RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

27 May 2025

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) CONSOLIDATED SHARE HELD ON THE RECORD DATE ON A NON-FULLY UNDERWRITTEN BASIS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 27 May 2025 (the "**Circular**"), of which this letter forms a part of. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

With reference to the Letter from the Board, the Board proposes, subject to, among other things, the Share Consolidation becoming effective, to conduct the Rights Issue on the basis of four (4) Rights Shares for every one (1) Consolidated Share held at the close of business on the Record Date at the Subscription Price of HK$0.28 per Rights Share, to raise gross proceeds of approximately HK$51.1 million before expenses by way of Rights Issue of up to 182,344,000 Rights Shares.

As at the Latest Practicable Date, the Company has no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange into Shares. As stated in the Letter from the Board, the Company has no intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date. Assuming there is no change in the total number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the number of 182,344,000 Rights Shares to be issued and allotted pursuant to the Rights Issue represent (i) approximately 400% of the total issued share capital of the Company upon the Share Consolidation becoming effective; and (ii) approximately 80% of the issued share capital of the Company upon the Share Consolidation becoming effective and as enlarged by the allotment and issue of the Rights Shares.

Subject to the fulfillment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-fully underwritten basis and be partially underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement. Save for the Underwritten Shares, there is no requirement for a minimum level of subscription. Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed regardless of the ultimate subscription level.

GEM Listing Rules Implications

As the Rights Issue, if proceeded with, will increase the total number of issued Shares or the market capitalisation of the Company by more than 50% within the 12-month period immediately preceding the Latest Practicable Date, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Independent 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 the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the ordinary resolution to approve the Rights Issue at the EGM.

As at the Latest Practicable Date, the Company has no controlling Shareholder as defined under the GEM Listing Rules. Mr. Wu Guoming, the executive Director of the Company, beneficially owns 16,237,500 Existing Shares in aggregate, representing approximately 3.56% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, Mr. Wu Guoming is required to abstain from voting in favour of the proposed resolution(s) to approve the Rights Issue at the EGM in accordance with Rule 10.29(1) of the GEM Listing Rules. Save as disclosed above, no other Director or chief executive of the Company are interested in the Existing Shares of the Company as at the Latest Practicable Date. Accordingly, save as disclosed above, no other Shareholder is required to abstain from voting in favour of the relevant resolution(s) of the proposed Rights Issue at the EGM.

The Rights Issue will not result in a theoretical dilution effect of 25% or more. As such, the theoretical dilution impact of the Rights Issue is in compliance with Rule 10.44A of the GEM Listing Rules.

Independent Board Committee

The Independent Board Committee, comprising all the three independent non-executive Directors, namely, Mr. Leung Oh Man, Martin, Dr. Chung Ling Cheong Dicky and Dr. Cheng Chak Ho, has been established to provide recommendations to 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 advise the Independent Shareholders on how to vote at the EGM. We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Rights Issue. Accordingly, we are independent from the Company pursuant to the requirement under Rule 17.96 of the GEM Listing Rules and therefore we are qualified to give independent advice in respect of the Rights Issue and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

Shareholders will be informed by the Group and us as soon as possible if there is any material change to the information disclosed in this Circular during the period from the Latest Practicable Date up to the date of the EGM, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Background of the Group

The Group is principally engaged in natural gas supply, sales and leasing of equipment.

Set out below is a summary of the audited financial information of the Group for the three years ended 30 September 2024 ("**FY2022**", "**FY2023**" and "**FY2024**", respectively) as extracted from the annual reports of the Company for FY2023 and FY2024 (the "**2024 Annual Report**"):

(i) Financial performance

	For the year ended 30 September		
	2022	2023	2024
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Revenue	**136,241**	**166,077**	**221,212**
– Natural gas operations	124,599	155,052	212,652
– Sales and leasing business	11,622	11,025	8,560
– Independent financial advisory	20	–	–
Gross profit	**20,287**	**27,261**	**43,158**
Other income	962	871	342
Other gains and losses	139	328	281
Selling and distribution costs	(8,731)	(9,800)	(13,808)
General and administrative expenses	(32,960)	(33,123)	(31,426)
Reversal of impairment loss on property, plant and equipment	21,012	20,343	–
Reversal of impairment loss on intangible assets	16,565	17,172	–
Reversal of impairment loss on right-of-use assets	178	158	–
Allowance for trade and bills receivables	(1,823)	(700)	(287)
Reversal of allowance for loan receivables	1,173	–	–
Allowance for deposits and other receivables	(13)	(295)	(92)
Allowance for due from non-controlling shareholders of a subsidiary and its related parties	–	(51)	(213)
(Allowance)/reversal of allowance for due from a related party	(6)	1	(22)
Finance costs	(2,603)	(4,921)	(6,602)
Share of loss from a joint venture	(49)	(76)	(34)
Profit/(loss) before tax	**14,131**	**17,168**	**(8,703)**
Income tax expense	(3,450)	(3,482)	(2,063)
Loss attributable to the Shareholders	**(15,504)**	**(12,229)**	**(15,636)**

FY2024 compared to FY2023

Total revenue of the Group increased by approximately 33.2% from approximately HK$166.1 million for FY2023 to approximately HK$221.2 million for FY2024, primarily attributable to the increase in revenue from natural gas operations by approximately HK$57.6 million benefiting from the expansion project of the Group's Baiyang Industrial Park in Yichang Gaoxin District and the exclusive gas supply operation rights within the park.

In line with the increase in total revenue, the Group's gross profit increased by approximately 58.3% from approximately HK$27.3 million for FY2023 to approximately HK$43.2 million for FY2024.

Despite the increase in revenue and gross profit as aforementioned, the Group's loss attributable to the Shareholders increased by approximately 27.9% from approximately HK$12.2 million for FY2023 to approximately HK$15.6 million for FY2024. Such increase was primarily attributable to (a) the increase in selling and distribution costs by approximately HK$4.0 million mainly due to the increase in depreciation charge caused by the increase in carrying amount of non-current assets as a result of the reversal of impairment recognised in FY2023; (b) the absence of reversal of impairment loss on property, plant and equipment of approximately HK$20.3 million and the absence of reversal of impairment loss on intangible assets of approximately HK$17.2 million; and (c) the increase in finance costs by approximately HK$1.7 million as a result of the increase in the balance of the Group's bank and other borrowings.

FY2023 compared to FY2022

Total revenue of the Group increased by approximately 21.9% from approximately HK$136.2 million for FY2022 to approximately HK$166.1 million for FY2023, primarily attributable to the increase in revenue from natural gas operations by approximately HK$30.5 million mainly due to the increase in the volume of natural gas sales as no COVID-19 restrictions were imposed and industrial activities returned to normal during FY2023.

In line with the increase in total revenue, the Group's gross profit increased by approximately 34.4% from approximately HK$20.3 million for FY2022 to approximately HK$27.3 million for FY2023.

The Group's loss attributable to the Shareholders decreased by approximately 21.1% from approximately HK$15.5 million for FY2022 to approximately HK$12.2 million for FY2023. Such decrease was primarily attributable to (a) the increase in revenue and gross profit as aforementioned; and (b) the decrease in allowance for trade and bills receivables by approximately HK$1.1 million, which was partially offset by (a) the increase in selling and distribution costs by approximately HK$1.1 million mainly due to the increase in depreciation charge upon reversal of impairment on non-current assets; (b) the absence of reversal of allowance for loan receivables by approximately HK$1.2 million; and (c) the increase in finance costs by approximately HK$2.3 million as a result of the increase in the balance of the Group's bank and other borrowings.

(ii) Financial position

	As at 30 September		
	2022	2023	2024
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Non-current assets, including:	**214,968**	**259,854**	**281,309**
– Property, plant and equipment	121,577	161,075	155,451
– Right-of-use assets	3,495	7,908	10,395
– Intangible assets	80,976	90,771	88,214
– Deposits for acquisition of property, plant and equipment	8,737	–	27,182
Current assets, including:	**24,889**	**39,484**	**57,184**
– Trade and bills receivables	8,920	8,086	9,873
– Prepayments, deposits and other receivables	8,073	13,972	17,113
– Bank and cash balances	4,998	9,385	20,068
Total assets	**239,857**	**299,338**	**338,493**
Current liabilities, including:	**75,911**	**132,228**	**161,251**
– Accruals and other payables	40,608	58,296	56,101
– Contract liabilities	10,798	16,081	23,627
– Due to a non-controlling shareholder of a subsidiary and its related parties	–	–	336
– Due to related parties	9,888	4,579	9,145
– Due to directors	1,142	8,772	3,674
– Non-convertible bonds	7,852	19,757	15,621
– Bank and other borrowings	2,878	16,520	42,408

	As at 30 September		
	2022	2023	2024
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Non-current liabilities, including:	**81,609**	**75,320**	**93,623**
– Non-convertible bonds	8,900	3,000	21,637
– Bank and other borrowings	20,675	46,646	45,065
– Deferred tax liabilities	20,244	22,693	22,053
Total liabilities	**157,520**	**207,548**	**254,874**
Equity/(deficiency) attributable to the Shareholders	**15,776**	**2,522**	**(12,075)**

As at 30 September 2024, total assets of the Group amounted to approximately HK$338.5 million, which mainly consisted of (a) property, plant and equipment of approximately HK$155.5 million, primarily representing the pipeline, equipment, plant and machinery owned by the Group; (b) intangible assets of approximately HK$88.2 million, representing the natural gas supply exclusive rights arose from the acquisition of Yichang Biaodian Natural Gas Utilisation Co. Ltd.*（宜昌市標典天然氣利用有限公司）("**Yichang Biaodian**"); (c) deposits for acquisition of property, plant and equipment of approximately HK$27.2 million; (d) prepayments, deposits and other receivables of approximately HK$17.1 million; and (e) bank and cash balances of approximately HK$20.1 million.

As at 30 September 2024, total liabilities of the Group amounted to approximately HK$254.9 million, which mainly consisted of (a) accruals and other payables of approximately HK$56.1 million; (b) contract liabilities of approximately HK$23.6 million; (c) non-convertible bonds of approximately HK$37.3 million which carried interests of 6% to 12% per annum; (d) bank and other borrowings of approximately HK$87.5 million with an effective interest rate of 3.95% to 10.5% per annum; and (e) deferred tax liabilities of approximately HK$22.1 million.

As at 30 September 2024, the Group recorded deficiency attributable to the Shareholders of approximately HK$12.1 million.

(iii) Overall comment

The Group has recorded consecutive losses attributable to the Shareholders during the three years ended 30 September 2024, primarily attributable to the increase in selling and distribution costs and finance costs, as well as the absence of reversal of impairment losses on property, plant and equipment, intangible assets and loan receivables. With reference to the 2024 Annual Report, benefiting from (a) the expansion project of Baiyang Industrial Park in Yichang Gaoxin District and the exclusive gas supply operation rights within the park; and (b) the recovery of the Chinese economy which will drive an increase in infrastructure construction and renovation projects, it is expected that the Group's two core businesses would grow in the foreseeable future. In addition, the management of the Group will be more cautious and conservative in seeking new potential merger and acquisition, business integration and expansion in order to sustain the growth and profitability of the Group.

2. Reasons for the Rights Issue and use of proceeds

Assuming full subscription under the Rights Issue, the gross proceeds from the Rights Issue will be approximately HK$51.1 million and the estimated net proceeds of the Rights Issue will be approximately HK$48.8 million. The Company intends to use the net proceeds from the Rights Issue as follows:

(i) approximately HK$24.0 million or 49.2% of the total net proceeds for the redemption of outstanding bonds issued by the Company;

(ii) approximately HK$4.0 million or 8.2% of the total net proceeds for the repayment of outstanding professional fees; and

(iii) approximately HK$20.8 million or 42.6% of the total net proceeds as the general working capital of the Group.

In the event that there is an under-subscription of the Rights Issue, the net proceeds will be utilised for the above purposes on a pro-rata basis in the same proportion as aforementioned.

As stated in the section headed "1. Background of the Group" above, despite the increase in revenue and gross profit over the years, the Group has recorded consecutive losses attributable to the Shareholders during the three years ended 30 September 2024, primarily attributable to the increase in selling and distribution costs and finance costs, as well as the absence of reversal of impairment losses on property, plant and equipment, intangible assets and loan receivables. As at 30 September 2024, the Group was in a highly leveraged financial position, having total borrowings (including amount due to a non-controlling shareholder of a subsidiary and its related parties, due to related parties, due to directors, non-convertible bonds and bank and other borrowings) of approximately HK$137.9 million with an effective interest rate of 3.95% to 12% per annum. On the other hand, the Group only had bank and cash balances of approximately HK$20.1 million as at 30 September 2024, which were insufficient to cover even the current portion of total borrowings of approximately HK$71.2 million. Having considered the prevailing market condition and low level of cash on hand available to the Group, the Group encountered pressures on liquidity and is in need for fund raising to relieve its liquidity pressure and finance costs burden. In addition, as stated in the 2024 Annual Report, taking into account that (i) the Group incurred a net loss of approximately HK$10.8 million for FY2024; (ii) the Group's current liabilities exceeded its current assets by approximately HK$104.1 million as at 30 September 2024; (iii) the Group had capital commitments of approximately HK$14.5 million as at 30 September 2024, which represented the capital expenditure in respect of the acquisition of property, plant and equipment and development of systems and networks; and (iv) the Group was in default in respect of the principal amount of non-convertible bonds totaling HK$550,000 as at 30 September 2024, the Group's auditor was in doubt about the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business and thus did not express an opinion on the consolidated financial statements of the Group for FY2024. As discussed in the section headed "1. Background of the Group" above, the Group has incurred general and administrative expenses of approximately HK$30 million for each of the three years ended 30 September 2024. As such, we concur with the Directors that the total net proceeds of approximately HK$20.8 million will support and facilitate the Group's daily operations and cover the Group's essential expenditures including staff salaries and employees benefits, rental expenses, legal and professional fees, registrar fees, office overheads and other general and administrative expenses. In this regard, the Rights Issue could provide sufficient funds at no borrowing costs for the Group to satisfy its funding needs in redemption of its outstanding bonds; and the conduction of the Group's ordinary business.

As stated in the Letter from the Board, the estimated expenses of the Rights Issue are approximately HK$2.3 million, which include underwriting commission and professional fees payable to the financial advisers, legal counsels, financial printer and other parties involved in the Rights Issue and will be borne by the Company. As a public company listed on the Stock Exchange, the Group has also incurred other professional fees payable to the auditors, financial printer and etc. With reference to the 2024 Annual Report, the Group has incurred auditor's remuneration of approximately RMB1.3 million for FY2024. In view of the above and the low level of the Group's cash on hand, we concur with the Directors that the Group is in need for fund raising to pay for the outstanding professional fees. Although the Company had bank and cash balances of approximately HK$20.1 million as at 30 September 2024 which has covered the outstanding professional fees, taking into account that the aforesaid cash balance was insufficient to cover the current portion of total borrowings of approximately HK$71.2 million as at 30 September 2024 and the Group was in default in respect of the principal amount of non-convertible bonds totaling HK$550,000 as at 30 September 2024, we consider that the Company's existing cash levels are insufficient to meet the Group's liquidity needs on repaying the borrowings and settling outstanding professional fees at the same time and thus the Company is need for fund raising for outstanding professional fees.

Fund-raising alternatives

As disclosed in the Letter from the Board, the Board has considered various fund-raising alternatives before resolving to the Rights Issue including, but not limited to, debt financing, placing of new shares and open offer.

The Board is of the view that debt financing such as bank borrowings, 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. In this respect, we have discussed with the management of the Group and were advised that given the loss-making performance of the Company, the banks have been reducing their facilities to the Company. Given that (i) the funds raised through the Rights Issue would not be interest-bearing while the Group had been in a highly leveraged financial position with an effective interest rate of 3.95% to 12% per annum; (ii) the Group's finance costs have increased significantly from approximately RMB2.6 million for FY2022 to approximately RMB6.6 million for FY2024 so that debt financing would incur further interest burden on the Group and negatively affect the financial performance and gearing of the Group; and (iii) new borrowings, if there were a lender, may require the provision of security and collaterals and creditors will rank before the Shareholders, which would not be beneficial to the Shareholders as a whole, we agree that debt financing is not beneficial to the Company and the Rights Issue would allow the Company to strengthen its capital base and liquidity without incurring interest costs as it would through bank borrowing.

With respect to equity financing alternatives, the Board considers that placing of new Shares would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company and it is relatively smaller in scale as compared to fund raising through rights issue. In this regard, we have discussed with the management of the Group and noted that the management of the Group have explored with financial institutions on the possibility of placing new shares and were given to understand that in light of the current market sentiment and the loss-making performance of the Company, the willingness of potential investors to participate in equity placements has been low and may not enable the Company to raise sufficient funds. As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. As such, we consider that the Rights Issue is more favourable to the Shareholders as they have the flexibility of being able to sell their entitled nil-paid rights when they do not wish to take up the entitlements under the Rights Issue. The Directors are of the view that the Rights Issue provides better financial flexibility for the Company as it will strengthen the capital base of the Company, thus enhancing the overall working capital to fulfill the development plan of the Group without further increase the financial burden to the Group. The Rights Issue also allows all Qualifying Shareholders to participate in the future development of the Company and at the same time offer more flexibility to the Qualifying Shareholders to choose whether to maintain their respective pro-rata shareholding interests in the Company and dealing with the Shares.

Taking into account (i) the unsatisfactory financial performance and the liquidity level of the Group; (ii) the funding requirement of the Group to relieve its liquidity pressure; (iii) the Group's auditor's concern on the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business; (iv) that the Rights Issue will strengthen the capital base of the Group for further development of its existing businesses; and (iv) that the Rights Issue offers all Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables them to maintain their proportionate interests in the Company and continue to participate in the future development of the Company, we concur with the management of the Group that the Rights Issue is the most appropriate means of financing over the alternative fund-raising methods and is in the interest of the Company and the Shareholders as a whole.

3. Principal terms of the Rights Issue

For details of the terms of the Rights Issue, please refer to the section headed "Proposed Rights Issue" in the Letter from the Board. Set out below are the principal terms of the Rights Issue:

Basis of the Rights Issue	:	Four (4) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK$0.28 per Rights Share
Net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	approximately HK$0.27 per Rights Share
Number of Existing Shares in issue as at the Latest Practicable Date	:	455,860,000 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	45,586,000 Consolidated Shares
Number of Rights Shares to be issued under the Rights Issue	:	Up to 182,344,000 Rights Shares (assuming there is no change to the total number of Shares in issue on or before the Record Date) The aggregate nominal value of the Rights Shares will be HK$18,234,400
Total number of Shares in issue as enlarged by the allotment and issue of the Rights Shares	:	Up to 227,930,000 Consolidated Shares (assuming there is no change to the total number of Shares in issue or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)
Maximum amount of funds to be raised before expenses (assuming the Rights Issue is fully subscribed)	:	Up to approximately HK$51.1 million (assuming there is no change in the total number of Shares in issue on or before the Record Date and all Rights Shares are taken up by the Qualifying Shareholders)
Right of excess applications	:	Qualifying Shareholders may apply for the Rights Shares in excess of their provisional allotment

As at the Latest Practicable Date, the Company has no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange into Shares. The Company has no intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date.

As at the Latest Practicable Date, the Company has not received any information or irrevocable undertaking from any Shareholder of their intention as to whether such Shareholder will take up his/her entitlements under the Rights Issue (or otherwise).

Assuming there is no change in the total number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued on or before completion of the Rights Issue, the number of 182,344,000 Rights Shares to be issued and allotted pursuant to the Rights Issue represent (i) approximately 400% of the total issued share capital of the Company upon the Share Consolidation becoming effective; and (ii) approximately 80% of the issued share capital of the Company upon the Share Consolidation becoming effective and as enlarged by the allotment and issue of the Rights Shares.

4. Assessment of the Subscription Price

The Subscription Price of HK$0.28 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, or where applicable, when a transferee of the nil-paid Rights Shares applies for the the Rights Shares. The Subscription Price was determined by the Company with reference to (i) the prevailing market price of the Shares during the six months immediately preceding the Last Trading Day, which presented an overall downward trend; (ii) the current market conditions in Hong Kong taking into consideration the rather cautious investment sentiment of the general public investors in Hong Kong amid economic uncertainties; (iii) low liquidity of the Shares for the six months immediately preceding the Last Trading Day with the average daily trading volume of approximately 1,349,928 Shares, representing approximately 0.30% of the total number of issued Shares as at the Last Trading Day; and (iv) the financial position of the Group and the reasons and benefits of the Rights Issue as discussed in the section headed "Reasons for the Rights Issue and the use of proceeds" in the Letter from the Board.

The Subscription Price of HK$0.28 per Rights Share represents:

(i) a discount of approximately 6.67% to the theoretical closing price of HK$0.30 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.03 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 12.50% to the theoretical closing price of HK$0.32 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.032 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 14.11% to the theoretical average closing price of HK$0.326 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK$0.0326 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days prior to the Last Trading Day;

(iv) a discount of approximately 11.39% to the theoretical average closing price of HK$0.316 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK$0.0316 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days immediately prior to the Last Trading Day;

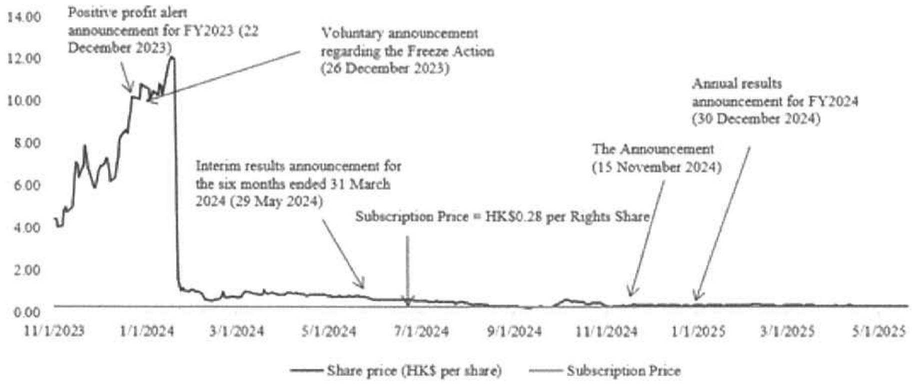
(v) a discount of approximately 3.18% to the theoretical ex-rights price of approximately HK$0.2892 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.032 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 11.29% represented by the theoretical diluted price of approximately HK$0.2892 per Consolidated Share to the benchmarked price of approximately HK$0.326 per Consolidated Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.032 and the average closing price of approximately HK$0.0326 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the date of the Announcement); and

(vii) a premium of approximately HK$0.54 to the net deficit attributable to the Shareholders per Consolidated Share as at 30 September 2024 of approximately HK$0.26 based on the 2024 Annual Report and the number of Consolidated Shares in issue upon the Share Consolidation becoming effective.

(i) Comparison with adjusted historical closing prices of the Consolidated Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily adjusted closing prices (as adjusted for the Share Consolidation) of the Consolidated Shares from 1 November 2023 to the Last Trading Day (i.e. 15 November 2024) (the "**Review Period**"), being approximately one year preceding the Last Trading Day, and up to the Latest Practicable Date, assuming the Share Consolidation became effective before the Review Period. We consider the Review Period is adequate to reflect the general market sentiment and illustrates the general trend and level of movement of the daily closing price of the Existing Shares. Although the adjusted closing prices of the Consolidated Shares experienced significant fluctuations in late 2023 and early 2024, they generally exhibited a downward trend since February 2024 and up to the Last Trading Day, we consider the Review Period is appropriate to illustrate the general trend and level of movement.



Performance of Share price

Source: the website of the Stock Exchange

As shown above, the adjusted closing prices of the Consolidated Shares were above the Subscription Price at the majority of time during the Review Period (i.e. 245 out of 257 days), ranging from HK$0.20 on 11 September 2024 to HK$12.10 on 17 January 2024. In other words, Subscription Price represents a premium of approximately 40.00% to a discount of approximately 97.69% over/to the adjusted closing prices of the Consolidated Shares.

The adjusted closing prices of the Consolidated Shares generally exhibited an upward trend from HK$4.40 per Consolidated Share on 1 November 2023 and reached the highest of HK$12.10 per Consolidated Share on 17 January 2024. Thereafter, it dropped sharply to HK$1.59 per Consolidated Share on 22 January 2024. Based on our discussion with the management of the Group, such significant decline in the adjusted closing price may be due to the Company's publication of a voluntary announcement regarding the frozen of the Group's shares of Yichang Biaodian Natural Gas Utilisation Co. Ltd.* (宜昌市標典天然氣利用有限公司)("**Yichang Biaodian**"), a non-wholly owned subsidiary of the Company by Shanxi Province Changzhi Municipal Supervision Commission* (山西省長治市監察委員會)(the "**Freeze Action**"). As advised by the PRC legal counsel of the Group, the ordinary course of business of Yichang Biaodian would not be restricted or adversely affected by the Freeze Action. During the period of the Freeze Action, however, the Group is unable to undertake any filing related to changes in ownership of the frozen equity interests of Yichang Biaodian or the registration of any pledge of the frozen equity interests of Yichang Biaodian. From then on, the adjusted closing prices of the Consolidated Shares generally exhibited a downward trend and hit the lowest of HK$0.20 per Consolidated Share on 11 September 2024.

As at the Last Trading Day and the Latest Practicable Date, the adjusted closing price of the Consolidated Shares closed at HK$0.32 and HK$0.30, respectively, to which the Subscription Price represents a discount of approximately 12.50% and 6.67%, respectively.

As discussed in the sub-section headed "(iii) Comparison with recent rights issue exercises" below, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant share in order to increase the attractiveness and encourage shareholders to participate in the rights issue so as to meet the company's need for additional funding.

The mean and median of the adjusted closing prices of the Consolidated Shares during the Review Period amounted to HK$2.18 per Consolidated Share and HK$0.72 per Consolidated Share, respectively, to which the Subscription Price represents a discount of approximately 87.16% and 61.11%, respectively. In view that the price of the Consolidated Shares showed a general sliding trend during the Review Period, the loss-making position of the Company for the past few years, the material uncertainty in related to the Group's ability to continue as a going concern as stated in the 2024 Annual Report and the imminent financial needs of the Company to obtain further funding as general working capital for repayment of debts and development of its principal business, we consider that the discounts of the Subscription Price to the mean and median of the adjusted closing prices of the Consolidated Shares during the Review Period would encourage the Shareholders to reinvest in the Company through the Rights Issue and accordingly maintain their shareholdings in the Company and participate in the future development of the Group. For this reason, we are of the view that the aforesaid discounts as represented by the Subscription Price are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(ii) Historical trading liquidity of the Shares

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the period from 1 November 2023 to the Latest Practicable Date:

	Number of trading days *(Note 1)*	Approximate average daily trading volume	Approximate percentage of average daily trading volume to total number of Shares in issue *(Note 2)*	Approximate percentage of average daily trading volume to total number of Shares held by the public *(Note 3)*
2023				
November	22	18,367,493	4.0292%	4.1780%
December	19	36,510,345	8.0091%	8.3049%
2024				
January	22	29,520,655	6.4758%	6.7150%
February	19	7,699,927	1.6891%	1.7515%
March	20	3,821,879	0.8384%	0.8694%
April	20	1,670,182	0.3664%	0.3799%
May	21	960,754	0.2108%	0.2185%
June	19	672,651	0.1476%	0.1530%
July	22	601,729	0.1320%	0.1369%
August	22	1,163,075	0.2551%	0.2646%
September	19	2,590,025	0.5682%	0.5891%
October	21	2,309,118	0.5065%	0.5253%
November	21	1,023,723	0.2246%	0.2329%
December	20	1,026,292	0.2251%	0.2334%
2025				
January	19	1,348,903	0.2959%	0.3068%
February	20	698,838	0.1533%	0.1590%
March	21	1,029,081	0.2257%	0.2341%
April	19	1,367,926	0.3001%	0.3112%
From 2 May to the Latest Practicable Date	12	176,694	0.0388%	0.0402%

Source: the website of the Stock Exchange

Notes:

1. Number of trading days of the Shares represents number of trading days during the month or period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day (if applicable).

2. Based on the total number of the Shares in issue at the end of each month or period as disclosed in the monthly returns of the Company.

3. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by Mr. Wu Guoming as at the Latest Practicable Date.

As illustrated in the table above, the average daily trading volume for the respective month or period during the period from 1 November 2023 to the Latest Practicable Date ranged from approximately 176,694 Shares in the period from 2 May 2025 to the Latest Practicable Date to approximately 36,510,345 Shares in December 2023, representing approximately 0.0388% to 8.0091% of the total number of the Shares in issue and approximately 0.0402% to 8.3049% of the total number of the Shares held by the public, respectively.

The trading volume of the Shares was notably high in December 2023 and January 2024 as compared to other months/periods during the period from 1 November 2023 to the Latest Practicable Date, which may be attributable to the market reaction and/or knock-on effects of the Company's publication of a voluntary announcement in relation to the Freeze Action in December 2023. For details, please refer to the sub-section headed "(i) Comparison with adjusted historical closing prices of the Consolidated Shares" above. As at the Latest Practicable Date, no further action has been taken by Shanxi Province Changzhi Municipal Supervision Commission*（山西省長治市監察委員會）regarding the frozen equity interests of Yichang Biaodian. After considering the PRC legal counsel's opinion, the Directors are of the opinion that despite the Freeze Action, the Group's ability to direct the relevant activities of Yichang Biaodian remains unaffected, and therefore, the Group retains control over Yichang Biaodian. As such, such irregular trading volume of the Shares in December 2023 and January 2024 shall be in one-off nature.

The above statistics revealed that the trading liquidity of the Shares has not been high recently in the open market. On this basis and considering the financial position and performance of the Group, we are of the view that the Company is unlikely to be able to raise notable amount of funds via equity financing without a notable discount. As such, we consider that it is reasonable for the Subscription Price to be set at a discount to the prevailing historical closing prices of the Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholdings in the Company.

(iii) Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have further reviewed the rights issue exercises with excess application only and no compensatory arrangement which were initially announced by the companies listed on the GEM Board of the Stock Exchange during the period from 1 November 2023 up to the Last Trading Day (being approximately one year). We have identified an exhaustive list of 8 rights issue transactions (the "**Comparable Transactions**"). We consider that the aforesaid review period is adequate and appropriate to capture the recent market practice in relation to rights issue exercises under the prevailing market conditions, and provide a sufficient sample for comparison with the Rights Issue.

Although the listed issuers involved in the Comparable Transactions have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company, and includes rights issue transactions which are underwritten with different basis of entitlement, we consider that the Comparable Transactions can provide a general reference to the pricing trend of recent rights issue transactions under the current market conditions as well as a sufficient sample size for comparison purpose, so as to determine whether the Subscription Price is in line with those of recent rights issue transactions in the market.

Although the listed issuers involved in the Comparable Transactions may have different market capitalisation, given that the comparison analysis does not focus on market multiples such as price to earnings ratio or price to book value ratio, we are of the view that the market capitalisation should not be considered as a determinative factor alone. In respect of the fundraising scale, we consider that it is determined by the management of the listed issuers involved in the Comparable Transactions after taking into account of a complex of weighing factors, including but not limited to their historical financial position and financial performance, prospects of principal business, macroeconomics, and market sentiment to affect their share price and trading liquidity, and hence it should not be considered as a determinative factor alone as well. Nevertheless, as shown in the table below, we noted that the gross proceeds raised in the Comparable Transactions were in the range of approximately HK$13.2 million to HK$86.0 million, which was similar to that of the Rights Issue (i.e HK$51.1 million). Based on the above, we consider that the selection criteria is fair and reasonable to benchmark the Rights Issue.

The details of the Comparable Transactions are set out below:

Date of Announcement	Company name (stock code)	Market capitalization on the Last Trading Day *(HK$ million)*	Gross proceeds from the rights issue *(HK$ million)*	Basis of entitlement	Premium/ (discount) of the subscription price over/to the closing price on the last trading day %	Premium/ (discount) of the subscription price over/to the average closing price for the five previous consecutive trading days up to and including/ prior to the last trading day %	Premium/ (discount) of the subscription price over/to the theoretical ex-rights price based on the closing price on the last trading day % *(Note 1)*	Premium/ (discount) of the subscription price over/to the consolidated net asset value %	Maximum dilution % *(Note 2)*	Theoretical dilution effect % *(Note 3)*	Underwriting commission % *(Note 4)*
8 October 2024	V & V Technology Holdings Limited (8113.HK)	72.7	13.4-24.2	1 for 2	(31.51)	(26.04)	(23.47)	(32.23)	33.33	10.50	N/A
4 October 2024	Palinda Group Holdings Limited (8179.HK)	225.7	71.7	1 for 2	(18.70)	(9.42)	(13.29)	(66.10)	33.33	6.23	N/A
14 August 2024	Ziyuanyuan Holdings Group Limited (8223.HK)	799.8	86.0	1 for 5	(66.44)	(66.49)	(62.26)	36.38	16.67	11.09	7.07
25 June 2024	Chong Fai Jewellery Group Holdings Company Limited (8537.HK)	52.8	27.0	3 for 1	(32.20)	(32.58)	(10.45)	(87.37)	75.00	24.58	N/A
16 May 2024	Futian Holdings Limited (8196.HK)	21.4	45.0	1 for 2	0.00	(10.71)	0.00	8.70	33.33	4.60	N/A
21 February 2024	Guoen Holdings Limited (8121.HK)	21.5	17.3	2 for 1	(33.33)	(35.32)	(14.28)	(60.86)	66.67	23.55	7.07

Date of Announcement	Company name (stock code)	Market capitalization on the Last Trading Day *(HK$ million)*	Gross proceeds from the rights issue *(HK$ million)*	Basis of entitlement	Premium/ (discount) of the subscription price over/to the closing price on the last trading day %	Premium/ (discount) of the subscription price over/to the average closing price for the five previous consecutive trading days up to and including/ prior to the last trading day %	Premium/ (discount) of the subscription price over/to the theoretical ex-rights price based on the closing price on the last trading day % *(Note 1)*	Premium/ (discount) of the subscription price over/to the consolidated net asset value %	Maximum dilution % *(Note 2)*	Theoretical dilution effect % *(Note 3)*	Underwriting commission % *(Note 4)*
9 February 2024	Wuxi Life International Holdings Group Limited (8148.HK)	114.5	30.5	2 for 1	(20.00)	(25.93)	(10.45)	380.00	66.67	10.45	N/A
21 November 2023	Gameone Holdings Limited (8282.HK)	19.8	13.2	1 for 2	6.80	8.27	4.46	(11.29)	33.33	0.00	3.00
				Maximum	6.80	8.27	4.46	380.00	75.00	24.58	7.07
				Minimum	(66.44)	(66.49)	(62.26)	(87.37)	16.67	0.00	3.00
				Average	(24.42)	(24.78)	(16.22)	20.90	44.79	11.38	5.71
				Median	(25.76)	(25.99)	(11.87)	(21.76)	33.33	10.48	7.07
	The Company	**14.6**	**51.1**	**4 for 1**	**(12.50)**	**(14.11)**	**(3.18)**	**Net deficit**	**80.00**	**11.29**	**3.00**

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. Theoretical ex-rights price is calculated as the sum of (a) the issuer's total market capitalisation by reference to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules) and the number of issued shares immediately before the rights issue; and (b) the total funds to be raised from the rights issue, divided by the total number of shares as enlarged by the rights issue.

2. The maximum dilution is calculated by the number of rights shares divided by the total number of issued shares as enlarged by the issue of the rights shares.

3. The theoretical dilution effect is calculated in accordance with Rule 10.44A of the GEM Listing Rules.

4. "N/A" denotes that the rights issue was conducted on a non-underwritten basis and therefore the underwriting commission is not applicable.

As set out in the table above, we note that it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices prior to the announcement of the rights issue and to the theoretical ex-rights price of the shares. We also note that:

(a) the subscription prices over/to the share price on the last trading day of the Comparable Transactions ranged from a discount of approximately 66.44% to a premium of approximately 6.80%, with an average and a median discount of approximately 24.42% and 25.76%, respectively. The discount of approximately 12.50% as represented by the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day is within the range of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions;

(b) the subscription prices over/to the average share price for the five previous consecutive trading days up to and including/prior to the last trading day of the Comparable Transactions ranged from a discount of approximately 66.49% to a premium of approximately 8.27%, with an average and a median discount of approximately 24.78% and 25.99%, respectively. The discount of approximately 14.11% as represented by the Subscription Price to the average adjusted closing price of the Consolidated Shares for the five previous consecutive trading days prior to the Last Trading Day is within the range of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions;

(c) the subscription prices over/to the theoretical ex-rights price based on the closing price on last trading day of the Comparable Transactions ranged from a discount of approximately 62.26% to a premium of approximately 4.46%, with an average and a median discount of approximately 16.22% and 11.87%, respectively. The discount of approximately 3.18% as represented by the Subscription Price to the theoretical ex-rights price based on the adjusted closing price of the Consolidated Shares on the Last Trading Day is within the range of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions;

(d) the subscription prices over/to the consolidated net asset value of the Comparable Transactions ranged from a discount of approximately 87.37% to a premium of approximately 380.00%, with an average premium and a medium discount of approximately 20.90% and 21.76%, respectively. Although the premium of approximately HK$0.54 as represented by the Subscription Price to the net deficit attributable to the Shareholders per Consolidated Share as at 30 September 2024 cannot be directly comparable to those of the Comparable Transactions, it is in line with the Comparable Transactions as there are also three Comparable Transactions whose subscription prices are in excess of net asset value per share; and

(e) the theoretical dilution effect of the Comparable Transactions ranged from nil to approximately 24.58%, with an average and a medium dilution effect of approximately 11.38% and 10.48%, respectively. The theoretical dilution effect of the Rights Issue of approximately 11.29% is within the range of the Comparable Transactions and close to the average and median dilution effects of the Comparable Transactions.

Given that (a) as shown in the table above, it is a common market practice that the subscription price of a rights issue represents a discount to (1) the closing price on the last trading day; (2) the average share price for the five previous consecutive trading days up to and including/prior to the last trading day; (3) the theoretical ex-rights price based on the closing price on the last trading day; and (4) the consolidated net asset value attributable to the shareholders; (b) a higher discount of the Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue; (c) the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; (d) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market; (e) the discounts of the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day, the average adjusted closing price of the Consolidated Shares for the five previous consecutive trading days prior to the Last Trading Day, and the theoretical ex-rights price based on the adjusted closing price of the Consolidated Shares on the Last Trading Day are within the ranges of those of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions; (f) although the premium of approximately HK$0.54 as represented by the Subscription Price to the net deficit attributable to the Shareholders per Consolidated Share as at 30 September 2024 cannot be directly comparable to those of the Comparable Transactions, it is in line with the Comparable Transactions as there are also three Comparable Transactions whose subscription prices are in excess of net asset value per share; (g) as discussed in the section headed "1. Background of the Group" above, the financial performance of the Group had been unsatisfactory in FY2024 as a result of the increase in selling and distribution costs and finance costs, as well as the absence of reversal of impairment losses on property, plant and equipment, intangible assets and loan receivables. As at 30 September 2024, the Group was in a highly leveraged financial position, having total borrowings (including amount due to a non-controlling shareholder of a subsidiary and its related parties, due to related parties, due to directors, non-convertible bonds and bank and other borrowings) of approximately HK$137.9 million as compared to bank and cash balances of approximately HK$20.1 million only. As the Group is in need to raise funds for working capital for its ordinary business and relieving its liquidity pressure, it is reasonable to set the Subscription Price with a discount to enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to take part in the Rights Issue; and (h) the theoretical dilution effect of the Rights Issue is within the range of the Comparable Transactions and close to the average and median dilution effects of the Comparable Transactions, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

5. Principal terms of the Underwriting Agreement

On 15 November 2024 (after trading hours), the Company and the Underwriter entered into the Underwriting Agreement, pursuant to which the Underwriter has conditionally agreed to, on a non-fully underwritten basis, partially underwrite up to 36,468,800 Rights Shares, representing 20% of the maximum number of 182,344,000 Rights Shares to be issued and allotted pursuant to the Rights Issue, subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfillment of the conditions contained therein.

For details of the terms of the Underwriting Agreement, please refer to the section headed "The Underwriting Agreement" in the Letter from the Board. Set out below are the principal terms of the Underwriting Agreement:

Date	:	15 November 2024 (after trading hours)
Issuer	:	The Company
Underwriter	:	Rifa Securities Limited, a corporation licensed to carry on type 1 (dealing in securities) regulated activity under the SFO, and its ordinary course of business includes underwriting of securities. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) are Independent Third Parties. As such, the Underwriter complies with Rule 10.24A(1) of the GEM Listing Rules.
Underwriting commitment of the Underwriter and number of Underwritten Shares	:	Pursuant to the Underwriting Agreement, the Underwritten Shares to be underwritten by the Underwriter shall be up to 36,468,800 Rights Shares, representing 20% of the maximum number of 182,344,000 Rights Shares to be issued and allotted pursuant to the Rights Issue. The actual amount of Rights Shares to be underwritten by the Underwriter will depend on the level of subscriptions by the Qualifying Shareholders.

Underwriting commission	:	3% of the aggregate Subscription Price (the "**Underwriting Commission**") in respect of the actual number of Underwritten Shares underwritten, subscribed for or procured subscription for by the Underwriter pursuant to the Underwriting Agreement.

With reference to the sub-section headed "4. Assessment of the Subscription Price – (iii) Comparison with recent rights issue exercises" above, among the 8 Comparable Transactions, there were three Comparable Transactions involving underwriting arrangement which we believe reflect the prevailing market trends under the current economic environment and thus fair and reasonable for the assessment of the Underwriting Commission under the Rights Issue.

As shown in the table above, we noted that the commission fees payable to the respective underwriters under the Comparable Transactions are based on certain percentage of the gross proceeds from the underwriting of the underwritten shares, which ranged from 3.00% to 7.07% with an average and a median of approximately 5.71% and 7.07%, respectively. Given (i) the Underwriting Commission was determined after arm's length negotiation between the Underwriter and the Company by reference to the financial position of the Group, the size of the Rights Issue and the prevailing market conditions; and (ii) the Underwriting Commission of 3% falls within the relevant range of the Comparable Transactions and is lower than the average and the median of the Comparable Transactions, we consider that the Underwriting Commission to be fair and reasonable. As such, we are of the view that the terms of the Underwriting Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Pursuant to rule 10.31 of the GEM listing Rules, in every rights issue, the issuer must make arrangements to dispose of securities not subscribed by allottees under provisional letters of allotment or their renounces by either excess application or compensatory arrangement. As advised by the management of the Company, they have considered the two means and has adopted the excess application arrangement to dispose of the Unsubscribed Rights Shares, after considering that this arrangement offers all Qualifying Shareholders an opportunity to increase their shareholding interest in the Company in addition to their entitled portion at a discount to the closing price of the Shares. Taking into account that (i) the excess application or compensatory arrangements are just the different mechanism to provide the entitlements to the existing Shareholders for the unsubscribed shares; (ii) the Company has complied with the requirements under relevant GEM Listing Rules in disposing the Unsubscribed Rights Shares; and (iii) the excess application arrangement, instead of compensatory arrangement, allows all Qualifying Shareholders an opportunity to increase their shareholding interest in the Company in addition to their entitled portion at a discount to the closing price of the Shares, we concur with the Directors that the adoption of excess application arrangement under the Rights Issue is fair and reasonable.

6. Potential dilution effect on the shareholding interests of the Independent Shareholders

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 not be diluted after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider to sell their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

For illustrative purposes only, assuming there is no further issue or repurchase of the Shares from the Latest Practicable Date up to and including the date of completion of the Rights Issue, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Consolidation becoming effective but before completion of the Rights Issue; (iii) immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders; and (iv) immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and 36,468,000 Underwritten Shares have been taken up by the Underwriter:

Shareholders	**As at the Latest Practicable Date**		**Immediately after the Share Consolidation becoming effective but before completion of the Rights Issue**		**Immediately upon completion of the Rights Issue assuming full acceptance of the Rights Shares by the existing Shareholders**		**Immediately upon completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and 36,468,000 Underwritten Shares have been taken up by the Underwriter**	
	Number of Existing Shares	*%*	*Number of Consolidated Shares*	*%*	*Number of Consolidated Shares*	*%*	*Number of Consolidated Shares*	*%*
Wu Guoming *(Note 1)*	16,237,500	3.56	1,623,750	3.56	8,118,750	3.56	1,623,750	1.98
Public Shareholders								
The Underwriter and/or its subscriber(s) procured by it *(Note 2)*	–	0.00	–	0.00	–	0.00	36,468,000	44.44
Other public Shareholders	439,622,500	96.44	43,962,250	96.44	219,811,250	96.44	43,962,250	53.58
Total	455,860,000	100.00	45,586,000	100.00	227,930,000	100.00	82,054,800	100.00

Notes:

1. Mr. Wu Guoming is the executive Director of the Company.

2. This scenario is for illustrative purpose only. Pursuant to the Underwriting Agreement, the Underwriter unconditionally and irrevocably undertakes to the Company that in the event the Underwriter or any of its sub-underwriters is called upon to subscribe or procure subscription of the Underwritten Shares:

(a) without affecting the Underwriter's obligation to underwrite all the Underwritten Shares under the Underwriting Agreement, whether to underwrite the same by itself or procure sub-underwriting of the same, the Underwriter shall not subscribe, for its own account, for such number of Underwritten Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to trigger a mandatory offer obligation under rule 26 of the Takeovers Code on the part of the Underwriter and parties acting in concert (within the meaning of the Takeovers Code) with it upon completion of the Rights Issue;

(b) the Underwriter shall and shall cause its sub-underwriters to use its best endeavours to ensure that (i) each of the sub-underwriters, subscribers or purchasers of the Underwritten Shares procured by it shall be an Independent Third Party, not acting in concert (within the meaning of the Takeovers Code) with, and not connected with the Company, any of the Directors, chief executives or substantial shareholders of the Company or their respective associates; and (ii) none of the persons to be procured by it and its sub-underwriters to subscribe for the Shares not taken up by the Qualifying Shareholders will be holding 10.0% or more of the total issued share capital of the Company immediately after completion of the Rights Issue; and

(c) the Underwriter shall and shall cause its sub-underwriters to use its best endeavours to ensure and procure that the minimum public float requirement under Rule 11.23 of the GEM Listing Rules be fulfilled by the Company upon completion of the Rights issue.

3. Certain percentage figures included in the table above have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

As set out in the table under the sub-section headed "4. Assessment of the Subscription Price – (iii) Comparison with recent rights issue exercises" above, the maximum dilution of the Comparable Transactions ranged from 16.67% to 75.00% with an average and a medium dilution of approximately 44.79% and 33.33%, respectively. For the Non-Qualifying Shareholders and 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 80.0%, which represents a higher dilution than the high end of the range of the Comparable Transactions. Taking into account that (i) the dilution magnitude of any rights issue depends solely on the extent of the basis of entitlement under such exercise, where the higher the offering ratio of rights shares to existing shares is, the greater the dilution on the existing shareholding would be; (ii) the maximum dilution effect only occur when the Qualifying Shareholders do not subscribe for their proportionate Rights Shares; and (iii) the theoretical dilution effect of the Rights Issue is within the range of the Comparable Transactions and close to the average and median dilution effects of the Comparable Transactions, we consider the potential dilution effect of the Rights Issue to be acceptable.

In all cases of rights issue, the dilution on the shareholding of those qualifying shareholders who do not take up in full their provisional allotments under the rights issue is inevitable. In fact, the dilution magnitude of any rights issue depends mainly on the extent of the basis of entitlement under such exercise since the higher offering ratio of new shares to existing shares is, the greater the dilution on the shareholding would be.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders' interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in the section headed "7. Financial impact of the Rights Issue" below, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is justifiable.

7. Financial impact of the Rights Issue

(i) Net tangible assets

According to the unaudited pro forma financial information of the Group in Appendix II to the Circular, assuming that the Rights Issue had been completed and subscribed in full on 30 September 2024, the Group will record a turnaround from audited consolidated net tangible liabilities attributable to the Shareholders of approximately HK$34.1 million as at 30 September 2024 to an unaudited pro forma adjusted consolidated net tangible assets attributable to the Shareholders of approximately HK$14.7 million immediately after the completion of the Rights Issue.

(ii) Liquidity

As at 30 September 2024, the Group had bank and cash balances of approximately HK$20.1 million, current assets of approximately HK$57.2 million and current liabilities of approximately HK$161.3 million. Upon completion of the Rights Issue, bank and cash balances of the Group is expected to increase by the estimated net proceeds from the Right Issues of approximately HK$48.8 million. The current ratio of the Group will increase from approximately 0.4 time to approximately 0.7 time. As such, the liquidity position of the Group would be improved upon completion of the Rights Issue.

(iii) Earnings

Given that the net proceeds from the Rights Issue will be used for (a) the redemption of outstanding bonds issued by the Company; (b) repayment of outstanding professional fees; and (c) general working capital, the Group may increase earnings resulting from the reduction of finance costs.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company upon completion of the Rights Issue.

OPINION AND RECOMMENDATION

In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following:

- as at 30 September 2024, the Group was in a highly leveraged financial position, having total borrowings (including amount due to a non-controlling shareholder of a subsidiary and its related parties, due to related parties, due to directors, non-convertible bonds and bank and other borrowings) of approximately HK$137.9 million as compared to bank and cash balances of approximately HK$20.1 million only. The Group is in need to raise funds for working capital and relieving its liquidity pressure;

- the financial performance of the Group had been deteriorated in FY2024 and the Group's auditor was in doubt about the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business and thus did not express an opinion on the consolidated financial statements of the Group for FY2024;

- the Rights Issue is the most preferred option over other financing alternatives such as debt financing, placing of new Shares and open offer, as it will not result in a deterioration of the Group's gearing and allows all Qualifying Shareholders to participate in the fund-raising exercise for the future development of the Group with the flexibility of trading of rights entitlements in the market;

- the principal terms of the Rights Issue, in particular the Subscription Price, are fair and reasonable after considering the following:

  - it is a common market practice that the pricing of a rights issue represents a discount to the prevailing closing share prices on the last trading day and to the theoretical ex-rights price of the shares;

  - the discount of the Subscription Price could enhance the attractiveness of the Rights Issue and encourage the Qualifying Shareholders to participate in the Rights Issue given the current financial difficulties of the Group;

  - the interests of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares;

  - those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market;

- the discounts of the Subscription Price to the adjusted closing price of the Consolidated Shares on the Last Trading Day, the average adjusted closing price of the Consolidated Shares for the five previous consecutive trading days prior to the Last Trading Day, and the theoretical ex-rights price based on the adjusted closing price of the Consolidated Shares on the Last Trading Day are within the ranges of those of the Comparable Transactions and smaller than the average and median discounts of the Comparable Transactions; and

- although the premium of approximately HK$0.54 as represented by the Subscription Price to the net deficit attributable to the Shareholders per Consolidated Share as at 30 September 2024 cannot be directly comparable to those of the Comparable Transactions, it is in line with the Comparable Transactions as there are also three Comparable Transactions whose subscription prices are in excess of net asset value per share;

- the Underwriting Commission under the Underwriting Agreement, being part of the Rights Issue, is in line with those charged in the Comparable Transactions;

- the dilution effect on the shareholding interests of public Shareholders, which will be potentially diluted by up to a maximum of 80.0% following completion of the Rights Issue, is considered to be acceptable given (i) the current financial position of the Group; (ii) that the terms of the Rights Issue (including the Subscription Price) are fair and reasonable as mentioned above; and (iii) that the Rights Issue is not prejudicial to the Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue. Meanwhile, the Rights Issue does not result in a theoretical dilution effect of 25% or more on its own, complying with the GEM Listing Rules; and

- the Rights Issue is expected to bring an overall positive financial impact on the Group and improve the liquidity and gearing of the Group, which is in line with the interests of Shareholders.

Based on the above, we consider that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Rights Issue and the transactions contemplated thereunder, while not in the ordinary and usual course of business of the Group, are nevertheless in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Rights Issue and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in the corporate finance industry.