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14 February 2025

To: the Independent Board Committee and the Independent Shareholders of Mansion International Holdings Limited

Dear Sir and Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) ADJUSTED SHARE HELD ON THE 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 of Mansion International Holdings Limited (the "**Company**") dated 14 February 2025 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Board proposes, subject to, among other things, the Share Consolidation, the Capital Reduction and the Sub-division and the Change in Board Lot Size becoming effective, to conduct the Rights Issue on the basis of four (4) Rights Shares for every one (1) Adjusted Share held on the Record Date at the Subscription Price of HK$0.29 per Rights Share, to raise up to approximately HK$30.7 million by issuing up to 105,762,360 Rights Shares to the Qualifying Shareholders. The Rights Issue is only available to Qualifying Shareholders and will not be extended to Excluded Shareholders. Subject to the fulfillment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares.

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders, will be placed to independent placees under the Compensatory Arrangements. Any Unsubscribed Rights Shares or ES Unsold Rights Shares remain not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue.

GEM LISTING RULES IMPLICATIONS

Since the Rights Issue will increase the issued share capital of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on, amongst other things, the approval by the Independent Shareholders at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue.

As such, Mr. Yao Ruhe and his respective associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, Mr. Yao Ruhe, who is the executive Directors of the Company holds 400,000 Existing Shares, representing approximately 0.19% of the existing issued share capital of the Company.

The Company has not conducted any rights issue, open offer or specific mandate placings within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of any rights issue, open offer and/or specific mandate placings within such 12-month period. The Rights Issue does 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 10.44A of the GEM Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Wu Chi King, Mr. Lang Yonghua and Ms. Wong Ying Yu, has been established to advise the Independent Shareholders as to (i) whether the terms of the Rights Issue are fair and reasonable; (ii) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the resolution at the EGM in relation to the Rights Issue, taking into account the recommendation of the Independent Financial Adviser. We, Merdeka, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Rights Issue, there were no engagements between the Group or the Shareholders and Merdeka. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR ADVICE

In formulating our opinion and recommendation, we have relied on the statements, information, opinions and representations contained in or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). Our review procedures include, among others, review of (i) the Placing Agreement; (ii) the annual report of the Group for the year ended 31 March 2024 (the "**2023/24 Annual Report**"); (iii) the interim report of the Group for the six months ended 30 September 2024 (the "**2024/25 Interim Report**"); (iv) the Circular; (v) other relevant information provided by the Company; (vi) market information obtained from the official website of the Stock Exchange; and (vii) other public information available to us. We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and its advisers, the Directors and the Management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Management in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading.

We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the Management.

Our opinion is based on 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. This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Rights Issue, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations in respect of the Rights Issue, we have taken into account the principal factors and reasons set out below.

1. Background information of the Group

The Group is principally engaged in the sale of baby and children garments.

1.1 Financial Information of the Group

Set out below is a summary of the financial performance of the Group for the financial years ended 31 March 2023 ("**FY2023**") and 31 March 2024 ("**FY2024**") respectively as extracted from the 2023/24 Annual Report and the six months ended 30 September 2023 ("**HY2023**") and 30 September 2024 ("**HY2024**") respectively as extracted from 2024/25 Interim Report:

Consolidated statement of profit or loss

	FY2024 *HK$'000* *(audited)*	**FY2023** *HK$'000* *(audited)*	**HY2024** *HK$'000* *(unaudited)*	**HY2023** *HK$'000* *(unaudited)*
Revenue	69,849	78,437	28,626	37,630
Cost of sales	(55,364)	(54,099)	(23,535)	(24,650)
Gross profit	14,485	24,338	5,091	12,980
Loss before tax	**(4,565)**	**(6,008)**	**(1,904)**	**(1,238)**
Income tax expense	(119)	—	—	—
Loss and total comprehensive income for the year/period attributable to owners of the Company	**(4,684)**	**(6,008)**	**(1,904)**	**(1,238)**

FY2024 and FY2023

The Group's revenue for FY2024 amounted to approximately HK$69.85 million, representing a decrease of approximately 10.95% when compared to that of approximately HK$78.44 million for FY2023, which was derived from the sale of baby and children garments. As set out in the 2023/24 Annual Report, the reduction in revenue was mainly due to the decrease in willingness of spending by the consumers.

The Group's gross profit amounted to approximately HK$14.49 million for FY2024, representing a reduction of approximately 40.47% as compared to approximately HK$24.34 million for FY2023. Gross profit margin decreased from approximately 31.0% for FY2023 to approximately 20.8% for FY2024. The overall decrease in gross profit margin was due to the lower cost of materials and overhead incurred during FY2024.

The loss and total comprehensive income for the year attributable to owners of the Company for FY2024 stood at approximately HK$4.68 million versus that of approximately HK$6.01 million for FY2023. As advised by the Management, the slight reduction in loss and total comprehensive income for the year attributable to owners of the Company was due to the decrease in selling and distribution cost and administrative expenses of approximately HK$15.22 million for FY2024 as compared with FY2023 while offset by the decrease in gross profit of approximately HK$9.85 million for FY2024 as compared to FY2023.

HY2024 and HY2023

The Group's revenue for HY2024 amounted to approximately HK$28.63 million, representing a decrease of approximately 23.92% when compared to that of approximately HK$37.63 million for the corresponding period of last year, which was derived from sale of baby and children garments. As disclosed in the 2024/25 Interim Report, the decline in revenue was mainly due to the decrease in willingness of spending by the customers.

The Group's gross profit amounted to approximately HK$5.09 million for HY2024, representing a reduction of approximately 60.79% as compared to approximately HK$12.98 million for HY2023. Gross profit margin decreased to approximately 17.78% for HY2024, as compared with that of approximately 34.49% for HY2023. The slight decrease was mainly attributable to the higher cost of materials and overhead incurred for HY2024.

The loss and total comprehensive income for the period attributable to owners of the Company for HY2024 stood at approximately HK$1.90 million versus that of approximately HK$1.24 million for HY2023. As advised by the Management, the slight increase in loss and total comprehensive income for the period attributable to owners of the Company was due to the decrease in administrative and other expenses and selling and distribution cost of approximately HK$7.49 million during HY2024 while offset by the decrease in gross profit of approximately HK$7.89 million during the period.

Consolidated statement of financial position

	As at 30 September 2024 HK$'000 (unaudited)	31 March 2024 HK$'000 (audited)
TOTAL ASSETS	**47,948**	**48,376**
Non-current assets		
— *Property, plant and equipment*	2,310	2,879
— *Right-of-use assets*	1,229	—
	3,539	**2,879**
Current assets		
— *Inventories*	546	878
— *Trade receivables*	26,903	38,847
— *Deposits, prepayments and other receivables*	1,350	1,402
— *Cash and bank balances*	15,610	4,370
	44,409	**45,497**
TOTAL LIABILITIES	**44,087**	**42,611**
Current liabilities		
— *Trade payables*	17,688	20,170
— *Accruals and other payables*	13,145	10,432
— *Amounts due to directors*	163	163
— *Other borrowings*	11,727	11,727
— *Lease liabilities*	1,245	—
— *Tax payables*	119	119
	44,087	**42,611**
Non-current liabilities	—	—
NET ASSETS	**3,861**	**5,765**

As illustrated above, the total assets of the Group amounted to approximately HK$47.95 million as at 30 September 2024, representing a slight decrease of approximately 0.89% as compared to approximately HK$48.38 million as at 31 March 2024. The Group's cash and bank balances as at 30 September 2024 were approximately HK$15.61 million, representing an increase of approximately HK$11.24 million as compared to that of approximately HK$4.37 million as at 31 March 2024.

Meanwhile, the Group's total liabilities increased slightly by approximately 3.46% to approximately HK$44.09 million as at 30 September 2024 from approximately HK$42.61 million as at 31 March 2024. As at 30 September 2024 and 31 March 2024, the Group's borrowings primarily comprise (i) amounts due to directors of approximately HK$163,000; and (ii) other borrowings of approximately HK$11.73 million. As noted from the 2024/25 Interim Report, the Group's gearing ratio was approximately 3.3 times as at 30 September 2024, as compared to a ratio of 2.0 times as at 31 March 2024. The Group recorded net assets amounting to approximately HK$3.86 million as at 30 September 2024, representing a decrease of approximately 33.03% as compared to the net assets of approximately HK$5.77 million as at 31 March 2024.

In conclusion, the total assets, total liabilities and net asset value of the Group remained stable for HY2024 and HY2023.

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

Use of proceeds

As disclosed in the Board Letter, it is estimated that the Company will raise up to approximately HK$30.7 million from the Rights Issue and the relevant expenses would be approximately HK$1.2 million, which includes placing commission and professional fees payable to financial advisers, legal advisers, financial printer and other parties involved in the Rights Issue.

The estimated net proceeds from the Rights Issue will accordingly be approximately HK$29.5 million (equivalent to a net price of approximately HK$0.28 per Rights Share). In line with the aforesaid business objectives, the Company intends to utilise the net proceeds from the Rights Issue as follows:

(i) approximately HK$11.7 million for the repayment of the Group's other borrowings;

(ii) approximately HK$6.0 million for the payment of rental expenses and management fee for the next 12 months;

(iii) approximately HK$6.0 million for the payment of salaries of the Group's employees for the next 12 months; and

(iv) approximately HK$5.8 million for the working capital for the existing business.

Nevertheless, in the event that the net proceeds from the Rights Issue was less than the amount for repayment of the Group's other borrowings, the Company plans to utilize the cash flow generated from business activities of the Group and considers to conduct more time-saving general mandate fundraising activities to meet the funding needs, depending on the level of net proceeds raised.

Repayment of the Group's other borrowings

As at 30 September 2024, the Group's cash and bank balances amounted to HK$15.61 million, while its current liabilities stood at approximately HK$44.09 million.

The borrowings of HK$11.7 million be repaid by utilizing partial net proceeds from the Rights Issue comprise of (i) a loan with an aggregate outstanding principal amount of approximately HK$8.4 million, bearing an annual interest of 4% and repayable on demand; and (ii) a loan with an aggregate principal amount of approximately HK$3.3 million, bearing an annual interest of 5% and repayable on demand. As the interest expenses of such borrowings of the Group will place burden on the Group, the Company intended to repay all the borrowings by the early 4th quarter in 2025 to reduce the gearing and interest expenses.

We have obtained facility agreements from the Group and understood that the two borrowings are granted by an ex-Director (Ms. Luk Sau Kuen) in May 2019 (as supplemented in June 2020 and August 2021, respectively for the general working capital purpose of the Group. The aggregate interests for both borrowings are approximately HK$42,000 per month.

As referred to the Board Letter, the Group's gearing ratio is expected to decrease from 2.1 times as at 31 March 2024 to 0.03 times after the repayment of the debts. The cash level will increase by approximately HK$17.8 million and the net assets of the Group will increase by approximately HK$29.5 million in comparison to the net assets of the Group as at 31 March 2024 of approximately HK$5.8 million.

Given the currently high gearing ratio of the Group and the interest burden incurred by the other borrowings, we concur with the Company that the repayment of aforementioned debts by partial proceeds of the Rights Issue would allow the Group to save the associated interest expenses and improve the Group's gearing ratio.

Payment of rental expenses and management fee for the next 12 months

As at the Latest Practicable Date, the Group rents an office and a warehouse in Hong Kong and 3 department store counters in Hong Kong. The monthly rental expenses and management fee for the office, warehouse and department store are approximately HK$0.5 million. As such, the Group intends to apply approximately HK$6.0 million from the Rights Issue for the payment of rental expense and management fee for the next 12 months.

We have obtained the rental agreements and promotion counter contracts from the Management and confirms that the aggregate of rental expenses for the office and warehouse and management fee for the 4 department store counters are around HK$5.5 million per annum (around HK$0.45 million per month).

Payment of salaries of the Group's employees for the next 12 months

As at the Latest Practicable Date, the Group has 32 staffs. Taking into account of the staff costs for the 34 staffs of approximately HK$6.1 million for FY2024, the Group intends to apply approximately HK$6.0 million from the Rights Issue for the payment of salaries of the Group's employees for the next 12 months.

We have obtained the staff and salary list from the Management and confirms that the Group's salary expenses (including directors, managers, senior and junior staffs) is around HK$500,000 per month.

Working capital for the existing business

The Group is principally engaged in sale of baby and children garment. However, the revenue of the Group declined during the FY2024 due to the drop of birth rate in Hong Kong. In order to retain customers, avoid causing disruption to the delivery schedule required by other customers, keep good relationships with the customers in long run and maintain the ability in capture potential new contracts, the Group would like to keep a healthy cash flow level in order to make payments on time for the corresponding cost of the services, even if there is any delay in payments made by the customers. As such, the Group intends to apply approximately HK$5.8 million from the Rights Issue for the working capital for the existing business and to repay part of the trade and other payables in order to improve the liquidity of the Group and satisfy certain repayment of current debts of the Group as and when they fall due.

For HY2024, the Group's revenue decreased by approximately 23.92% to HK$28.63 million, as compared to a half year revenue of approximately HK$37.63 million for HY2023. In addition, the loss and total comprehensive income for the period attributable to owners of the Company for HY2024 increased to approximately HK$1.90 million versus that of approximately HK$1.24 million for HY2023.

The declining birth rate in Hong Kong creates considerable uncertainty for the Group's business that focus on the sale of baby and children's garments. According to the data published by the Census and Statistics Department, the crude birth rate in Hong Kong decreased from approximately 7.0% in 2019 to approximately 4.4% in 2023. It is believed that such steady decrease reduces the potential customer base for the Group's products, limiting growth opportunities within the local market. Moreover, Hong Kong's fertility showed a declining trend over the past 5 years. Based on the data published by the Census and Statistics Department, the total fertility rate decreased from 1,064 live births per 1,000 women in 2019 to 751 live births per 1,000 women in 2023, being well below the replacement level of 2,100, indicating that the decreasing fertility trend is unlikely to reverse significantly in the near future. As advised by the Company, the decreasing fertility trend and low birth rate lead to a reduced demand for baby products which eventually increase competition amongst the peers, negatively affecting the financial performance of the Group. Therefore, it is vital for the Group to maintain a sufficient level of cash flow to strengthen its competitive edge over market competitors by making strategic decisions and to evaluate promising investment opportunities for developing its principal business.

The shrinking market could lead to heightened competition among retailers, with businesses vying for a smaller pool of customers. This increased competition may result in aggressive pricing strategies and reduced profit margins in the local market. Furthermore, consumer spending patterns may shift as parents become more selective, prioritizing quality and durability over frequent purchases. This could reduce the overall volume of sales, even if individual items are priced higher. Hence, we concur with the Management's view that maintaining a sufficient level of cash flow for the Group's baby and children garment business is vital.

If the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue will be applied by the Company in the following order of priority: (i) for repayment of the Group's other borrowings; (ii) for payment of rental expenses and management fee for the next 12 months; (iii) for payment of salaries of the Group's employees for the next 6 months; and (iv) for the working capital for the existing business.

Other financing alternatives

We understand from the Board Letter that, apart from the Rights Issue, the Directors have considered other financing alternatives including (i) other debt financing, and (ii) equity fund raising such as placement of new Shares and open offer. The Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole, for the reasons as follows:

(i) the Board considers that the Rights Issue would give the Qualifying Shareholders the opportunity to maintain their respective prorate shareholding interest in the Company and provide an opportunity to all Qualifying Shareholders to participate in the growth of the Company in proportion to their shareholdings. Although those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Excluded Shareholders may make their shareholdings diluted, the Rights Issue requires the Independent Shareholders' approval so that the Independent Shareholders are given an opportunity to decide whether the Company shall proceed to the Rights Issue by voting for or against at the EGM to approve the Rights Issue;

(ii) as for other debt financing, as at the date of the Announcement, the Group has attempted to obtain other loan financing from independent third parties, but the interest rate offered is generally over 20% per annum;

(iii) as for placement of new Shares, it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company; and

(iv) as for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. As such, the Directors consider that equity financing does not involve recurring interest expense and the financing process is usually simpler and quicker than negotiating bank borrowings, and therefore would allow the Group to react promptly to market conditions and business opportunities.

In addition, as understood from the Company, it is also considered that the placing obligations of the Placing Agent are more or less similar to an underwriter of the Rights Issue (except that the Placing Agent is on best-effort basis). As such, the Company subsequently decided to conduct the Rights Issue on a non-underwritten basis and to adopt the Compensatory Arrangements simultaneously to ensure sufficient funds could be raised.

Despite the Rights Issue is anticipated to completed by the end of the third quarter in 2025, we concur with the Directors' view that the Rights Issue is in the interest of the Company and the Shareholders a whole as compared to alternatives, due to its straightforward process with shareholders as compared to negotiations with financial institutions, avoidance of interest expenses as compared to debt financing which will result in higher gearing ratio of the Group, and elimination of uncertain approval processes and provision of security typically associated with debt financing, etc.

Our view

Having considered the abovementioned alternatives, the expected timeline of the Rights Issue, and the reasons for the Rights Issue discussed above, we concur with the Board's view that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the proposed Rights Issue

3.1. Summary of the key terms

Basis of Rights Issue:	Four (4) Rights Shares for every one (1) Adjusted Share held at the close of business on the Record Date
Subscription Price:	HK$0.29 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	211,524,720 Existing Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective:	26,440,590 Adjusted Shares (assuming there is no change in number of Shares in issue up to the effective date of the Capital Reduction and the Sub-division)
Number of Rights Shares to be issued pursuant to the Rights Issue:	Up to 105,762,360 Rights Shares with an aggregate nominal value of HK$1,057,623.60, assuming there is no change in the number of Shares in issue on or before the Record date other than the Capital Reorganisation becoming effective
Total number of Adjusted Shares in issue upon completion of the Rights Issue:	Up to 132,202,950 Adjusted Shares, assuming no change in the number of Shares in issue on or before the Record Date other than from the Capital Reorganisation becoming effective
Amount to be raised:	Up to approximately HK$30.7 million before expenses, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before the Record Date

As at the Latest Practicable Date, the Group had no outstanding derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

Assuming no change in the number of Shares in issue on or before the Record Date, other than from the Share Consolidation, Capital Reduction and Sub-division becoming effective, the aggregate 105,762,360 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 400% of the total number of issued Adjusted Shares upon the Capital Reduction and Subdivision becoming effective and approximately 80% of the total number of issued Adjusted Shares as enlarged by the issue of the Rights Shares (assuming full acceptance by the Qualifying Shareholders).

For further information on the proposed Rights Issue, please refer to the Board Letter.

3.2. Subscription Price

The Subscription Price of HK$0.29 represents:

(i) a discount of approximately 19.4% to the theoretical closing price of HK$0.36 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.045 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 22.9% to the theoretical closing price of HK$0.376 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.047 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 5.5% to the theoretical ex-rights price of approximately HK$0.307 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.045 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

(iv) a discount of approximately 23.5% to the theoretical closing price of HK$0.3792 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK$0.0474 per Existing Share as quoted on the Stock Exchange for the five consecutive trading days prior to and excluding the Last Trading Day;

(v) a discount of approximately 23.0% to the theoretical closing price of approximately HK$0.3768 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK$0.0471 per Existing Share as quoted on the Stock Exchange for the 10 consecutive trading days prior to and excluding the Last Trading Day;

(vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 18.8%, represented by the theoretical diluted price of approximately HK$0.308 per Consolidated Share to the theoretical benchmarked price of HK$0.3792 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.047 per Share and the average of the closing prices of the Existing Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of the Announcement of approximately HK$0.0474 per Share); and

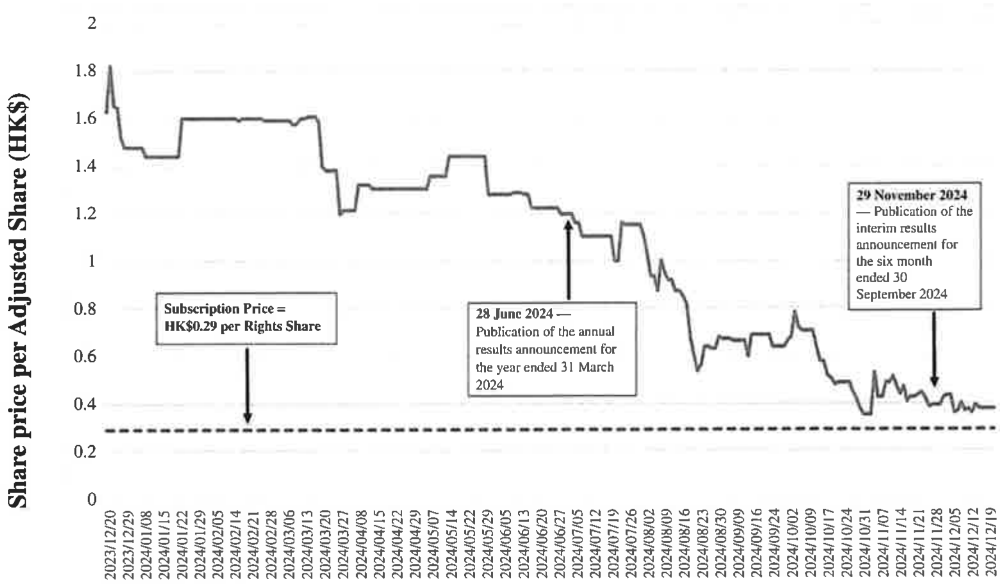
(vii) a premium of approximately 98.63% over the consolidated net asset value per Consolidated Share of approximately HK$0.146 (based on the consolidated net asset value of the Company as at 30 September 2024 of approximately HK$3.86 million and the total number of Adjusted Shares after the Capital Reorganisation, which will be 26,440,590).

The Subscription Price was determined by the Company with reference to, (i) the daily closing price of the Shares during the three months prior to and including the Last Trading Day; (ii) the declining revenue of the Group for the two years ended 31 March 2024 and the continuous net loss situation for the two years ended 31 March 2024; (iii) the imminent needs to raise fund for working capital and repayment of borrowings; and (iv) the Group's current capital structure and financial position. Please refer to the paragraph headed "Subscription Price" in the Board Letter for more details.

a. Historical price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the adjusted closing prices (as adjusted for the Share Consolidation) of the Adjusted Shares from 20 December 2023 to the Last Trading Day (the "**Share Review Period**") (being a period of approximately 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider that the Share Review Period is a reasonably long period covering the annual operating cycle of the Company for analysis purpose to illustrate the general trend and level of movement of the adjusted closing price of the Adjusted Shares and thus the Share Review Period is fair and representative to reflect the market assessment on the financial performance of the Group and the general market sentiment.

Chart 1: Historical closing prices of the Adjusted Shares during Share Review Period



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

As shown in Chart 1, the adjusted closing price of the Adjusted Shares showed a decreasing trend in general from the highest adjusted closing price of HK$1.824 per Adjusted Share on 21 December 2023 to the lowest adjusted closing price of HK$0.352 per Adjusted Share on 31 October 2024, 1 November 2024 and 4 November 2024, which represents a decrease of approximately 80.70% from the highest adjusted closing price of the Adjusted Shares. The average adjusted closing price over the Share Review Period is approximately HK$1.068 per Adjusted Share.

The Subscription Price of HK$0.29 represents (i) discount of approximately 84.10% to the highest adjusted closing price of HK$1.824 per Adjusted Share; (ii) discount of approximately 17.61% to the lowest adjusted closing price of HK$0.352 per Adjusted Share; and (iii) discount of approximately 72.85% to the average adjusted closing price of approximately HK$1.068 per Adjusted Share over the Share Review Period. Although the Subscription Price is out of range of the adjusted closing price of the Adjusted Shares during the Share Review Period as mentioned above, after considering that (i) the adjusted closing price of the Adjusted Shares has been decreasing during the Share Review Period; (ii) the low liquidity of the Shares as discussed in sub-section headed "(b) Historical trading liquidity of the Shares" below in this letter; (iii) the funding needs as discussed in the section headed "2. Reasons for the Rights Issue and proposed use of proceeds" above in this letter; and (iv) the discount of the Subscription Price is within the range in the comparable analysis as discussed in the sub-section headed "(c) Comparison with recent rights issue transactions" below in this letter, we consider that the discount of the Subscription Price is fair and reasonable and the Rights Issue is in the interests of the Company and the Shareholders as a whole.

b. *Historical trading liquidity of the Shares*

The table below sets out the average daily trading volume of the Shares per month and the respective percentages of the average daily trading volume as compared to the total number of issued Shares during the Share Review Period:

	Total trading volume of the Shares in the month/period	**Number of trading days in the month/ period**	**Average daily trading volume of the Shares in the month/period** *(Note 1)*	**Percentage of average daily trading volume to total number of Shares** *(Note 2)*
2023				
From 20 December to 31 December	408,000	6	68,000	0.032%
2024				
January	216,000	22	9,818	0.005%
February	84,000	19	4,421	0.002%
March	31,173,000	20	1,558,650	0.737%
April	228,000	20	11,400	0.005%
May	9,782,800	21	465,848	0.220%
June	9,768,000	19	514,105	0.243%
July	16,000	22	727	0.001%
August	1,678,600	22	76,300	0.036%
September	11,949,200	19	628,905	0.297%
October	3,970,200	21	189,057	0.089%
November	13,907,800	21	662,276	0.313%
1 December to Last Trading Day	3,314,200	15	220,947	0.104%
		Maximum	**1,558,650**	**0.737%**
		Minimum	**727**	**0.001%**
		Average	**339,266**	**0.160%**
		Median	**189,057**	**0.089%**

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

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.

2. Calculation is based on the average daily trading volume of Shares divided by the total issued Shares of the Company at the end of each respective month.

As illustrated in the table above, the percentage of average daily trading volume of Shares during the Share Review Period ranged from approximately 0.001% to approximately 0.737% of the total number of issued Shares for each of their respective month/period, with an average percentage of approximately 0.160%. Considering that the trading liquidity of the Shares were in general relatively thin during the Share Review Period, we consider that the Company is unlikely to be able to raise equity funds from third parties without a substantial discount on the prevailing Share prices. Taking into account the low trading liquidity of the Shares, we are of the view that, from the perspective of trading liquidity of the Shares, the Rights Issue is an appropriate equity financing method for the Group and the Subscription Price thereunder is fair and reasonable.

c. Comparison with recent rights issue transactions

With a view to assess the fairness and reasonableness of the terms of the Rights Issue, we have also conducted market research on recent proposed rights issue transactions based on the following selection criteria: (i) the shares of the company are listed on the Stock Exchange; and (ii) the proposed rights issue transaction was announced during the 3-month period commencing on 20 September 2024 up to and including the Last Trading Day (i.e. 20 December 2024) ("**Comparable Review Period**"), which we considered to be an appropriate timeframe to identify a representative sample set for the purpose of our analysis.

Based on the aforesaid criteria, we have identified an exhaustive list of 28 rights issues (the "**Rights Issue Comparable(s)**"). Shareholders should note that the Rights Issue Comparables may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to those of the Company. Nevertheless, we consider that they can provide a reasonable reference to how the market generally perceives rights issues. We also consider that the Comparable Review Period is adequate and fair and reasonable to capture the prevailing market conditions of companies listed on the Stock Exchange conducting rights issue.

Although the Rights Issue Comparables include rights issues in different scale, engaged in different business or have different financial performance and funding needs from the Company, having considered (i) all of the Rights Issue Comparables and the Group are listed on the Stock Exchange; (ii) including transactions conducted by the Rights Issue Comparables with different funding needs and business represents a more comprehensive overall market sentiment in our comparable analysis; (iii) the Comparable Review Period for the selection of the Rights Issue Comparables has generated a reasonable and meaningful number of sample size of 28 Hong Kong listed issuers to reflect the market practice regarding recent rights issue; and (iv) the 28 Rights Issue Comparables identified during the Comparable Review Period were exhaustively included without any artificial selection or filtering on our part, we are of the view that the Rights Issue Comparables represent a true and fair view of the recent market trends for rights issue conducted by other Hong Kong listed issuers in the Stock Exchange, and the Rights Issue Comparables are fair and representative samples.

It should be noted that, in forming our opinion, we have taken into account of the results of the below analysis together with all other factors stated in this letter as a whole.

The details of which are set out in the following table:

			Premium/(Discount) of subscription price over/to					
Date of announcement	**Company name (Stock code)**	**Basis of entitlement**	**Closing price on the respective last trading day** *(%)*	**Theoretical ex-rights price** *(%)* *(Note 1)*	**The net asset value per share** *(%)* *(Note 2)*	**Theoretical dilution effect** *(%)* *(Note 3)*	**Placing Commission** *(%)* *(Note 4)*	**Excess application (Yes/No)**
20-Dec-24	China Kingstone Mining Holdings Limited (1380)	1 for 2	19.76%	12.36	(65.60)	—	HK$300,000 or 2.25%	No
19-Dec-24	HSC Resources Group Limited (1850)	4 for 1	(24.29)	(6.03)	(15.87)	(19.43)	1.50	No
13-Dec-24	China Energy Storage Technology Development Limited (1143)	2 for 1	(36.36)	(16.00)	(90.50)	(24.24)	1.50	No
13-Dec-24	Royal Century Resources Holdings Limited (8125)	3 for 1	(23.95)	(7.30)	(82.69)	(17.96)	2.00	No
10-Dec-24	KNT Holdings Limited (1025)	3 for 1	(9.38)	(2.52)	(59.90)	(8.08)	3.00	No
6-Dec-24	Xinming China Holdings Limited (2699)	4 for 1	(13.80)	(4.44)	N/A	(16.90)	3.00	No
3-Dec-24	Graphex Group Limited (6128)	3 for 1	(32.00)	(10.53)	(51.51)	(24.00)	1.50	No
2-Dec-24	Luxxu Group Limited (1327)	1 for 1	(44.44)	(28.57)	(79.45)	(22.22)	HK$100,000 or 1.5%	No
21-Nov-24	Legend Strategy International Holdings Group Company Limited (1355)	1 for 1	(49.71)	(33.08)	N/A	(24.86)	N/A	Yes
21-Nov-24	Elife Holdings Limited (223)	1 for 5	(6.54)	(9.09)	96.10	(0.73)	N/A	Yes
19-Nov-24	Rare Earth Magnesium Technology Group Holdings Limited (601)	1 for 2	(43.88)	(34.26)	(86.91)	(14.63)	N/A	Yes
19-Nov-24	China Wood International Holding Co., Limited (1822)	1 for 1	(45.00)	(29.10)	N/A	(24.90)	N/A	Yes
15-Nov-24	Global Strategic Group Limited (8007)	4 for 1	(12.50)	(3.20)	(91.60)	(11.30)	N/A	Yes
12-Nov-24	HG Semiconductor Limited (6908)	1 for 4	(36.00)	(31.00)	(44.20)	(8.30)	HK$100,000 or 1.0%	No
11-Nov-24	Far East Holdings International Limited (36)	2 for 1	(35.77)	(15.66)	(80.59)	(23.85)	2.50	No
31-Oct-24	Yuzhou Group Holdings Company Limited (1628)	49 for 100	(73.68)	(65.27)	N/A	(24.23)	N/A	Yes
4-Nov-24	China Water Industry Group Limited (1129)	1 for 1	(49.85)	(33.20)	(93.95)	(24.92)	2.00	No
22-Oct-24	IRC Limited (1029)	1 for 2	(15.00)	(10.50)	(67.30)	(4.90)	N/A	Yes
21-Oct-24	China 33 Media Group Limited (8087)	3 for 2	(7.41)	(3.23)	77.44	(5.12)	HK$100,000 or 1.50%	No
18-Oct-24	Kingkey Financial International (Holdings) Limited (1468)	1 for 2	(2.56)	(4.04)	87.58	(2.06)	N/A	Yes
18-Oct-24	Gaodi Holdings Limited (1676)	1 for 2	37.90	12.10	(65.50)	—	1.00	No
15-Oct-24	Eminence Enterprise Limited (616)	2 for 1	(8.00)	(2.85)	(98.98)	(21.30)	N/A	Yes
8-Oct-24	V & V Technology Holdings Limited (8113)	1 for 2	(31.51)	(23.47)	(32.23)	(10.50)	N/A	Yes
4-Oct-24	Palinda Group Holdings Limited (8179)	1 for 2	(18.70)	(13.29)	(66.10)	(6.23)	N/A	Yes
2-Oct-24	China National Culture Group Limited (745)	2 for 1	(31.97)	(13.79)	(53.36)	(21.31)	2.00	No
26-Sep-24	Innovax Holdings Limited (2680)	1 for 2	(67.39)	(59.20)	(88.59)	(22.78)	1.00	No
23-Sep-24	Hatcher Group Limited (8365)	3 for 1	(31.50)	(10.40)	(94.10)	(23.60)	0.00	No
23-Sep-24	Shougang Fushan Resources Group Limited (639)	1 for 30	1.96	1.90	(20.49)	—	N/A	Yes
		Maximum	37.90	12.36	96.10	(0.73)	3.00 *(Note 5)*	
		Minimum	(73.68)	(65.27)	(98.98)	(24.92)	0.00 *(Note 5)*	
		Average	(24.70)	(15.85)	(48.68)	(16.33)	1.70 *(Note 5)*	
		Median	(27.90)	(10.52)	(65.85)	(19.43)	1.50 *(Note 5)*	
	The Company	**4 for 1**	**(22.90)**	**(5.50)**	**98.63**	**(18.80)**	**1.50**	**No**

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

Notes:

1. The benchmarked price used for calculation of the theoretical ex-rights price is calculated in accordance with Rule 7.27B of the Listing Rules or Rule 10.44A of the Rules Governing the Listing of Securities on GEM (the "**GEM Listing Rules**"), being the higher of (i) the closing price per share on the last trading day of the subject Rights Issue Comparables; and (ii) average closing price per share for the five trading days immediately prior to the last trading day of the subject Rights Issue Comparables.

2. The net asset value (the "**NAV**") per share is calculated based on the latest published net asset value of the subject company and total number of shares in issue as at the date of the respective announcement. "N/A" denotes that the NAV of the relevant Rights Issue Comparable that has net liabilities according to its latest published audited/unaudited consolidated financial statements.

3. The theoretical dilution effect is calculated in according to Rule 7.27B of the Listing Rules or Rule 10.44A of the GEM Listing Rules. "-" denotes that the rights issue has no theoretical dilution effect attributable to the subject theoretical ex-right price being higher than the subject benchmarked price.

4. "N/A" denotes that the subject rights issue was conducted without the involvement of any placing.

5. Analysis is based on the absolute percentage of the placing commission.

6. Figures or data shown in the above table are based on information as set out in the subject announcement or circular of the respective listed company or by our calculation, where applicable.

7. The above figures may subject to rounding adjustments, where applicable.

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

(a) the discount or premium of the subscription price to the respective last trading day price of the Rights Issue Comparables ranged from a discount of approximately 73.68% to a premium of approximately 37.90% (the "**Comparable LTD Range**"), with the average and median of discounts being approximately 24.70% and 27.90%, respectively. The Subscription Price represents a discount of approximately 22.90% to the adjusted closing price of the Adjusted Share on the Last Trading Day, which is within the Comparable LTD Range and is approximate to the aforesaid median;

(b) the discount or premium of the subscription price to the theoretical ex-rights price of the Rights Issue Comparables ranged from a discount of approximately 65.27% to a premium of approximately 12.36% (the "**Comparable TERP Range**"), with the average and median of discounts of approximately 15.85% and 10.52% respectively. The Subscription Price represents a discount of approximately 5.50% to the theoretical ex-rights price per Share on the Last Trading Day which is within the Comparable TERP Range and represents a lower discount than the aforesaid average and median;

(c) the discount or premium of the subscription price over or to the net asset value per share of the Rights Issue Comparables ranged from a discount of approximately 98.98% to a premium of approximately 96.10% (the "**Comparable NAV Range**"), with the average and median of discounts of approximately 48.68% and 65.85% respectively. The Subscription Price represents a premium of approximately 98.63% to the net asset value per Adjusted Share which is close to the highest of the Comparable NAV Range;

(d) the theoretical dilution effect of the Rights Issue Comparables ranged from 0.73% to approximately 24.92% (the "**Comparable Dilution Range**"), with average and median dilution effects of approximately 16.33% and 19.43%, respectively. The theoretical dilution effect of the Rights Issue of approximately 18.80% lies within the Comparable Dilution Range and similar to the average and median dilution effects of the Comparable Rights Issue. In any case, as the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 10.44A of the GEM Listing Rules;

(e) it is noted from the Board Letter that the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. Based on our analysis on the Rights Issue Comparables, we noted that 16 out of 28 Rights Issue Comparables, did not offer excess application as part of the rights issue. On this basis, we considered the absence of excess application to be common market practice. Furthermore, the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company, for the Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full, they would be able to maintain their respective existing shareholdings in the Company after completion of the Rights Issue. As such, we considered that the absence of excess application arrangement to be acceptable as far as the Independent Shareholders are concerned; and

(f) Under the Compensatory Arrangements, the Company entered into the Placing Agreement with the Placing Agent to procure Placees, on a best effort basis, to subscribe for the Placing Shares during the Placing Period. The placing commission of the Rights Issue Comparables, where applicable, ranged from 0% to 3.00%, with the average and median of approximately 1.70% and 1.50%, respectively. Pursuant to the terms of the Placing Agreement, the Placing commission is 1.50% of the gross proceeds, from the successful placement of Unsubscribed Rights Shares and ES Unsold Rights Shares, such is within the aforesaid range of the Rights Issue Comparables.

In view of (i) the Subscription Price represents a discount of approximately 22.90% to the adjusted closing price of the Adjusted Shares on the Last Trading Day which is within the Comparable LTD Range and is below the average and median of the Rights Issue Comparables; (ii) the discount of the Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day of 5.50% is within the Comparable TERP Range and such discount is lower than the corresponding average and median of the Rights Issue Comparables; (iii) the Subscription Price represents a premium of approximately of 98.63% over the net asset value of the Company per Adjusted Share as at 30 September 2024; (iv) the theoretical dilution effect of the Rights Issue is within the Comparable Dilution Range and below 25% which is in compliance with Rule 10.44A of the GEM Listing Rules; (v) our analysis on the placing commission under the Placing Agreement is within the range of the Rights Issue Comparables; and (vi) the Subscription Price is available to all Qualifying Shareholders, we consider that the principal terms of the Rights Issue (including the Subscription Price and the Placing commission rate) to be fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

4. Possible financial effects of the Rights Issue

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, assuming the completion of the Rights Issue had been completed and subscribed in full on 30 September 2024, the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company would have increased from approximately HK$3.86 million to an unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company of approximately HK$33.33 million immediately after the completion of the Rights Issue.

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

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. Referring to the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and their aggregate shareholding interests in the Company may be reduced by a maximum of approximately 80%. It should be noted that the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including but not limited to the results of acceptance of the Rights Issue.

Having taken into account (i) all Qualifying Shareholders are provided an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company; (ii) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the Rights Issue entitlements; and (iii) shareholding dilution is generally inherent in rights issue with new shares being issued, we are of the view that the potential dilution effect on the shareholding is acceptable.

RECOMMENDATION

Taking into consideration the above principal factors and reasons, we are of the opinion that the terms of the Rights Issue (including the Subscription Price, potential dilution effect, the terms of the Placing Agreement, and the Compensatory Arrangements) are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) proposed at the EGM thereby approving the Rights Issue. However, we do not envisage our role as to opine on, and our opinion herein does not in any manner address to or imply, whether Qualifying Shareholders should or should not accept the Rights Shares.

Yours faithfully,
For and on behalf of
Merdeka Corporate Finance Limited

Wallace So
Managing Director

Mr. Wallace So is a licensed person registered with the Securities and Futures Commission of Hong Kong, a responsible officer of Merdeka Corporate Finance Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and a licensed representative of Merdeka Investment Management Limited to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. Mr. Wallace So has over 13 years of experience in corporate finance industry.