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16/F, Nan Fung Tower,  
88 Connaught Road Central,  
Central, Hong Kong

23 July 2025

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS  
SHARES OF EVERY ONE (1) CONSOLIDATED SHARE HELD ON THE  
RECORD DATE ON A NON-UNDERWRITTEN BASIS**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Group to the Shareholders dated 23 July 2025 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Reference is made to the Announcement. Subject to the Share Consolidation and the Increase in Authorised Share Capital becoming effective, the Board proposes to raise gross proceeds of up to approximately HK\$127.86 million, net of expenses, through a Rights Issue of 255,728,860 Rights Shares at the Subscription Price of HK\$0.5 per Rights Share based on five (5) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date.

Pursuant to Rule 7.27A(1) of the Listing Rules, where Shareholders’ approval is required for a rights issue under rule 7.19A, as the Rights Issue will increase the number of the issued Shares by more than 50%, the Rights Issue must be made conditional on approval by 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 does not have any controlling shareholder as defined under the Listing Rules. However, each of Mr. Tsang Wah Tak, Brian (executive Director), Mr. Yu Lu, and Mr. Ding Zhigang (both non-executive Directors) holds a beneficial interest in 1,315,000 Shares, 17,252,250 Shares, and 19,670,092 Shares, respectively. As part of the intended use of the Net Proceeds, a portion of the Net Proceeds will be used to partially settle the Group's outstanding borrowings. Mr. Ning Jun, a public Shareholder who does not fall within any of the categories under Rule 8.24 of the Listing Rules, has been identified as one of the Group's creditors whose debt is to be repaid by the Company. To avoid any conflict of interest, Mr. Ning Jun, together with Mr. Tsang Wah Tak, Brian, Mr. Yu Lu, and Mr. Ding Zhi Gang, will be required to abstain from voting in favour of the proposed resolutions to approve the Rights Issue and the transaction contemplated thereunder at the EGM. Save as the above disclosure, no Shareholders and Directors are required to abstain from voting in favour of the proposed resolution approving the Rights Issue and the transaction contemplated thereunder at the EGM.

#### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Victor Yang, Ms. Lo Wan Man, Mr. Zou Heqiang, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Placing Agreement and the transactions contemplated respectively 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, taking into account the recommendations of the Independent Financial Adviser appointed by the Company. In this connection, the Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Rights Issue, the Placing Agreement and the transactions contemplated respectively thereunder are fair and reasonable. We, Silverbricks Securities Company Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee in accordance with the Rule 13.84 of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in these regards and to give our opinion for the Independent Board Committee's consideration when making their recommendations to the Independent Shareholders.

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.80 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Rights Issue of the Company. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. During the past two years, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are eligible to give independent advice on the proposed Rights Issue and the transactions contemplated thereunder of the Company.

#### **BASIS OF OUR OPINION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. We will notify the shareholders of any material change of information in the circular up to the date of EGM.

We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

In formulating our opinion, we have not considered the taxation implications on Independent Shareholders in relation to the subscription for, holding or disposal of the Rights Shares, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Rights Shares. In particular, Independent Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

We consider that we have reviewed all currently available information and documents, among others: (i) the Placing Agreement; (ii) total outstanding bank and other borrowings details of approximately RMB202.45 million as at 31 May 2025 due for repayment within the next twelve (12) months; (iii) unaudited financial position of the Group as at 31 May 2025; and (iv) annual report of the Company for the year ended 31 December 2024 (the “**2024 Annual Report**”), which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Rights Issue, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

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

## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### 1. Background information of the Group

The Group is principally engaged in the research, development, production and sales of power line communication products and the provision of smart manufacturing & industrial automation services (SMIA) and products. Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2023 (“FY2023”) and 31 December 2024 (“FY2024”) as extracted from the 2024 Annual Report.

#### (a) Financial Performance of the Group

	For the year ended 31 December	
	2024	2023
	RMB'000	RMB'000
	(audited)	(audited)
Revenue	122,298	94,868
Gross profit	37,094	15,568
Loss before tax	(72,235)	(120,436)
Loss for the year	(73,543)	(143,648)

#### (b) Financial Position of the Group

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
	(audited)	(audited)
Total assets	236,573	250,488
Current Assets	108,129	152,513
— Bank and cash balances	15,183	35,919
Total liabilities	347,919	285,021
Non-current liabilities	58,785	114,622
— Borrowings	56,940	108,705
Current liabilities	289,134	170,399
— Borrowings	190,204	76,587
Net liabilities	(111,346)	(34,533)

## ***Audited consolidated results for the two years ended 31 December 2024***

As disclosed in the 2024 Annual Report, revenue of the Group increased by approximately 28.91% from approximately RMB94.87 million for FY2023 to approximately RMB122.30 million for FY2024. Such an increase was derived from a revenue growth of approximately 58.43% from the new automated meter reading (AMR) new product trading with other business segments, along with a contribution of around 20.76% from the newly provided wind farm operation and maintenance (WFOM) service to new region. Gross profit increased by approximately 138.27% to approximately RMB37.09 million for FY2024 from approximately RMB15.57 million for FY2023 which was still mainly attributable from the growth in AMR and WFOM segments. New products and new services require establishing sales channels for distributing circuits and modules and further marketing expenses that led to an increase in selling and marketing expenses of approximately 69.80%. The gross margin has increased from 16.41% to 30.33% which signifies there is an improvement in sales and better control in expenses. As a result of the improvement in revenue and gross profit margin, the loss for the Group decreased approximately 48.80%, from approximately RMB143.65 million for FY2023 to approximately RMB73.54 million for FY2024.

The total assets of the Group amounted to approximately RMB236.57 million FY2024, representing a decrease of approximately 5.56%, as compared to RMB250.49 million for FY2023. The decrease was primarily due to the decrease in bank and cash equivalents of approximately RMB20.74 million. The total liabilities of the Group amounted to approximately RMB347.92 million for FY2024, representing an increase of approximately 22.07%, as compared to RMB285.02 million for FY2023. The increase was primarily due to the increase in borrowings of approximately RMB61.85 million. The net liabilities of the Company amounted to approximately RMB111.35 million FY2024, representing an increase of approximately RMB76.81 million or approximately 222.43%, as compared to RMB34.53 million for FY2023. Such an increase was mainly attributable to the total amounts of other borrowings during the year ended 31 December 2024.

## **2. Reasons for and benefits of the Rights Issue and use of proceeds**

As disclosed in the Letter from the Board, the net proceeds from the Rights Issue are estimated to be up to approximately HK\$125.73 million after the deduction of all estimated expenses (assuming full acceptance of the Rights Issue and assuming that no new Shares will be allotted or issued on or before the Record Date).

The Company intend to apply the net proceeds as follows:

- (i) approximately HK\$100.58 million, which represents approximately 80% of the Net Proceeds, for repayment of the Group's current liabilities, specifically those debts, liabilities, or other payables that are expected to be due and payable within twelve months upon Completion; and
- (ii) approximately HK\$25.15 million, which represents approximately 20% of the Net Proceeds, for the Group's general corporate and administration working capital purposes, which primarily includes (a) staff salaries expenses of

approximately HK\$22.90 million; (b) rental expenses of approximately HK\$0.56 million; and (c) business development expenses of approximately HK\$0.43 million, all supporting the Group's ongoing business activities.

In the event that there is an under subscription of the Right Issue and Placing, the net proceeds of the Rights Issue and Placing will be allocated and utilised in accordance with the same proportion to the above basis.

As stated in the section headed "1. Background information 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 two years ended 31 December 2023 and 2024. The losses are primarily attributable to the increase in selling and marketing expenses, the research and development expenses, as well as the impairment losses on prepayment and the loss on early termination of leases.

In the event that the proceeds raised by the Rights Issue or Placing is less than the aforesaid estimated net proceeds of approximately HK\$125.73 million, the Company may further evaluate options including amongst others, reducing the proposed amount of repayment of loans and other payables, renewing and/or refinancing existing loans or exploring other financing, and/or fund-raising alternatives. The Group's is minded to improve its profitability and alleviate the repayment pressure by, among other things, lowering liabilities and finance costs.

#### ***Settlement of the Group's loans***

For FY2024, the Group was in a highly leveraged financial position (i.e. Debt ratio = 147.07%), the Group had total outstanding bank and other borrowings, which the repayment will be due within the next twelve months from the Last Trading Day, amount to approximately RMB202.45 million as at 31 May 2025, including (i) bank loan of approximately RMB6.07 million, with effective interest rates ranging from 2.80% to 3.60% per annum. These bank loan, which include facilities from Bank of China and Industrial and Commercial Bank of China, maturing from July 2024 to March 2026; and (ii) other borrowings (including amounts due to directors, shareholders, associate of the Company's connected person, and independent third parties) of approximately RMB196.38 million with effective interest rates ranging from 0% to 3.5% per annum. Most of these other borrowings are set to mature between August 2025 and March 2026, with RMB109.93 million in nearly 56.0% of the total owed to an independent third party and maturing in August 2025. Despite this significant debt load, the Group's cash and bank balances remain limited and was approximately RMB15.18 million as of FY2024 and was approximately RMB15.08 million as of 31 May 2025 from the unaudited consolidated financial statement, underscoring a leveraged financial position and raising concerns over the sufficiency of liquidity to meet short term obligations as they fall due. With the high effective interest rates on certain borrowings, the Group's exposure to refinancing and liquidity risks in the near term results in the need for fund raising to relieve its liquidity pressure and finance costs burden. Therefore, the Group intends to

utilize the net proceeds to first repay the aforementioned bank loans, followed by the outstanding other borrowings, in alignment with their respective maturity dates, unless an extension is mutually agreed upon by the involved parties.

In addition, as stated in the 2024 Annual Report, taking into account that (i) the Group incurred a net loss of approximately RMB73.54 million for FY2024; (ii) the Group's current liabilities exceeded its current assets by approximately RMB181.0 million for FY2024; (iii) the reduction of interest payment after the settlement of the Group's borrowings; (iv) the balance of bank and cash equivalents for FY2024; and (v) the positive impact of increasing liquidity and reserving working capital brought by settlement of the Group's indebtedness. As such, we concur with the Directors that 80% of the net proceeds of approximately HK\$100.58 million (i.e. RMB91.44 million, HK\$1.10 = RMB1.00 on the Last Trading Day of Hong Kong Association of Bank: <https://www.hkab.org.hk/en/rates/exchange-rates>), can partially settle the outstanding borrowings without additional financial burden to the Group. 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 borrowings and the conduct of the Group's ordinary business.

Having considered that (i) the significant amount of total borrowing amount with interest for the Group as of 31 May 2025 (i.e. RMB202.45 million); (ii) the reduction of interest payment after the settlement of the Group's loan; (iii) the balance of bank and cash equivalents as at 31 December 2024 and as of 31 May 2025; and (iv) the positive impact of increasing liquidity and reserving working capital brought by settlement of the Group's indebtedness, we concur with the Directors that the settlement of the Group's loans equip the Group with a timely and robust funding position and is for the commercial benefit of the Group.

#### ***General Corporate and Administrative Working Capital Purposes***

As discussed with the management of the Company, the Group has new demands from the market as (i) won certain major biddings for sales of its products to dew provinces in China; (ii) new testing technologies inventing in Smart Manufacturing & Industrial Automation ("SMIA") field; and (iii) new service providing in WFOM which led to the expenses rises. Therefore, the Company intends to apply approximately HK\$25.15 million (i.e. RMB22.86 million, HK\$1.10 = RMB1.00 on the Last Trading Day of Hong Kong Association of Bank: <https://www.hkab.org.hk/en/rates/exchange-rates>) for settling staff salaries, rental expenses and further exploring or upgrading the spectrum for the Company businesses in SMIA and WFOM to reach the new market demands.

Having considered the above, and (i) the positive businesses demanding from the market in the research, development, production and sales of power line communication products and the provision of SMIA and products; (ii) to 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; and (iii) the uncertainty in going concern of the Group's financial ability, we concur with the Directors



that the Group's ongoing operations and managing cash flow is a very critical aspect during a period of uncertainty, and the Rights Issue provides a good opportunity for the Group to strengthen its capital structure without incurring debt financing cost, improve the financial position, and provide additional financial resources for the Group's daily operation. We are of the view that the intended use of proceeds is fair and reasonable.

#### *Alternative financing methods*

As disclosed in the Letter from the Board, apart from the Rights Issue, the Directors have considered other debt/equity fund raising alternatives such as bank borrowings, placing or an open offer. The Directors noted that bank borrowings will carry interest costs and may require the provision of security and creditors will rank before the Shareholders, and placings will dilute the interests of Shareholders without giving them the opportunity to take part in the exercise. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Company.

Having considered the abovementioned alternatives, the Directors consider raising funds by way of the Rights Issue is more attractive in the current market condition and the Rights Issue will enable the Company to strengthen its working capital base and enhance its financial position, while at the same time, allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company.

Based on the above, the Board considers that raising capital through the Rights Issue is in the interests of the Company and the Shareholders as a whole. In addition, having considered the capital needs of the Group, the terms of the Rights Issue and the Subscription Price, the Board also considers that it is in the interests of the Company to proceed with the Rights Issue on a non-underwritten basis. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholder(s), if any, should note that their shareholdings will be diluted.

After taking into account the benefits and potential cost of each of the alternatives such as bank borrowings, placing or an open offer, we are of the view and concur with the view of the Directors that (i) debt financing may not be achievable on favourable terms in a timely manner as the company has carried a large amount of debt financing while debt financing requires asset pledge or relatively higher interest rate which will result in additional interest burden, higher gearing ratio of the Group; (ii) placing of new Shares would only be available to certain placees who are not necessarily the existing Shareholders and would dilute the shareholding of the existing Shareholders; and (iii) open offer does not allow qualifying shareholders to trade rights entitlements freely in the open market. We are of the view and concur with the view of the Directors that the Rights Issue is more cost effective, efficient and beneficial to the Company and the Shareholders as a whole as compared to raising fund by other means.

### 3. Principal terms of the Rights Issue

Set out below is a summary of the principal terms of the Rights Issue, further details of which are set out in the Letter from the Board:

Basis of the Rights Issue:	five (5) 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\$0.5 per Rights Share
Number of Rights Shares to be issued pursuant to the Rights Issue:	Up to 255,728,860 Rights Shares (assuming there is no further issue or repurchase of new Shares between the Latest Practicable Date and the Record Date)
Gross proceeds from the Rights Issue:	Up to approximately HK\$127.86 million before expenses (assuming there is no further issue or repurchase of new Shares between the Latest Practicable Date and the Record Date and all Rights Shares are taken up by the Qualifying Shareholders or the Unsubscribed Rights Shares are successfully placed by the Placing Agent under the Placing)

Assuming there is no change to the total issued shares capital of the Company on or before the Record Date, 255,728,860 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 500% of the total issued share capital of the Company (after taking into account the effect of the Share Consolidation) as at the Latest Practicable Date; and (ii) approximately 83.33% of the total issued share capital of the Company (after taking into account the effect of the Share Consolidation) as enlarged by the allotment and issuance of the Rights Shares.

As at the Latest Practicable Date, there were 170,496 outstanding Share Options under the Share Option Scheme. Save for the foregoing, as at the Latest Practicable Date, the Company had no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange for new Shares prior to the Record Date. Save for the Rights Issue, the Company has no further intention to issue or grant any Shares, convertible securities, warrants and/or options on or before the Record Date.

## ***Assessment on the principal terms of the Rights Issue***

### ***The Subscription Price***

The Subscription Price of HK\$0.5 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares and, where applicable, when a transferee of the nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

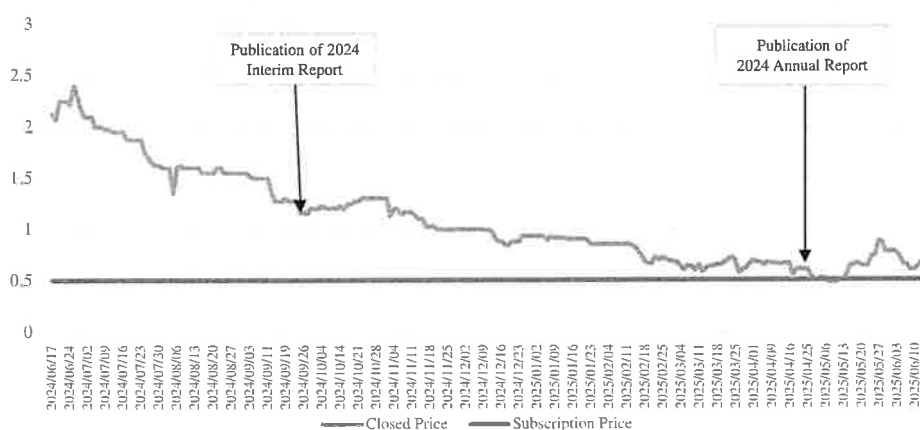
- (i) a discount of approximately 37.11% to the theoretical closing price of HK\$0.795 per Consolidated Share (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 22.48% to the theoretical closing price of HK\$0.645 per Consolidated Share (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 20.63% to the average theoretical closing price of approximately HK\$0.63 per Consolidated Share (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange for the last five (5) consecutive trading days prior to the Last Trading Day;
- (iv) a discount of approximately 22.12% to the average theoretical closing price of approximately HK\$0.642 per Consolidated Share (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange for the late ten (10) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 4.62% to the theoretical ex-rights price of approximately HK\$0.5242 per Consolidated Share as adjusted for the effect of the Rights Issue, based on the theoretical closing price of HK\$0.645 per Consolidated Share (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 18.73%, which is calculated based on the theoretical diluted price of approximately HK\$0.5242 per Consolidated Share to the benchmarked price of approximately HK\$0.645 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking account the higher of (i) the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day and (ii) the average of the theoretical closing prices of the Consolidated Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the Last Trading Day); and

- (vii) a premium of approximately HK\$2.82 over the audited net liability value per Consolidated Share of approximately HK\$2.32 based on the latest audited consolidated net liabilities of the Group of approximately RMB111.35 million (equivalent to approximately HK\$118.51 million) as at 31 December 2024 and the theoretical number of Consolidated Shares (after taking into account the effect of the Share Consolidation) in issue as at the Last Trading Day (i.e.  $255,728,860 \text{ Shares} / 5 = 51,145,772 \text{ Consolidated Shares}$ ).

As disclosed in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiation with reference to, among other things, the prevailing market price of the Shares and the financial conditions of the Group.

#### *Comparison with historical closing prices of the Shares*

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 17 June 2024 up to and including the Last Trading Day (the “**Review Period**”) (being a period of approximately 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Announcement and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the share price before the Announcement represent a fair market value of the Company the Shareholders expected, while that after the Announcement, the value may have taken into account the potential upside of the Rights Issue which may distort the analysis. The chart below illustrates the adjusted daily closing price per the Share versus the Subscription Price of HK\$0.5 per Rights Share during the Review Period as we have adjusted the Share price for the Review Period to reflect the impact of the Share Consolidation (the “**Theoretical Closing Price**”):



Source: website of the Stock Exchange

As shown in the chart above, during the Review Period, the average closing price was approximately HK\$0.219 per Share (or the Theoretical Closing Price of HK\$1.096, the “**Average Theoretical Closing Price**”). The daily closing price ranged from HK\$0.096 per Share (or the Theoretical Closing Price of HK\$0.48, the “**Lowest Theoretical Closing Price**”) recorded from 7 May 2025 to 9 May 2025 to HK\$0.48 per Share (or the Theoretical Closing Price of HK\$2.40, the “**Highest Theoretical Closing Price**”) recorded on 25 June 2024. We note that Shares were mostly traded above the Subscription Price in the whole Review Period, except for the Lowest Closing Price period. The Subscription Price of HK\$0.5 represents (i) a premium of approximately 4.17% to the Lowest Theoretical Closing Price; (ii) a discount of approximately 79.17% to the Highest Theoretical Closing Price; and (iii) a discount of approximately 54.37% to the Average Theoretical Closing Price. As discussed in the section headed “Comparison with recent rights issues transactions” below, we note that it is a common practice (9 out of 12 Comparables) to set the subscription price at a discount to the prevailing trading prices of the relevant shares in order to increase the attractiveness and encourage shareholders to participate in the right issues.

There was a downtrend from 25 June 2024. The closing price of the Shares slightly rose from approximately HK\$0.425 on 17 June 2024 to the highest closing price of HK\$0.48 per Share on 25 June 2024. After reaching the highest closing price, the closing price of the Shares then gradually decreased and hit the lowest closing price of HK\$0.096 per Share from 7 May 2025 to 9 May 2025. The closing price rose slightly again to the closing price of HK\$0.175 per Share on 27 May 2025 with small fluctuations till the closing price of HK\$0.129 per Share on the Last Trading Day.

The reason for the substantial fall in Share price since 25 June 2024 (“**Downtrend Period**”) was unknown to us since:

- (i) the management of the Company was not aware of any reason for such fall in Share price during the Downtrend Period; and
- (ii) we have reviewed all the announcements disclosed during the Downtrend Period, and we were not aware of any information which led to abrupt decrease of the Share prices during the Downtrend Period.

In light of the low trading volume, the Shareholders may encounter challenges in selling their Shares promptly at a more favourable price. Furthermore, the Company may face difficulties raising equity funds from third parties without offering a substantial discount to the prevailing Share price. Given the low trading liquidity and the observed Downward Trend in the closing price of the Shares during the Review Period, we believe that the determination of the Subscription Price is deemed fair and reasonable, thereby encouraging the Qualifying Shareholders to participate in the Rights Issue and to engage in the future development of the Company.

*Historical trading liquidity of the Shares*

<b>Month</b>	<b>Total volume of Shares traded Shares</b>	<b>Number of trading days days</b>	<b>Approximate average daily trading volume of the Shares Shares</b>	<b>Percentage of average daily trading volume to total number of issued shares as at the end of the month/period (Note 1)</b>
<b>2024</b>				
June (from 17 June 2024)	235,500	10	23,550	0.0092%
July	625,000	22	28,409	0.0111%
August	104,500	22	4,750	0.0019%
September	951,500	19	50,079	0.0196%
October	2,616,232	21	124,582	0.0487%
November	4,123,609	21	196,362	0.0768%
December	1,052,250	20	52,613	0.0206%
<b>2025</b>				
January	54,500	19	2,868	0.0011%
February	3,233,250	20	161,663	0.0632%
March	8,307,750	21	395,607	0.1547%
April	4,979,250	19	262,066	0.1025%
May	6,042,750	20	302,138	0.1181%
June (up to Last Trading Day)	852,000	12	71,000	0.0278%
Maximum			395,607	0.1547%
Minimum			2,868	0.0011%
Average			128,899	0.0504%

*Source: website of the Stock Exchange*

*Note:*

1. Based on the number of total issued Shares as at each month end as disclosed in the monthly returns of the Company.

As shown in the table above, the average daily trading volume of the Shares in each month ranged from 2,868 Shares in January 2025 (from 17 June 2024) to 395,607 Shares in March 2025 (up to Last Trading Day) during the Review Period, representing 0.0011% to approximately 0.1547% of the total number of issued shares as at the end of the month/period, respectively. Given such relatively thin liquidity of the Shares during the Review

Period, it would be difficult for the Shareholders to acquire a substantial block of the Shares in the open market without exerting a significant impact on the Share price. We consider that the prices, liquidity and general price trend of the Shares during the Review Period should have reflected market evaluation on the recent business performance of the Group.

In view of the above, we consider that it is fair and reasonable for the Company to determine the Subscription Price with reference to (i) the observed downtrend of the market price of the Shares prior to and including the Last Trading Day; (ii) the prevailing volatile market conditions under the uncertainty in local and global economy and the fund-raising size intended by the Company discussed in the earlier section headed “Reasons for and benefits of the Rights Issue and use of proceeds”; and (iii) low trading liquidity of the Shares during the Review Period.

#### *Comparison with recent rights issue transactions*

In order to assess the fairness and reasonableness of the Subscription Price, we exhaustively conducted a search of recent proposed rights issue exercises, announced by the companies listed on the Stock Exchange (excluding those terminated or lapsed or announced but not yet completed) within approximately 6 months prior to the Last Trading Day (the “**Comparison Period**”) to understand the trend of the recent market practice. Based on our research, we have identified a total of 12 rights issue comparables (the “**Comparables**”) during the Comparison Period.

We consider the Comparison Period of approximately 6 months is adequate and appropriate given that (i) such period would provide us with the recent and relevant information to demonstrate the prevailing market practice prior to the Announcement under the prevailing market conditions; and (ii) we are able to identify sufficient and reasonable samples size for selection of Comparables within the Comparison Period. We note that the terms of the rights issue announced by the Comparables may not be directly comparable to the terms of the Rights Issue announced by the Group due to the differences in business activities and performances. We consider that despite the terms of the Rights Issue depend on various factors, including (i) the dilution effect to shareholding; (ii) less than HK\$500 million having considered the estimated size of gross proceeds from the Rights Issue; (iii) discounts to share price, etc., they are often influenced by the recent market trends for rights issue. Although the Comparables included rights issue on different basis of entitlement, and involved issuers which engaged in different business or with different financial performance and funding needs from the Company, we consider that the Comparables are suitable to serve as a general, true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers for the purpose of an assessment on the Subscription Price, as (i) all of the Comparables and the Company are listed on the Stock Exchange; (ii) our analysis is mainly concerned with the comparison of subscription price to closing price, theoretical ex-rights price, the consolidated net asset value per share and theoretical dilution effect; (iii) the exclusion of rights issue transactions of A-Shares and H-Shares; (iv) the exclusion of rights issue transactions without extraordinary general meeting; (v) the Comparables were included without any artificial selection or filtering on our part thus

they represented a general, true and fair view of the recent market trends for rights issue; (vi) all of the Comparables had either been completed or remained in progress as at the Latest Practicable Date, and none had been terminated, 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.

**Table A**

Date of announcement	Stock code	Company name	Basis of entitlement	Maximum gross proceeds (approximately)	Premium/(Discount) of subscription price over the closing price per share on the respective last trading day (%)	Premium/(Discount) of the subscription price over the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective rights issue (%) (Note 2)	Premium/(Discount) of the subscription price over the consolidated NAV per share (%) (Note 2, 4)	Theoretical dilution effect (%) (Note 2)	Excess application	Underwritten/Non-underwritten	Placing commission (%) (Note 3)
10-Jun-25	804	Pinecone Capital Limited	3 for 2	HK\$60.7 million	(40.71)	(22.14)	(75.64)	(24.93)	No	Non-underwritten	5.00
23-May-25	8516	Grand Talents Group Holdings Limited	5 for 2	HK\$27.5 million	(33.00)	(12.34)	(38.15)	(23.57)	No	Non-underwritten	3.00
13-May-25	204	Capital Realm Financial Holdings Group Limited	3 for 1	HK\$155.7 million	4.17	N/A	(86.28)	0.00	No	Non-underwritten	3.00
17-Apr-25	653	Bonjour Holdings Limited	3 for 1	HK\$107.45 million	(25.93)	(8.05)	(75.91)	(20.95)	Yes	Non-underwritten	2.00
14-Mar-25	8143	Good Fellow Healthcare Holdings Limited	1 for 1	HK\$29.2 million	(12.28)	(7.41)	233.33	(10.94)	No	Non-underwritten	1.00 or HK\$128,000
7-Mar-25	1715	Volcano Spring International Holdings Limited	3 for 1	HK\$88.4 million	47.06	8.70	20.86	0.00	No	Non-underwritten	1.00
18-Feb-25	164	China Baoli Technologies Holdings Limited	4 for 1	HK\$202.55 million	6.67	1.27	N/A	0.20	Yes	Non-underwritten	1.00
14-Feb-25	1529	Yues International Holdings Group Limited	4 for 1	HK\$69.4 million	(7.14)	(1.52)	(88.68)	(21.47)	No	Non-underwritten	1.00 or HK\$100,000
7-Feb-25	8401	Sream Ideas Group Limited	2 for 1	HK\$40.8 million	(15.00)	(5.50)	319.24	(11.58)	No	Non-underwritten	3.00
17-Jan-25	1718	Wan Kei Group Holdings Limited	1 for 1	HK\$23.0 million	(29.82)	(17.53)	(75.00)	(17.64)	No	Non-underwritten	3.00
20-Dec-24	8456	Mansion International Holdings Limited	4 for 1	HK\$30.7 million	(22.90)	(5.50)	98.63	(18.80)	No	Non-underwritten	1.50
19-Dec-24	1850	HSC Resources Group Limited	4 for 1	HK\$73.27 million	(24.29)	N/A	(93.78)	(19.43)	No	Non-underwritten	1.50
		Minimum			(40.71)	(22.14)	(93.78)	(24.93)			1.00
		Maximum			47.06	8.70	319.24	0.20			5.00
		Average			(12.76)	(7.01)	12.60	(14.09)			2.17
		Median			(18.95)	(6.49)	(75.00)	(18.22)			1.75
		The Company	5 for 1	HK\$127.86 million	(22.48)	(4.62)	(21.55)	(18.73)	No	Non-underwritten	0.50



*Notes:*

1. In order to calculate the average, minimum and maximum percentage of the placing commission of the Comparables, we have excluded the minimum placing commissions and absolute placing commissions.
2. “N/A” denotes that the announcement did not disclose such information.
3. The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rules or Rule 10.44A of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.
4. The comparison to net asset value is not applicable due to the Company was at net liabilities position according to its 2024 Annual Report.
5. N/A represents the respective fundraising exercise did not involve underwriters nor placing agents.

Based on the Table A, we noted that:

- (i) the subscription prices to the closing price on the last trading days prior to the announcements of the Comparables ranged from a discount of approximately 40.71% to a premium of approximately 47.06% (the “**Comparable LTD Range**”), with an average and median of discounts of approximately 12.76% and 18.95% respectively. The discount of approximately 22.48% of the Company’s Subscription Price of HK\$0.5 per Rights Share to the closing price of HK\$0.645 per Consolidation Share on the Last Trading Day, which is within the Comparable LTD Range, larger than the average and the median discount of Comparable LTD Range;
- (ii) the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to the announcements of the Comparables in relation to the respective ranged from a discount of approximately 22.14% to a premium of approximately 8.70% (the “**Comparable TERP Range**”), with an average and median of discounts of approximately 7.01% and 6.49% respectively. The discount of the Subscription Price to the theoretical ex-rights price of HK\$0.5242 per Consolidation Share on the Last Trading Day of approximately 4.62% is within the Comparable TERP Range and with a lower discount than the average of Comparable TERP Range and the median of Comparable TERP Range; and
- (iii) the theoretical dilution effect of the Comparables ranged from a discount of approximately 24.93% to a premium of approximately 0.20% (the “**Comparable Dilution Range**”), with an average and median dilution effects of approximately 14.09% and 18.22%, respectively. The theoretical dilution effect of the Rights Issue of approximately 18.73% to the existing Shareholders if they elect not to participate in the Rights Issue is within the Comparable Dilution Range, slightly higher than the average and median dilution effects of the Comparables. As the theoretical dilution effect of the Rights Issue is below 25%, it is in compliance with Rule 7.27B of the Listing Rules. Although the theoretical dilution effect of approximately 18.73% representing a relatively

high dilution as comparing with the average and median dilution effects, the Rights Issue is achieving the necessary fund raising requirements while setting the Subscription Price that encourages Shareholders to participate. The Rights Issue demonstrates the capacity of the Group in raising new capital, strengthen its financial position and enhancing its financial performance by reducing debt levels and financing costs. Considering that (a) the theoretical dilution effect represented at the discount of approximately 18.73% by the Rights Issue; (b) the net proceeds from the Rights Issue would improve the Group's financial condition; and (c) the Subscription Price favors the Qualifying Shareholders to subscribe for the Rights Shares and maintain their respective pro-rata shareholding interests in the Company, we consider that although the theoretical dilution effect is slightly higher than the average and median of dilution effect, it is within the Comparable Dilution Range which represented by the Rights Issue is acceptable so far as Independent Shareholders are concerned.

Taking into consideration that, (i) the Subscription Price of the Rights Issue has a discount of 54.37% to the Average Theoretical Closing Price during the Review Period; (ii) the trading liquidity of the Shares were very thin during the Review Period and the Subscription Price at a discount to the Average Theoretical Closing Price may enhance the attractiveness of the Shares among the thin trading liquidity; (iii) a review period of 6 months prior to the Announcement to be exhaustive for a representation of proposed rights issue in the recent market; and (iv) the Independent Shareholders may subscribe the Rights Share with the Subscription Price close to the price of HK\$0.795 per Consolidated Share on the Latest Practicable Date under the thin trading liquidity, we are of the view that the setting of the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned and the Independent Shareholders are advised to subscribe for the entitlements.

*Absence of excess application arrangement*

As mentioned in the Letter from the Board, Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. Based on our analysis on the Comparables, we noted that 10 out of 12 Comparables, did not offer excess application as part of the rights issue. On this basis, we considered the absence of excess application to be not uncommon market practice. Furthermore, the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company, for Qualifying Shareholders who accept their respective entitlements under the Rights Issue in full, they would be able to maintain their respective existing shareholdings in the Company after completion of the Rights Issue. As such, we considered that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

#### *Placing commission*

As set out in the Letter from the Board, the terms of the Placing Agreement, including the rate of placing commission, were determined after arm's length negotiation between the Company and the Placing Agent with reference to the market comparables, the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition. For further details of the principal terms of the Placing Agreement, please refer to section headed "The Placing Agreement" in the Letter from the Board. The Placing Agent to the Company will receive a 0.5% of the amount, which is equal to the placing price multiplied by the number of Placing Shares that have been successfully placed by the Placing Agent and/or its sub-placing agent(s) pursuant to the terms of the Placing Agreement. According to the Comparables as set out in Table A, the placing commission of the Comparables ranged from 1.00% to 5.00%, with the average and median of 2.17% and 1.75%, respectively. As the placing commission is out of the range of the Comparables, we consider that although the placing commission of 0.5% borne by the Company in the Rights Issue is slightly below the market practice range, considering the placing commission is lower than the market practice means it leads to a higher net proceeds for the Company. Based on the above, we are of the view that the placing commission is in the interests of the Company and Independent Shareholders as a whole.

#### **4. Dilution effect of the Rights Issue on the shareholding of the Company**

All the Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Referring to the section headed "6. EFFECT OF THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Letter from the Board, all Qualifying Shareholders are entitled to subscribe for the Rights Shares. Qualifying Shareholders who do not accept the Rights Issue are able to sell their nil-paid rights to subscribe for the Rights Shares in the market. Where all Qualifying Shareholders do not accept the Rights Issue and thus the Placing Agents subscribe for the Unsubscribed Rights Shares pursuant to the Placing Agreement, the maximum dilution effect on the Qualifying Shareholders' shareholding interests will be 16.67% (after taking into account the effect of the Share Consolidation). It should be noted that the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including but not limited to the results of acceptance of the Rights Issue.

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 that (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and public Shareholders' interests in the Company will be not diluted if they elect to exercise their

full provisional allotments under the Rights Issue; (ii) shareholding dilution is inherent in rights issue in general; (iii) the imminent need of financial resources for the Company; and (iv) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraph headed “Possible Financial Effect 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.

## **5. Possible Financial Effect of the Rights Issue**

### *Net tangible assets value*

According to the “Unaudited pro forma financial information of the Group” set out in Appendix II to the Circular, based on (i) the audited consolidated negative net tangible assets value of the Group attributable to the equity holder of the Company of approximately RMB111.34 million; and (ii) the 255,728,860 Rights Shares in issue as at the Last Practicable Date (representing 51,145,772 Consolidated Shares as at Latest Practicable Date and the effective date of the Share Consolidation), the audited consolidated negative net tangible assets value per Share attributable to the Shareholders amounted to approximately RMB4.39 per Consolidated Share.

On the assumptions that completion of the Rights Issues had taken place on 31 December 2024, the Share Consolidation had become effective and 255,728,860 Rights Shares had been issued, immediately upon Completion of the Rights Issue, (i) the unaudited pro forma adjusted consolidated negative net tangible assets of the Group attributable to the equity holders of the Company would become approximately RMB108.0 million; and (ii) the number of Shares in issue would become 51,145,772 Consolidated Shares, resulting in the unaudited pro forma adjusted consolidated negative net tangible assets value per Consolidated Share attributable to the Shareholders of approximately RMB0.35.

Despite a reduction of approximately 92.0% in the consolidated negative net tangible assets value per share upon Completion, we have carefully considered (i) the reasons for the Rights Issue as outlined in the section titled “2. Reasons for and benefits of the Rights Issue and use of proceeds” in this letter, and (ii) the rights of the Qualifying Shareholders to take up their respective entitlements. This allows them to maintain their shareholdings in the Company and participate in the Group’s potential growth. In our view, the overall impact on the consolidated negative net tangible assets value per share is fair and reasonable, and it serves the best interests of the Company and its Shareholders as a whole.

### *Liquidity*

According to the 2024 Annual Report, as at 31 December 2024, the bank and cash equivalents of the Group was approximately RMB15.18 million and the Group had current assets of approximately RMB108.13 million, current liabilities of approximately RMB289.13 million. Accordingly, the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group)

as at 31 December 2024 was approximately 0.37 times. Immediately upon completion of the Rights Issue, the bank and cash equivalents of the Group is expected to increase by the expected net proceeds from the Rights Issue of approximately HK\$125.73 million. The current ratio of the Group will be increased from approximately 0.37 times to approximately 0.81 times. As such, the current ratio and the liquidity of the Group will be improved upon the completion of the Rights Issue.

After taking into consideration of the above, particularly, the improvement in liquidity position of the Group, we are of the view that the Rights Issue is in the interest of the Company and the Shareholders as a whole.

Shareholders should note that the aforesaid analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon completion of the Rights Issue and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of (i) the financial position of the Company as at 31 December 2024 or any future date; or (ii) the net assets/liabilities per Share of the Company as at 31 December 2024 or any future date.

## **OPINION AND RECOMMENDATION**

Having taken into consideration of the following principal factors and reasons regarding the major terms of the Rights Issue including:

- (i) the proceeds from the Rights Issue for repayments of the Group's loans and other payables, and the Directors expectation to strengthen its general working capital structure without incurring debt financing cost and improve the financial position, under section headed "2. Reasons for and benefits of the Rights Issue and use of proceeds" above in this letter;
- (ii) taking into account the benefits and cost of each of the alternatives, the Rights Issue represents a more cost effective, efficient and beneficial mean to the Company and the Shareholders as a whole as compared to raising fund by other means as stated under the paragraph headed "Alternative financing methods" above in this letter;
- (iii) the Subscription Price represents a discount of approximately 22.48% and 20.63% to the theoretical closing price on the Last Trading Day, and the five (5) consecutive trading days prior to the Last Trading Day, respectively;
- (iv) the Subscription Price is fair and reasonable in our view for the reasons set out in earlier sections headed "Subscription Price" and "Comparison with recent rights issue transactions" in this letter; and

- (v) Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportionate interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company, and the maximum dilution effect only occur when the Qualifying Shareholders do not subscribe for their proportionate Rights Shares,

we are of the view that the terms of the Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue including the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully  
For and on behalf of  
**Silverbricks Securities Company Limited**



**Yau Tung Shing**  
*Managing Director of Corporate Finance*

*Note:* Mr. Yau Tung Shing is a licensed individual under the SFO, authorized to conduct Type 6 (advising on corporate finance) regulated activities in accordance with the SFO. He is considered responsible officer of Silverbricks Securities Company Limited. Mr. Yau Tung Shing possesses over 9 years of experience in the corporate finance industry.