28 January 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

I. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; II. PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS; AND III. PROPOSED CHANGE IN BOARD LOT SIZE

INTRODUCTION

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

On 21 November 2024, the Company announced that it proposes to raise gross proceeds of up to approximately HK$47.3 million (assuming full subscription under the Rights Issue) by way of issuing up to 538,033,708 Rights Shares assuming no change in the number of Shares in issue on or before the Record Date) at the Subscription Price of HK$0.088 per Rights Share on the basis of one (1) Rights Share for every one (1) existing Share held by the Qualifying Shareholders at the close of business on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholders (if any).

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully-subscribed, any Unsubscribed Rights Shares together with the ES Unsold Rights Shares will be made available for excess application under the EAFs. There are no statutory requirements regarding the minimum subscription levels in respect of the Rights Issue and there is no minimum amount to be raised under the Rights Issue.

大有融資有限公司 MESSIS CAPITAL LIMITED
電話 Tel: (852) 2525 3103 傳真 Fax: (852) 2525 9980
香港灣仔軒尼詩道303號協成行灣仔中心13樓1303室 Room 1303, 13/F., OfficePlus @Wan Chai, No. 303 Hennessy Road, Wanchai, Hong Kong

As advised by the Company, Shareholders will be informed by way of announcement of the Company if there are material changes in the shareholding structure of the Company after the Latest Practicable Date.

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 by more than 50% within a 12 month period immediately preceding the Latest Practicable Date, the Rights Issue will be subject to the approval by the Independent Shareholders at the EGM by way of poll at which the Controlling Shareholders and their associates or, where there are no Controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue at the EGM.

As at the Latest Practicable Date, Hehui International, being a Controlling Shareholder, directly holds 269,564,510 Shares, representing approximately 50.10% of the total issued share capital of the Company as at the Latest Practicable Date. Hehui International is a company wholly-owned by Mr. Yuan, the chairman of the Board and a non-executive Director of the Company. Accordingly, Hehui International, Mr. Yuan and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.27A of the Listing Rules.

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

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wu Jilin, Mr. Lam Cheung Shing Richard and Mr. So Yin Wai, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM.

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders on (i) whether the terms of the Rights Issue are fair and reasonable; (ii) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the relevant resolutions to be proposed at the EGM in relation to the Rights Issue.

We have not acted as an independent financial adviser or financial adviser for other transactions of the Group 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 resolutions, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Group and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Group and/or the Directors and/or its senior management staff (the "**Management**"). We have assumed that all statements, information and representations provided by the Directors and the Management, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in this 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 adviser and/or the Directors, which have been provided to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable and there are no reasons to doubt the accuracy and reliability of such public information.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statement contained in this Circular misleading.

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

The Group is principally engaged in accommodation operations, provision of accommodation consultations and property facilities management services and other related business. As at the Latest Practicable Date, the Group had five leased-and-operated accommodation projects under operation (i.e. Huizhou Branch, Nanshan Branch, Baoan Branch, Chengdu Branch and Wuhan Branch). Revenue from accommodation operations is mainly derived from rental of accommodation and conference facilities and provision of property facilities management and accommodation consultation services.

1.1 Historical Information of the Group

The summary of the key items of the Group's (i) consolidated statement of profit or loss for the financial year ended 31 December ("**FY**") 2022 and 2023 respectively, and for the six months ended 30 June ("**1H FY**") 2023 and 2024 respectively; and (ii) consolidated statement of financial position as at 31 December 2023 and 30 June 2024 are set out below:

Consolidated statement of profit or loss

	FY2023	**FY2022**	**1H FY2024**	**1H FY2023**
		HK$'000		
Revenue	**67,661**	**63,002**	**19,104**	**30,524**
– *Accommodation operations and provision of property facilities management services*	58,247	54,654	17,978	29,423
– *Provision of accommodation consultation services*	9,414	8,348	1,126	1,101
Employee benefit expenses	(17,722)	(21,585)	(8,332)	(10,822)
Other operating expenses	(12,891)	(19,692)	(5,450)	(7,348)
Reversal on allowance for expected credit loss model on financial assets at amortised cost	–	–	11,283	–
Allowance for expected credit loss model on financial assets at amortised cost	(14,573)	(208)	–	–
Impairment on non-financial assets	(41,760)	–	–	–
Operating profit/(loss)	**(52,882)**	**(8,716)**	**4,287**	**(3,530)**
Finance costs	(5,791)	(7,387)	(3,060)	(3,531)
Profit/(loss) before income tax	**(58,673)**	**(16,103)**	**1,227**	**(7,061)**
Profit/(loss) for the year/period	**(61,768)**	**(17,647)**	**979**	**(7,818)**
– *Owners of the Company*	(38,178)	(7,794)	3,211	(5,348)
– *Non-controlling interests*	(23,590)	(9,853)	(2,232)	(2,470)

1H FY2024 vs 1H FY2023

The Group's revenue recorded a lower revenue of approximately HK$19.1 million for 1H FY2024 in comparison with that of approximately HK$30.5 million for 1H FY2023, representing a decrease of approximately 37.4%, which was primarily due to the decrease in revenue generating from accommodation operations and provision of property facilities management services, resulting from the reduction in occupancy rate, caused by an overall drop in market sentiment of the hotel industry in the PRC and expiry of contracts on certain long stay customers in Huizhou.

The Group turned a net loss attributable to Shareholders of approximately HK$5.3 million to a net profit attributable to Shareholders of approximately HK$3.2 million, which was mainly due to the (i) decrease in employee benefit expenses from approximately HK$10.8 million to approximately HK$8.3 million; (ii) decrease in other operating expenses from approximately HK$7.3 million to approximately HK$5.5 million; and (iii) the increase in reversal on allowance for expected credit loss model on financial assets at amortised cost from nil to approximately HK$11.3 million during the same period.

FY2023 vs FY2022

The Group's revenue remained relatively stable from approximately HK$63.0 million for FY2022 to approximately HK$67.7 million for FY2023.

The Group's net loss attributable to Shareholders increased from approximately HK$7.8 million for FY2022 to approximately HK$38.2 million for FY2023, representing an increase by approximately 3.9 times, which was primarily due to (i) the increase in allowance for expected credit loss model on financial assets at amortised cost from HK$0.2 million to approximately HK$14.6 million; and (ii) increase in impairment on non-financial assets from nil to approximately HK$41.8 million during the same period.

Consolidated statement of financial position

	As at 30 June 2024	As at 31 December 2023
	HK$'000	
Non-current assets	102,933	118,101
Current assets	8,363	9,218
Current liabilities	75,304	81,407
Non-current liabilities	116,291	128,653
Net liabilities	(80,299)	(82,741)

The Group's total assets decreased from approximately HK$127.3 million as at 31 December 2023 to approximately HK$111.3 million as at 30 June 2024, which was primarily due to the decrease in non-current assets of right-of-use assets from approximately HK$92.0 million as at 31 December 2023 to approximately HK$81.4 million as at 30 June 2024, representing a decrease of approximately 11.5%.

The Group's total liabilities decreased from approximately HK$210.1 million as at 31 December 2023 to approximately HK$191.6 million as at 30 June 2024, which was mainly due to the decrease in non-current liabilities of lease liabilities from approximately HK$128.2 million to approximately HK$115.8 million as at 30 June 2024, representing a decrease of approximately 9.7%.

1.2 Outlook and prospects of the Group

According to the interim report of the Company for the six months ended 30 June 2024, the Company strived to overcome the challenges under the current social and economic circumstances including the geopolitical tension, downward pressure on the Chinese economy and increasingly cautious consumer sentiment, by exploring more cooperation business opportunities, reviewing and accommodating the marketing strategies, and enhance communication with corporate clients in order to fulfill their needs.

The Group also mentioned that the Company has been actively assessing the potential business diversification by leveraging on its subsisting expertise, network and experience in doing business in the PRC.

Considering the historical financial information of the Group as mentioned under subsection 1.1 above, we are of the view that it is reasonable for the Company to explore more potential business return to benefit the Shareholders if they think fit.

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

2.1 The funding needs

As stated in the "Letter from the Board", the Company has assessed the potential market value of the PRC skincare market and considered it in the interests of the Company and its Shareholders as a whole to develop the business in the sale of bioregenerative, collagen and anti-aging skincare products by leveraging on the resources arising from collaboration with key players in the healthcare and beauty industry together with the self-development of proprietary rights and technology.

As at the Latest Practicable Date, the Company has established Shenzhen Ailansi Bio-technology Co. Ltd.* (深圳雅蘭斯生物科技有限公司), a wholly-owned subsidiary in the PRC to conduct healthcare and beauty business. The Company has allocated up to HK$5 million for its initial setup and operation. The Company has recruited (i) an independent consultant, who is a licensed pharmacist and has accumulated over 20 years of experience in the healthcare, beauty and pharmaceutical industry, primarily responsible for the development, management and formulation of business strategies of the Group's healthcare and beauty business; and (ii) another independent research and development staff, who has accumulated over 30 years of research and development experience in the healthcare and beauty industry. Since the fourth quarter of 2024, the Group has embarked on the sales and promotion of healthcare and beauty products supplied by third party suppliers under its own branding through direct sales channel in the PRC and generated revenue of approximately RMB1.0 million up to the Latest Practicable Date. Taking into consideration the Group's healthcare and beauty products have been well received by the market, the Group has been prompted to further develop and strengthen its market share in the healthcare and beauty industry in the PRC.

As at the Latest Practicable Date, the Company has not identified any potential targets for the formation of business collaboration or joint venture in relation to its planned development of healthcare and beauty business. Apart from the anticipated business collaboration with key players in the healthcare and beauty industry, the Group will further (i) recruit management and technical staff with established knowledge and experience in the healthcare and beauty industry; (ii) conduct research activities for the development of proprietary rights and technology related to bioregenerative, collagen and anti-aging skincare products; and (iii) expand a sales and marketing team designated for the promotion of skincare products and the development of its healthcare and beauty business.

As at 30 June 2024, the Group recorded total liabilities of approximately HK$191.6 million mainly comprising borrowings and lease liabilities of approximately HK$28.6 million and HK$143.9 million, respectively. Besides, the Group recorded net liabilities of approximately HK$80.3 million as at 30 June 2024. Taking into consideration the Group's indebtedness and gearing ratio, the Directors consider that it is financially prudent for the Group to conduct equity financing in the form of the Rights Issue to strengthen its general working capital reserve and to finance the development of its healthcare and beauty business.

Assuming there will be no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date and full subscription of the Rights Issue, the maximum net proceeds from the Rights Issue (after deducting the related expenses) is expected to be approximately HK$46.3 million. The Company intends to apply the net proceeds from the Rights Issue as follows: (i) approximately 51.8% of the net proceeds or approximately HK$24.0 million for developing the healthcare and beauty business of the Group; The Company currently intends to apply the net proceeds allocated for the development of the healthcare and beauty business of the Group as follows during the 12 months following the completion of the Rights Issue: (a) approximately HK$10.0 million for the acquisition of research and development equipment for the development of proprietary rights and technology related to bioregenerative, collagen and anti-aging skincare products; (b) approximately HK$4.0 million for costs associated with the continuous testing and development of skincare products; (c) approximately HK$3.0 million for the recruitment of management and technical staff with established knowledge and over three years of experience in the Hong Kong and/or PRC healthcare and beauty industry; and (d) approximately HK$7.0 million for setting up a sales and marketing team and engaging key opinion leaders (KOL) to promote the skincare products developed by the Group; and (ii) approximately 48.2% of the net proceeds or approximately HK$22.3 million for enhancing the general working capital of the Group.

In the event that there is an undersubscription of the Rights Issue, the net proceeds of the Rights Issue will be utilised in proportion to the above uses.

We are of the view that the proposed Rights Issue was in line with the Company's business plan as disclosed in the interim report of the Company for the six months ended 30 June 2024, and it is reasonable for the Company to split the net proceeds into approximate 50/50 portion considering that (i) the Company will continue to focus on the accommodation and related business; and (ii) the development of the skincare business is expected to incur a significant amount of costs arising from the corresponding recruitment, research and marketing activities.

2.2 *Fund raising method*

We noted that the Company has also considered other debt/equity fund raising alternatives such as bank borrowings, placing, or an open offer.

In respect of debt financing, we concurred with the Directors' view that debt financing may not be a favourable mean to raise funds given the Company was already in net liabilities position of approximately HK$80.3 million as at 30 June 2024.

In respect of other equity fund raising alternatives such as the placing of new shares or open offer as considered by the Directors, we noted that the Directors considered that if adopting such alternatives, except for the Rights Issue, the existing Shareholders were not provided the opportunities to participate in the continuous business plan of the Company and maintain their proportionate shareholdings, which may not be the priority for the Company. We are of the view that such consideration is fair and reasonable, given the Company places the Shareholders' right of interests as a priority, and the Shareholders also have the discretion to decide whether to participate in the proposed Rights Issue or not at a substantial discount of the prevailing market price of the Shares.

We are of the view that the proposed Rights Issue provides certainty and flexibility for the Shareholders in whether to get the proportionate entitlements with their respective shareholding, which is fair and reasonable.

3. **Principal terms of the Rights Issue and the Placing**

3.1 *Summary of the key terms*

Basis of the Rights Issue	One (1) Rights Share for every one (1) existing Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	HK$0.088 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	538,033,708 Shares
Maximum number of Rights Shares to be issued	538,033,708 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Approximate aggregate nominal value of the Rights Shares	HK$5,380,337.08 (assuming no change in the number of Shares in issue on or before the Record Date)
Number of Shares in issue upon completion of the Rights Issue (assuming the Rights Issue is fully subscribed)	1,076,067,416 Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Net subscription price per Rights Share (i.e. Subscription Price less Rights Issue expenses)	Approximately HK$0.086 per Rights Share
Maximum gross proceeds to be raised from the Rights Issue before expenses	Approximately HK$47.3 million
Maximum net proceeds to be raised from the Rights Issue after expenses	Approximately HK$46.3 million
Rights of excess application	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotments

As at the Latest Practicable Date, the Company has no outstanding derivatives, warrants, options or convertible securities or other similar rights which are convertible or exchangeable into Shares.

For further information of the Rights Issue and the Placing, please refer to the "Letter from the Board" in the Circular.

3.2 *Subscription Price*

The Subscription Price of HK$0.088 per Rights Share represents:

(i) a discount of approximately 53.44% to the closing price of HK$0.189 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 49.71% to the closing price of HK$0.175 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 49.60% to the average closing price of approximately HK$0.1746 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 50.87% to the average closing price of approximately HK$0.1791 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 33.08% to the theoretical ex-rights price of approximately HK$0.1315 per Share based on the benchmarked price of HK$0.175 per Share (as defined under Rule 7.27B of the Listing Rules), taking into account the higher of (i) the closing price of HK$0.175 per Share on the Last Trading Day; and (ii) the average closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day of HK$0.1746 per Share);

(vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 24.86% of the theoretical diluted price of approximately HK$0.1315 per Share to the benchmarked price of approximately HK$0.175 per Share (as defined under Rule 7.27B of the Listing Rules), taking into account the higher of (i) the closing price of HK$0.175 per Share on the Last Trading Day; and (ii) the average closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day of HK$0.1746 per Share);

(vii) a premium of approximately HK$0.2418 over the audited consolidated net liability value per Share as at 31 December 2023 of approximately HK$0.1538 per Share based on the audited consolidated net liabilities of the Company of approximately HK$82,741,000 as at 31 December 2023 and the total number of 538,033,708 Shares in issue as at the Latest Practicable Date; and

(viii) a premium of approximately HK$0.2372 over the unaudited consolidated net liability value per Share as at 30 June 2024 of approximately HK$0.1492 per Share based on the unaudited consolidated net liabilities of the Company of approximately HK$80,299,000 as at 30 June 2024 and the total number of 538,033,708 Shares in issue as at the Latest Practicable Date.

According to the "Letter from the Board", the Subscription Price was determined with reference to the followings:

(i) Prevailing market price of the Shares:

The daily closing price of the Shares demonstrated an overall downward trend during the six months prior to and including the Last Trading Day, decreasing from HK$0.270 per Share on 22 May 2024 to HK$0.175 per Share on the Last Trading Day;

(ii) Financial position of the Group:

According to the Company's interim report for the six months ended 30 June 2024 (the "**2024 Interim Report**"), the Group recorded net liabilities of approximately HK$80.3 million and the Group's total revenue decreased by approximately 37.4% from approximately HK$30.5 million for the six months ended 30 June 2023 to approximately HK$19.1 million for the six months ended 30 June 2024. Further, based on the Company's annual report for the year ended 31 December 2023 which sets forth the latest published audited consolidated financial statements of the Company, the Company recorded total comprehensive loss of approximately HK$61.9 million for the year ended 31 December 2023, resulting in loss per Share of approximately HK$8.51 for the corresponding year;

(iii) Trading volume of the Shares:

During the six months prior to and including the Last Trading Day, the Company's average daily trading volume (calculated based on the total trading volume divided by the total number of trading days during the six months prior to and including the Last Trading Day) represented merely approximately 0.86% of the total issued share capital of the Company;

(iv) Reasons for and benefits of the proposed Rights Issue:

As mentioned in the paragraph headed "Reasons for and benefits of the Rights Issue and the use of proceeds" in this section, the Company intends to develop healthcare and beauty business specialised in the sale of bioregenerative, collagen and anti-aging skincare products. Taking into consideration the Group's cash and cash equivalent of approximately HK$1.4 million as at 30 June 2024, the Directors consider that the Company has imminent needs to raise funding to capture any business opportunities in the healthcare and beauty industry; and

(v) Amount of funds intended to be raised under the Rights Issue:

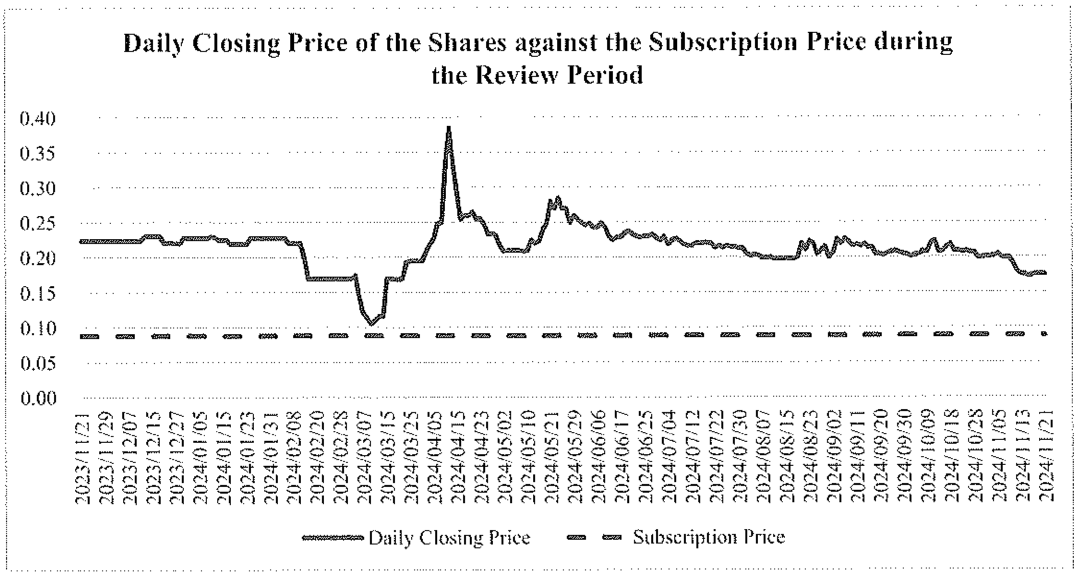
The maximum gross proceeds of approximately HK$47.3 million to be raised under the Rights Issue (assuming the Rights Issue is fully subscribed) is relatively large as compared to the market capitalisation of the Company of approximately HK$94.2 million as at the Last Trading Day.

Under the prevailing market conditions and economic sentiment and with reference to (i) the overall downward trend of the market price of the Shares during the six months prior to and including the Last Trading Day; (ii) the recent market performance of the Shares particularly the Company's average daily trading volume during the six months prior to and including the Last Trading Day as illustrated above indicated a lack of liquidity and demand for the Shares; and (iii) the latest business performance and financial position of the Group, particularly the Group experienced a decrease in revenue during the six months ended 30 June 2024 and recorded net liabilities as at 30 June 2024; the Directors consider that it is fair and reasonable and more practical and commercially sensible to set a subscription price which is lower than the prevailing market price in order to enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders and investors to participate in the Rights Issue.

In order to assess the fairness and reasonableness of the Subscription Price to be set at a discount to the prevailing Share price, we have considered the historical price performance of the Shares and the trading liquidity of the Shares.

(i) Historical price performance of the Shares

Set out below are two charts illustrating the historical closing price of the Shares during the period from 21 November 2023, being 12 months immediately preceding the Last Trading Day and up to the Last Trading Day (the "**Review Period**"). We consider that a period of 12 months, which reflects historical and prevailing market sentiment, is adequate to illustrate the recent price movement of the Shares for the purpose of conducting a reasonable comparison.



As illustrated in the above charts, the Shares were traded within the range from HK$0.15 per Share to HK$0.25 per Share in majority of the Review Period.

During the Review Period, the highest daily closing price of the Shares was HK$0.385 per Share as recorded on 11 April 2024, and the lowest daily closing price of the Shares was HK$0.106 per Share as recorded on 11 March 2024. The average daily closing price per Share was HK$0.215 during the Review Period. Even after the China's announcement of stimulus package on 24 September 2024 which affected the substantial surge of Hang Seng Index of the Hong Kong stock market, the Share price did not record the increase on similar level, but showed a slight volatility with the Share price instead, which increased from HK$0.206 per Share on 24 September 2024 and reached HK$0.224 per Share on 14 October 2024, then gradually decreased to HK$0.175 per Share as of the Last Trading Day.

In light of the historical Share price performance during the Review Period, we are of the view that the Shareholders and the potential investors did not have strong faith in the profitability of the Company and its potential return to the Shareholders, and in turn they lacked strong incentive to participate into investment of the Company.

We note that the Subscription Price of HK$0.088 per Share is below the average daily closing prices of the Shares throughout the Review Period and represents (i) a discount of approximately 77.1% from the highest closing price; (ii) a discount of 17.0% of the lowest closing price; and (iii) a discount of approximately 59.1% from the average daily closing price of the Review Period. We are of the view that a substantial discount of the prevailing market price of the Shares could provide certain incentive to attract the existing Shareholders to invest in the Company.

(ii) Trading liquidity of the Shares

To assess whether the Subscription Price is at a fair and reasonable level, we also considered the trading liquidity of the Shares from the average daily trading volume as a percentage to (i) the total number of issued Shares as at the end of the corresponding months; and (ii) the total number of issued Shares held by the public Shareholders as at the Latest Practicable Date.

Month	Number of trading day	Trading volume of Shares	Average daily trading volume of Shares	Total issued Shares at the end of month	Average daily trading volume as a percentage to the total number of issued Shares (%)	Average daily trading volume as a percentage to the total number of issued Shares held by public Shareholders (%) *(Note 1)*
2023						
November (since 21 November)	8	2,000	250	448,363,708	0.0001%	0.0001%
December	19	726,000	38,211	448,363,708	0.0085%	0.0142%
2024						
January	22	46,000	2,091	448,363,708	0.0005%	0.0008%
February	19	134,000	7,053	448,363,708	0.0016%	0.0026%
March	20	4,602,000	230,100	448,363,708	0.0513%	0.0857%
April	20	204,783,750	10,239,188	448,363,708	2.2837%	3.8139%
May	21	160,410,000	7,638,571	448,363,708	1.7037%	2.8452%
June	19	55,873,000	2,940,684	448,363,708	0.6559%	1.0954%
July	22	77,124,500	3,505,659	448,363,708	0.7819%	1.3058%
August	22	131,942,000	5,997,364	448,363,708	1.3376%	2.2339%
September	19	97,495,000	5,131,316	538,033,708	0.9537%	1.9113%
October	21	115,078,500	5,479,929	538,033,708	1.0185%	2.0412%
November (to the Last Trading Day)	15	37,122,000	2,474,800	538,033,708	0.4600%	0.9218%
Max					2.2837%	3.8139%
Min					0.0001%	0.0001%
Average					0.7121%	1.2517%

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

Note 1. The calculation is based on the average daily trading volume divided by total number of issued Shares held by the public Shareholders (i.e. 268,469,198 Shares) as at the Latest Practicable Date.

As illustrated in the above table, the percentage of average daily trading volume to (i) the total number of issued Shares as at the end of the corresponding month; and (ii) the total number of Shares held by public Shareholders as at the Latest Practicable Date, ranged from approximately 0.0001% to 2.2837% and 0.0001% to 3.8139% respectively during the Review Period. The average daily trading volume of the Shares during the Review Period was approximately 3,584,367 Shares, representing approximately 0.6662% and 1.3351% of the total number of issued Shares and the total number of Shares held by public Shareholders as at the Latest Practicable Date, which demonstrated that the Shares lack of liquidity in the open market. Investors are not actively trading the Shares.

Except for the months of April, May, and August 2024, the average daily trading volume as a percentage to the total number of issued Shares held by public Shareholders as at the Latest Practicable Date were lower than 2.1%. After the China government announced to put forward its stimulus measures to bolster the economy and the equity market on 24 September 2024 which in turn affected the substantial surge of Hang Seng Index of the Hong Kong stock market, the trading liquidity of the Shares remained relatively thin.

In light of the analysis of the trading liquidity of the Shares during the Review Period, we are of the view that the Shares are in thin trading liquidity circumstances. Also, considering the Company recorded net liabilities position of HK$80.3 million at 30 June 2024 and a thin profit of HK$0.98 million for the six months ended 30 June 2024, the Shareholders may be more conservative about purchasing more Shares.

We considered that it is less likely for the Company to raise the net proceeds of HK$46.3 million by equity fundraising methods if the Subscription Price is not at a substantive discount level to provide substantive incentive to the Shareholders, given that (i) the number of Rights Share as 538,033,708 was 1.63 times larger than the highest monthly trading volume of Shares during the Review Period, which was 204,783,750 in April 2024; (ii) as the Company's principal business is in PRC, its Share price and the trading liquidity of the Shares did not record a significant surge even after the announcement of China's strong stimulus measures to boost the economy and equity market on 24 September 2024; (iii) according to the Company's 2024 Interim Report, its revenue decreased to HK$19.1 million for the six months ended 30 June 2024 from HK$30.5 million for the six months ended 30 June 2023, representing a decrease of approximately 37.4%, which is low possibility to persuade the current Shareholders to subscribe the Shares at small discount against the prevailing Share price in the market; and (iv) according to the Company's 2024 Interim Report, the Company was at the net liabilities position as at 30 June 2024 with HK$28.6 million of which were bank borrowings, the Shareholders would consider the potential Shareholders' return was limited by the future repayment obligation of the Company.

Comparison with recent rights issue transactions

In order to assess the fairness and reasonableness of the proposed terms of the Rights Issue, we have identified an exhaustive list of 24 companies (the "**Comparable(s)**") listed on the Main Board and GEM of the Stock Exchange which announced a rights issue or an open offer during three-month period (i.e. since 21 September 2024) prior to the Last Trading Day (the "**Comparable Review Period**"), i.e. 21 November 2024. We are of the view that such three-months is representative given it reflects the market sentiments in Hong Kong market 1 month before the China government's stimulus package to bolster the economy at end of September 2024 and two months after such announcement, for the reasons that the Hong Kong economy and Hong Kong stock market were closely related to the China's economy and China's stock market.

(Discount)/Premium of subscription price (to)/over

	Date of announcement	Company name (Stock code)	Market Cap	Basis of entitlement	Fundraising Scale	Closing Price (%)	5-day average (%)	the theoretical ex-rights entitlement price (%) *(Note 2)*	consolidated net asset value per Share (%) *(Note 2, 4)*	Theoretical dilution effect (%)	Excess Application (EA)/ Compensator Arrangement (CA) (EA/CA)	Underwriting arrangement (Yes/No)
1	22/8/2024	Beijingwest Industries International Limited (2339)	144.73 million	1 for 2	HK$46.5 million	(13.85)	(13.85)	(9.68)	(88.72)	4.62	EA	No
2	2/9/2024	Guangdong – Hong Kong Greatbay Area Holdings Limited (1396)	152.23 million	1 for 2	HK$61.30 million	(22.03)	(21.77)	(15.85)	(94.87)	8.28	EA	No
3	4/9/2024	China New Consumption Group Limited (8275)	84.95 million	1 for 2	HK$22.53 million	(5.66)	(7.41)	(4.76)	(61.09)	2.47	CA	No
4	9/9/2024	Crown International Corporation Limited (727)	423.94 million	1 for 2	HK$154.2 million	2.27	14.80	1.50	162.35	No	EA	No

	Date of announcement	Company name (Stock code)	Market Cap	Basis of entitlement	Fundraising Scale	(Discount)/Premium of subscription price (to)/over				Theoretical dilution effect (%)	Excess Application (EA)/ Compensator Arrangement (CA) (EA/CA)	Underwriting arrangement (Yes/No)
						Closing Price (%)	5-day average (%)	the theoretical ex-rights entitlement price (%) (Note 2)	consolidated net asset value per Share (%) (Note 2, 4)			
5	13/9/2024	Shougang Century Holdings Limited (103)	1.02 billion	1 for 5	HK$128 million	10.00	8.20	8.20	(62.50)	Premium	EA	No
6	13/9/2024	Dragon Rise Group Holdings Limited (6829)	247.68 million	1 for 1	HK$27.7 million	(48.70)	(48.20)	(33.10)	(89.20)	24.90	CA	Yes
7	23/9/2024	Shougang Fushan Resources Group Limited (639)	12.16 billion	1 for 30	HK$425.4 million	1.96	2.52	1.90	(21.21)	Premium	EA	No
8	23/9/2024	Hatcher Group Limited (8365)	13.70 million	3 for 1	HK$32.0 million	(31.50)	(24.00)	(10.40)	(94.10)	23.60	CA	Yes
9	26/9/2024	Innovax Holdings Limited (2680)	66.00 million	1 for 2	HK$11.4 million	(67.93)	(68.35)	(59.02)	(88.59)	22.78	CA	No
10	2/10/2024	China National Culture Group Limited (745)	9.37 million	2 for 1	HK$15.1 million	(31.97)	(31.51)	N/A	N/A	21.31	CA	No
11	4/10/2024	Palinda Group Holdings Limited (8179)	181.24 million	1 for 2	HK$71.3 million	(18.70)	(9.42)	(13.29)	(60.86)	6.23	EA	No
12	8/10/2024	V & V Technology Holdings Limited (8113)	84.31 million	1 for 2	HK$23.4 million	(31.51)	(26.04)	(23.47)	(32.23)	10.50	EA	No
13	15/10/2024	Eminence Enterprise Limited (616)	30.77 million	2 for 1	HK$61.2 million	(8.00)	(24.34)	(2.85)	(98.98)	21.30	EA	No
14	18/10/2024; and 4/11/2024	Kingkey Financial International (Holdings) Limited (1468)	758.11 million	1 for 2	HK$416.51 million	(2.56)	(6.17)	N/A	87.58	2.06	EA	No
15	18/10/2024	Gaodi Holdings Limited (1676)	72.55 million	1 for 2	HK$30.8 million	37.90	38.90	12.10	(65.50)	Premium	CA	No
16	21/10/2024	China 33 Media Group Limited (8087)	35.64 million	3 for 2	HK$19.0 million	(7.41)	(8.54)	(3.23)	N/A	5.12	CA	No
17	22/10/2024	IRC Limited (1029)	1.12 billion	1 for 2	HK$360.9 million	(15.00)	(17.20)	(10.50)	(67.30)	4.90	EA	No
18	31/10/2024	Yuzhou Group Holdings Company Limited (1628)	458.07 million	49 for 100	HK$110.2 million	(73.68)	(72.99)	(65.27)	N/A	24.23	EA	No
19	6/11/2024	China Water Industry Group Limited (1129)	192.53 million	1 for 1	HK$90.10 million	(49.85)	(49.54)	(33.20)	(93.95)	24.92	CA	No
20	11/11/2024	Far East Holdings International Limited (36)	101.28 million	2 for 1	HK$69.55 million	(35.77)	(35.27)	(15.66)	(80.59)	23.85	CA	No

	Date of announcement	Company name (Stock code)	Market Cap	Basis of entitlement	Fundraising Scale	(Discount)/Premium of subscription price (to)/over Closing Price (%)	5-day average (%)	the theoretical ex-rights entitlement price (%) *(Note 2)*	consolidated net asset value per Share (%) *(Note 2, 4)*	Theoretical dilution effect (%)	Excess Application (EA)/ Compensator Arrangement (CA) *(EA/CA)*	Underwriting arrangement *(Yes/No)*
21	12/11/2024	HG Semiconductor Limited (6908)	629.00 million	1 for 4	HK$89.0 million	(36.00)	(41.50)	(31.00)	(44.20)	8.30	CA	No
22	15/11/2024	Global Strategic Group Limited (8007)	15.49 million	4 for 1	HK$48.8 million	(12.50)	(14.10)	(3.20)	(92.40)	11.30	EA	Yes
23	19/11/2024	China Wood International Holding Co., Limited (1822)	119.25 million	1 for 1	HK$41.6 million	(45.00)	(48.60)	(29.10)	N/A	24.90	EA	No
24	19/11/2024	Rare Earth Magnesium Technology Group Holdings Limited (601)	54.51 million	1 for 2	HK$29.18 million	(43.88)	(39.63)	(34.26)	(86.91)	14.63	EA	Yes
				Min *(Note 3)*		(73.68)	(72.99)	(65.27)		2.06		
				Max *(Note 3)*		(2.56)	(6.17)	(2.85)		24.92		
				Average *(Note 3)*		(30.08)	(30.42)	(22.10)		14.51		
		The Company		1 for 1		(49.71)	(49.60)	(33.08)	57.2 (net liabilities position)	24.86	EA	No

Notes:

1. *Information has been extracted from the relevant announcements (including supplemental announcements) of the rights issue of the respective Comparables.*

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

3. *The calculation did not include the premium of subscription price over the closing price, the five-day average or the theoretical ex-rights entitlement price, or the ones did not have theoretical dilution effect given the Company's subscription price was at a discount to such prices and will result in theoretical dilution effect.*

4. *The comparison to net asset value is not applicable due to the Company was at net liabilities position according to its interim report for the six months ended 30 June 2024.*

Although the Comparables in the comparable transactions may have different business nature from the Company's principal businesses, we considered that the comparable transaction as announced by the Comparables can provide a representative reference as to the prevailing terms of rights issue in the open market.

Although such Comparables' market capitalisation may have significant difference with each other, given the comparison analysis is not focus on market multiples such as price to earnings ratio or price to book value ratio, we are of the view that the market capitalisation should not be considered as a determinative factor alone. We are of the view, that the fund raising scale and the discount/premium scale of the subscription price of such Comparables were determined by the management of Comparables after taking into account of a complex of weighing factors, including but not limited to their historical financial position and financial performance, prospects of principal business, macroeconomics, and market sentiment to affect their share price and trading liquidity. Hence, given different situations of different companies, we considered the cross reference to the Comparables' ultimate discount/premium scale of the subscription price against/over their prevailing market price are representative. We also consider that the duration of the Comparable Review Period is sufficient to reflect prevailing market conditions.

The Comparables include the companies who adopted either excess application or compensatory arrangements, which are not considered as one of the factors to set the amount of the subscription prices of the rights issue but instead just the different mechanism to provide the entitlements to the existing Shareholders for the unsubscribed shares. We are of the view that to assess the fairness and reasonableness of the Subscription Price, Comparables with compensatory arrangements are eligible to be considered.

It is noted that among the 24 Comparables, only four of them set the subscription price at premium level over the closing price as at the Last Trading Day, 5-day average closing price preceding to the Last Trading Day, and the theoretical ex-rights entitlement price, while a majority of them set the subscription price at the discount level over the abovementioned price basis.

According to the above analysis, (i) the discount of subscription price of the Comparables against the closing price as at the Last Trading Day ranged from 2.56% to 73.68% with the average of 30.08%; (ii) the discount of subscription price of the Comparables against the 5-day average closing price preceding to the Last Trading Day ranged from 6.17% to 72.99% with the average of 30.42%; (iii) the discount of subscription price of the Comparables against the theoretical ex-rights entitlement price ranged from 2.85% to 65.27% with the average of 22.1%; and (iv) the theoretical dilution effect ranged from 2.06% to 24.92% with the average of 14.51%.

Given the (i) Subscription Price was set at the discount of 49.71% against the closing price as at the Last Trading Day, which falls into the range of the Comparables; (ii) Subscription Price was set at the discount of 49.6% against the 5-day average closing price preceding to the Last Trading Day, which falls into the range of the Comparables; (iii) Subscription Price was set at the discount of 33.08% against the theoretical ex-rights entitlement price, which falls into the range of the Comparables; (iv) the theoretical dilution effect was 24.86% which in line with the range of the Comparables, we considered the Subscription Price is fair and reasonable.

It is noted that the theoretical dilution effect of the Rights Issue is close to the higher end of the Comparables, which is the result due to the substantial discount of Subscription Price and the number of Rights Issue. Assuming full acceptance of the Rights Shares by all Qualifying Shareholder, the shareholdings of the public Shareholders will not be diluted. We are of the view that given the Shareholders, in particular the public Shareholders, are provided the chance to subscribe the Shares within their discretion, and the theoretical dilution effect was 24.86% which in line with the range of the Comparables, so such dilution effect was within the foreseeability of the Shareholders who have their own discretion whether to approve the proposed Rights Issue and/or participate in it.

Excess application

According to "Letter from the Board", all Qualifying Shareholders are entitled to apply, by way of excess application under the EAFs, for additional Rights Shares in excess of their assured entitlements.

The Excess Rights Shares will comprise:

(i) any Rights Shares provisionally allotted but not accepted by any of the Qualifying Shareholders or otherwise not subscribed for by transferees of nil-paid Rights Shares prior to the Latest Time for Acceptance;

(ii) any Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders; and

(iii) any Rights Shares which would otherwise be allotted but subject to scale down (as described below).

A Shareholder who applies to take up all or part of his/her/its entitlement under the PAL and/or Excess Rights Shares under the EAF may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code or cause the public float of the Company to decrease to below 25%. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue or Excess Rights Shares under the EAF will be scaled down to a level which (a) does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules; and (b) does not cause the Company's public float to decrease to below 25%. Shares subject to scale down will be available for application as Excess Rights Shares to other Qualifying Shareholders, any subscription monies not utilised due to scaled-down application of entitled Rights Shares or Excess Rights Shares will be refunded to the affected applicants.

Among the Comparables, 14 of out 24 Comparables allow application for excess rights shares. Therefore, we consider that the Rights Issue which allows application for excess Rights Shares and the possibility of applying for excess Rights Shares under the Rights Issue are common in the market.

3.3 *Miscellaneous*

Non-underwritten basis of the Rights Issue

Subject to the fulfilment of 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. In the event that the Rights Issue is not fully-subscribed, any Unsubscribed Rights Shares together with the ES Unsold Rights Shares will be made available for excess application under the EAFs. There are no statutory requirements regarding the minimum subscription levels in respect of the Rights Issue and there is no minimum amount to be raised under the Rights Issue.

As the Rights Issue will proceed on a non-underwritten basis, Shareholder(s) who apply to take up all or part of his/her/its entitlement under the PAL and/or Excess Rights Shares under the EAF may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code or cause the public float of the Company to decrease to below 25%. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder for his/her/its assured entitlement under the Rights Issue or Excess Rights Shares under the EAF will be scaled down to a level which (a) does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules; and (b) does not cause the Company's public float to decrease to below 25%. Shares subject to scale down will be available for application as Excess Rights Shares to other Qualifying Shareholders, any subscription monies not utilised due to the scaled-down application of entitled Rights Shares or Excess Rights Shares will be refunded to the affected applicants.

The Board considers that it is in the interests of the Company to proceed with the Rights Issue on a non-underwritten basis taking into consideration (i) there are no statutory requirements regarding the minimum subscription levels in respect of the Rights Issue and there is no minimum amount to be raised under the Rights Issue; (ii) in light of (a) the recent market performance of the Shares particularly the Company's average daily trading volume during the six months prior to and including the Last Trading Day indicated a lack of liquidity and demand for the Shares; and (b) the latest business performance and financial position of the Group, particularly the Group experienced a decrease in revenue during the six months ended 30 June 2024 and recorded net liabilities as at 30 June 2024, the Directors consider that there would be a lack of interest for underwriters to underwrite the Rights Shares; and (iii) the Subscription Price, being set at a discount to the prevailing market prices of the Shares, shall encourage the Qualifying Shareholders and investors to participate in the Rights Issue, thereby raising the necessary funding for the Company.

We noted that the proposed Rights Issue will be conducted on a non-underwritten basis. According to the "Letter from the Board", if the Rights Issue are not fully subscribed, the net proceeds will be used in proportion to the proposed percentage as (i) approximately 51.8% of the actual net proceeds upon the completion of the proposed Rights Issue; and (ii) approximately 48.2% of the net proceeds for enhancing the general working capital of the Group upon the completion of the proposed Rights Issue. We considered that such consistency for application of the net proceeds is fair and reasonable together with our assessment on the fairness and reasonableness on the proposed proportion under the subsection "2.1 The funding needs".

We noted that 20 out of the 24 Comparables were conducted on a non-underwritten basis, which suggested that it is common practice for the recent period that the rights issue was conducted on a non-underwritten basis.

4. Financial impact

The Group's financial position will improve following the Rights Issue.

In terms of net tangible assets per Share, as set out in Appendix II to this Circular, upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company as at 30 June 2024 per Share immediately after the completion of the Placing and the Rights Issue would be approximately HK$0.027 (assuming all Qualifying Shareholders have taken up the Rights Shares), assuming the Rights Issue was completed as at 30 June 2024, compared to the unaudited consolidated net liabilities of the Group attributable to the owners of the Company as at 30 June 2024.

In terms of liquidity position, the Group had cash and cash equivalents of approximately HK$1.37 million and the Group had current assets of approximately HK$8.36 million and current liabilities of approximately HK$75.30 million as at 30 June 2024, giving rise to a current ratio (being current assets divided by current liabilities) of approximately 0.016. Immediately upon completion of the Rights Issue, the cash and cash equivalents of the Group may increase by up to the amount of maximum net proceeds from the Rights Issue; that is up to approximately HK$47.67 million. In such case, the current ratio of the Group will potentially increase from approximately 0.016 to 0.367.

5. Possible dilution effect

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept 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 if they do not take up their full provisional allotments.

We are of the view that the proposed Rights Issue has provided equal opportunity to the Qualifying Shareholders as an invitation to treat. The Qualifying Shareholders, have their own discretion to decide whether to participate or not. Considering the Shares were traded at a very thin liquidity pursuant to the historical trading volume analysis above, it is fair and reasonable to set the Subscription Price at a substantive level which is sufficient to attract the existing Shareholders. Further, the terms of the Comparables also implied the fairness and reasonableness of the terms of the proposed Rights Issue in the open market.

Based on the above, we are of the view that the implementation of the Rights Issue, is rationally connected to the interests of the Company and the Shareholders as a whole, despite of the potential dilution impact to Qualifying Shareholders who have the priority to choose whether or not to participate in the Rights Issue.

RECOMMENDATION

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

Yours faithfully,
For and on behalf of
Messis Capital Limited

Wallace Cheung
Managing Director

Mr. Wallace Cheung is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Messis Capital Limited to carry out type 6 (advising on corporate finance) regulatory activity under the SFO and has over 13 years of experience in corporate finance industry.