of the Rights Issue is slightly below the Theoretical Dilution Effect Market Range, the LTD Discount, 5 Days Discount and TERP Discount fall within the LTD Discount/Premium Market Range, 5 Days Discount/Premium Market Range and TERP Discount/Premium Market Range,

we consider the Subscription Price to be fair and reasonable.

### **Conditions of the Rights Issue**

With reference to the Board Letter, the Rights Issue will be conditional upon satisfaction of the conditions set out under the section headed “Conditions of the Rights Issue” of the Board Letter. The conditions are incapable of being waived by the Company. If any of the conditions is not satisfied by the Latest Time for Acceptance, the Rights Issue will not proceed. 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 there is an under subscription of the Rights Issue, any unsubscribed Rights Shares will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount which must be raised in order for the Rights Issue to proceed.

### **Application for excess Rights Shares**

Under the proposed Rights Issue, Qualifying Shareholders may apply, by way of excess application, for (i) any unsold entitlements of the Excluded Shareholder; and (ii) any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Details of application for excess Rights Shares are set out under the section headed “Application for excess Rights Shares” of the Board Letter.

### **Possible dilution effect to the existing public Shareholders**

All Qualifying Shareholders are entitled to subscribe for the Rights Shares in the same proportion to their existing shareholding in the Company held on the Record Date. The Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at discount to the prevailing market prices of the Shares and an opportunity to subscribe for excess Rights Shares subject to the level of acceptance. As in all other cases of rights issues, dilution of the shareholdings of those Qualifying Shareholders who do not take up in full their provisional allotments under the Rights Issue is inevitable. Nonetheless, the Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue are able to sell the nil-paid rights in the market;

With reference to the Board Letter, the Rights Issue will result in a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 24.95%, represented by the theoretical diluted price of approximately HK\$0.1663 per Share to the benchmarked price of HK\$0.2216 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account 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).

We are aware of the potential dilution effects as just mentioned. Nonetheless, we consider that the foregoing should be balanced by the following factors:

- Independent Shareholders are offered a chance to express their views on the terms of the Rights Issue through their votes at the EGM;
- Qualifying Shareholders have their choice of whether to accept the Rights Issue or not;
- The Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at discount to the prevailing market prices of the Shares and an opportunity to subscribe for excess Rights Shares subject to the level of acceptance; and
- Those Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue are able to sell the nil-paid rights in the market.

Having considered the above, we consider the potential dilution effects to be acceptable.

#### **Possible financial effects of the Rights Issue**

The unaudited pro forma statement of adjusted unaudited consolidated net tangible assets of the Group attributable to the owners of the Company (the “**Pro Forma Statement**”) to illustrate the effects of the Rights Issue, which is prepared as if the Rights Issue had taken place on 30 June 2024, is set out under Appendix II to the Circular.

According to the Pro Forma Statement, the adjusted unaudited consolidated net liabilities of the Group attributable to owners of the Company as at 30 June 2024 was approximately HK\$44.01 million and would become unaudited pro forma consolidated net tangible assets of the Group attributable to the owners of the Company of approximately HK\$15.84 million (based on 411,219,340 Rights Shares to be issued) as if the Rights Issue had taken place on 30 June 2024.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

#### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Rights Issue is not conducted under the Group's ordinary and usual course of business, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
Gram Capital Limited



Graham Lam  
*Managing Director*

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.