5 September 2023

To the Independent Board Committee and
the Independent Shareholders of Almana Limited

Dear Sirs,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
THREE RIGHTS SHARES FOR EVERY
ONE SHARE HELD ON THE RECORD DATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to (i) advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Rights Issue are fair and reasonable as far as the Independent Shareholders are concerned; (ii) give our recommendation as to whether the Rights Issue is in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the SGM. Details of the Rights Issue are set forth in the "Letter from the Board" (the "**Board Letter**") contained in the circular (the "**Circular**") issued by the Company to the Shareholders dated 5 September 2023, of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Ms. Pang King Sze, Rufina, Mr. Hong Bingxian and Mr. Huang Zhe, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the SGM. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue.

In the past two years, we have not acted in any financial adviser role to the Company. Save for the appointment as the Independent Financial Adviser, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Rights Issue pursuant to Rule 17.96 of the GEM Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's interim report for the six months ended 30 June 2023 (the "**2023 Interim Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date up to the SGM, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Rights Issue, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Rights Issue. The Company has been separately advised by its own professional advisers with respect to the Rights Issue and the preparation of the Circular (other than this letter).

We have assumed that the Rights Issue will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Rights Issue, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Rights Issue. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Rights Issue, we have taken into account the following principal factors and reasons:

1. Background information and financial overview of the Group

As stated in the Board Letter, the Group is principally engaged in the household, plantation and accessory businesses. Certain summary financial information of the Group as extracted from the 2023 Interim Report for the six months ended 30 June 2022 and 2023 ("**HY2022**" and "**HY2023**" respectively) is set out below:

	For the six months ended 30 June	
	2023	**2022**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue	12,591	16,009
Gross profit	3,213	1,969
Loss and total comprehensive income attributable to owners of the Company	38	2,007

The Group's consolidated revenue decreased from approximately HK$16,009,000 for HY2022 to approximately HK$12,591,000 for HY2023, representing a decrease of approximately HK$3,418,000 or 21.4%. The Group's gross profit increased from approximately HK$1,969,000 for HY2022 to approximately HK$3,213,000 for HY2023, representing an increase of approximately HK$1,244,000 or 63.2%. As stated in the 2023 Interim Report, the increase in the Group's gross profit is mainly attributable to the increase in the gross profit margin of household and accessories products. The Group recorded a loss and total comprehensive income attributable to owners of the Company of approximately HK$38,000 for HY2023, representing a decrease of approximately HK$1,969,000 or 98.1%, as compared to a loss and total comprehensive income attributable to owners of the Company of approximately HK$2,007,000 for HY2022. Such decrease in loss and total comprehensive income attributable to owners of the Company was mainly attributable to the Group's improved business performance and the reduction in finance costs following completion of the Group's debt restructuring by way of scheme of arrangement in January 2023.

	As at	
	30 June 2023	**31 December 2022**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Cash and bank balances	4,052	4,960
Current assets	21,790	16,707
Net current liabilities	148	262
Total assets	27,089	22,193
Current liabilities	21,938	16,969
Total liabilities	21,938	17,004
Total equity	5,151	5,189

The Group's cash and bank balances amounted to approximately HK$4,052,000 as at 30 June 2023, representing a decrease of approximately HK$908,000 or 18.3%, as compared to that of approximately HK$4,960,000 as at 31 December 2022. The aforementioned cash and bank balances as at 30 June 2023 represents approximately 23.2% of the estimated net proceeds of the Rights Issue of approximately HK$17,500,000 and is therefore grossly insufficient for the purpose of the Rights Issue's use of proceeds. The Group recorded net current liabilities of approximately HK$148,000 as at 30 June 2023, representing a decrease of approximately HK$114,000 or 43.5%, as compared to that of approximately HK$262,000 as at 31 December 2022. Such decrease was mainly attributable to the combined effects from an increase in current assets of approximately HK$5,083,000 or 30.4% and an increase in current liabilities of approximately HK$4,969,000 or 29.3% as at 30 June 2023. We note from the 2023 Interim Report that the increase in current assets is mainly attributable to the increase in inventories. Meanwhile, the increase in current liabilities is mainly due to the combined effects of the increase in trade payables and tax payables, and the decrease in other payables and accruals and lease liabilities (comprising mainly the advance of HK$9.6 million from customers). The improvement in liquidity and solvency gives rise to a slight increase in current ratio from approximately 0.98 times as at 31 December 2022 to approximately 0.99 times as at 30 June 2023.

The Group's total liabilities increased by approximately HK$4,934,000 or 29.0%, from approximately HK$17,004,000 as at 31 December 2022 to approximately HK$21,938,000 as at 30 June 2023. Such increase was mainly attributable to the combined effects of the aforementioned factors related to the increase in current liabilities. Meanwhile for non-current liabilities, the Group only recorded lease liabilities of HK$35,000 as at 31 December 2022, and did not record any non-current liabilities as at 30 June 2023.

The Group recorded net deficit of approximately HK$47,105,000 as at 30 June 2022 and following the scheme of arrangement, the Group recorded a total equity of approximately HK$5,189,000 as at 31 December 2022. As at 30 June 2023, the Group recorded a total equity of approximately HK$5,151,000, representing a slight decrease of approximately HK$38,000 or

0.7% from 31 December 2022, which is mainly attributable to the loss of approximately the same amount for HY2023.

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

As stated in the Board Letter, the Group is principally engaged in the household, plantation and accessory businesses. In view of the disruptive impact of the COVID-19 pandemic on the business operations, the Group, in addition to sales of its products, has been exploring the manufacturing of household products through acquisition of plant and equipment to enable the Group to remain competitive in the market. The Group does not expect such move will bring about change to its existing business model.

However, due to (i) the unprecedented disturbing impact and prolonged duration of the COVID-19 pandemic since 2020; (ii) the substantial net liabilities of the Group prior to 2022; and (iii) the winding up petition filed by a creditor against the Company in 2021, the Company has not been able to conduct fund raising exercise for business development. In response to the debt crisis resulted from the petition, the Company had made strenuous efforts to pursue a debt restructuring by way of scheme of arrangement which was approved by the requisite statutory majority of the then creditors and was completed in 2022. As a result, the liabilities of the Company had been substantially reduced and the Company was able to restore its financial position to normality. As at 30 June 2023, the Group recorded net assets of HK$5.1 million. However, despite improvement in its financial position as a result of the scheme, the pace of business development (hence profitability) of the Group's businesses is still hindered by its limited working capital. As at 30 June 2023, the Group's cash and bank balances amounted to HK$4.1 million whilst total liabilities amounted to HK$21.9 million (including advance of HK$9.6 million received from customers). As mentioned in the 2023 Interim Report, the challenges arising from the continuing Sino-United States conflict, the war in Ukraine, global interest rate hikes and tightening monetary policies will continue to adversely impact on the business activities worldwide including the Group's business operations. As also mentioned in its annual reports for 2021 and 2022, the Company's experience in 2021 and 2022 has shown that prompt response to changes in business landscape and prudent financial and liquidity management are key factors in withstanding major disruptions and uncertainties. As such, it is vital for the Group to seize opportunities to access to funding to improve the liquidity in its business operations and expand operating capacity in a timely manner.

The Board considers that the Rights Issue is a good opportunity to enable the Group to establish manufacturing facilities and enhance working capital for business development. Assuming all the Rights Shares are taken up or all Placing Shares are placed to Placees, it is estimated that net proceeds of the Rights Issue (after deducting the related expenses) will amount to HK$17.5 million, which the Company intends to apply as to (i) HK$7.5 million for repayment/fulfilment of the advance from customers (which is repayable in 2023); (ii) HK$5 million for acquisition of operating assets (plant and equipment) for the household business; and (iii) the remaining balance of HK$5 million for working capital of business operations and general corporate and administrative expenses (e.g. rents, overheads and remunerations). However, if the free cash generated from business operations is not sufficient to repay the remaining balance of HK$2.1 million of the advance from customers which is repayable in 2024, the Company intends to apply part of the proceeds reserved for business working capital and/or purchase of operating assets for settlement of the outstanding advance. The Company will make announcement(s) if there is any change in the intended use of proceeds. Also, in the event that the Rights Issue is undersubscribed and the Placing Shares are not fully placed, the net proceeds will be reduced and utilised on a pro rata basis as set out above.

The Board has considered other alternative means of fund raising, including debt financing, placing and open offer. However, given the Group's lack of collateral acceptable to financial institutions required for debt financing and the high interest rate under the prevailing market condition, debt financing is not a viable means to the Group. As for equity fund raising (such as placing), it will be relatively smaller in scale as compared to fund raising through the Rights Issue, not to mention that placing of shares would lead to dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate, particularly for those Shareholders who were the white knight and former creditors having supported the scheme of arrangement of the Company and have become the Shareholders through the Share Allotments. As for open offer, although it is similar to a rights issue in offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market.

In view of the above, the Board considers that as compared to raising fund by other means, raising funds by way of the Rights Issue, which will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company, is fair, cost effective, efficient and beneficial to the Company and its shareholders as a whole. In addition, the Rights Issue provides a good opportunity for the Group to improve its liquidity and strengthen its operating capacity, while offering a participating opportunity to all Qualifying Shareholders in the future development of the Company on equal terms to maintain their shareholding in the Company. As such, the Rights Issue is in the interests of the Company and its shareholders as a whole.

Taking into account the benefits and potential cost of each of the alternatives, we are of the view and concur with the view of the Directors that the Rights Issue, which provides all Qualifying Shareholders an opportunity to participate in the future development of the Company on equal terms to maintain their shareholding in the Company, is the most preferred means of fund raising under the Group's current circumstances. Based on the foregoing, we are of the view that the Rights Issue allows the Group to improve its liquidity and strengthen its operating capacity at a more cost effective and beneficial method and is in the interests of the Company and the Shareholders as a whole.

3. The proposed Rights Issue

3.1 Issue statistics

Assuming no change in the number of issued Shares on or before the Record Date:

Basis of Rights Issue:	Three Rights Shares for every one Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price:	HK$0.22 per Rights Share
Number of Shares in issue as at Latest Practicable Date:	28,467,160 Shares
Number of Rights Shares:	Up to 85,401,480 Rights Shares
Aggregate nominal value of the Rights Shares:	Up to HK$6,832,118
Number of Shares in issue immediately upon completion of the Rights Issue:	Up to 113,868,640 Shares
Maximum funds raised:	Up to HK$18.8 million

As at the Latest Practicable Date, the Group had no outstanding debt securities, derivatives, options, warrants, convertible securities or other similar securities which are convertible or exchangeable into the Shares. The 85,401,480 Rights Shares to be issued under the Rights Issue represent (i) 300% of the total number of issued Shares as at the Latest Practicable Date; and (ii) 75% of the total number of issued Shares as enlarged by the allotment and issue of the Rights Shares.

3.2 Non-underwritten basis

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully subscribed, the Rights Shares not taken up by the Qualifying Shareholders will be placed to the Placees under the Compensatory Arrangements. The Placing Shares which 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 is also no statutory requirement regarding minimum subscription level in respect of the Rights Issue.

As the Rights Issue will proceed on a non-underwritten basis, Shareholders who apply to take up all or part of their entitlements under the PALs may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

3.3 The Subscription Price

The Subscription Price of HK$0.22 per Rights Share is payable in full when the Qualifying Shareholders accept the relevant provisional allotment of Rights Shares or when transferees of nil-paid Rights Shares accept the provisional allotment of the relevant Rights Shares. Assuming that all the Rights Shares are fully subscribed, the net price per Rights Share is estimated to be HK$0.2.

The Subscription Price represents:

(i) a discount of 26.7% to the closing price of HK$0.30 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of 29.0% to the average closing price of HK$0.31 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of 8.3% to the theoretical ex-rights price of HK$0.24 per Share based on the closing price of HK$0.30 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iv) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of 21.77% represented by the theoretical diluted price of HK$0.24 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules) of HK$0.31 per Share;

(v) a cumulative theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) in aggregation with the Share Allotments of 23.75% represented by the cumulative theoretical diluted price of HK$0.145 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules) of HK$0.19 per Share;

(vi) a discount of 18.5% to the closing price of HK$0.27 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vii) a premium of 22.2% over the unaudited net asset value per Share of HK$0.18 (based on the unaudited consolidated net asset value of the Group of HK$5.2 million as at 30 June 2023 and 28,467,160 Shares in issue as at the Latest Practicable Date).

The Subscription Price was determined with reference to (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong; (iii) the latest business performance and financial position of the Group, particularly the consecutive loss-making position of the Group in the past and the net asset value of HK$0.18 per Share as at 30 June 2023; (iv) the low trading volume of the Shares in the past six months; and (v) the reasons for and benefits of Rights Issue as discussed in the section headed "Reasons for and benefits of the Rights Issue and use of proceeds" in the Board Letter. As such, the Board considers that it is necessary and reasonable to set the Subscription Price at a discount to the recent market price of the Shares in order to attract Shareholders and investors to participate in the Rights Issue.

The Board considers that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.4 Placing Agreement and undertaking

3.4.1 The Shareholders' undertaking

It is stated in the Board Letter that as at the Latest Practicable Date, Perfect Advance Holdings Limited ("**Perfect Advance**") and Ms. Chan Ho Yee ("**Ms. Chan**"), an executive Director, are interested in 8,476,364 Shares and 676,127 Shares respectively (representing 29.8% and 2.4% of the issued Shares respectively). Each of Perfect Advance and Ms. Chan has irrevocably undertaken to the Company that:

(i) it/she will not sell, transfer or otherwise dispose of the Shares held during the period up to the Rights Issue having become unconditional or the date on which the Company announces that the Rights Issue will not proceed, whichever is earlier (both dates inclusive); and

(ii) it/she will accept and subscribe in full for all the Rights in which it/share is beneficially entitled under the Rights Issue on and subject to the terms and condition of the Rights Issue provided that in the case of Perfect Advance, the total number of the Rights Shares to be subscribed by it under the Rights Issue will be scaled down to the extent that it and its associates will not trigger a general offer obligation under the Takeovers Code in accordance with Rule 10.26(2) of the GEM Listing Rules.

Save for the above irrevocable undertakings, the Company has not received, as at Latest Practicable Date, any other information or irrevocable undertaking from other

Shareholders of their intention to take up the Rights Shares to be provisionally allotted to them under the Rights Issue.

3.4.2 The Placing Agreement

As stated in the Board Letter, on 11 August 2023 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed as agent of the Company (either by itself or through its sub-placing agents) to procure independent Placees, on a best effort basis, to subscribe for the Placing Shares. The principal terms of the Placing Agreement as extracted from the Board Letter are set out below:

Date	:	11 August 2023
Parties	:	(i) the Company, as issuer; and (ii) the Placing Agent
Placing Agent	:	Space Securities Limited, appointed as the Placing Agent to place the Placing Shares on a best effort basis. The Placing Agent has confirmed that it is an Independent Third Party.
Fees and expenses	:	1% of the amount which is equal to the placing price multiplied by the Placing Shares that are successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement and reimbursed for the expenses in relation to the Placing, which the Placing Agent is authorised to deduct from the payment to be made by the Placing Agent to the Company at completion.
Placing price	:	The placing price of the Placing Shares shall be at least equal to the Subscription Price. The final price is dependent on the demand and market conditions of the Placing Shares during the process of placement.
Placees	:	The individuals, corporate, institutional investors or other investors procured by the Placing Agent and/or its sub-placing agents to subscribe for the Placing Shares.
Ranking of the Placing Shares	:	The Placing Shares (when placed, allotted, issued and fully paid) shall rank *pari passu* in all respects among themselves and with the Shares then in issue.

Termination	:	The Placing shall end on Wednesday, 1 November 2023 or any other date by mutual written agreement between the Placing Agent and the Company. The engagement of the Placing Agent may be terminated by the Placing Agent in case of force majeure resulting in the Company and the Placing Agent being unable to fulfill their respective duties and responsibilities under the engagement. However, if during the course of the engagement it has come to the Placing Agent's knowledge that there is any material adverse change in the business and operational environment in the Company which, in the sole opinion of the Placing Agent, may make it inadvisable to continue the engagement, the Placing Agent shall have the right to terminate the engagement by written notice to the Company with immediate effect.
Conditions precedent	:	The obligations of the Placing Agent and the Company under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled (or being waived by the Placing Agent in writing, if applicable): (i) the passing by the Independent Shareholders at the SGM of the necessary resolution to approve the Rights Issue; (ii) the GEM Listing Committee granting the approval for the listing of, and the permission to deal in, the Rights Shares (including the Placing Shares); (iii) 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; and (iv) the Placing Agreement not having been terminated in accordance with the provisions thereof.

The Placing Agent may, in its absolute discretion, waive the fulfillment of all or any or any part of the above conditions (other than those set out in paragraphs (i) and (ii) above) by notice in writing to the Company.

Completion	:	Placing completion shall take place on 1 November 2023 or such other date as the Company and the Placing Agent may agree in writing.

The Placing Agent shall ensure that the Placing Shares are placed (i) only to institutional, corporate or individual investors who and whose ultimate beneficial owners shall be Independent Third Parties; (ii) such that no Placee shall become a substantial Shareholder immediately following the Placing; (iii) such that the Placing will not have any implication 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 (iv) such that the Placing will not result in the Company incapable of complying with the public float requirements under the GEM Listing Rules immediately following the Placing. The Company will continue to comply with the public float requirements under Rule 11.23(7) of the GEM Listing Rules and the Placing will not have any implication 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.

The engagement between the Company and the Placing Agent for the placing of the Placing Shares was determined after arm's length negotiations between the Placing Agent and the Company with reference to the market comparables, the existing financial position of the Group, the size of the Rights Issue and the market conditions. The Board considers the terms of the Placing for the Placing Shares (including the commission payable) are on normal commercial terms.

Given that the Compensatory Arrangements would provide (i) a distribution channel of the Placing Shares; and (ii) a compensatory mechanism for No Action Shareholders and the Excluded Shareholders, the Board considers that the Compensatory Arrangements are fair and reasonable and would provide adequate safeguard to protect the interest of the Company's minority shareholders.

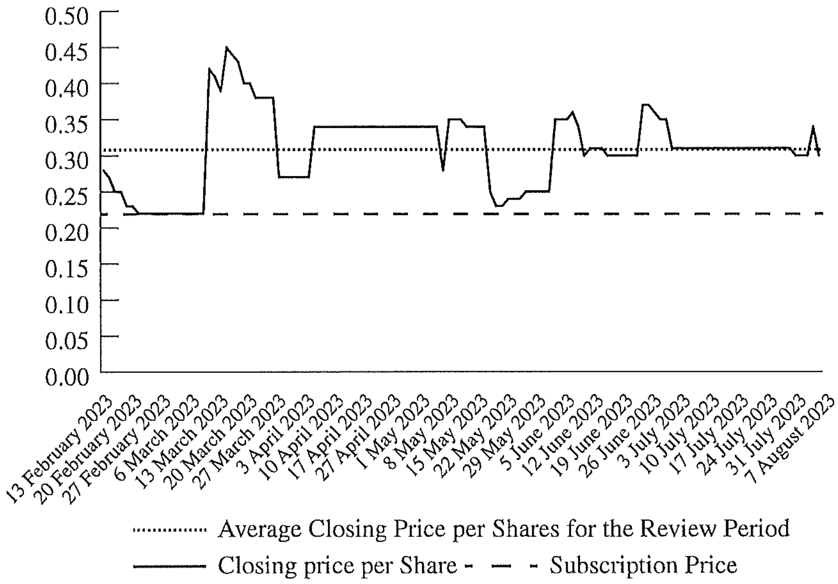
4. Historical price and trading volume of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have taken into account (i) the daily closing prices of the Shares as quoted on the Stock Exchange during the 6 months ended the date of the announcement in respect of the Rights Issue (the "**Announcement**"), i.e. 11 August 2023 (the "**Review Period**"); and (ii) the average daily trading volumes of the Shares for each of the months during the Review Period.

In relation to the 6 months Review Period adopted in our analysis, we note that (i) it represents a reasonable period to provide a general overview of the recent price performance of the Shares which has fully reflected relevant information of the Group's performance; (ii) a shorter period (e.g. 3 months) may not sufficiently illustrate a meaningful historical trend for a proper assessment; and (iii) a longer period (e.g. 12 months) may have been too distant in time making such historical trend less relevant within the context of the Rights Issue and with reference to the dynamic financial markets. Accordingly, we consider that the sampling period of 6 months for the Review Period is appropriate when conducting an analysis on the historical closing prices of the Shares, trading volumes and the Subscription Price.

4.1 Closing price movement of the Shares during the Review Period

Closing price movement of the Shares during the Review Period



Source: website of the Stock Exchange

As illustrated in the chart above, the closing prices of the Shares exhibited a generally unstable trend during the Review Period. Starting from HK$0.28 per Share at the beginning of the Review Period on 13 February 2023, the closing price of the Shares experienced a period of volatility reaching HK$0.22 per Share on 21 February 2023. Subsequently, the closing price of the Shares experienced a somewhat sharp increase to HK$0.42 per Share on 9 March 2023. The Shares then experienced a period where they closed within a somewhat narrow band between HK$0.45 per Share on 14 March 2023 to HK$0.38 per Share on 24 March 2023. The closing price of the Shares then experienced a sharp drop reaching HK$0.27 per Share on 27 March 2023. The closing price of the Shares then experienced a slight increase to HK$0.34 per Share on 4 April 2023, and remained stable before entering into a phase of volatile trend ranging from a low closing price of HK$0.23 per Share on 23 May 2023 to a high closing price of HK$0.37 per Share on 29 June 2023, and ultimately exhibited a generally downward trend thereafter before reaching HK$0.30 per Share on the date of the Announcement on 11 August 2023. In relation to the sharp decrease of the closing price per Share from HK$0.42 per Share on 9 March 2023 to HK$0.27 per Share on 27 March 2023, we note that such sharp decrease in closing price of the Shares was coupled with a marked increase in trading volume on 9 and 14 March 2023 of 291,065 Shares and 350,001 Shares, respectively. Nevertheless, trading volumes in those two days represented only approximately 1% of the total issued Shares as at the Latest Practicable Date. We are unable to point out the definitive reason for such fluctuations in our capacity as the Independent Financial Adviser. We have made inquiry to the Management which is also not aware of any other reasons for the aforementioned sharp decline in the closing price of the Shares. We have also reviewed the announcements disclosed during such period and we are not aware of any information which caused the substantial change in the closing price of the Shares.

4.2 Average daily trading volume for each month/ period during the Review Period

The table below sets out the average daily trading volume of the Shares for each month/period during the Review Period.

	Number of trading days	**Approximate average daily trading volume of the Shares** *(Note 1)* *(approximate)*	**Approximate percentage of average daily trading volume to total number of issued Shares** *(Note 2)* *(approximate)*
Year 2023			
February (from 12 February 2023)	12	2,538	0.01%
March	23	30,483	0.11%
April	17	5,001	0.02%
May	21	17,386	0.06%
June	21	14,452	0.05%
July	20	2,009	0.01%
August (up to the Date of Announcement, i.e. 11 August 2023)	9	6,671	0.02%

Source: website of the Stock Exchange

Notes:

1. The average daily trading volumes are calculated by dividing the total trading volume of the Shares for the month/ period by the number of trading days during the month/ period.

2. As at the Latest Practicable Date, the total number of issued Shares is 28,467,160.

During the Review Period, the average daily trading volume of the Shares in each month/period ranged from a low of approximately 2,000 Shares in July 2023 to a high of approximately 30,000 Shares in March 2023, representing approximately 0.01% and 0.11% to the total number of issued Shares as at the Latest Practicable Date.

4.3 Our observations

We considered the trading liquidity of the Shares were very thin during the Review Period, with all months/periods less than 0.1% (except for March 2023) to the total number of issued Shares as at the end of their respective month/period. We anticipate that the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are therefore of the view that it is reasonable to set the Subscription Price at a discount to the average closing price of the Shares and it would encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company.

5. Comparative analysis on the proposed terms of the Rights Issue

5.1 The Comparables

In order to assess the fairness and reasonableness of the proposed terms of the Rights Issue, we have identified an exhaustive list of 18 companies (the "**Comparable(s)**") listed on the Main Board or GEM of the Stock Exchange which announced a rights issue during 3-month period ended on the date of the Announcement, i.e. 11 August 2023.

Although the Comparables include rights issues in different scale, engaged in different business or have different financial performance and funding needs from the Company, having considered (i) all of the Comparables and the Group are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the principal terms of the rights issues and we are not aware of any established evidence showing any correlation between scale of the rights issue and its underlying principal terms; (iii) including transactions conducted by the Comparables with different funding needs and business represents a more comprehensive overall market sentiment in our comparable analysis; (iv) a 3-month period for the selection of the Comparables has generated a reasonable and meaningful number of samples size of 18 Hong Kong listed issuers to reflect the market practice regarding recent rights issue, whereas if a longer period (e.g. 6 months) is used, that would have generated way too many comparable rights issues making the analysis less meaningful with a wider range of premium and discount of the relevant subscription prices; and (v) the Comparables were included without any artificial selection or filtering on our part so the Comparables represent a true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers, we consider that the Comparables are fair and representative samples.

Based on the above, we are of the view that our comparable analysis based on the above criteria is meaningful for us to form our view regarding the fairness and reasonableness of the Subscription Price. To the best of our knowledge and as far as we are aware of, the Comparables represent an exhaustive list of all relevant companies fitting our search criterion mentioned above, and we consider that such Comparables can provide a reference on the recent rights issues given the sufficient number of transactions in such period resulting in a reasonable sample size.

It should be noted that all the subject companies constituting the Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the rights issues may also be different from that of the Company.

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

Company name (Stock Code)	Announcement date	Basis of entitlement	Maximum amount of total fund raised *HK$'million*	Closing price: premium/(discount) Date of announcement	Closing price: premium/(discount) 5-days average	(Discount)/premium of subscription price (to)/over the theoretical ex-rights/entitlement price	Potential maximum dilution of shareholding *(Note 1)*	Theoretical dilution effect *(Note 9)*	Compensatory Arrangements/Excess Application (CA/EA)	Fully Underwritten/Partially Underwritten/Placing (FU/PU/P)	Underwriting Commission	Placing Commission	Minimum Underwriting/Placing fee *HK$*
Artgo Holdings Limited (stock code: 3313)	28 Jul 2023	2 for 1	111	(29.4%)	(28.6%)	(11.2%)	66.7%	(19.6%)	CA	P *(Note 4)*	NA *(Note 4)*	1.0%	N
China Best Group Holding Limited (stock code: 370)	26 Jul 2023	2 for 5	99	(37.3%)	(38.7%)	(31.0%)	28.6% *(Note 2)*	(11.1%)	CA	P *(Note 4)*	NA *(Note 4)*	1.0%	300,000
Platt Nera International Limited (stock code: 1949)	24 Jul 2023	1 for 2	20	(58.0%)	(56.8%)	(47.9%)	33.3%	(19.3%)	CA	P *(Note 4)*	NA *(Note 4)*	3.0%	N
Tasty Concepts Holding Limited (stock code: 8096)	14 Jul 2023	5 for 2	28	4.7%	3.6%	1.5%	71.4%	N *(Note 11)*	CA	P *(Note 4)*	NA *(Note 4)*	2.5%	100,000
Classified Group (Holdings) Limited (stock code: 8232)	6 Jul 2023	3 for 2	14	(15.0%)	(15.0%)	(6.6%)	60.0%	(8.8%)	CA	PU, P	N	N	38,000
E-House (China) Enterprise Holdings Limited (stock code: 2048)	19 Jun 2023	12 for 10	483	(20.7%)	(20.1%)	(10.6%)	54.5%	(11.0%)	CA	PU, P	N	0.6% *(Note 6)*	N
Future World Holdings Limited (stock code: 572)	16 Jun 2023	1 for 1	70	(27.7%)	(23.3%)	(16.1%)	50.0%	(13.9%)	EA	FU	2.5% *(Note 7)*	NA *(Note 5)*	N
China Zheshang Bank Co., Ltd. (stock code: 2016) *(Note 8)*	11 Jun 2023	3 for 10	3047	(15.2%)	(14.4%)	(12.1%)	23.1%	(3.5%)	EA	FU	1.0%	NA *(Note 5)*	N
Hi-Level Technology Holdings Limited (stock code: 8113)	8 Jun 2023	1 for 1	78	(35.5%)	(35.5%)	(21.6%)	50.0%	(17.7%)	CA	P *(Note 4)*	NA *(Note 4)*	1.0%	N
GBA Holdings Limited (stock code: 00261)	7 Jun 2023	4 for 5	53	(25.0%)	(22.3%)	(16.7%)	44.4%	(11.1%)	CA	PU, P	4.0%	3.5%	N
Tesson Holdings Limited (stock code: 1201)	7 Jun 2023	3 for 4	111	(11.5%)	(11.5%)	(9.1%)	42.9%	(2.7%)	EA	NA *(Note 4)*	NA *(Note 4)*	NA *(Note 5)*	N

Company name (Stock Code)	Announcement date	Basis of entitlement	Maximum amount of total fund raised HK$'million	Closing price: premium/(discount) Date of announcement	5-days average	(Discount)/ premium of subscription price (to)/over the theoretical ex-rights/ entitlement price	Potential maximum dilution of shareholding *(Note 1)*	Theoretical dilution effect *(Note 9)*	Compensatory Arrangements/ Excess Application (CA/EA)	Fully Underwritten/ Partially Underwritten/ Placing (FU/PU/P)	Underwriting Commission	Placing Commission	Minimum Underwriting/ Placing fee HK$
Solomon Worldwide Holdings Limited (stock code: 8133)	5 Jun 2023	1 for 2	10	(20.8%)	(21.9%)	(15.8%)	33.3%	(7.3%)	EA	FU	1.5%	NA *(Note 5)*	N
Min Fu International Holding Limited (stock code: 8511)	30 May 2023	1 for 2	24	(8.3%)	(7.4%)	(5.7%)	33.3%	(3.3%)	CA	P *(Note 4)*	NA *(Note 4)*	4.0%	N
Hao Bai International (Cayman) Limited (stock code: 8431)	29 May 2023	1 for 2	20	(5.7%)	(8.7%)	(3.9%)	33.3%	(3.8%)	CA	P *(Note 4)*	NA *(Note 4)*	1.6%	N
China Investment Development Limited (stock code: 204)	25 May 2023	1 for 1	55	(41.2%)	(41.9%)	(26.1%)	50.0%	(20.4%)	CA	P *(Note 4)*	NA *(Note 4)*	1.0%	N
Jimu Group Limited (stock code: 8187)	25 May 2023	2 for 1	14	15.6%	12.9%	4.7%	66.7%	N *(Note 3,11)*	EA	FU	NA *(Note 10)*	NA *(Note 5)*	100,000
CROSSTEC Group Holdings Limited (stock code: 3893)	17 May 2023	1 for 2	17	(9.1%)	(8.1%)	(6.3%)	33.3%	(3.0%)	EA	NA *(Note 4)*	NA *(Note 4)*	NA *(Note 5)*	N
China Ruifeng Renewable Energy Holdings Limited (stock code: 00527)	12 May 2023	5 for 2	230	(28.0%)	(27.7%)	(10.0%)	71.4%	(20.0%)	CA	P *(Note 4)*	NA *(Note 4)*	1.5%	70,000
		Average:	*249*	*(20.4%)*	*(20.3%)*	*(13.6%)*	*47.0%*	*(11.0%)*			*2.3%*	*1.9%*	
		Min:	*10*	*(58.0%)*	*(56.8%)*	*(47.9%)*	*23.1%*	*(20.4%)*			*1.0%*	*0.6%*	
		Max:	*3,047*	*15.6%*	*12.9%*	*4.7%*	*71.4%*	*(2.7%)*			*4.0%*	*4.0%*	
		Median:	*54*	*(20.7%)*	*(21.0%)*	*(10.9%)*	*47.2%*	*(11.1%)*			*2.0%*	*1.5%*	
The Company	11 Aug 2023	3 for 1	19	(26.7%)	(29.0%)	(8.3%)	75.0%	(21.8%)	CA	P	NA *(Note 4)*	1.0%	N

Source: website of the Stock Exchange

Notes:

1. The potential maximum dilution effect of each Comparable is calculated by the number of new rights shares divided by the total number of issued shares as enlarged by the issue of the new rights shares.

2. The potential maximum dilution effect of this Comparable is derived by "assuming all Vested Share Options having been exercised as at the date of this announcement and no other change in the number of Shares in issue on or before the Record Date", as stated in the announcement of this Comparable.

3. This information is not disclosed in the relevant announcement of the respective Comparables.

4. The rights issue of this Comparable is on a non-underwritten basis as disclosed in the relevant announcement.

5. There is no placing arrangement for this Comparable as disclosed in the relevant announcement.

6. Given that it is stated in the announcement of this Comparable that its placing commission payable to the Placing Agents and expenses are: "(i) Placing commission payable to CICC: the amount equal to 0.6% of the gross proceeds from the successful issuance of the Rights Shares. (ii) Placing commission payable to CRIC Securities: the amount equal to 0.2% of the gross proceeds from the successful issuance of the Rights Shares. In addition, the Company may, taking into account CRIC Securities' performance in relation to the placing, at its discretion pay an incentive fee of up to 0.4% of the gross proceeds from the successful issuance of the Rights Shares." A placing commission of 0.6% is adopted for illustrative purpose, assuming the incentive fee of 0.4% payable to CRIC Securities, is added on the original placing commission payable to CRIC Securities of 0.2%. Sum of such is equivalent to the placing commission payable to CICC.

7. Given that it is stated in the announcement of this Comparable that its placing commission is "((i) A fixed fee of HK$100,000; or (ii) 2.5% of the amount which is equal to the placing price multiplied by the Unsubscribed Rights Shares and ES Unsold Rights Shares, whichever is higher, that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement and reimbursed for the expenses in relation to the placing of the Unsubscribed Rights Shares and ES Unsold Rights Shares, which the Placing Agent is authorised to deduct from the payment to be made by the Placing Agent to the Company at completion.", a placing commission of 2.5% is assumed for illustrative purpose.

8. Only the information related to H Shares Rights Issue of this Comparable is considered.

9. Theoretical dilution effect of an offer is calculated according to Rule 7.27B of the Listing Rules and refers to the discount of the "theoretical dilution price" to the "benchmarked price" of shares. "Theoretical diluted price" refers to the sum of (i) the issuer's total market capitalization (by reference to the "benchmarked price" and the number of issued shares immediately before the issue) and (ii) the total funds raised and to be raised from the issue, divided by the total number of shares as enlarged by the issue. While the "benchmarked price" means the higher of: (i) the closing price on the date of the agreement involving the issue; and (ii) the average closing price in the 5 trading days immediately prior to the earlier of: (1) the date of announcement of the issue; (2) the date of the agreement involving the issue; and (3) the date on which the issue price is fixed.

10. It is stated in the announcement of this Comparable that 'the Company shall pay to the Underwriter an underwriting commission equal to a lump sum amount of HK$100,000'.

11. It is noted in the announcement or circular of the respective Comparable that the offer price is at a premium over the market price, and the theoretical dilution effect as computed under Rule 7.27B of the Listing Rules would produce a positive figure. Accordingly, there is no value dilution to non-participating shareholders, no theoretical dilution effect is assumed for illustrative purpose.

5.2 *The Subscription Price and dilution*

As illustrated in the table above, we note that variance of the subscription price to the closing price on the respective last trading day of the Comparables ranges from a discount of approximately 58.0% to a premium of approximately 15.6%, with an average figure being a discount of approximately 20.4%. The Subscription Price's discount to closing price on the Last Trading Day of approximately 26.7% therefore falls within the range of the discount to the last trading day of the Comparables and represents a higher discount than the average figure thereof but is still far lower than the maximum discount figure thereof.

We note that the variance of the subscription price to the average closing price of the last five trading days of the Comparables ranges from a discount of approximately 56.8% to a premium of approximately 12.9%, with an average figure being a discount of approximately 20.3%. The Subscription Price's discount to the average closing price for the five consecutive trading days up to and including the Last Trading Day of approximately 29.0% therefore falls within the range of discount to the average closing price of the last five trading day of the Comparables and represents a higher discount than the average figure thereof but is still far lower than the maximum discount figure thereof.

In determining the current subscription ratio and the Subscription Price, we understand that, as stated in the Board Letter, the Subscription Price was determined with reference to (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong; (iii) the latest business performance and financial position of the Group, particularly the consecutive loss-making position of the Group in the past and the net asset value of HK$0.18 per Share as at 30 June 2023; (iv) the low trading volume of the Shares in the past six months; and (v) the reasons for and benefits of Rights Issue as discussed in the section headed "Reasons for and benefits of the Rights Issue and use of proceeds" in the Board Letter.

It is noted that the potential maximum dilution on shareholding of the Comparables ranged from approximately 23.1% to approximately 71.4% (the "**Shareholding Dilution Range**") with an average of approximately 47.0% and a median of approximately 47.2%. The potential dilution effect of Rights Issue of approximately 75.0% therefore represents a slightly higher dilution than the high end of the Shareholding Dilution Range. We note that the dilution effect is determined by the basis of the dilution effect is determined by the basis of entitlement of the rights issue which also determines the number of rights shares available for subscription.

It is noted that the theoretical dilution effect of the Comparables ranged from a discount of approximately 20.4% to a discount of approximately 2.7% (the "**Theoretical Dilution Effect Range**") with an average discount of approximately 11.0% and a median discount of approximately 11.1%. The Rights Issue's theoretical dilution effect of a discount of approximately 21.8% therefore represents a slightly higher discount than the low end of the Theoretical Dilution Effect Range. As the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 10.44A of the GEM Listing Rules.

In view of the facts that (i) although the Subscription Price represents higher discount than the closing price of the last trading day and average closing price of the last five trading days respectively, it still falls within the ranges of such Comparables and such discount is still far lower than the maximum discount figures of such Comparables; (ii) the Subscription Price is payable in full when the Qualifying Shareholders accept the relevant provisional allotment of Rights Shares or when transferees of nil-paid Rights Shares accept the provisional allotment of the relevant Rights Shares; (iii) a relatively higher discount as represented by the Subscription Price may increase the overall appeal or attractiveness of the Rights Issue to the Qualifying Shareholders in light of the dire circumstances faced by the Company as discussed in section 1 of this letter; (iv) the potential dilution effect of Rights Issue has a slightly higher dilution than the high end of the Shareholding Dilution Range but such a situation might have been necessitated by the Company's funding needs as discussed in section 2 of this letter; and (v) the theoretical dilution effect of Rights Issue has a slightly higher discount than the low end of the Theoretical Dilution Effect Range but such a situation might have been necessitated by the Company's funding needs as discussed in section 2 of this letter, we consider that the principal terms of the Rights Issue (including the Subscription Price) and potential dilution of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole.

5.3 Placing commission

As illustrated in the analysis set out in section 5.1 of this letter, the placing commission of the Comparables range from a low of 0.6% to a high of 4.0%, with the average figure being approximately 1.9%. Accordingly, the placing commission of 1% pursuant to the Placing Agreement falls within range of the Comparables and is below the average figure thereof. In addition, the underwriting commission (which is similar to the placing commission under the Placing Agreement given it is only on a best effort basis) of the Comparables range from a low of 1.0% to a high of 4.0%, with the average figure being approximately 2.3%. Accordingly, the placing commission of 1% pursuant to the Placing Agreement is at the low end of the range of the Comparables and is below the average figure thereof. Given the relatively lower placing commission set out in the Placing Agreement will lead to lower costs to the Group, we consider that the placing commission payable to the Placing Agent is in line with the market practice and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5.4 Compensatory Arrangements

With reference to the Board Letter, the Company will make the Compensatory Arrangements to dispose of the Placing Shares by offering these Shares to independent Placees for the benefit of the Shareholders to whom they are offered by way of the Rights Issue. We are of the view that the Compensatory Arrangements are in compliance with Rule 10.31(1)(b) of the GEM Listing Rules. As there are already Compensatory Arrangements in place for the Rights Issue, there will be no excess application arrangements in relation to the Rights Issue in compliance with Rule 10.31(1) of the GEM

Listing Rules. As illustrated in the analysis set out in section 5.1 of this letter, we note that 12 out of 18 Comparables have facilitated compensatory arrangements. Therefore, we consider that the Compensatory Arrangements are in line with the market practice, are not out of the ordinary and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. Possible dilution effect on interests of existing public Shareholders

The attention of the Independent Shareholders is drawn to the section headed "Shareholding Structure" in the Board Letter for the analysis on shareholding under various scenarios. As noted in the aforementioned section, the shareholding of the existing public Shareholders is approximately 67.8% as at the Latest Practicable Date. The shareholding interests of the Qualifying Shareholders will not suffer from any dilution immediately upon completion of Rights Issue assuming full acceptance of Rights Shares by existing Shareholders. Under the scenario which assumes nil acceptance of Rights Shares by Qualifying Shareholders and all the Placing Shares having been placed by Placing Agent immediately upon completion of Rights Issue, the shareholding of the existing public Shareholders will be diluted to approximately 16.9%, representing a decrease in shareholding by approximately 50.9%.

We are aware of the above-mentioned potential dilution effects. However, we consider that the dilutive effect should be considered in conjunction with the following factors:

(1) Independent Shareholders are given the chance to express their views on the terms of the Rights Issue through their votes at the SGM;

(2) Qualifying Shareholders have the choice to accept or not accept the Rights Issue;

(3) the Rights Issue offers 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 a relatively low price as compared to the historical and prevailing market prices of the Shares;

(4) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue;

(5) The Company will make Compensatory Arrangements to dispose of the Placing Shares by offering the Placing Shares to independent Placees for benefit of the Shareholders to whom they are offered by way of the Rights Issue; and

(6) Any premium over the Subscription Price and the expenses of procuring such acquirers (including commission and other related expenses/fees) that is realised will be paid to the No Action Shareholders and Excluded Shareholders on a pro-rata basis. All Placing Shares which are not placed under the Placing will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Net Gain (if

any) will be paid (without interest) on pro-rata basis (on the basis of all Placing Shares) to the No Action Shareholders and the Excluded Shareholders (but rounded down to the nearest cent) (i) where the nil-paid rights are, at the time they lapse, represented by a PAL, to the person whose name and address appeared on the PAL (unless that person is covered by (iii) below); (ii) where the nil-paid rights are, at the time they lapse, registered in the name of HKSCC Nominees Limited, to the beneficial holders (via their respective CCASS participants) as the holders of those nil-paid rights in CCASS (unless that they are covered by (iii) below); and (iii) if the Rights Issue is extended to the Overseas Shareholders and where entitlements to the Rights Shares were not taken up by such Overseas Shareholders, to those Overseas Shareholders. It is proposed that Net Gain of HK$100 or more to the individual No Action Shareholder mentioned in (i) to (iii) above will be paid to them in Hong Kong Dollars only and the Company will retain individual amount of less than HK$100 for its own benefit. Shareholders are reminded that Net Gain may or may not be realised and, accordingly, the No Action Shareholders and the Excluded Shareholders may or may not receive any Net Gain.

Having considered that (i) the principal terms of the Rights Issue are fair and reasonable as discussed in sections 5.2, 5.3 and 5.4 of this letter; (ii) any form of non-pro rata equity fund raising activities would also have an immediate dilution effect to other Shareholders; (iii) if the Company satisfies future funding needs through other equity financing such as placement/ subscription of new Shares and/or issue of convertible bonds or raising additional debts to satisfy its funding needs, such equity/debt financing methods will either have an immediate dilution effect to all existing Shareholders or further increase gearing of the Group as discussed in section 2 of this letter; (iv) the Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the equal opportunity to maintain their proportional interests in the Company at a lower than historical prevailing market price; (v) the Company will make Compensatory Arrangements to dispose of the Placing Shares by offering the Placing Shares to independent Placees for benefit of the Shareholders to whom they are offered by way of the Rights Issue; (vi) the reasons for the Rights Issue and use of proceeds as discussed in section 2 of this letter; and (vii) our further reasoning regarding the Shareholding Dilution Range and the Theoretical Dilution Effect Range as discussed in section 5.2 of this letter, we are of the view that the dilution effect to the shareholding interests of the non-participating Shareholders is acceptable.

7. Financial effects of the Rights Issue

7.1 Net asset value

Taking into account the proceeds from Rights Issue, it is expected that the net assets of the Group will increase as a result of the Rights Issue. Further, We note from the "Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group" set out in Appendix II to the Circular that the Group's unaudited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2023 is approximately HK$5,151,000, while unaudited consolidated net tangible assets attributable to the owners of the Company per Share before completion of Rights Issue is approximately HK$0.18. As per the Board Letter, the Group is expected to raise net proceeds of approximately HK$17.5 million (assuming full acceptance of Rights Shares by existing Shareholders or all the Placing Shares having been placed by Placing Agent). After pro forma adjustments, unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at 30 June 2023 immediately after the completion of the Rights Issue would improve to approximately HK$22,651,000, while unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company per Share immediately after completion of Rights Issue would improve to approximately HK$0.20.

Accordingly, the Rights Issue is expected to have a positive impact on the Group's net assets position upon completion of the Rights Issue.

*7.2 **Working capital***

The Rights Issue is expected to have a positive effect on the Group's working capital upon completion as the proceeds from the Rights Issue will bring in net proceeds of approximately HK$17.5 million (assuming full acceptance of Rights Shares by existing Shareholders or all the Placing Shares having been placed by Placing Agent) to the Group, where approximately HK$5 million is allocated for the working capital of business operations and general corporate and administrative expenses, as stated in the Board Letter.

*7.3 **Liquidity***

As per the 2023 Interim Report, the Group had current assets of approximately HK$21,790,000 and current liabilities of approximately HK$21,938,000 as at 30 June 2023. Accordingly, the Group is marginally at a net current liabilities position and the Group's current ratio (current assets/current liabilities) as at 30 June 2023 was approximately 0.99 times.

The estimated net proceeds from the Rights Issue are expected to enhance the Group's current assets by approximately HK$17.5 million (assuming full acceptance of Rights Shares by existing Shareholders or all the Placing Shares having been placed by Placing Agent) and the Rights Issue is expected to improve the Group's liquidity position immediately after its completion.

It should be noted 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.

RECOMMENDATION

Having considered the above principal factors and in particular:

(i) the Company has not been able to conduct fund raising exercise for business development as a result of the winding-up petition filed by a creditor against the Company in 2021 as discussed in section 2 of this letter;

(ii) the net current liabilities position of the Group of approximately HK$148,000 as at 30 June 2023 as discussed in section 1 of this letter;

(iii) despite improvement in its financial position as a result of the scheme, the pace of business development (hence profitability) of the Group's businesses is still hindered by its limited working capital as discussed in section 2 of this letter;

(iv) the intended use of approximately 42.9% of the net proceeds (approximately HK$7.5 million) for the repayment/fulfilment of the advance from customers of the Company as discussed in section 2 of this letter;

(v) other equity or debt financing options are either, not viable means fulfill the Group's funding needs, have an immediate dilutive effect on existing Shareholders, not in the best interest of the Shareholders as discussed in section 2 of this letter;

(vi) the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company by subscribing to the Rights Shares at a lower than historical prevailing price, or to dispose of the Placing Shares by way of Compensatory Arrangements;

(vii) the principal terms of the Rights Issue (including the Subscription Price) of the Rights Issue are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole as discussed in section 5.2 of this letter;

(viii) the placing commission charged by the Placing Agent is fair and reasonable as discussed in section 5.3 of this letter and in the interests of the Company and the Shareholders as a whole;

(ix) the Compensatory Arrangements are in line with the market practice, are not out of the ordinary and are fair and reasonable as discussed in section 5.4 of this letter and in the interests of the Company and the Shareholders as a whole; and

(x) given the Company's circumstances, the potential dilution effect to the non-participating Shareholders is acceptable, we are of the opinion that, although the Rights Issue is not in the Company's ordinary and usual course of business, the terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interest of the Company and Shareholders as a whole. Accordingly, we would advise (i) the Independent Board Committee to recommend the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited

Florence Ng
Associate Director

Note: Ms. Florence Ng is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Ms. Ng has over 10 years of experience in the corporate finance industry in Hong Kong.