芒果金融
MANGO FINANCIAL

7 March 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES 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 Rights Issue, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 7 March 2025 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 14 February 2025 (after trading hours), the Company announced its proposal to implement the Rights Issue on the basis of four (4) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK$0.13 per Rights Share, to raise gross proceeds of approximately HK$69.4 million by issuing 533,664,000 Rights Shares to the Qualifying Shareholders.

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

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lau Wai Piu Patrick, Dr. Wang Yi, Mr. Chan Koon Yung, and Mr. Zhang Yao, has been established to advise the Independent Shareholders in respect of the Rights Issue, the Placing Agreement, and the transaction contemplated thereunder, on whether the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM, after taking into account the recommendations of the Independent Financial Adviser. We, Mango Financial Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

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INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company. Accordingly, we consider that we are eligible to give independent advice in respect of the Rights Issue, the Placing Agreement, and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company (the "**Management**"). We have assumed that all the information, facts and representations contained or referred to in the Circular, and all the information, opinions and representations provided or expressed by the Directors and/or the Management, for which they are solely responsible, were true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the Latest Practicable Date and that they may be relied upon in formulating our opinion. We have also assumed that all such opinions and statements of intention or belief expressed by the Directors and/or the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiries.

The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided, representations made or opinions expressed. We have no reason to suspect that any relevant information has been withheld or omitted, nor are we aware of any facts or circumstances which would render the information provided, representations made or opinions expressed to us untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information currently available, and that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and/or the Management, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group. 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.

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

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Rights Issue. Except for its inclusion in the Circular, this letter 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 in respect of the Rights Issue, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Letter from the Board, the Company is an investment holding company and together with its subsidiaries are principally engaged in the provision of transportation, warehousing, in-plant logistics and customisation services.

Set out below are the selected consolidated financial information of the Group for the years ended 31 December 2022 ("**FY2022**") and 2023 ("**FY2023**"), and the six months ended 30 June 2023 ("**6M2023**") and 2024 ("**6M2024**") as extracted from the Company's annual report for the year ended 31 December 2023 (the "**2023 Annual Report**") and the Company's interim report for the six months ended 30 June 2024 (the "**2024 Interim Report**"):

	FY2022 *RMB'000* *(audited)*	**FY2023** *RMB'000* *(audited)*	**6M2023** *RMB'000* *(unaudited)*	**6M2024** *RMB'000* *(unaudited)*
Revenue	179,483	133,881	60,977	94,701
Employee benefits expenses	(70,648)	(66,744)	(31,760)	(36,793)
Sub-contracting expenses	(57,652)	(33,714)	(13,058)	(48,070)
Other expenses	(25,301)	(31,714)	(28,372)	(21,498)
Loss for the year/period	(170)	(34,163)	(10,562)	(13,224)
Net cash generated from/ (used in) operating activities	3,387	(33,818)	(6,623)	(25,694)

	As at 31 December		As at 30 June
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*
Total non-current assets	60,877	80,004	72,253
Total current assets	118,330	202,824	213,625
Cash and cash equivalents	55,530	78,026	82,796
Total non-current liabilities	4,236	36,170	36,581
Total current liabilities	30,963	102,850	103,843
Bank and other borrowings	—	52,602	47,772
Net assets	144,008	143,808	145,454

The Group's revenue in the recent years was mainly generated from its transportation service, warehousing service, in-plant logistics service and customisation service. For FY2022, FY2023, 6M2023 and 6M2024, around or over 80% of the Group's revenue was contributed by transportation service and in-plant logistics service. The Group recorded a decline in revenue for FY2023 as compared to FY2022, which was, as disclosed in the 2023 Annual Report, mainly because the overall demand for the Group's domestic transportation and international freight forwarding services remained below pre-pandemic levels due to ongoing uncertainty. For 6M2024, the Group recorded an increase in revenue as compared to 6M2023. As disclosed in the 2024 Interim Report, such increase was mainly attributable to the increase in revenue from transportation and warehousing services for 6M2024 following the acquisition of Zhongshan Haihui Technology Logistics (Group) Company Limited ("**Zhongshan Haihui**") in the second half of 2023 and increase in demands from customers.

The Groups major operating cost components include employee benefits expenses, subcontracting expenses and other expenses (such as short-term lease payments, outsourced labour costs and other operating expenses). Employee benefits expenses and subcontracting expenses of the Group for FY2022, FY2023, 6M2023 and 6M2024 were generally in line with the trend of the Group's revenue for the corresponding periods. On the other hand, other expenses of the Group for FY2023 increased as compared to FY2022 mainly due to the inception of new lease of a warehouse in Guangdong Province in September 2023. Subsequently, the Group's other expenses decreased in 6M2024 as compared to 6M2023 primarily due to the decrease in the operating lease rental of four warehouses in Guangdong province for 6M2024.

Loss of the Group amounted to approximately RMB0.2 million, RMB34.2 million, RMB10.6 million and RMB13.2 million for FY2022, FY2023, 6M2023 and 6M2024, respectively. As disclosed in the 2023 Annual Report, the increase in loss for FY2023 as compared to FY2022 was mainly as a result of the slump of overall customer demand for logistic services in Mainland China which negatively impacted the Group's operating results in the provision of both domestic transportation and international freight forwarding agency service. Based on the 2024 Interim Report, the Group continued to record a loss for 6M2024 primarily due to the slowdown in economic growth in the PRC with weakening market demand, thereby affecting the business volume of warehousing, transportation and logistics industries. Also, insufficient domestic consumption and declining corporate investment willingness have also had a certain impact on the warehousing and logistics industry. The Group also faced challenges in the fluctuation of international oil prices and the rise in domestic energy prices in the first half of 2024 which has directly pressured the logistics transportation industry, and the cost pressures due to the rising costs of energy and transportation raw materials and intensifying competition in the labour market.

As at 31 December 2022, 31 December 2023 and 30 June 2024, the Group had cash and cash equivalents of approximately RMB55.5 million, RMB78.0 million and RMB82.8 million, respectively. As disclosed in the announcement of the Company dated 22 October 2024, the Group acquired land use rights in Jiangxi Province, the PRC at a consideration of RMB10 million for establishment of a traditional Chinese medicine (**"TCM"**) logistic industry park. The Group recorded net cash used in operating activities of approximately RMB33.8 million and RMB25.7 million for FY2023 and 6M2024, respectively, which was generally in line with its operating results for the corresponding periods.

As at 31 December 2022, 31 December 2023 and 30 June 2024, the Group had bank and other borrowings of nil, RMB52.6 million and RMB47.8 million, respectively, which were attributable to the borrowings of Zhongshan Haihui acquired by the Group in the second half of 2023. With reference to the announcement of the Company dated 20 December 2024 and the circular of the Company dated 10 January 2025, the Group has disposed of its equity interests in Zhongshan Haihui, and Zhongshan Haihui has ceased to be a subsidiary of the Company upon completion of the disposal.

Reasons for the Rights Issue and use of proceeds

Use of proceeds

Assuming that there is no change in the number of issued Shares on or before the Record Date and all Rights Shares to be issued under the Rights Issue have been taken up in full, it is expected that the maximum gross proceeds and net proceeds from the Rights Issue will be approximately HK$69.4 million and approximately HK$67.6 million, respectively. The Company intends to use the net proceeds from the Rights Issue in the following manner:

(i) approximately HK$27.6 million, representing approximately 40.8% of the net proceeds, will be used for the Group's general working capital including employee benefits expenses, subcontracting expenses for certain transportation, warehousing and customisation services; and other expenses (such as professional fees, fleet operating expenses and outsourced labour costs where appropriate);

(ii) approximately HK$20.0 million, representing approximately 29.6% of the net proceeds, will be used for the Group's newly developed goat milk product business in Inner Mongolia Autonomous Region. The Group currently intends to apply such amount of net proceeds in the following manner: (a) approximately HK$1.2 million on strengthening research and development capabilities such as purchasing equipment and/or retaining talents to develop goat milk products; (b) approximately HK$6.0 million on exploring and developing marketing channels for sales of goat milk products; and (c) approximately HK$12.8 million on sourcing goat milk for processing by subcontractors to goat milk powder. Development of goat milk product business is a strategic move for the Group to the health sector for business diversification, having considered that health awareness is the market trend. Goat milk is gradually gaining more favor among consumers due to its low allergenicity and high nutritional value; and the middle-aged and elderly groups have become the driving force for the growth of the goat milk powder market. The Group currently intends to commence sales of goat milk powder in the first quarter of year 2025; and

(iii) approximately HK$20.0 million, representing approximately 29.6% of the net proceeds, will be used for building warehouse(s) and/or other logistic related facilities in the traditional Chinese medicine (TCM) logistics industry park in Jiangxi, PRC aiming to provide quality warehousing and logistic services to customers for TCM products.

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

General working capital

The Group intends to apply HK$27.6 million, representing approximately 40.8% of the net proceeds from the Rights Issue, for the Group's general working capital including employee benefits expenses, subcontracting expenses for certain transportation, warehousing and customisation services, and other expenses. As noted from the 2023 Annual Report and 2024 Interim Report, employee benefits expenses, subcontracting expenses and other expenses were amongst the largest operating cost components of the Group for FY2022, FY2023 and 6M2024, which in aggregate amounted to approximately RMB153.6 million, RMB132.2 million and RMB106.4 million, respectively, representing approximately 85.6%, 98.7% and 112.3% of the Group's revenue for the corresponding periods, and approximately 185.5%, 159.6% and 128.5% of the Group's cash and cash equivalents of approximately RMB82.8 million as at 30 June 2024. We also noted that the Group recorded net cash used in operating activities of approximately RMB33.8 million and RMB25.7 million for FY2023 and 6M2024, respectively.

As disclosed in the Letter from the Board, the Group's logistic business is labour intensive and incurs large amount of employee benefits expenses and sub-contracting expenses to cope with business growth. The Directors believe that it is in the interest of the Company to maintain sufficient funds for at least 12 months of operations to achieve a healthy cashflow and reserve funds when market opportunities arise.

In general, transportation, warehousing and logistics related businesses are closely tied to economic cycles, making it vulnerable to both positive and negative economic changes because (i) logistics is directly tied to the movement of goods, which depends on consumer and industrial demand. During economic downturns, reduced consumer spending and lower industrial production decrease the need for logistics services; (ii) logistics companies generally rely on international trade. Economic slowdowns, trade disputes or tariffs can disrupt global supply chains, reducing the volume of goods transported; and (iii) fuel costs are a major cost for logistics companies. Economic conditions often influence oil prices, which can significantly impact profitability. We noted that the Group has continued to record losses for FY2022, FY2023 and 6M2024, which with reference to the 2023 Annual Report and 2024 Interim Report, was primarily attributable to weakened market demand as a result of economic slowdown, fluctuation of international oil prices and rising labour costs, etc. Having considered the nature of the Group's transportation, warehousing and logistics related businesses, the recent economic conditions in the PRC, global economic uncertainties and trade frictions, the Group's recent operating results, cash balances and cashflows, we concur with the Directors' view that it is in the interest of the Company to maintain sufficient funds for at least 12 months of operations to achieve a healthy cashflow and reserve funds when market opportunities arise.

Development of goat milk product business

The Group intends to apply approximately HK$20.0 million, representing approximately 29.6% of the net proceeds from the Rights Issue, for the Group's newly developed goat milk product business in Inner Mongolia Autonomous Region. More specifically, the Group will (i) strengthen research and development capabilities such as purchasing equipment and/or retaining talents to develop goat milk products; (ii) explore and develop marketing channels for sales of goat milk products; and (iii) source goat milk for processing by subcontractors to goat milk powder.

As disclosed in the Letter from the Board, the Group has newly developed the goat milk product business since end of year 2024 for business diversification. Development of goat milk product business is a strategic move for the Group to the health sector for business diversification, having considered that health awareness is the market trend. Goat milk is gradually gaining more favor among consumers due to its low allergenicity and high nutritional value; and the middle-aged and elderly groups have become the driving force for the growth of the goat milk powder market. The Group currently intends to commence sales of goat milk powder in the first quarter of year 2025.

We noted that the PRC is one of the largest producers and consumers of goat milk products globally. According to the National Bureau of Statistics, dairy product output of the PRC reached 29.6 million tons in 2024. The Chinese government's Rural Revitalization Strategy emphasizes the development of high-quality dairy products, including goat milk, to improve rural incomes and food security. The Inner Mongolia's local government has also introduced policies to support the dairy industry, including subsidies for livestock farming, investments in cold chain logistics and technical training for farmers. Moreover, the Ministry of Agriculture and Rural Affairs of the PRC has implemented the "14th Five-Year Plan" Dairy Industry Competitiveness Enhancement Action Plan which encourages the development of specialty dairy products such as goat milk, buffalo milk and yak milk, and aims to cultivate a group of domestic dairy brands that demonstrate and drive industry development, as well as actively fulfill social responsibilities.

Having considered the foregoing, it is expected that the allocated net proceeds from the Rights Issue will provide the Group with the necessary fundings to continue with its development of the goat milk product business which has commenced since the end of 2024 as one of the Group's steps in achieving business diversification.

Building warehouse(s) and/or other logistic related facilities in the TCM logistics industry park

The Group intends to apply approximately HK$20.0 million, representing approximately 29.6% of the net proceeds from the Rights Issue, for building warehouse(s) and/or other logistic related facilities in the TCM logistics industry park in Jiangxi, PRC aiming to provide quality warehousing and logistic services to customers for TCM products.

The Group's plan to diversify into the Chinese medicine business can be traced back to 2022 in which the Group raised approximately HK$14.0 million by way of placing of Shares under general mandate. As disclosed in the relevant announcement of the Company dated 15 June 2022, in light of the ongoing COVID-19 pandemic which largely contributed to the Group's continuous loss-making business performances, the Group has been undertaking a planning and evaluation process of developing new business opportunities and diversifying the Group's revenue streams. Leveraging on the expertise of the Directors, the Group has intended to participate in the Chinese medicine-related sectors as part of its upcoming businesses, including but not limited to the storage and distribution of Chinese medicine products. As further disclosed in the 2024 Interim Report, the Group will strive to find opportunities in the face of challenges, including but not limited to participating in Chinese medicine-related businesses such as the storage and distribution of Chinese medicine products, so as to return Shareholders and to achieve a sustainable business growth. According to the Letter from the Board, in October 2024, the Group has commenced the its diversification plan into Chinese medicine-related businesses by acquiring land use rights in Jiangxi Province, the PRC at a consideration of RMB10 million for establishment of a TCM logistic industry park aiming to provide quality warehousing and logistic services to customers for TCM products. As advised by the Management, following the acquisition of land use rights for establishment of the TCM logistic industry park, the next stage will be building warehouse(s) and/or other logistic related facilities in order to commence the relevant business operations, and accordingly, additional fundings are required.

Having taken into consideration (i) the continued losses of the Group's transportation, warehousing and logistics related businesses in the recent years, which are highly vulnerable to economic slowdown and challenges in terms of fuel costs and labour costs; (ii) the recent economic conditions in the PRC, as well as global economic uncertainties and trade frictions; (iii) the Group's recent operating results, cash balances and cashflows; and (iv) the current status of the Group's business diversification plans and the related additional funding requirements, it is justifiable for the Group to raise sufficient funds to strengthen its financial conditions in preparation of business and economic uncertainties and to further pursue its business diversification plans.

Financing alternatives

With reference to the Letter from the Board and as confirmed by the Directors, the Directors considered different types of fund-raising alternatives available to the Group including but not limited to debt financing and other equity fund raising such as placement of shares.

Compared with other fund-raising alternatives, the Directors consider that the Rights Issue will provide each and every Qualifying Shareholders with the opportunity to participate in the future development of the Group without material dilution of their interest in the Company. On the other hand, the Rights Issue also allows the Qualifying Shareholders the flexibility to sell off some or all of their rights entitlements in the open market (subject to the market demand) and realise the cash value therefrom. The Rights Issue represents a good opportunity to raise additional funds through the equity market and will enhance the Group's financial strength without the ongoing burden of interest expenses, and also offer all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company. Based on the above, the Directors consider that raising capital through the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

Principal terms of the Rights Issue and the Placing Agreement

The Rights Issue

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

Basis of Rights Issue	:	Four (4) Rights Shares for every one (1) Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK$0.13 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	133,416,000 Shares

Maximum number of Rights Shares to be issued under the Rights Issue (assuming the Rights Issue is fully subscribed)	:	533,664,000 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Maximum total number of issued Shares upon completion of the Rights Issue (assuming the Rights Issue is fully subscribed)	:	667,080,000 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue)
Maximum amount to be raised before expenses (assuming the Rights Issue is fully subscribed)	:	Approximately HK$69.4 million before deducting of the costs and expenses which the Company will incur in the Rights Issue

As at the Latest Practicable Date, the Company has no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into or confer any right to subscribe for Shares. The Company has no intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date.

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

The Placing Agreement

Set out below are the principal terms of the Placing Agreement as extracted from the Letter from the Board:

Date	:	14 February 2025 (after trading hours)
Placing Agent	:	SBI China Capital Financial Services Limited
Placing fee and expenses	:	The commission payable to the Placing Agent shall be HK$100,000 or 1.0% of the actual gross proceeds from the subscription of the Unsubscribed Rights Shares actually procured by the Placing Agent (whichever is higher). The Company shall be responsible for all costs and expenses reasonably incurred in connection with or arising out of the Placing.

Placing price of the Unsubscribed Rights Shares	:	The placing price of the Unsubscribed Rights Shares shall be not less than the Subscription Price. The final price will be determined based on the demand for the Unsubscribed Rights Shares and market conditions at the time of placement.
Placees	:	The Placing Agent undertakes to use its best endeavour to procure that (i) the Unsubscribed Rights Shares shall only be placed to professional persons, institutional, corporate or individual investor(s) who and whose respective ultimate beneficial owner(s) shall be independent third parties and are not acting in concert with any of the connected persons of the Company and their respective associates; (ii) the Placing will not have any implications under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing. and (iii) the Company will continue to comply with the Public Float Requirement upon completion of the Placing and the Rights Issue.
Ranking of Unsubscribed Rights Shares	:	The Unsubscribed Rights Shares (when placed, allotted, issued and fully paid) shall rank pari passu in all respects among themselves and with the Shares then in issue.
Placing end date	:	4:00 p.m. on Thursday, 8 May 2025 or such other date as the Company and the Placing Agent may agree.

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

As disclosed in the Letter from the Board, the terms of the Placing Agreement (including the placing commission) were determined after arm's length negotiation between the Placing Agent and the Company with reference to the size of the Rights Issue.

Assessment on the principal terms of the Rights Issue and the Placing Agreement

As disclosed in the Letter from the Board, the Subscription Price of HK$0.13 per Rights Share represents:

(i) a discount of approximately 7.14% to the closing price of HK$0.14 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 20.25% to the average closing price per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day of approximately HK$0.163 per Share;

(iii) a discount of approximately 34.67% to the average closing price per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK$0.199 per Share;

(iv) a discount of approximately 1.52% to the theoretical ex-rights price of approximately HK$0.132 per Share based on the closing price of HK$0.14 per Share as quoted on the Stock Exchange on the Last Trading Day;

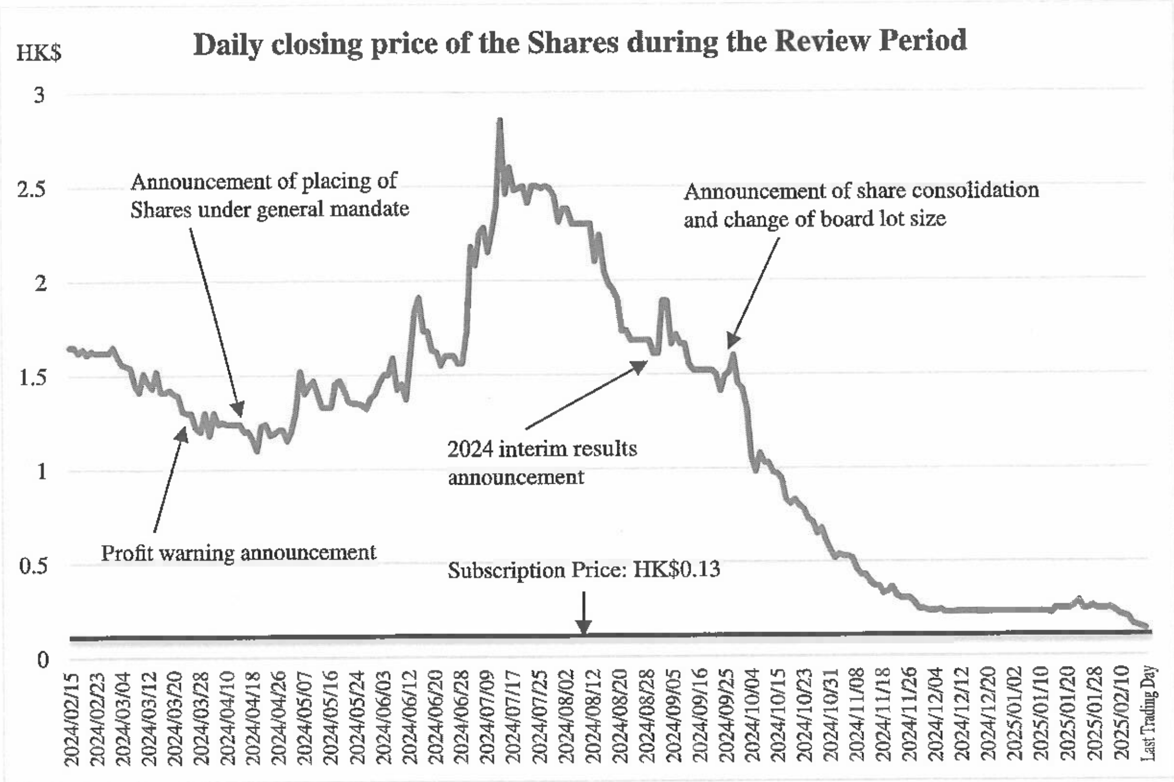
(v) a discount of approximately 88.68% to the latest published unaudited consolidated net asset value per Share as at 30 June 2024 of approximately RMB1.070 or equivalent to approximately HK$1.148 (based on the net asset value attributable to the owners of the Company as at 30 June 2024 of approximately RMB142.7 million as disclosed in the interim report of the Company for the six months ended 30 June 2024 and 133,416,000 Shares (as adjusted for the share consolidation effective on 8 November 2024) in issue as at 30 June 2024); and

(vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 21.47%, represented by a discount of the theoretical diluted price of approximately HK$0.139 per Share to the benchmarked price of approximately HK$0.177 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK$0.14 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days preceding the Last Trading Day of approximately HK$0.177 per Share).

As stated in the Letter from the Board, the Subscription Price was determined by the Company with reference to the recent market prices of the Shares, the current market conditions, the financial position of the Group and the reasons and benefits of the Rights Issue as discussed in the section headed "REASONS FOR THE RIGHTS ISSUE AND THE USE OF PROCEEDS" in the Letter from the Board.

Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we reviewed the daily closing price of the Shares (taking into account the Company's share consolidation as disclosed in the Company's announcement dated 26 September 2024, which became effective on 8 November 2024) as quoted on the Stock Exchange from 15 February 2024 up to and including the Last Trading Day (the "**Review Period**"), being a period of approximately one year up to and including the Last Trading Day, which is commonly adopted for analysis, and the number of trading days during the Review Period is sufficient for us to perform a thorough analysis on the historical closing prices of Shares with the Subscription Price. Hence, we consider the duration of the Review Period is adequate and appropriate. The comparison of daily closing prices of the Shares and the Subscription Price is illustrated as follows.



Source: website of the Stock Exchange

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK$2.85 (adjusted for share consolidation) recorded on 12 July 2024 and HK$0.14 recorded on 14 February 2025, respectively.

From the start of the Review Period to early June 2024, the closing price of the Shares oscillated between HK$1.10 and HK$1.65. Subsequently, the closing price of the Shares surged and reached its highest of HK$2.85 on 12 July 2024. Thereafter, the closing price of Shares formed a general downward trend and hit the lowest of HK$0.14 on the Last Trading Day.

The Subscription Price of HK$0.13 is below the closing prices of Shares during the Review Period.

Trading liquidity of the Shares

Set out below are (i) the number of trading days; (ii) average daily trading volume of the Shares (taking into account the Company's share consolidation as disclosed in the Company's announcement dated 26 September 2024, which became effective on 8 November 2024); and (iii) the percentage of the average daily trading volume of the Shares to the total number of issued Shares as at the Latest Practicable Date, during the Review Period.

Month/Period	**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 the Latest Practicable Date** *(Note)*
2024			
February (from 15 February)	11	24,091	0.018%
March	20	16,300	0.012%
April	20	43,400	0.033%
May	21	75,476	0.057%
June	19	90,526	0.068%
July	22	149,364	0.112%
August	22	36,818	0.028%
September	19	63,842	0.048%
October	21	159,143	0.119%
November	21	251,524	0.189%
December	20	12,900	0.010%
2025			
January	19	30,947	0.023%
February (up to and including the Last Trading day)	10	146,000	0.109%

Source: website of the Stock Exchange

Note: Based on 133,416,000 issued Shares as at the Latest Practicable Date as disclosed in the Letter from the Board.

We noted from the above table that the liquidity of the Shares was generally thin during the Review Period. The average daily trading volume of the Shares during the Review Period was below 0.2% of the total number of issued Shares as at the Latest Practicable Date.

Comparable analysis

As part of our analysis, we also searched for rights issue transactions involving issuance of ordinary shares, announced by companies listed on the Stock Exchange from 15 November 2024 up to the Last Trading Day (being a period of three months to generate a reasonable and meaningful number of sample size of 19 Hong Kong listed companies and include sufficient comparables for analysis), which were not lapsed or terminated up to the Latest Practicable Date. To the best of our knowledge and as far as we are aware of, we found 19 rights issue transactions (the "**Comparables**") which met the aforesaid criteria and they are exhaustive. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables and we have not conducted any independent verification with regard to the businesses and operations of such companies. Although the scale, entitlement and size of fundraising of Rights Issue are not the same as the those of the Comparables, the Comparables can demonstrate the recent market practices of rights issue transactions conducted by Hong Kong listed companies.

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

Date of announcement	Company name (stock code)	Basis of entitlement	(Discount)/Premium of subscription price (to)/over closing price on respective last trading day (%)	five-day average (%) (Note 2)	theoretical ex-rights entitlement price (%) (Note 3)	consolidated net asset value per Share (%) (Note 3)	Theoretical dilution effect (%) (Note 4)	Placing commission (Note 5)	Excess application (Yes/No)	Underwriting arrangement (Yes/No)
15-Nov-2024	Global Strategic Group Limited (8007)	4 for 1	(12.50)	(14.10)	(3.20)	(91.60)	11.30	N/A	Yes	Yes
19-Nov-2024	China Wood International Holding Co., Limited (1822)	1 for 1	(45.00)	(48.60)	(29.10)	N/A	24.90	N/A	Yes	No
21-Nov-2024	Elife Holdings Limited (223)	1 for 5	(6.54)	(9.91)	(9.09)	96.10	0.61	N/A	Yes	No
21-Nov-2024	Legend Strategy International Holdings Group Company Limited (1355)	1 for 1	(49.71)	(49.60)	(33.08)	N/A	24.86	N/A	Yes	No
2-Dec-2024	Luxxu Group Limited (1327)	1 for 1	(44.44)	(44.44)	N/A	(79.45)	22.22	1.5% or HK$100,000	No	No
3-Dec-2024	Graphex Group Limited (6128)	3 for 1	(32.00)	(28.27)	(10.53)	(51.51)	24.00	1.5%	No	No
6-Dec-2024	Xinming China Holdings Limited (2699)	4 for 1	(13.80)	(18.80)	N/A	N/A	16.90	3%	No	No
10-Dec-2024	KNT Holdings Limited (1025)	3 for 1	(9.38)	(10.22)	(2.52)	(59.90)	8.08	3%	No	No
13-Dec-2024	Royal Century Resources Holdings Limited (8125)	3 for 1	(23.95)	(22.10)	(7.30)	(82.69)	17.96	2%	No	No
13-Dec-2024	China Energy Storage Technology Development Limited (1143)	2 for 1	(36.36)	(35.78)	(16.00)	(90.50)	24.24	1.5%	No	No

Date of announcement	Company name (stock code)	Basis of entitlement	(Discount)/Premium of subscription price (to)/over closing price on respective last trading day (%)	five-day average (%) (Note 2)	theoretical ex-rights entitlement price (%) (Note 3)	consolidated net asset value per Share (%) (Note 3)	Theoretical dilution effect (%) (Note 4)	Placing commission (Note 5)	Excess application (Yes/No)	Underwriting arrangement (Yes/No)
19-Dec-2024	HSC Resources Group Limited (1850)	4 for 1	(24.29)	(23.19)	N/A	N/A	19.43	1.5%	No	No
20-Dec-2024	Mansion International Holdings Limited (8456)	4 for 1	(22.90)	(23.50)	(5.50)	N/A	18.80	1.5%	No	No
27-Dec-2024	China Kingstone Mining Holdings Limited (1380)	2 for 5	16.28	19.62	11.11	(65.60)	—	2.25% or HK$300,000	No	No
31-Dec-2024	China Demeter Financial Investments Limited (8120)	1 for 2	(25.00)	(25.32)	(18.18)	(59.08)	8.55	2.5%	No	No
17-Jan-2025	Wan Kei Group Holdings Limited (1718)	1 for 1	(29.82)	(31.97)	(17.53)	(75.00)	17.64	3%	No	No
27-Jan-2025	Colour Life Services Group Co., Limited (1778)	1 for 4	0.00	(2.14)	N/A	N/A	0.43	N/A	Yes	No
2-Feb-2025	CSI Properties Limited (497)	18 for 10	5.88	5.14	2.04	(93.55)	—	N/A	Yes	Yes
7-Feb-2025	Stream Ideas Group Limited (8401)	2 for 1	(15.00)	(16.50)	(5.56)	N/A	11.58	3%	No	No
14-Feb-2025	China Saftower International Holding Group Limited (8623)	1 for 2	(6.78)	(2.83)	(4.62)	(82.79)	2.26	1%	No	No
		Maximum	16.28	19.62	11.11	96.10	24.90	3%		
		Minimum	(49.71)	(49.60)	(33.08)	(93.55)	0.43	1%		
		Average	(19.75)	(20.13)	(9.94)	(61.30)	14.93	2.1%		

			(Discount)/Premium of subscription price (to)/over							
Date of announcement	Company name (stock code)	Basis of entitlement	closing price on respective last trading day (%)	five-day average (%) (Note 2)	theoretical ex-rights entitlement price (%) (Note 3)	consolidated net asset value per Share (%) (Note 3)	Theoretical dilution effect (%) (Note 4)	Placing commission (Note 5)	Excess application (Yes/No)	Underwriting arrangement (Yes/No)
14-Feb-2025	The Company	4 for 1	(7.14)	(20.25)	(1.52)	(88.68)	21.47	1% or HK$100,000	No	No

Source: website of the Stock Exchange

Notes:

1. Information has been extracted from the relevant announcements of the rights issue of the respective Comparables.

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

3. For Global Strategic Group Limited ("**Global Strategic**") and Mansion International Holdings Limited ("**Mansion**"), five-day average refers to the average closing prices for the five consecutive trading days prior to the respective last trading days as disclosed in the relevant announcements. For the rest of the Comparables and the Rights Issue, five-day average refers to the average closing prices for the last five consecutive trading days up to and including the respective last trading days as disclosed in the relevant announcements. For reference purposes, the discount of subscription price to the average closing price for the last five consecutive trading days up to and including the respective last trading days for Global Strategic and Mansion was approximately 14.6% and 22.9%, respectively. Given (i) the insignificant difference on the discount of subscription price to five-day average of both Global Strategic and Mansion under the two calculation basis as mentioned above; and (ii) that Global Strategic and Mansion only represent two out of a total of 19 Comparables, we consider the inclusion of the discount of subscription price to five-day average as disclosed in the respective announcements of Global Strategic and Mansion in our analysis on Comparables to be acceptable and would not affect the conclusions of our analysis.

4. The theoretical dilution effect is calculated in according to Rule 7.27B of the Listing Rule or Rule 10.44A of the Rules Governing of the Listing of Securities on GEM, or extracted from announcement in respect of the relevant rights issue. "-" denotes that the relevant rights issue has no theoretical dilution effect as disclosed in the relevant announcement.

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

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 Comparables ranged from a discount of approximately 49.71% to a premium of approximately 16.28% (the "**Comparable LTD Range**"), with the average of discounts being approximately 19.75%. The Subscription Price represents a discount of approximately 7.14% to the closing price of the Shares on the Last Trading Day, which is within the Comparable LTD Range and is above the aforesaid average;

(b) the discount or premium of the subscription price to the respective five-day average closing price of the Comparables ranged from a discount of approximately 49.60% to a premium of approximately 19.62% (the "**Comparable 5-day Average Range**"), with the average of discounts being approximately 20.13%. The Subscription Price represents a discount of approximately 20.25% to the five-day average closing price of the Shares including the Last Trading Day, which is within the Comparable 5-day Average Range and is approximate to the aforesaid average;

(c) the discount or premium of the subscription price to the theoretical ex-rights price of the Comparables ranged from a discount of approximately 33.08% to a premium of approximately 11.11% (the "**Comparable TERP Range**''), with the average of discounts being approximately 9.94%. The Subscription Price represents a discount of approximately 1.52% 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;

(d) the discount or premium of the subscription price over or to the net asset value per share of the Comparables ranged from a discount of approximately 93.55% to a premium of approximately 96.10% (the "**Comparable NAV Range**"), with the average of discounts being approximately 61.30%. The Subscription Price represents a discount of approximately 88.68% to the net asset value per Share which is within the Comparable NAV Range;

(e) the theoretical dilution effect of the Comparables ranged from 0.43% to approximately 24.90% (the "**Comparable Dilution Range**"), with an average dilution effects of approximately 14.93%. The theoretical dilution effect of the Rights Issue of approximately 21.47% falls within the Comparable Dilution Range. In any case, as the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 7.27B of the Listing Rules;

(f) it is noted from the Letter from the Board 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 Comparables, we noted that 13 out of 19 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;

(g) 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 Comparables, where applicable, ranged from (i) 1% to 3%, with an average of approximately 2.1%; or where applicable (ii) a fixed fee of HK$100,000 to HK$300,000. Pursuant to the terms of the Placing Agreement, the Placing commission is HK$100,000 or 1% of the gross proceeds from the subscription of the Unsubscribed Rights Shares actually procured by the Placing Agent (whichever is higher), which falls on the low end of the aforesaid range of the Comparables; and

(h) the Rights Issue is on a non-underwritten basis, which is considered to be in line with market practice, given that 17 out of 19 Comparables were also conducted on a non-underwritten basis.

In view of (i) the Subscription Price represents a discount of approximately 7.14% to the closing price of the Shares on the Last Trading Day, which is within the Comparable LTD Range and is above the average of the Comparables; (ii) the Subscription Price represents a discount of approximately 20.25% to the five-day average closing price of the Shares including the Last Trading Day, which is within the Comparable 5-day Average Range and is approximate to the average of the Comparables; (iii) the discount of the Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day of 1.52% is within the Comparable TERP Range and such discount is lower than the corresponding average of the Comparables; (iv) the Subscription Price represents a discount of approximately of 88.68% to the net asset value of the Company per Share as at 30 June 2024, which is within the Comparable NAV Range; (v) the theoretical dilution effect of the Rights Issue falls within the Comparable Dilution Range and below 25% which is in compliance with Rule 7.27B of the Listing Rules; (vi) our analysis on the placing commission under the Placing Agreement falls on the low end of the range of the Comparables; and (vii) 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) to be fair and reasonable to the Shareholders and in the interests of the Company and the Shareholders as a whole.

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 June 2024, the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company would have increased from approximately RMB140.8 million to an unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company of approximately RMB203.9 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.

Possible dilution effect to the existing public Shareholders

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

With reference to the Letter from the Board, the Rights Issue will result in a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 21.47%, represented by the theoretical diluted price of approximately HK$0.139 per Share to the benchmarked price of HK$0.177 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK$0.14 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days preceding the Last Trading Day of approximately HK$0.177 per Share).

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

- Independent Shareholders are offered a chance to express their views on the terms of the Rights Issue through their votes at the EGM;
- Qualifying Shareholders have their choice of whether to accept the Rights Issue or not;
- The Rights Issue allows the Qualifying Shareholders an opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at discount to the prevailing market prices of the Shares; and

- Qualifying Shareholders who do not wish to take up their provisional entitlements under the proposed Rights Issue are able to sell the nil-paid rights in the market.

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

RECOMMENDATION

Taking into consideration the above principal factors and reasons, we are of the view that the terms of the Rights Issue, the Placing Agreement and the transactions contemplated thereunder 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) to be proposed at the EGM to approve the Rights Issue, the Placing Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Mango Financial Limited

Archie Fong
President

Andrew Lau
Managing Director

Mr. Archie Fong is a licensed person registered with the Securities and Futures Commission and a responsible officer of Mango Financial Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 20 years of experience in the accounting and investment banking industries.

Mr. Andrew Lau is a licensed person registered with the Securities and Futures Commission and a responsible officer of Mango Financial Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 15 years of experience in the accounting and investment banking industries.