

18 February 2025

*To: The Independent Board Committee and the Independent Shareholders
of Wan Kei Group Holdings Limited*

Dear Sir/Madam,

**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**

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 terms of the Rights Issue, the Placing Agreement and transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 18 February 2025 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 17 January 2025, in relation to, among other things, the Rights Issue, and the announcement of the Company dated 27 January 2025 in relation to the Increase in Authorised Share Capital. The Board proposed, subject to, among other things, to conduct the Rights Issue on the basis of one (1) Rights Share for every one (1) Share held on the Record Date at the Subscription Price of HK\$0.2 per Rights Share, to raise gross proceeds of approximately HK\$23.0 million before expenses (assuming no further issue or repurchase of Shares on or before the Record Date), by way of the Rights Issue of up to 115,200,000 Rights Shares to the Qualifying Shareholders. The Rights Issue is not underwritten and is only available to Qualifying Shareholders and will not be available to the Excluded Shareholders.

As the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the EGM by poll in accordance with the requirements of Rule 7.19A(1) of the Listing Rules and any controlling shareholders and the respective associates or where there is no controlling shareholders, the Directors (excluding independent non-executive Directors), 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.

As the Latest Practicable Date, no Shareholder shall abstain from voting in favour of the resolution(s) relating to the Rights Issue, the Placing Agreement and transactions contemplated thereunder at the EGM.

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Jiang Senlin, Mr. Zhang Yi and Ms. Dan Xi, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Placing Agreement and transactions contemplated thereunder are fair and reasonable and on normal commercial terms and whether the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. We, Silver Nile Global Investments Limited ("**Silver Nile Global**"), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected and not aware of any relationship and interests with the Company, its respective core connected persons or associates that could reasonably be regarded as relevant to our independence to act as the Independent Financial Adviser and accordingly, we were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Placing Agreement and transactions contemplated thereunder.

Save for our appointment as the Independent Financial Adviser, there was no other engagement between the Company and Silver Nile Global in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions, beliefs and representations contained in the Circular and the information and representations provided to us by the Group, the Directors and/or the management of the Group. We have reviewed, *inter alia*, (i) the statements, information, opinions and representations contained or referred to in the Circular; (ii) the information and representations as provided to us by the Company and the Directors, including but not limited to the Placing Agreement; (iii) the Company's annual report for the year ended 31 March 2023 (the "AR2023") and 2024 (the "AR2024") and interim report for the six months ended 30 September 2023 (the "IR2023") and 2024 (the "IR2024"); and (iv) other relevant public information related to the Company. We have assumed that (i) all statements, information and representations provided by the Directors and the management of the Group; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have also sought and received confirmation from the Company that no material facts have been omitted from the information provided and the opinions expressed to us or there is undisclosed private agreement/arrangement or implied understanding with anyone concerning the Rights Issue, the Placing Agreement and the transactions contemplated thereunder. 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 representation and opinions expressed by the Company, its advisers and/or the Directors. We consider that we have been provided with sufficient information and taken sufficient and necessary steps to reach an informed view and to provide a reasonable basis for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of in-depth investigation into the business, affairs, financial position or prospects of the Group or any of its substantial shareholders, subsidiaries or associates (if applicable). We have also not considered the taxation implication on the Group or the Shareholders as a result of conducting the Rights Issue and/or the entering into of the Placing Agreement and transactions contemplated thereunder.

The Directors jointly and severally accept 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, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information of the Independent Board Committee and Independent Shareholders solely in connection with their consideration of the Rights Issue, the Placing Agreement and transactions contemplated thereunder, and except for its inclusion in this circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the Rights Issue, we have considered the following principal factors and reasons:

1. Background and financial information of the Group

(i) Background information and financial overview of the Group

With reference to the Letter from the Board, the Group is principally engaged in the provision of (i) foundation construction works; (ii) ground investigation services; (iii) financial services; (iv) trading of consumer products; and (v) e-commerce sales, live streaming and promotion business in the social media.

Set out below is a summary of the key financial information of the Group for the financial years ended 31 March 2023 and 2024 as extracted from the AR2023 and AR2024 and the six months ended 30 September 2023 and 2024 respectively as extracted from the IR2024.

	For the years ended 31 March		For the six months ended 30 September	
	2024	2023	2024	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	288,654	315,447	178,596	155,868
Gross profit	53,073	53,789	38,530	41,175
(Loss)/profit attributable to owners of the Company	(20,622)	(46,996)	(10,563)	18,378

For the six months ended 30 September 2024

The revenue of the Group increased by approximately HK\$22.73 million or 14.58% from approximately HK\$155.87 million to HK\$178.60 million for the six months ended 30 September 2023 (“1H2023”) and 2024 (“1H2024”), respectively. According to the IR2024, the increase in revenue was mainly due to the increase in number of sizeable foundation construction projects tendered by the Group during the 1H2024 and the increase in revenue from e-commerce sales, live streaming and promotion business in the social media, which partially offset by the decrease in revenue generated from ground investigation services.

Despite the increase in revenue, the Group recorded a loss attributable to owners of the Company of approximately HK\$10.56 million for the six months ended 30 September 2024 as compared to a profit attributable to owners of the Company of approximately HK\$18.38 million for the six months ended 30 September 2023 mainly due to (i) the provision of impairment losses on financial and contract assets for the six months ended 30 September 2024 while a reversal of impairment losses on financial and contract assets was recorded in the corresponding period in 2023; and (ii) increase in selling expenses and general administrative expenses of approximately HK\$19.09 million.

For the year ended 31 March 2024 (“FY2024”)

The Group’s consolidated revenue decreased from approximately HK\$315.45 million for the year ended 31 March 2023 (“FY2023”) to approximately HK\$288.65 million for FY2024, representing a decrease of approximately 8.50%, which was mainly attributable to the decrease in the number of sizable foundation construction projects tendered by the Group, which partially offset by the increase in the number of sizable ground investigation service projects tendered by the Group.

Meanwhile, the loss attributable to the owners of the Company significantly decreased by approximately HK\$26.38 million from approximately HK\$47.00 million for FY2023 to approximately HK\$20.62 million for FY2024 primarily due to (i) there was a one-off loss on disposal of interest in an associate recorded in FY2023; and (ii) reduction in the impairment losses on financial and contract assets.

Set out below is a summary of the financial position of the Group as at 30 September 2024 and 31 March 2024 as extracted from the IR2024.

	As at 30 September 2024 HK\$'000 (Unaudited)	As at 31 March 2024 HK\$'000 (Audited)
Non-current assets	26,499	13,069
Current assets	301,219	310,905
Total assets	327,718	323,974
Current liabilities	229,047	230,173
Non-current liabilities	6,936	2,972
Total liabilities	235,983	233,145
Net assets	91,735	90,829
Current assets – Cash and cash equivalents	115,353	138,286
Current liabilities – Due to a related company	54,684	55,351
Current liabilities – Due to directors of subsidiaries	128,010	122,000

As set out in the above, the total assets and liabilities of the Group remained relatively stable between 31 March 2024 and 30 September 2024. The net current asset value was approximately HK\$72.17 million (as at 31 March 2024: approximately HK\$80.73 million).

Meanwhile, the cash and cash equivalents of the Group reduced from approximately HK\$138.29 million as at 31 March 2024 to approximately HK\$115.35 million. It is also noted that the total interest-borrowings of the Group, mainly consisted of lease liabilities, borrowing from directors of subsidiaries and borrowing from a related company of the Group, increased from approximately HK\$179.94 million as at 31 March 2024 to approximately HK\$192.61 million as at 30 September 2024, which is repayable on demand. The increase in borrowings was mainly due to replenishment of liquid funds for working capital for the construction segment and e-commerce sales, live streaming and promotion business segment of the Group and the increase in lease liabilities in relation to rental of headquarter office and other premises, as advised by the management of the Company.

The gearing ratio of the Group as at 30 September 2024 (defined as total interest-bearing liabilities divided by the Group's total equity) was approximately 210.0% (as at 31 March 2024: approximately 199.2%) and the current ratio of the Group as at 30 September 2024 was approximately 1.32 (as at 31 March 2024: approximately 1.35).

2. Reasons for and benefit of the Rights Issue and intended use of proceeds

As set out the Letter from the Board, the net proceeds from the Rights Issue, after deducting related expenses, are estimated to be approximately HK\$21.4 million (assuming full subscription and no change in the number of Shares on or before the Record Date). The Company intends to apply the net proceeds from the Rights Issue as general working capital of the Group over the coming months and utilised by 31 December 2025, particularly for the funding of the construction segment of the Group and the general working capital of the headquarter.

As at 31 December 2024 and as advised by the management of the Company, the Group had cash and cash equivalent of approximately HK\$104.8 million, of which approximately HK\$20.7 million was considered unavailable amount as such amount was proceeds from a placing exercise of the Company in 2016 and has to be reserved for future possible acquisition of equity interests in target company(-ies) engaged in the food and beverage and/or the construction sectors, leaving available amount to be approximately HK\$84.1 million.

We are advised that sufficient funds should be retained to support the recurring operations of the Group. The tables below show the breakdown on the Directors' estimation on the funding requirement for one-year operation costs of the construction segment of the Group and the administrative expenses and general working capital of the headquarter per year, as provided by the management of the Company.

One-year operation costs of the construction segment of the Group

Item	Estimated amount
Staff costs and contribution to defined contribution retirement plans	HK\$49.4 million
Motor vehicle expenses	HK\$3.0 million
Office and warehouse rental	HK\$2.1 million
Plant repairs and maintenance	HK\$1.8 million
Others (including but not limited to legal and professional fee, insurance payment, telecommunication and administration expenses)	<u>HK\$5.5 million</u>
Total	<u><u>HK\$61.8 million</u></u>

Administrative expenses and general working capital of the headquarter per year

Item	Estimated amount
Directors' fee, remuneration and staff salaries	HK\$19.4 million
Legal and professional fees	HK\$3.9 million
Rentals for three offices	HK\$3.7 million
Others (including but not limited to insurance payment and consultancy fee expenses)	<u>HK\$1.4 million</u>
Total	<u>HK\$28.4 million</u>

As discussed with the management of the Company, the estimation on the staff cost and contribution to defined contribution retirement plans of the construction segment of the Group and Directors' fee, remuneration and staff salaries of the headquarter was projected based on (i) the number of workers required for the ongoing and new construction projects in the next 12 months; and (ii) the historical staff costs.

In this regard, we have obtained and reviewed the list of ongoing construction projects and construction projects which are expected to commence before March 2026 of the Group which included relevant details including but not limited to the project location, commencement date (or the expected commencement date for future projects), expected completion date, the contract sum, percentage of completion and number of workers required for the project and the calculation of the staff cost. Furthermore, despite the Directors are of the view that the development of the construction segment for both private and public sectors had been subject to uncertainty in 2024 and there was a decrease in revenue from foundation construction work of the Group in FY2024 as compared to FY2023, we noted from the AR2024 that (i) the staff cost (including Directors' remuneration) increased from approximately HK\$67.25 million in FY2023 to approximately HK\$74.37 million in FY2024 and upon our enquiry, we are given to understand that the corresponding expenses estimated by the Directors for the one year operation cost of construction segment and the headquarter (i.e. approximately HK\$70 million) is similar to the expenses for the construction segment and the headquarter in FY2024; and (ii) the total emoluments of five highest paid individuals, which none of them was Directors) was approximately HK\$9.92 million in FY2024, representing an increase of approximately 14.19% from FY2023, which indicate the labour cost for workers may maintain an increasing trend in forthcoming months. We have also obtained a breakdown of the administrative expenses of the headquarter for the period between April 2024 to September 2024 of which, among others, the Group had incurred expenses of approximately HK\$9.52 million on Directors' fee, remuneration and staff salaries of the headquarter. Having taken the above into consideration, based on the information provided to us as at the Latest

Practicable Date, we did not identify material deficiency which would render significant overestimation on the Directors' projection on the staff cost and staff salaries in relation to the funding requirement for the next 12 months.

In relation to other items of the operation costs and administrative expenses and general working capital, we have been provided with relevant rental contracts and service contracts for legal and professional services (including but not limited to, legal adviser annual retainer, advisory services in relation to investor relationship management and advisory services in relation to risk management, internal control and environmental, social and governance report) which covered the rental and/or service period up to the second quarter of 2026. Upon our review, we have not noticed material inconsistency on the estimated amount to be incurred for the next 12 months and the contracted amount.

As stated in the Letter from the Board, the Group had an aggregate amount of approximately HK\$182.69 million as at 30 September 2024 due to a related company and directors of subsidiaries which are unsecured, bearing interest at 4.5% to 6.5% per annum and repayable on demand. In December 2024, the Company received a partial repayment demand from one of the lenders and repaid HK\$20.0 million to a director of a subsidiary. As confirmed by the management of the Company based on the communication with the lenders, the lenders had no intention to request for further repayment of the borrowings as at the Latest Practicable Date. Having said that, we are of the view that it is reasonable for the Company to set aside funds from its available cash and cash equivalent to fulfil any future partial repayment requests as and when required.

Nonetheless, the estimation on the Group's operation cost of the construction segment and administrative expenses for headquarter is relating to future event and is based on assumptions which the Company considers appropriate which we have not assumed any responsibility for independently verifying the accuracy or completeness, therefore, we express no opinion on whether the actual cost and/or expenses would eventually be incurred, and/or if any extra cost and/or expenses is required, in correspondence with the estimation as mentioned in the above.

We are given to understand from the management of the Company that the Board has considered other alternative financing methods instead of the Rights Issue, including debt financing methods (such as bank and other borrowings or bond) and other means of equity financing methods (such as placing of new Shares or open offer). Regarding the debt financing, further borrowings would create additional interest burden for the Group and the negotiation process with the relevant banks may be lengthy given the loss making financial position of the Group for FY2024 and six months ended 30 September 2024, as well as increasing the gearing ratio of the Group. Debt financing would also create pressure to the liquidity of the Company, given that fact that the construction industry is capital intensive in

nature, any extra borrowings may limit the Company's capability in taking up new projects in the future. Therefore, we are of the view that extra debt financing may not be beneficial to the Company.

In relation to other equity financing methods, it is noted that placing of new Shares would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to further invest in the equity of the Company at a favourable discount while maintaining their respective pro-rata shareholding interests and voting rights in the Company. Furthermore, given the low liquidity of the Shares as illustrated in the section headed "5. Assessment on the principal terms of the Rights Issue – (b) Historical trading liquidity of the Share" below may hinder the attractiveness of any equity fund-raising activities to be conducted by the Company to investors and may require more time to seek enough potential investors. For open offer, it does not allow the existing Shareholders to have chance to deal with the trading of rights entitlements in the open market. Meanwhile, a rights issue would allow the Qualifying Shareholders to maintain their respective shareholdings in the Company at their own will.

We understand from the Letter from the Board that the Board is of the view that operational conditions of the foundation industry in Hong Kong to be gloomy in 2025 as a result of decrease in land acquired and to be developed by the property developers but it is also the intention of the Board to timely grasp any business opportunities when the construction industry recovers. We noted that there was an increase in revenue from construction contracts in the six months ended 30 September 2024 as compared to the corresponding period in 2023. Although the growth in revenue may not be sustainable, in the context of ensuring business stability and long-term development of the Group, we concur with the Directors' view that the replenishment of additional working capital of the Group from the Rights Issue would allow the Group to actively seek and take up more construction projects, which usually require prepayment on set up of construction site office and warehouse rental, purchase of raw material and labour cost payment.

Taking into account the above, we concur with the Directors that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

3. Fundraising activities in the past twelve months

The Company has conducted the following equity fundraising activities in the past twelve months immediately prior to the Latest Practicable Date:

Date	Equity fund raising activity	Net proceeds raised	Proposed use of net proceeds	Actual use of net proceeds
3 April 2024 (announcement of entering into placing agreement) ¹ and 16 April 2024 (announcement of completion) ²	Placing of 19,200,000 new shares at HK\$1.00 per placing shares under general mandate	Approximately HK\$18.7 million	Approximately (i) 70% for director and staff remuneration; (ii) 8% for rental expense; (iii) 12% for professional fee; and (iv) 10% for other operation expenses	Fully utilised as intended

¹ <https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0403/2024040302171.pdf>

² <https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0416/2024041600995.pdf>

4. Principal terms of the Rights Issue and the Placing

Summarised below are the principal terms of the Rights Issue:

Rights Issue statistics

Basis of the Rights Issue	:	One (1) Rights Share for every one (1) Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.2 per Rights Share
Net price per Rights Share (i.e. Subscription Price less cost and expense incurred in the Rights Issue)	:	Approximately HK\$0.1858 per Rights Share

Number of Shares in issue as at the Latest Practicable Date	:	115,200,000 Shares
Number of Rights Shares to be issued under the Rights Issue	:	up to 115,200,000 Rights Shares (assuming no further Shares are issued or repurchased on or before the Record Date)
Gross proceeds from the Rights Issue	:	up to approximately HK\$23.0 million before expenses (assuming no Shares are issued or repurchased on or before the Record Date)
Rights of excess application and underwriter	:	There will be no excess application arrangements in relation to the Rights Issue as stipulated by Rule 7.21(1)(a) of the Listing Rules. The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares.
Compensatory arrangements	:	Any Unsubscribed Shares and the NQS Unsold Rights Shares will be placed to independent placees under the Compensatory Arrangements on a best effort basis under the Compensatory Arrangements. Any Unsubscribed Shares and/or NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue.

Further details of the principal terms of the Rights Issue are outlined in the Letter from the Board.

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

Set out below is the summary of the principal terms of the Placing Agreement:

Placing Agreement

Date : 17 January 2025

Placing Agent : Beta International Securities Limited

Placing Price : not less than HK\$0.2 per Unsubscribed Share and the NQS Unsold Rights Shares

Placing Period : a period commencing from the first (1st) Business Day immediately after the date of announcement of the number of Unsubscribed Shares and NQS Unsold Rights Shares and ending on 4:00 p.m. on the fifth (5th) business day after the date of announcement of the number of Unsubscribed Shares and NQS Unsold Rights Shares (both days inclusive)

Placing Commission : Subject to completion of the Placing, the Company shall pay a placing commission of 3.0% of the actual gross proceeds from the subscription of the Unsubscribed Shares and the NQS Unsold Rights Shares under the Placing

Assuming none of the Qualifying Shareholders has taken up their entitled Rights Shares and all Unsubscribed Shares and the NQS Unsold Rights Shares have been placed by the Placing Agent, the total placing commission will be approximately HK\$0.69 million in cash to be deducted from the gross proceeds of the Rights Issue.

Placees : The Unsubscribed Shares and NQS Unsold Rights Shares are expected to be placed to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties and not acting in concert with the Placing Agent and its concert parties.

For the avoidance of doubt, no placee will become a substantial Shareholder.

Ranking of the placed : The placed Unsubscribed Shares and NQS Unsold
 Unsubscribed Shares Rights Shares (when allotted, issued and fully-paid,
 and NQS Unsold if any) shall rank *pari passu* in all respects among
 Rights Shares themselves and with the existing Shares in issue as
 at the date of completion of the Rights Issue.

Further details of the terms and conditions of the Placing Agreement are outlined in the Letter from the Board.

5. Assessment on the principal terms of the Rights Issue

(i) Evaluation of the Subscription Price

As set out in the Letter from the Board, the Subscription Price represents:

- (i) a discount of approximately 45.21% to the closing price of HK\$0.365 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 29.82% to the closing price of HK\$0.285 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 31.97% to the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.294;
- (iv) a discount of approximately 36.31% to the average closing price per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.314;
- (v) a discount of approximately 17.53% to the theoretical ex-rights price of approximately HK\$0.2425 per Share based on the closing price of HK\$0.285 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 17.64% represented by the theoretical diluted price of approximately HK\$0.2545 to the benchmarked price of approximately HK\$0.309 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.285 per Share and the average closing price of the Shares in the five trading days immediately prior to the date of the Announcement of HK\$0.309 per Share);

(vii) a discount of approximately 74.36% to the consolidated net asset value per Share attributable to the Shareholders as at 31 March 2024 of approximately HK\$0.78 calculated based on the audited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$90,322,000 as set out in the annual report of the Company for the year ended 31 March 2024 and 115,200,000 Shares in issue as at the Latest Practicable Date; and

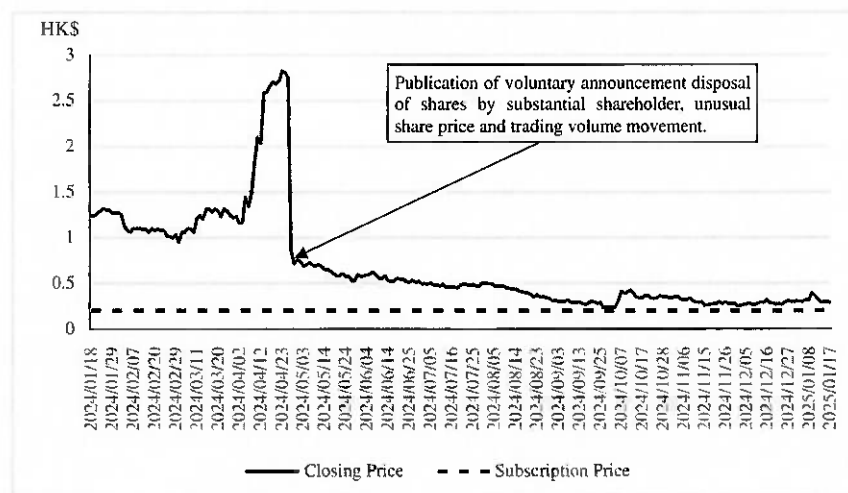
(viii) a discount of approximately 75.00% to the consolidated net asset value per Share attributable to the Shareholders as at 30 September 2024 of approximately HK\$0.80 calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$92,242,000 as set out in the interim report of the Company for the six months ended 30 September 2024 and 115,200,000 Shares in issue as at the Latest Practicable Date.

According to the Letter from the Board, the Subscription Price was determined taking into consideration (i) the recent market price of the Shares; (ii) the prevailing market conditions; (iii) the low trading volume of the Shares; and (iv) the amount of funds the Company intends to raise under the Rights Issue for the purposes described in the section headed “Letter from the Board – Reasons for and benefits of the Rights Issue and the use of proceeds”.

In assessing the fairness and reasonableness of the Subscription Price, we have reviewed relevant information and performed the following analysis:

(a) Historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 18 January 2024 up to and including the Last Trading Day (the “**Review Period**”), being a period of 12 months prior to the Last Trading Day. We consider that the Review Period represents a reasonable period to provide a general overview of the historical trend of the Share price when assessing the fairness and reasonableness of the Subscription Price, as the share price before the Announcement represent a fair market value of the Company the Shareholders had expected, while that after the Announcement, the value may have taken into account the potential effect of the Rights Issue which may distort the analysis.



Source: the website of the Stock Exchange

As illustrated in the chart above, the Share price closed in a range between HK\$0.23 and HK\$2.82 per share during the Review Period, with an average closing price of approximately HK\$0.68 per Share.

Starting from the 18 January 2024 and up to 3 April 2024, the Share price closed within a range of HK\$0.95 and HK\$1.32, with an average closing price of approximately HK\$1.17 per Share.

Since 5 April 2024, the closing price of the Shares started to rise to HK\$2.82 per Share, the highest closing price during the Review Period, recorded on 23 April 2024. However, there was a significant drop in the closing price of the Shares to HK\$0.86 per Share on 26 April 2024. In this regard, we did not notice any specific reasons for the fluctuation in the closing prices of the Share between 5 April 2024 to 26 April 2024 save as (i) the placing of new shares under general mandate published by the Company on 3 April 2024; (ii) the completion of placing of new shares under general mandate published by the Company on 16 April 2024; and (iii) the voluntary announcement in relation to disposal of shares by substantial shareholder and unusual share price and trading volume movement published by the Company on 26 April 2024. As advised by the management of the Company, the Company is also not aware of any other reasons for the aforementioned Share price fluctuations save as those published announcements.

After 26 April 2024, the closing price of the Share showed a downward trend and closed at HK\$0.285 on the Last Trading Day, with an average closing price of approximately HK\$0.41 during this period.

It is noted that the Subscription Price has been lower than the closing price of the Shares during the Review Period, nonetheless, having considered (i) the closing price of the Shares has been decreasing during the Review Period; (ii) the Subscription Price represents only a slight discount of approximately 13.04% to the lowest closing price of the Share during the Review Period; (iii) the low liquidity of the Shares as discussed in the section headed “(b) Historical trading liquidity of the Shares” below; (iv) it is noted that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue as discussed in the section headed “(c) Comparison with recent rights issues exercise” below, we consider that the Subscription Price being set at a discount to the prevailing market prices of the Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(b) Historical trading liquidity of the Share

Set out in the table below is the trading volume data in respect of the Shares during the Review Period.

Month	Number of trading days	Average daily trading volume of the Shares during the month/period	Average daily trading volume of the Shares during the month/period to the total number of issued Shares as at relevant month end
2024			
January (commencing on 18 January 2024)	10	112,850	0.1176%
February	19	50,368	0.0525%
March	20	975,200	1.0158%
April	20	8,807,479	7.6454%
May	21	1,105,861	0.9599%
June	19	452,805	0.3931%
July	22	762,590	0.6620%
August	22	190,431	0.1653%
September	19	956,500	0.8303%
October	21	909,523	0.7895%
November	21	388,666	0.3374%
December	20	694,825	0.6031%

Month	Number of trading days	Average daily trading volume of the Shares during the month/period	Average daily trading volume of the Shares during the month/period to the total number of issued Shares as at relevant month end
2025			
January (up to and including the Last Trading Day)	12	1,244,875	1.0806%

Source: the website of the Stock Exchange

During the Review Period, the average daily trading volume of the Shares ranged from a low of approximately 0.0525% and up to a maximum of 7.6454% to the total number of issued Shares as at the end of relevant month. Having said that, it is noted that the average daily trading volume of the Shares was exceptionally high in April 2024 when compares to the result of other months during the Review Period. The average daily trading volume of the Shares of the remaining months of the Review Period is approximately 0.5839%.

Given the thin trading volume of the Shares as illustrated above may hinder the attractiveness of any equity fund-raising activities to be conducted by the Company, we consider that a discount to the prevailing Share price is crucial for the Company to be able to raise equity funds from investors.

(c) Comparison with recent rights issues exercise

In order to further assess the fairness and reasonableness of the Subscription Price, we have identified, on a best effort basis, an exhaustive list of 39 rights issue transactions (the “**Comparables**”) announced by companies listed on the Stock Exchange during the period from 17 July 2024 up to the Last Trading Day (being a six-month period immediately prior to and including the Last Trading Day), which we considered to be an appropriate time frame to identify a reasonable size of samples of recent rights issue for the purpose of our analysis. In selecting the Comparables, we have excluded rights issue transactions that have been terminated as at the Latest Practicable Date.

Although the Comparables include rights issues with varying bases, or the issuer of the Comparables is engaged in different business operations, and having financial performances or funding needs different to the Company, we have considered the following: (i) all of the issuer of the Comparables, like the Company, are listed on the Stock Exchange; (ii) our analysis focuses primarily on the principal terms of the rights issue, and we have not identified any established evidence indicating any correlation between principal business of the issuer of the Comparables and the fund-raising exercise's underlying principal terms; (iii) including issuer of the Comparables with diverse funding needs and business operations provides a more comprehensive reflection of overall market sentiment in our analysis; (iv) the approximately six-month selection period has generated a reasonable sample size to represent recent market practices for rights issues; and (v) the Comparables were selected without any artificial filtering, ensuring they true and fairly reflect current market trends for similar transactions conducted by other issuers listed on the Stock Exchange. Therefore, we consider the Comparables to be fair and representative samples.

Nevertheless, INEDs and Shareholders should note that the businesses, operations and prospects of the Company are not exactly the same as the issuers of the Comparables and we have not conducted any in-depth investigation into the businesses, operations and prospects of the issuers of the Comparables.

The following table sets forth the relevant details of the Comparables:

Announcement date	Company name	Stock code	Basis for entitlement (%)	Premium/ (Discount) of the subscription price over/ to the closing price (%)	Premium/ (Discount) of the subscription price over/ to the theoretical ex-right entitlement price (%)	Premium/ (Discount) of the subscription price over/ to the latest net asset value per share (%)	Theoretical dilution effect Note	Excess application or compensatory arrangements	Placing commission	Underwritten
31-Dec-24	China Demeter Financial Investments Limited	8120	1 for 2	(25.00)	(18.18)	(59.08)	8.55	Compensatory arrangement	2.50%	No
27-Dec-24	China Kingstone Mining Holdings Limited	1390	2 for 5	16.28	11.11	(65.60)	0.00	Compensatory arrangement	2.25%	No
20-Dec-24	Mansion International Holdings Limited	8456	4 for 1	(22.90)	(5.50)	N/A	18.80	Compensatory arrangement	1.50%	No
19-Dec-24	HSC Resources Group Limited	1830	4 for 1	(24.29)	N/A	N/A	19.43	Compensatory arrangement	1.50%	No
13-Dec-24	China Energy Storage Technology Development Limited	1143	2 for 1	(36.26)	(16.00)	(90.50)	24.24	Compensatory arrangement	1.50%	No
13-Dec-24	Royal Century Resources Holdings Limited	8125	3 for 1	(23.95)	(7.30)	(82.69)	17.96	Compensatory arrangement	2.00%	No
10-Dec-24	Kau Holdings Limited	1025	3 for 1	(9.38)	(2.52)	(59.90)	8.08	Compensatory arrangement	3.00%	No
6-Dec-24	Xinming China Holdings Limited	2699	4 for 1	(13.80)	N/A	N/A	16.90	Compensatory arrangement	3.00%	No
3-Dec-24	Graphex Group Limited	6128	3 for 1	(32.00)	(10.53)	(51.51)	24.00	Compensatory arrangement	1.50%	No
2-Dec-24	Luxxa Group Limited	1327	1 for 1	(44.44)	N/A	(79.45)	22.22	Compensatory arrangement	1.50%	No

Announcement date	Company name	Stock code	Basis for entitlement (%)	Premium/ (Discount) of the subscription price over/to closing price (%)	Premium/ (Discount) of the subscription price over/to the theoretical ex-right price (%)	Premium/ (Discount) of the subscription price over/to the latest net asset value per share (%)	Theoretical dilution effect Note	Excess application or compensatory arrangements	Placing commission	Underwritten
21-Nov-24	Legend Strategy International Holdings Group Company Limited	1355	1 for 1	(49.71)	(33.08)	N/A	24.86	Excess application	N/A	No
21-Nov-24	Elife Holdings Limited	223	5 for 1	(6.54)	(9.09)	(96.10)	0.61	Excess application	N/A	No
19-Nov-24	China Wood International Holdings Co., Limited	1822	1 for 1	(45.00)	(29.10)	N/A	24.90	Excess application	N/A	No
15-Nov-24	Global Strategic Group Limited	8007	1 for 4	(12.50)	(3.20)	(91.60)	11.30	Excess application	N/A	No
12-Nov-24	HG Semiconductor Limited	6908	4 for 1	(36.00)	(31.00)	(44.20)	8.30	Compensatory arrangement	1.00%	No
11-Nov-24	Far East Holdings International Limited	36	2 for 1	(35.77)	(15.66)	(80.59)	23.85	Compensatory arrangement	2.50%	No
6-Nov-24	China Water Industry Group Limited	1129	1 for 1	(49.85)	(33.20)	(93.95)	24.92	Compensatory arrangement	2.00%	No
1-Nov-24	Yuzhou Group Holdings Company Limited	1628	49 for 100	(73.68)	(65.27)	N/A	24.23	Excess application	N/A	No
22-Oct-24	IRC Limited	1029	1 for 2	(15.00)	(10.50)	(67.30)	4.90	Excess application	N/A	No
21-Oct-24	China 33 Media Group Limited	8087	3 for 2	(7.41)	(3.23)	(55.62)	5.12	Compensatory arrangement	1.50%	No
18-Oct-24	Kingkey Financial International (Holdings) Limited	1468	1 for 2	(2.56)	(4.04)	124.60	2.06	Excess application	N/A	No
18-Oct-24	Gaodi Holdings Limited	1676	1 for 2	(37.90)	(12.10)	(65.50)	0.00	Compensatory arrangement	1.00%	No
15-Oct-24	Eminence Enterprise Limited	616	2 for 1	(8.00)	(2.85)	(98.98)	21.30	Excess application	N/A	No
8-Oct-24	V&V Technology Holdings Limited	8113	2 for 1	(31.51)	(23.47)	(32.23)	10.50	Excess application	N/A	No
4-Oct-24	Palinda Group Holdings Limited	8179	1 for 2	(18.70)	(13.29)	(66.10)	6.23	Excess application	N/A	No
2-Oct-24	China National Culture Group Limited	745	1 for 2	(31.97)	N/A	(53.36)	21.31	Compensatory arrangement	2.00%	No
26-Sep-24	Isaovax Holdings Limited	2660	1 for 2	(67.39)	(59.02)	(88.59)	22.78	Compensatory arrangement	1.00%	No
23-Sep-24	Hatcher Group Limited	8365	3 for 1	(31.50)	(10.40)	(94.10)	23.60	Compensatory arrangement	N/A	Yes
23-Sep-24	Shougang Fushan Resources Group Limited	639	1 for 30	1.96	1.90	(20.49)	0.06	Excess application	N/A	No
13-Sep-24	Dragon Rise Group Holdings Limited	6829	1 for 1	(48.70)	(33.10)	(89.20)	24.90	Compensatory arrangement	1.00%	Yes
13-Sep-24	Shougang Century Holdings Limited	103	1 for 5	8.20	1.37	(62.50)	0.00	Excess application	N/A	No
9-Sep-24	Crown International Corporation Limited	727	2 for 1	2.27	1.50	162.35	0.00	Excess application	N/A	No
4-Sep-24	China New Consumption Group Limited	8275	1 for 2	(5.66)	(4.76)	(61.09)	2.47	Compensatory arrangement	3.50%	No
2-Sep-24	Guangdong - Hong Kong Greater Bay Area Holdings Limited	1396	1 for 2	(22.20)	(15.85)	(90.50)	8.28	Excess application	N/A	No
22-Aug-24	BeijingWest Industries International Limited	2339	1 for 2	(13.85)	(9.68)	(88.72)	4.62	Excess application	1.00%	Yes
2-Aug-24	Asia Television Holdings Limited	707	1 for 2	(46.80)	(37.00)	36.38	15.60	Compensatory arrangement	2.00%	No
31-Jul-24	Emperor International Holdings Limited	163	1 for 2	(30.60)	(23.60)	(96.10)	10.50	Excess application	1.50%	Yes
22-Jul-24	ROMA (Meta) Group Limited	8072	3 for 1	(23.08)	(7.41)	(97.23)	18.18	Compensatory arrangement	1.25%	No
19-Jul-24	Trendzon Holdings Group Limited	1865	4 for 1	(14.30)	(3.23)	(93.70)	14.60	Compensatory arrangement	1.00%	Yes
		Maximum		16.28	11.11	162.35	24.92		3.50%	
		Minimum		(73.68)	(65.27)	(98.98)	0.00		1.00%	
		Average		(24.86)	(15.35)	(57.37)	13.34		1.77%	
		Median		(23.95)	(10.50)	(67.30)	14.60		1.50%	
	The Company	1718	1 for 1	(29.82)	(17.53)	(75.00)	17.64	Compensatory arrangement	3.00%	No

Notes:

1. The information has been sourced from the relevant announcements or circulars regarding the rights issues of the respective Comparables.
2. "N/A" denotes that the announcement did not disclose such information.
3. The theoretical dilution effect is calculated in according to Rule 10.44A of the Rules Governing of the Listing of Securities on GEM or Rule 7.27B of the Listing Rules.

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

- (i) the (discount)/premium of subscription price (to)/over the closing price on the last trading day of the Comparables ranged from a discount of approximately 73.68% to a premium of approximately 16.28%, with the average of discounts of approximately 24.86%. The Subscription Price represents a discount of approximately 29.82% to the closing price on the Last Trading Day, which fall within the range of the Comparables;
- (ii) the (discount)/premium of subscription price (to)/over the theoretical ex-rights price of the Comparables ranged from a discount of approximately 65.27% to a premium of approximately 11.11%, with the average of discounts of approximately 15.35%. The Subscription Price represents a discount of approximately 17.53% to the theoretical ex-rights price per Share on the Last Trading Day which fall within the range of the Comparables;
- (iii) the (discount)/premium of subscription price (to)/over the latest net asset value per Share of the Comparables ranged from a discount of approximately 98.98% to approximately a premium of 162.35%, with the average of discounts of approximately 57.37%. The Subscription Price represents a discount of approximately 75.00% to the net asset value as at 30 September 2024 per Share which fall within the range of the Comparables;
- (iv) the theoretical dilution effect of the Rights Issue Comparables ranged from 0% to approximately 24.92%. The theoretical dilution effect of the Rights Issue of approximately 17.64% is within the theoretical dilution range of the Comparables;

- (v) 23 out of 39 Comparables have not facilitated excess application arrangements. It is noted that the arrangement of excess application is less popular among the Comparables, meanwhile the Company has put in place the above Compensatory Arrangements as required by Rule 7.21(1)(b) of the Listing Rules; and
- (vi) the Rights Issue is on a non-underwritten basis, which is considered to be in line with market practice, given that 34 out of 39 Comparables were also conducted on a non-underwritten basis.

We noted that the Subscription Price represents a significant discount to the Company's net asset value per Share as at 30 September 2024 and understand from the Letter from the Board that the huge discount to the Company's unaudited net asset value per Share is due to the fact that during the Relevant Period, the Shares were traded at all time at a discount to the consolidated net asset value per Share. Having considered (i) during the Relevant Period, the Shares consistently traded at a discount to the consolidated net asset value per Share reflects a persistent undervaluation which is suggesting that market participants do not perceive the net asset value as an accurate reflection of the Shares' current value; and (ii) the Subscription Price represents a discount of approximately 75.00% to the net asset value per Share as at 30 September 2024 which is within the range and close to the average of the Comparables, we are of the view that setting the Subscription Price with reference to the net asset value of the Company would not be relevant or practical, as it would result in a price significantly exceeding the prevailing market price, thereby potentially deterring Shareholders from participating in this fundraising exercise.

(ii) Evaluation of the Placing Commission

According to the Placing Agreement, the Company will pay the Placing Agent a placing commission of 3.0% of the actual gross proceeds from the subscription of the Unsubscribed Shares and the NQS Unsold Rights Shares under the Placing. To assess the fairness and reasonableness of the Placing Commission, we have considered the commission charged by placing agents of the issuer of the Comparables, where applicable. We noted that the placing commission paid by the issuer of the Comparables ranged from nil to 3.50% of the funds raised. It is noted that the Placing Commission is at the high end and above the average and median of the Comparables. Nonetheless, having considered that (i) the Placing Commission of 3.0% falls within the range of the Comparables; and (ii) the recent commission rate of the rights issue transactions in the market, i.e. 5 out of 10 of the Comparables announced in December 2024 have a placing commission between 2.0% – 3.0% which is higher than the average of the Comparables, and meanwhile, the placing commission all Comparables announced in December 2024 are either equivalent or higher than the median of the Comparables, we are of the view that that the Placing Commission pursuant to the Placing Agreement is fair and reasonable.

Although the discount of the Subscription Price to each of the closing price of the Shares on the Last Trading Day, theoretical ex-right entitlement price of the Shares on the Last Trading Day and net asset value per Share as at 30 September 2024 and the theoretical dilution effect of the Rights Issue is more than the average and median of the Comparables, after considering that (i) the general downward trend of the closing price of the Shares and the thin trading volume of the Shares during the Review Period as discussed in the sections above; (ii) such discount of the Subscription Price and the theoretical dilution effect of the Rights Issue are only slightly higher than the average and/or median of corresponding discounts and theoretical dilution effect of the Comparables; (iii) the discounts represented by the Subscription Price all fall within the range of the Comparables and not close to the minimum of the Comparables; (iv) a discount to the prevailing historical closing prices of the Shares may attract the Qualifying Shareholders to participate in the Rights Issue; (v) the theoretical dilution effect of the Rights Issue does not result in a theoretical dilution effect of 25% or more, which is in compliance with Rule 7.27B of the Listing Rules; (vi) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; and (vii) the discussion of the fairness and reasonableness of the Placing Commission in the above, we consider that the principal terms of the Rights Issue (including the Subscription Price) to be fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

6. Possible dilution effect on interests of other public Shareholders

The Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future development of the Company should they wish to do so. However, 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 50%.

We are aware of the potential dilution effect as a result of the Rights Issue. However, after taking into consideration that (i) the theoretical dilution effect of the Rights Issue falls within range of those of the Comparables; (ii) the Rights Issue would strengthen the capital structure and financial position of the Group; (iii) all Qualifying Shareholders are offered an equal opportunity to maintain their shareholding interests in the Company; (iv) the inherent dilutive nature of rights issue in general if the existing shareholders do not take up their entitlements thereunder in full; and (vi) Qualifying Shareholders who are not taking up their entitlements are given the flexibility to realise the nil-paid Rights Shares in open market, we consider that the potential dilution effect of the Rights Issue is justifiable.

7. Financial effects of the Rights Issue

It should be noted that the Rights Issue is subject to the conditions as set out in the Letter from the Board and on a non-underwritten basis, the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

Net tangible asset

With reference to “Unaudited pro forma financial information of the Group” as set out in Appendix II to the Circular, the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2024 amounted to approximately HK\$91.9 million. Upon completion of the Rights Issue, the Group will have unaudited consolidated net tangible assets of the Group attributable to owners of the Company being approximately HK\$113.3 million.

Liquidity

The estimated net proceeds from the Rights Issue are expected to enhance the Group’s current assets by approximately HK\$21.4 million (assuming full acceptance by Qualifying Shareholders) and the Rights Issue is expected to improve the Group’s liquidity position immediately after its completion.

Based on the above analysis, the Rights Issue is expected to have a positive impact on the Group’s financial position. Accordingly, we are of the view that the overall financial impact to the Group upon completion of the Rights Issue is in the interests of the Company and the Shareholders.

RECOMMENDATION

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

Yours faithfully,

For and on behalf of

SILVER NILE GLOBAL INVESTMENTS LIMITED



Alan Lam

Managing Director

Note: Mr. Alan Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Silver Nile Global Investments Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 12 years of experience in corporate finance advisory in Hong Kong.