



SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090 Fax: 2526 2032 E-Mail: somerley@somerley.com.hk

7 April 2025

To: The Independent Shareholders and the Independent Board Committee

Dear Sirs,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE (3) RIGHTS SHARES FOR EVERY ONE (1) SHARE
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Rights Issue and the transactions contemplated thereunder. Details of the aforesaid transactions are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its Shareholders dated 7 April 2025, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

The Board proposes to raise gross proceeds of up to approximately HK\$88.4 million before expenses by way of the Rights Issue of 353,766,000 Rights Shares at the Subscription Price of HK\$0.25 per Rights Share on the basis of three (3) Rights Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is only available to the Qualifying Shareholders and will not be available to Non-Qualifying Shareholders.

As the Rights Issue will increase the total issued share capital of the Company by more than 50% within the 12-month period immediately preceding the Latest Practicable Date, the Rights Issue is conditional on minority Shareholders' approval at the EGM in accordance with the requirements of Rule 7.19A of the Listing Rules.



Pursuant to Rule 7.27A(1) of the Listing Rules, where Shareholders' approval is required for a rights issue under rule 7.19A, the Rights Issue must be made conditional on approval by the Shareholders in general meeting by a resolution on which any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue.

As of the Latest Practicable Date, the Company does not have any controlling shareholder as defined under the Listing Rules. However, Mr. Zhao Jie and Mr. Wu Huizhang, both an executive Director, are interested in 25,780,000 and 9,200,000 Shares, respectively. Consequently, Mr. Zhao Jie and, Mr. Wu Huizhan and their associates are required to abstain from voting in favour of the proposed resolution(s) to approve the Rights Issue and the transaction contemplated thereunder at the EGM. Save for the above, no Shareholders or Directors are required to abstain from voting in favour of the proposed resolution(s) approving the Rights Issue and the transactions contemplated thereunder.

The Rights Issue does not result in a theoretical dilution effect of 25% or more on its own, and there is no cumulative theoretical dilution effect (as aggregated with the Specific Mandate Placing). As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 7.27B of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Shih-fang, Mr. Shen Shujing, Mr. Lin Dongming and Mr. Li Wei has been established to make a recommendation to the Independent Shareholders in relation to the Rights Issue and the transactions contemplated thereunder. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company or its core connected persons or associates. In the two years prior to this appointment, we did not have other engagement with the Company or its associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or its core connected persons or associates.

In formulating our advice and recommendation, we have reviewed information on the Company, including but not limited to, the annual report of the Company for the year ended 31 December 2023 ("**FY2023**") (the "**2023 Annual Report**") and the interim report for the six months ended 30 June 2024 ("**1H2024**") (the "**2024 Interim Report**") (together, as the "**Reports**") and other information contained in the Circular.



In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the “**Management**”) and the respective professional advisers of the Company, which we have assumed to be true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete in all material aspects up to the date of the EGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Rights Issue, we have considered the following principal factors and reasons:

1. Information on the Group

1.1 Principal business of the Group

The Company is an investment holding company and the principal activities of the Group are design, manufacturing and trading of premium kitchen appliances and selling of healthcare products with a major focus on the PRC market.



1.2 Financial information of the Group

Set out below is the summary of the Group's audited financial performance (prepared in accordance with the HKFRS) for the year ended 31 December 2022 ("FY2022"), FY2023 and six months ended 30 June 2023 ("1H2023") and 1H2024 as extracted from the respective Reports:

	Six months ended 30 June		Year ended 31 December	
	2024	2023	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	55,949	51,710	84,369	88,186
Cost of sales	(49,651)	(34,985)	(63,152)	(49,699)
Gross profit	6,298	16,725	21,217	38,487
Other income	1,445	2,018	4,022	2,602
Other (losses)/gains, net	(2,965)	(1,050)	(492)	2,073
Selling and distribution expenses	(10,429)	(16,220)	(34,282)	(42,450)
Administrative expenses	(9,518)	(11,389)	(18,826)	(28,470)
Other expenses	(4,615)	(5,098)	(12,653)	(10,053)
Operating loss	(19,784)	(15,014)	(41,014)	(37,811)
Finance costs, net	(3,125)	(4,596)	(7,703)	(5,002)
Share of net losses of associates	(213)	(615)	(566)	(393)
Loss before income tax	(23,122)	(20,225)	(49,283)	(43,206)
Income tax expense	(27)	(385)	(35)	(344)
Loss for the period/year	<u>(23,149)</u>	<u>(20,610)</u>	<u>(49,318)</u>	<u>(43,550)</u>
<i>Attributable to:</i>				
Owners of the Company	(23,149)	(20,610)	(49,318)	(43,213)
Non-controlling interests	–	–	–	(337)

As shown above, in FY2023, the Group reported revenue of approximately RMB84.37 million, representing a decrease of approximately 4.33% from approximately RMB88.19 million in FY2022. Such decrease was mainly due to decreases in revenue from the Group's kitchen appliance business, which partially offset the revenue generated from the introduction of the Group's new healthcare



products business. The Group's gross profit margin decreased to 25.1% for the FY2023 as compared with 43.6% for FY2022, primarily attributable to the change in the mix of products sold during the year and the gross loss margin of healthcare products, resulting from the recognition of impairment loss on inventories.

The Group's revenue increased by approximately RMB4.24 million for 1H2024 as compared to 1H2023 mainly due to increase in revenue generated from the healthcare products business of the Group. Gross profit for 1H2024 on the other hand decreased by approximately 62.3% as compared to 1H2023 and based on disclosures in the 2024 Interim Report, this decrease was mainly due to strategic reduction in selling prices aimed at boosting sales and increase in sale of healthcare products with lower gross profit margin.

Operating loss of the Group widened from approximately RMB37.81 million in FY2022 to approximately RMB41.00 million in FY2023. This increase in operating loss was mainly due to the increases in net impairment losses recognised on financial assets. Based on the FY2023 Annual Report, an impairment loss on trade receivables was recognised.

The operating loss of the Group for 1H2024 widened to approximately RMB19.78 million as compared to around RMB15.01 million for 1H2023, mainly due to the decrease in gross profit for the relevant period as discuss above.

Loss attributable to owners of the Company widened to approximately RMB49.32 million in FY2023 from approximately RMB43.21 million in FY2022. Other than the reasons outlined above, we note that the net finance cost of the Group also increased by around 54.0% from approximately RMB5.00 million in FY2022 to approximately RMB7.70 million in FY2023. As disclosed in the 2023 Annual Report, this increase was due to a borrowing was charging interest for the entire year, unlike in the previous year when it only charged interest for six months. Loss attributable to owners of the Company increased to approximately RMB23.15 million in 1H2024 as compared to approximately RMB20.61 million in 1H2023.



Set out below is the summary of the Group's financial position as at 31 December 2023 and 30 June 2024 (prepared in accordance with the HKFRS), as extracted from the 2024 Interim Report:

	30 June 2024 <i>RMB'000</i>	31 December 2023 <i>RMB'000</i>
Non-current assets		
Property, plant and equipment	11,029	12,485
Right-of-use assets	1,521	1,867
Land use rights	8,058	8,163
Investments in associates	7,452	7,665
Intangible assets	196	267
Deposits	210	210
	<u>28,466</u>	<u>30,657</u>
Current assets		
Inventories	74,654	50,180
Trade receivables	41,157	18,406
Other receivables, deposits and prepayments	6,339	15,870
Amount due from an associate	–	16,676
Cash and cash equivalents	2,835	33,951
	<u>124,985</u>	<u>135,083</u>
Total assets	<u><u>153,451</u></u>	<u><u>165,740</u></u>
Non-current liabilities		
Lease liabilities	487	578
Borrowings	4,510	4,510
Deferred income tax liabilities	310	275
	<u>5,298</u>	<u>5,363</u>
Current liabilities		
Trade and other payables	31,756	24,232
Borrowings	68,024	64,989
Lease liabilities	1,068	1,319
Amount due to associates	8,200	8,200
Amount due to the then non-controlling interest	1,650	1,650
Contract liabilities	1,433	1,361
Current income tax liabilities	1,209	419
	<u>113,340</u>	<u>102,170</u>
Total liabilities	<u><u>118,638</u></u>	<u><u>107,533</u></u>
Total equity	<u><u>34,813</u></u>	<u><u>58,207</u></u>



The Group reported total assets of approximately RMB165.74 million as at 31 December 2023 and approximately RMB153.45 million as at 30 June 2024. Total non-current assets of the Group as at 31 December 2023 and 30 June 2024 mainly comprised property, plant and equipment, land use rights and investment in associates. Balance of total non-current assets remained largely similar at approximately RMB30.66 million as at 31 December 2023 and approximately RMB28.47 million as at 30 June 2024.

Total current assets of the Group as at 31 December 2023 and 30 June 2024 mainly comprised, among other things, inventories and cash and cash equivalents. Total current assets of the Group were approximately RMB135.08 million and RMB124.99 million as at 31 December 2023 and 30 June 2024 respectively, representing a decrease of approximately 7.5% mainly as a result of the decrease in cash and cash equivalents.

The Group reported total liabilities of approximately RMB107.53 million as at 31 December 2023 and approximately RMB118.64 million as at 30 June 2024. Total current liabilities of the Group as at 31 December 2023 and 30 June 2024 mainly comprised trade and other payables and borrowings. Current liabilities of the Group as at 30 June 2024 increased by approximately 10.9% as compared to the balance as at 31 December 2023, mainly due to increases in trade and other payables and borrowings. Total non-current liabilities of the Group remained relatively the same at approximately RMB5.30 million as at 30 June 2024 as compared to approximately RMB5.36 million as at 31 December 2023.

As disclosed in the Reports, as at 30 June 2024, the Group had borrowings amounted to approximately RMB72.5 million (denominated in RMB and HK\$). The weighted average interest rate was 10.32% per annum. As at 31 December 2023, the amount of the Group's borrowings was approximately RMB69.5 million and the weighted average interest rate was around 9.76%. As at 30 June 2024, the Group had a current ratio of 1.1 times and gearing ratio of 2.1 (calculated by dividing total borrowings by total equity) and did not have any available unutilised banking facilities.

Total equity of the Company was approximately RMB34.81 million as at 30 June 2024. Based on the total number of issued Shares as at the Latest Practicable Date of 117,922,000, total equity attributable to shareholders of the Company per Share was approximately RMB0.295.

2. Reasons for the Rights Issue and use of proceeds

2.1 Reasons for the Rights Issue

As disclosed in letter from Board of the Circular, in the past few years, the financial performance of the Group was adversely affected by the coronavirus



outbreak. Based on disclosures in the Reports, the Group recorded consecutive losses of approximately RMB43.6 million, RMB49.3 million for FY2022 and FY2023 respectively and approximately RMB20.6 million and RMB23.1 million for 1H2023 and 1H2024 respectively. In addition, the Group also incurred Operating Expenses of approximately RMB78.9 million and RMB60.1 million for FY2022 and FY2023 respectively. Furthermore, we also note from the letter from the Board of the Circular and based on our further discussion with the Company that the Other Borrowings becoming due within 12 months have amounted to an aggregate amount of approximately HK\$28.9 million.

We have discussed and understood from the Company that as at 31 December 2024, the Group had (i) limited cash and cash equivalents of approximately only RMB2.3 million; and (ii) total borrowings (including principal and interest) of approximately HK\$59.1 million. The net proceeds of the Rights Issue to be received by the Company after deducting all estimated expenses payable by the Group (assuming full acceptance of the Rights Issue and no new Shares will be allotted or issued on or before the Record Date) are estimated to be up to approximately HK\$86.8 million and is intended to be utilised as follows:

- (i) approximately HK\$28.9 million (representing approximately 33.3% of the net proceeds of the Rights Issue) towards repayment of the Other Borrowings; and
- (ii) approximately HK\$57.9 million (representing approximately 66.7% of the net proceeds of the Rights Issue) towards the Group's general working capital for the daily operations of its existing principal business, including but not limited to (a) selling and distribution expenses of approximately HK\$33.6 million; (b) administrative expenses of approximately HK\$17.3 million; and (c) research and development expenses of approximately HK\$7.0 million.

In the event that the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue will be applied in the following order of priority:

- (i) for the repayment of the Other Borrowings, prioritizing repayment according to the maturity dates of each obligation; and
- (ii) for the Group's general working capital for the daily operations of its existing principal business, on a pro-rata basis based on the allocation (i.e. selling and distribution expenses, administrative expenses and research and development expenses) set out above.



Please refer to the section headed “REASONS FOR THE RIGHTS ISSUE AND THE USE OF PROCEEDS” in the letter from the Board of the Circular for additional information in relation to the Group’s Other Borrowings and Bank Borrowings.

It is noted that (a) certain Other Borrowings would become due before the expected completion date of the Rights Issue. In this regard, as disclosed in the letter from the Board of the Circular, the Group has negotiated with the lender(s) of the relevant Other Borrowings, and it is understood by the parties that (i) the Group intends to repay the outstanding principal and/or interest using the funds generated from the Rights Issue which is expected to complete by June 2025; and (ii) the relevant lender(s) is willing to extend the repayment date to a date shortly after the completion date of the Rights Issue; and (b) certain Bank Borrowings would become due on or before May 2025. These bank loans have been in place for a considerable duration for supporting the Group’s operational needs over the years. The Group has maintained long term relationships with the relevant banks, and has successfully renewed these bank loans in the past. As disclosed in letter from Board of the Circular, recently the Group has also reached out to these banks, which have indicated their willingness to renew the loans with favourable terms (such as interest rates) upon maturity.

In ascertaining the fairness and reasonableness of the Rights Issue and the Company’s need for additional funding, we have reviewed and noted from the Company’s Reports that the Company has been reporting series of consecutive losses attributable to owners of the Company and ongoing declines in equity attributable to owners of the Company since year ended 31 December 2020. In particular, we note the Company’s consolidated cash and cash equivalents balance as at 31 December 2021, 2022, 2023 and 30 June 2024 has fluctuated from RMB32.35 million to RMB11.36 million to RMB33.95 million to a mere RMB2.3 million and such fluctuations was mainly a result of cash raised from financing activities including borrowings as well as equity fund raising exercises. We note that the latest cash and cash equivalents balance as reported in the 2024 Interim Report is clearly insufficient to support the Group’s normal operations let alone the repayment of Other Borrowings.

Total borrowings of the Group (current and non-current) has also increased and remained at a consistently high level up from approximately RMB28.68 million as at 31 December 2021 to approximately RMB78.64 million as at 31 December 2022 and remained at around RMB69.50 million as at 31 December 2023 and approximately RMB72.5 million as at 30 June 2024. The deteriorating financial position of the Group can also be reflected by the Group’s financial ratios. Current ratio of the Group decreased from 2.5 times as at 31 December 2021 to 1.5 times and 1.3 times as at 31 December 2022 and 31 December 2023 respectively, and further down to 1.1 times as at 30 June 2024. Gearing ratio on the other hand increased from approximately 0.2 as at 31 December 2021 to approximately 1.0 and 1.2 as at 31 December 2022 and 31 December 2023 respectively, and further increased to around 2.1 as at 30 June 2024.



As mentioned in sections above, we note the Company has commenced business in selling of healthcare products in FY2023 to diversify its product portfolio, however, in view of including but not limited to, the substantial Operating Expenses as discussed above, positive effects from the changes in business strategy on the financial results of the Group is currently still limited.

Having considered the above, in particular, the Group has a genuine funding need for its business operations for the purpose of satisfying capital expenditure as well as for the repayment of debt, we consider the Group's reasons for proceeding with the Rights Issue to be fair and reasonable.

2.2 *Financing alternatives*

We have discussed and understand from the Management that the Board has considered other alternative means of debt or equity fundraising alternatives such as bank borrowings, placing or open offer. As disclosed in the letter from the Board in the Circular, the Company has approached a number of banks regarding debt financing, however, the Board considered that debt financing may incur further interest burden on the Group and may be subject to lengthy due diligence and negotiations with the banks with reference to the Group's financial position and prevailing market conditions and it may be relatively uncertain and time-consuming. Further bank borrowings, even if available, would result in additional interest burden of the Company and create pressure to the liquidity of the Company. Hence, the Board does not consider it to be beneficial to the Company.

Furthermore, we note the Company has also considered placing of new shares and the possibilities of open offer. We note from and concur with the Management that these equity fund raising methodologies are not preferred over the Rights Issue mainly because placing of new shares dilutes the interests of existing Shareholders without giving them the opportunity to take part in the exercise and as opposed to open offer, the Rights Issue allows the Shareholders to sell the Nil-Paid Rights Shares in the market.

In totality, after considering other financing alternatives as discussed above, we concur that raising funds by way of the Rights Issue is in the interests of the Company and its shareholders as a whole.

3. Details of the Rights Issue

3.1 *Issue statistics*

Basis of the Rights Issue:	Three (3) Rights Shares for every one (1) Share held on the Record Date
Subscription Price:	HK\$0.25 per Rights Share



Number of Shares in issue as at the Latest Practicable Date:	117,922,000 Shares
Maximum number of Rights Shares:	Up to 353,766,000 Rights Shares (assuming there is no change in the issued share capital of the Company on or before the Record Date)
Maximum aggregate nominal value of the Right Shares:	HK\$88,441,500 (assuming there is no change in the issued share capital of the Company on or before the Record Date)
Maximum total number of Shares in issue upon completion of the Rights Issue:	471,688,000 Shares
Gross proceeds from the Rights Issue:	Up to approximately HK\$88.4 million before expenses (assuming there is no change to the total issued share capital of the Company on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders).
Net Proceeds from the Rights Issue:	The net proceeds from the Rights Issue (after deducting the estimated expenses of HK\$1.6 million) are estimated to be approximately HK\$86.8 million. The estimated net Subscription Price per Rights Share is approximately HK\$0.245 (assuming there is no change to the total issued share capital of the Company on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders).

Assuming there is no change to the total issued capital of the Company on or before the Record Date, 353,766,000 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 300% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) 75% of the total issued share capital of the Company as enlarged by the allotment and issuance of the Rights Shares immediately upon Completion.

Further details of the principal terms of the Rights Issue are outlined in the Letter from the Board in the Circular. Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares.



As disclosed in letter from Board of the Circular, in the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will be placed to independent placees under the Compensatory Arrangements on a best effort basis. On 7 March 2025, the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares to independent places on a best effort basis. Pursuant to the Placing Agreement, the Company has appointed the Placing Agent to place the Unsubscribed Rights Shares during the Placing Period to independent placees on a best effort basis, and any premium over the Subscription Price for those Rights Shares that is realised will be paid to those No Action Shareholders and Non-Qualifying Shareholders on a pro-rata basis.

Any Unsubscribed Rights Shares that remain not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. There is no minimum amount to be raised under the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules.

3.2 Placing Agreement

Date:	7 March 2025 (after trading hours)
Issuer:	The Company
Placing Agent:	Imperium International Securities Limited
Placing Period:	The period from Thursday, 5 June 2025 up to 4:00 p.m. Thursday, 12 June 2025, or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Compensatory Arrangements.
Placing Price:	The placing price of the Unsubscribed Rights Shares shall be at least equal to the Subscription Price and the final price determination will depend on the demand for and the market conditions of the Unsubscribed Rights Shares during the placement process.
Placing commission:	Subject to the completion of the Placing, the Company shall pay the Placing Agent a placing commission, being 1.0% of the amount which is equal to the Placing Price multiplied by the total number of the Unsubscribed Rights Shares which are successfully placed by the Placing Agent.



- Placees: The placees shall be any individuals, corporate, institutional investors and other investors. The Placing Agent shall ensure that the placees, and whose ultimate beneficial owner(s), shall be Independent Third Party(ies).
- Ranking of the Unsubscribed Rights Shares: The placed Unsubscribed Rights Shares (when allotted, issued and fully-paid, if any) shall rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of completion of the Placing.
- Conditions of the Placing Agreement: The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among other things, the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable):
- (a) all necessary consents and approvals to be obtained on the part of each of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained;
 - (b) the Listing Committee having granted the approval for the listing of, and the permission to deal in, the Rights Shares, including the Unsubscribed Rights Shares;
 - (c) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion of the Placing Agreement; and
 - (d) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the termination events.



For the avoidance of doubt, if all the Rights Shares are fully subscribed under the Rights Issue, the Placing will not proceed.

The Placing Agent may, in its absolute discretion, waive the fulfilment of all or any or any part of the conditions (other than those set out in paragraphs (a), (b) and (d) above) by notice in writing to the Company. In the event that the above condition precedents have not been fulfilled or waived on or before the Friday, 13 June 2025 (or such later date as may be agreed between the Placing Agent and the Company in writing) (the “**Placing Long Stop Date**”), all rights, obligations and liabilities of the Placing Agent and the Company in relation to the Placing shall cease and determine and none of the parties shall have any claim against the other in respect of the Placing (save for any antecedent breaches thereof).

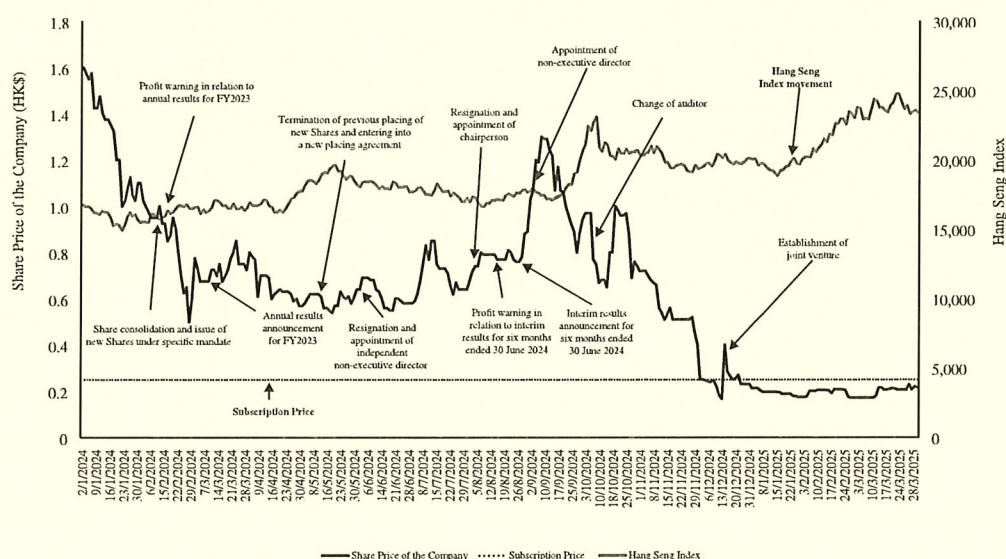
Further details of the principal terms of the Placing Agreement are outlined in the Letter from the Board in the Circular.



4. Evaluation of the terms of the Rights Issue and the Placing

4.1 Review of historical Shares closing prices

The following share price chart illustrates the daily closing price of the Shares as quoted on the Hong Kong Stock Exchange, during the period from 1 January 2024 up to and including the Latest Practicable Date (the “**Review Period**”) against the Issue Price of HK\$0.25 per Rights Share. We consider the Review Period to be sufficient in reflecting the recent trading pattern of the Shares.



Source: Bloomberg

Note: The Company announced a share consolidation on 8 February 2024 to which every twenty-five (25) issued and unissued then existing Shares of the Company was consolidated into one (1) consolidated Share. The Share consolidation became effective on 2 April 2024. The prices shown in the chart above reflects the share consolidation.

For illustrative purposes, the Subscription Price represents:

- (i) a premium of approximately 16.28% over the closing price of HK\$0.215 per Share as quoted on the Stock Exchange on the Latest Practicable Day;
- (ii) a premium of approximately 47.06% over the closing price of HK\$0.17 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 47.06% over the average closing price of HK\$0.17 per Share for the last five consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;



- (iv) a premium of approximately 47.06% over the average closing price of HK\$0.17 per Share for the last ten consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day; and
- (v) a premium of approximately 8.70% over the theoretical ex-rights price of approximately HK\$0.23 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.17 per Share as quoted on the Stock Exchange on the Last Trading Day.

We note from the chart above that, during the Review Period, the closing price of the Shares fluctuated between HK\$1.60 and HK\$0.167 per Share, with an average closing price of approximately HK\$0.677 per Share.

On 8 February 2024 after trading hours, the Company announced a Share consolidation of 25 then existing issued and unissued Shares to one consolidated Share and a placing of new Shares under specific mandate at HK\$1.13 per consolidated Share. Share closing price of the Company increased from HK\$0.95 on 8 February 2024 by approximately 5.26% to HK\$1.0 per Share on 9 February 2024. Share closing price fell by approximately 7.50% to HK\$0.925 each on 14 February 2024, being the first trading day after the publication of a profit warning relating to the annual results of the Company for FY2023 on 9 February 2024 (after trading hours). Since then, the Share closing price continued to fall and reach a then low of HK\$0.50 per Share on 28 March 2024.

Share closing price then fluctuated within a range of HK\$0.57 to HK\$0.85 per Share until early May 2024. Closing price per Share fell from HK\$0.61 by around 8.20% to HK\$0.56 each on 13 May 2024 following the Company's announcement on 10 May 2024 (after trading hours) in relation to the termination of the previous placing agreement that was announced on 8 February 2024 and the entering into of a new placing agreement at a lower price of HK\$0.52 per Share. Share closing price of the Company increased by 7.81% on 3 June 2024 to HK\$0.69 per Share following the announcement of resignation and appointment of independent non-executive directors of the Company on 31 May 2024 after trading hours, then gradually fell to HK\$0.55 per Share on 18 and 19 June 2024. Since then, share closing price led an increasing trend to reach HK\$0.85 per Share on 10 and 11 July 2024, for which the Management was not aware of any specific reasons for such Share price movements.

Share closing price fluctuated between HK\$0.62 and HK\$0.8 per Share during the period from mid-July to mid-August 2024. The Company published a profit warning on 8 August 2024 after trading hours in relation to the interim results announcement for the six months ended 30 June 2024. Share prices remained steady at HK\$0.79 per Share following such announcement. The interim results announcement for 1H2024 was published on 23 August 2024 after trading hours and prices marginally increased by approximately 2.63% to HK\$0.78 per Share on 26 August 2024.



Share closing price then began a steep climb before hitting a recent high of HK\$1.30 per Share on 4 September 2024. We have discussed and understand from the Management that they were not aware of any other reason contributing to the Share closing price movement during the period.

Share closing price fell back from early September 2024. The Company announced a change in auditor on 4 October 2024 after trading hours and Share closing price decreased by approximately 2.6% to HK\$0.75 per Share on 7 October 2024. Despite the Hang Seng Index (“**HSI**”) remaining steady from October 2024, share closing price continued to decrease to a low of HK\$0.167 per Share on 11 December 2024. On 12 December 2024 after trading hours the Company published a business update in relation to the establishment of a joint venture in the PRC to explore the field of big healthcare. Share closing price fell by around 28.75% to HK\$0.285 per Share on 13 December 2024 from HK\$0.40 per Share the previous trading day.

Share closing price then continued to decrease from HK\$0.265 per Share on 16 December 2024 and reached HK\$0.17 per Share on the Last Trading Day. Following the publication of the Announcement, closing price per Share remained below the Subscription Price with fluctuation in a tight range between HK\$0.205 and HK\$0.227 each, and was HK\$0.215 on the Latest Practicable Date.

We note that whilst the Subscription Price represents a premium over the prevailing market closing price per Share, it also represents a discount of around 20.86% to the latest unaudited equity attributable to shareholders of the Company (the “**NAV**”) per Share of approximately RMB0.295 as at 30 June 2024. In this regard, we have enquired the Company and understand that given the recent low level of trading price per Share relative to the NAV per Share, setting the Subscription Price at a premium over the prevailing market price demonstrates the Company’s commitment to preserving Shareholder value and minimizing unnecessary value dilution while balancing its need for new capital. Nevertheless, the premiums represented by the Subscription Price over the prevailing Share market prices are, as further discussed in the section headed “4.3 Comparable issuances” below, within the range, and better than the average, of the premium/discount represented by the subscription price under the Comparable Issues (as defined below) over/to their respective prevailing market prices and therefore, the Subscription Price is considered in line with the market.



4.2 Historical trading liquidity of the Shares

Set out below in the table are the average daily trading volume of the Shares and the percentages of the average daily trading volume to the number of total issued Shares and public float of the Company respectively during the Review Period.

	Average daily trading volume of the Shares (Note 3)	Approximate % of average daily trading volume to the number of total issued Shares (Note 1, 3)	Approximate % of average daily trading volume to the public float of the Company (Note 2, 3)
2024			
January	27,473	0.04%	0.05%
February	325,495	0.43%	0.54%
March	842,180	1.11%	1.39%
April	40,600	0.05%	0.07%
May	162,933	0.22%	0.27%
June	75,747	0.10%	0.12%
July	221,836	0.19%	0.29%
August	132,673	0.11%	0.17%
September	676,926	0.57%	0.92%
October	95,124	0.08%	0.13%
November	131,657	0.11%	0.16%
December	1,504,080	1.28%	1.81%
2025			
January	48,947	0.04%	0.06%
February	70,240	0.06%	0.08%
March	364,680	0.31%	0.44%

Notes:

- (1) The calculation is based on the Average daily trading volume of the Shares for the respective month over the number of total issued Shares for the same month based on the monthly return published.
- (2) The total number of Shares held by the public for the respective month is calculated based on the total number of issued Shares excluding those held by Mr. Zhao Jie and those directly and indirectly held by Mr. Wu.
- (3) The Company announced a share consolidation on 8 February 2024 to which every twenty-five (25) issued and unissued then existing Shares of the Company was consolidated into one (1) consolidated Share. The Share consolidation became effective on 2 April 2024. The trading volume shown in the chart above reflects the share consolidation.



During the Review Period, the average daily trading volume of the Shares ranged from a low of approximately 0.04% and up to a high of 1.28% to the total number of issued Shares as at the end of relevant month and when compared to public float of the Company, the daily trading volume of Shares was also exceptionally thin, ranging between 0.05% and 1.81%.

In light of the thin trading volume of the Shares as illustrated above as well as the generally decreasing trend of the closing price of the Shares during the Review Period, as well as the Group's high gearing ratio as discussed above which would hinder the Group from obtaining further funding from financial institutions, we are of the view that the Rights Issue is an appropriate and reasonable equity financing method for the Group.

4.3 Comparable issuances

To further assess the fairness and reasonableness of the terms of the Rights Issue, we have conducted our independent research based on comparable analysis through identifying rights issues by companies listed on the Main Board of the Stock Exchange between 1 July 2024 and the Latest Practicable Date. Our selection criteria is to include such rights issues that were announced and not terminated as at the Latest Practicable Date. We consider the criteria chosen to be fair and reasonable as it reflects the prevailing market environment. Based on the aforementioned criteria, on a best effort basis, we have noted and reviewed 36 similar issues (together as the **"Comparable Issues"**).

Notwithstanding that the subject companies constituting the Comparable Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and different reasons for their respective fund-raising activities, we would still consider, in light of our selection criteria, capturing recent rights issues by listed companies (or their subsidiaries) under similar market conditions and sentiments can provide Shareholders with a broad perspective of recent market trend of this type of transaction which is similar to that of the Rights Issue.



Premium/(discount) of the rights price over/to the

Announcement date	Name of listed companies	Stock code	Basis of entitlement	Closing price on the last trading day	Average closing price of the share over the last 5 consecutive trading days prior to/up to and including the last trading day/date of agreement	Average closing price of the share over the last 10 consecutive trading days prior to/up to and including the last trading day/date of agreement	Latest published net assets value (Note 1)	Theoretical ex-rights price	Theoretical dilution effect	Underwritten	Placing commission
12/7/2024	Guan Chao Holdings Limited	1872	4 for 1	-20%	-29.08%	-13.98%	-89.86%	-4.76%	20.07%	N	0.75%
19/7/2024	Trendzon Holdings Group Limited	1865	4 for 1	-14.30%	-17.40%	-17.40%	-93.70%	-3.23%	14.60%	N	1%
31/7/2024	Emperor International Holdings Limited	163	1 for 2	-30.60%	-31.50%	-30.46%	-96.10%	-23.60%	10.50%	Y	N/A
2/8/2024	Asia Television Holdings Limited	707	1 for 2	-46.80%	-41.60%	-45.70%	N/A	-37.00%	15.60%	N	2% (Note 2)
22/8/2024	Beijingwest Industries International Limited	2339	1 for 2	-13.85%	-13.85%	-15.58%	-88.72%	-9.68%	4.62%	N	N/A
2/9/2024	Guangdong-Hong Kong Greater Bay Area Holdings Limited	1396	1 for 2	-22.03%	-21.77%	-26.63%	-90.50%	-15.85%	8.28%	N	N/A



Premium/(discount) of the rights price over/to the

Announcement date	Name of listed companies	Stock code	Basis of entitlement	Closing price on the last trading day	Average closing price of the share over the last 5 consecutive trading days prior to/up to and including the last trading day/date of agreement	Average closing price of the share over the last 10 consecutive trading days prior to/up to and including the last trading day/date of agreement	Latest published net assets value (Note 1)	Theoretical ex-rights price	Theoretical dilution effect	Underwritten	Placing commission
9/9/2024	Crown International Corporation Limited	727	1 for 2	0.00%	12.25%	0.34%	156.52%	0.00%	0.00%	N	N/A
13/9/2024	Shougang Century Holdings Limited	103	1 for 5	10%	8.197%	7.84%	-62.50%	8.196%	6.80%	N	N/A
13/9/2024	Dragon Rise Group Holdings Limited	6829	1 for 1	-48.70%	-48.20%	-61.70%	-89.20%	-33.10%	24.90%	Partially underwritten	1%
23/9/2024	Shougang Fushan Resources Group Limited	639	1 for 30	1.96%	2.52%	2.04%	-20.49%	1.90%	0.06%	N	N/A
26/9/2024	Innovax Holdings Limited	2680	1 for 2	-67.39%	-68.35%	-70.13%	-88.59%	-59.02%	22.78%	N	1%
2/10/2024	China National Culture Group Limited	745	2 for 1	-31.97%	-31.51%	-25.93%	-88.59%	-13.54%	21.31%	N	2%
15/10/2024	Eminence Enterprise Limited	616	2 for 1	-8%	-24.34%	-25.99%	-98.98%	-2.85%	21.30%	N	N/A



Premium/(discount) of the rights price over/to the

Announcement date	Name of listed companies	Stock code	Basis of entitlement	Closing price on the last trading day	Average closing price of the share over the last 5 consecutive trading days prior to/up to and including the last trading day/date of agreement	Average closing price of the share over the last 10 consecutive trading days prior to/up to and including the last trading day/date of agreement	Latest published net assets value (Note 1)	Theoretical ex-rights price	Theoretical dilution effect	Underwritten	Placing commission
18/10/2024	Gaodi Holdings Limited	1676	1 for 2	37.90%	38.90%	30.30%	-65.50%	12.10%	0.00%	N	1%
18/10/2024	Kingkey Financial International (Holdings) Limited	1468	1 for 2	-2.56%	-6.17%	-2.94%	87.58%	-4.20%	2.06%	N	N/A
22/10/2024	IRC Limited	1029	1 for 2	-15%	-17.20%	-20.40%	-67.30%	-10.50%	6.04%	N	N/A
1/11/2024	Yuzhou Group Holdings Company Limited	1628	49 for 100	-73.68%	-72.99%	-73.86%	N/A	-65.27%	24.23%	N	N/A
6/11/2024	China Water Industry Group Limited	1129	1 for 1	-49.85%	-49.54%	-49.54%	-93.95%	-33.20%	24.92%	N	2%
11/11/2024	Far East Holdings International Limited	36	2 for 1	-35.77%	-35.27%	-36.38%	-80.59%	-15.66%	23.85%	N	2.50%



Premium/(discount) of the rights price over/to the

Announcement date	Name of listed companies	Stock code	Basis of entitlement	Closing price on the last trading day	Average closing price of the share over the last 5 consecutive trading days prior to/up to and including the last trading day/date of agreement	Average closing price of the share over the last 10 consecutive trading days prior to/up to and including the last trading day/date of agreement	Latest published net assets value (Note 1)	Theoretical ex-rights price	Theoretical dilution effect	Underwritten	Placing commission
12/11/2024	HG Semiconductor Limited	6908	1 for 4	-36%	-41.50%	-40.50%	-44.20%	-31.00%	8.30%	N	1%
19/11/2024	China Wood International Holding Co., Limited	1822	1 for 1	-45%	-48.60%	-54.30%	N/A	-29.10%	24.90%	N	(Note 3) N/A
21/11/2024	Elife Holdings Limited	223	1 for 5	-6.54%	-9.91%	-12.20%	96.10%	-9.09%	0.61%	N	N/A
21/11/2024	Legend Strategy International Holdings Group Company Limited	1355	1 for 1	-49.71%	-49.60%	-50.87%	N/A	-33.08%	24.86%	N	N/A
2/12/2024	Luxxu Group Limited	1327	1 for 1	-44.44%	-44.44%	-45.45%	-79.45%	-28.57%	22.22%	N	1%
3/12/2024	Graphex Group Limited	6128	3 for 1	-32%	-28.27%	-32.27%	-51.51%	-10.53%	24.00%	N	(Note 4) 1.50%



Premium/(discount) of the rights price over/to the

Announcement date	Name of listed companies	Stock code	Basis of entitlement	Closing price on the last trading day	Average closing price of the share over the last 5 consecutive trading days prior to/up to and including the last trading day/date of agreement	Average closing price of the share over the last 10 consecutive trading days prior to/up to and including the last trading day/date of agreement	Latest published net assets value (Note 1)	Theoretical ex-rights price	Theoretical dilution effect	Underwritten	Placing commission
6/12/2024	Xinming China Holdings Limited	2699	4 for 1	-13.80%	-18.80%	-20.60%	N/A	-5.08%	16.90%	N	3%
10/12/2024	KNT Holdings Limited	1025	3 for 1	-9.38%	-10.22%	-12.78%	-59.90%	-2.52%	8.08%	N	3%
13/12/2024	China Energy Storage Technology Development Limited	1143	2 for 1	-36.36%	-35.78%	-36.36%	-90.50%	-16.00%	24.24%	N	1.50%
19/12/2024	HSC Resources Group Limited	1850	4 for 1	-24.29%	-23.19%	-23.36%	-54.05%	-6.03%	19.43%	N	1.50%
27/12/2024	China Kingstone Mining Holdings Limited	1380	2 for 5	16.28%	19.62%	24.22%	65.60%	11.11%	0.00%	N	2.25% (Note 5)



Premium/(discount) of the rights price over/to the

Announcement date	Name of listed companies	Stock code	Basis of entitlement	Closing price on the last trading day	Average closing price of the share over the last 5 consecutive trading days prior to/up to and including the last trading day/date of agreement	Average closing price of the share over the last 10 consecutive trading days prior to/up to and including the last trading day/date of agreement	Latest published net assets value (Note 1)	Theoretical ex-rights price	Theoretical dilution effect	Underwritten	Placing commission
17/1/2025	Wan Kei Group Holdings Limited	1718	1 for 1	-29.82%	-31.97%	-36.31%	-75%	-17.53%	18%	N	3%
27/1/2025	Colour Life Services Group Co., Limited	1778	1 for 4	0%	-2.14%	-1.79%	94.66%	-1.72%	0.43%	N	N/A
2/2/2025	CSI Properties Limited	497	18 for 10	5.88%	5.14%	5.26%	-93.54%	2.04%	0.00%	Y	N/A
14/2/2025	Yues International Holdings Group Limited	1529	4 for 1	-7.14%	-20.25%	-34.67%	-88.68%	-1.52%	21.47%	N	1% (Note 6)
18/2/2025	China Baoli Technologies Holdings Limited	164	4 for 1	6.67%	2.30%	2.17%	N/A	1.27%	0.00%	N	1%
3/3/2025	China Zenith Chemical Group Limited	362	2 for 1	-17.90%	-18.40%	-43.50%	N/A	-7.10%	13.05%	Y	N/A



Premium/(discount) of the rights price over/to the

Announcement date	Name of listed companies	Stock code	Basis of entitlement	Closing price on the last trading day	Average closing price of the share over the			Latest published net assets value (Note 1)	Theoretical ex-rights price	Theoretical dilution effect	Underwritten	Placing commission
					price of the share over the last 5 consecutive trading days prior to/upto and including the last trading day/date of agreement	price of the share over the last 10 consecutive trading days prior to/upto and including the last trading day/date of agreement	price of the share over the last 10 consecutive trading days prior to/upto and including the last trading day/date of agreement					
			Average	-20.95%	-22.30%	-24.71%	-46.58%	-13.71%	-13.28%			1.65%
			Maximum	37.90%	38.90%	30.30%	156.52%	12.10%	24.92%			3.00%
			Minimum	-73.68%	-72.99%	-73.86%	-98.98%	-65.27%	0.00%			0.75%
	The Company		3 for 1	22.55%	23.89%	32.63%	-20.86%	4.82%	0%	N		1%

Notes:

(1) N/A means the subject listed company was in net liability position as at the date of the relevant announcement.

(2) Minimum fee payable was the higher of 2% and HK\$100,000

(3) Minimum fee payable was the higher of 1% and HK\$100,000

(4) Minimum fee payable was the higher of 1% and HK\$100,000

(5) Minimum commission of HK\$300,000 (can be applied towards setting off actual amount due)

(6) Minimum fee payable was the higher of 1% and HK\$100,000



As set out in the table above, we note that the premiums as represented by the Subscription Price over the closing price of the Shares on the Last Trading Day, the five and ten consecutive trading days prior to the Last Trading Day, the net assets value, the theoretical ex-rights price and the theoretical dilution effect are all within or above the range and better than the respective average as represented by the Comparable Issues. Therefore, we are of the view that the Subscription Price is acceptable and in line with recent market transactions.

We further note from the table above that it is a common market practice for rights issue to be conducted on a non-underwritten basis and as such, we are of the view that the Rights Issue being on a non-underwritten basis is in line with the general market practice and is acceptable.

From the table as set out above, we noted that the commission rates payable to placing agents of the Comparable Issues ranged from 0.75% to 3.00%. The placing commission under the Placing of 1.0% is within the range of commission rates payable of the Comparable Issues and is below the average commission rates payable under the Comparable Issues of approximately 1.65%. Accordingly, we are of the opinion that the placing commission under the Placing of 1% is fair and reasonable.

5. Dilution effect of the Rights Issue on the Shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not take up the Rights Issue can, subject to the then-prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

For those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be diluted by up to a maximum of approximately 75.0%. It should be noted that the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including but not limited to the results of acceptance of the Rights Issue.

Having considered (i) all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; and (ii) the Qualifying Shareholders have the opportunity to sell their nil-paid rights to subscribe for the Rights Shares in the market if they do not wish to take up the Rights Issue entitlements, we are of the view that the potential dilution effect on the shareholding is acceptable and justifiable.



6. Potential financial effects of the Rights Issue

The unaudited pro forma statement of unaudited consolidated net tangible assets of the Group attributable to the owners of the Company adjusted for the effect of the Rights Issue as at 30 June 2024 (the “**Pro Forma Statement**”), which is prepared as if the Rights Issue had taken place on 30 June 2024, is set out under Appendix II to the Circular. According to the Pro Forma Statement, the unaudited condensed consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2024 was approximately RMB34.6 million (or approximately RMB0.294 per Share) and would become approximately RMB115.7 million (or approximately RMB0.245 per Share) (based on 353,766,000 Rights Shares to be issued) as if the Rights Issue had taken place on 30 June 2024.

As at 30 June 2024, the Group’s gearing ratio, which is measured on the basis of the Group’s total debts divided by equity attributable to owners of the Company, was approximately 2.1 times. Upon the completion of the Rights Issue, a portion of the net proceeds from the Rights Issue will be used for the repayment of the Group’s debts. Therefore, the gearing ratio would be reduced following such debt repayment after completion of the Rights Issue. Hence, the Directors consider that the Rights Issue will enable the Group to improve the financial position and future fundraising opportunities of the Group.

Having considered the above, 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.

We draw attention to the shareholders and the Independent Board Committee that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue. Shareholders should note that the above analysis is based on full subscription basis. Subject to the fulfilment of conditions, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of provisionally allotted Rights Shares. Accordingly, if the Rights Issue is undersubscribed, the size of the Rights Issue will be reduced.



RECOMMENDATION

Having considered of the above principal factors and reasons, we consider that, though the Rights Issue is not in the ordinary and usual course of the business of the Company, terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interest of the Company and its Shareholders as a whole. We therefore advise that the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.