GLOBAL MASTERMIND SECURITIES LIMITED
環球大通證券有限公司 (CE No.: BIO 067)

24 January 2024

To Independent Board Committee and the Independent Shareholders of
Sun Kong Holdings Limited

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY ONE (1) CONSOLIDATED SHARE HELD ON THE RECORD DATE

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 terms of the Rights Issue, details of which are set out in the "Letter from the Board" (the "**Board's Letter**") contained in the circular of the Company dated 24 January 2024 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 28 December 2023, the Company announced, amongst others, the Rights Issue. The Company proposed, subject to, among other things, the Share Consolidation becoming effective, to raise gross proceeds of up to approximately HK$24.0 million before expenses (assuming full subscription under the Rights Issue) by issuing up to 80,000,000 Rights Shares (assuming no further issue or repurchase of the Shares or Consolidated Shares on or before the Record Date) by way of rights issue at the Subscription Price of HK$0.30 per Rights Share, on the basis of two (2) Rights Shares for every one (1) Consolidated Share held on the Record Date. The Rights Issue is not underwritten and will not be extended to the Excluded Shareholder(s) (if any).

In accordance with Rule 10.29(1) of the GEM Listing Rules, as the Rights Issue will increase the total number of issued Shares by more than 50% within a 12 months period immediately preceding the date of the Announcement (after taking into account the effect of the Share Consolidation), the Rights Issue is conditional upon the Shareholders' approval at the EGM, and any controlling shareholders of the Company and their respective 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 resolution(s) in relation to the Rights Issue at the EGM.

(Member of Global Mastermind Holdings 環球大通集團(8063)成員)
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As at the Latest Practicable Date, Fully Fort Group Limited, being a controlling shareholder of the Company, directly held 251,110,000 Shares (representing approximately 62.8% of the issued share capital of the Company as at the Latest Practicable Date). Fully Fort Group Limited is a company wholly owned by Mr. Law Ming Yik who is an executive Director. Accordingly, Fully Fort Group Limited, Mr. Law Ming Yik and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 10.29(1) of the GEM Listing Rules.

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

THE INDEPENDENT BOARD COMMITTEE

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Fenn David, Mr. Wong Ka Chun Matthew and Mr. Chan Ting Fung, to advise the Independent Shareholders as to whether the terms of the Rights Issue 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.

We, Global Mastermind Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

We have not acted as an independent financial adviser and has not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Rights Issue, and accordingly, are eligible to give independent advice and recommendations on the Rights Issue. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Rights Issue.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, among other things, (i) the information contained or referred to in the Circular; (ii) the annual report of the Company for the year ended 31 March 2023 (the "**Annual Report 2022/23**") and the interim report of the Company for the six months ended 30 September 2023 (the "**Interim Report 2023/24**"); and (iii) the information and opinions provided by the Directors and/or the management of the Group (the "**Management**").

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 material 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 in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to suspect the truth, accuracy and completeness of such information and representations provided to us by the Directors and the Management. 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 and the Management. We will notify the Shareholders of any material change of information in the Circular up to the date of the EGM.

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

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business, financial conditions, affairs and future prospect of the Group.

We have not considered the tax and regulatory implications on the Independent Shareholders regarding the Rights Issue since these depend on their individual circumstances. In particular, the Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions, and if in any doubt, should consult their own professional adviser.

This letter is issued for the Independent Board Committee and the Independent Shareholders, solely in respect 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 recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in the sale of diesel oil and related products in Hong Kong. The services of the Group include sourcing and transportation of diesel oil and related products in Hong Kong.

(a) Financial performance

Set out below is the consolidated financial information of the Group for the two years ended 31 March 2022 and 2023 as extracted from the Annual Report 2022/23 and the six months ended 30 September 2022 and 2023 as extracted from the Interim Report 2023/24:

	For the six months ended 30 September		**For the year ended 31 March**	
	2023	**2022**	**2023**	**2022**
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	56,306	36,238	67,722	230,915
Gross profit	4,902	1,167	3,273	6,889
Profit/(Loss) for the year/period	1,305	(2,941)	(12,066)	(3,134)

*For the year ended 31 March 2023 ("**FY2022/23**")*

For FY2022/23, the Group recorded a revenue of approximately HK$67.7 million, representing a decrease of approximately 70.7%, as compared to the revenue of approximately HK$230.9 million for the year ended 31 March 2022 ("**FY2021/22**"). As stated in the Annual Report 2022/23, the decrease was mainly due to decrease in the sale of diesel oil as a result of the COVID-19 outbreak which caused severe disruption to manufacturing and logistic activities between Hong Kong and the People's Republic of China (the "**PRC**").

Despite the decrease in gross profit by approximately 52.2% from approximately HK$6.9 million for FY2021/22 to approximately HK$3.3 million for FY2022/23, the Group's gross profit margin increased from approximately 3.0% for FY2021/22 to approximately 4.8% for FY2022/23. As disclosed in the Annual Report 2022/23, such increase in margin was mainly attributable to more diesel oil being sold to higher margin customers of construction sector and reduction in repairing costs of diesel tank wagons during FY2022/23.

The Group recorded loss for the year of approximately HK$12.1 million for FY2022/23, representing an increase of approximately 290.3% as compared to approximately HK$3.1 million as recorded for FY2021/22. Based on the Annual Report 2022/23 and advised by the Management, such increase in loss was primarily due to (i) the drop in gross profit for FY2022/23 as discussed above; and (ii) the increase in impairment loss on trade and other receivables of approximately HK$5.4 million for FY2022/23 attributable to overdue trade receivables from logistic customers.

*For the six months ended 30 September 2023 ("**1H2023/24**")*

For 1H2023/24, the Group recorded a revenue of approximately HK$56.3 million, representing an increase of approximately 55.5%, as compared to the Group's revenue of approximately HK$36.2 million for the six months ended 30 September 2022 ("**1H2022/23**"). As referred to the Interim Report 2023/24 and advised by the Management, the increase was mainly due to increase in the sale of diesel oil during 1H2023/24 due to market demand recovery.

The Group recorded an increase in gross profit by approximately 308.3% from approximately HK$1.2 million for 1H2022/23 to approximately HK$4.9 million for the 1H2023/24 which was in line with the increase in revenue for the same period. The Group's gross profit margin increased from approximately 3.2% for 1H2022/23 to approximately 8.7% for the 1H2023/24. As advised by the Management, the increase was mainly due to more sales to higher gross profit customers in construction sector.

The Group recognised net profit of approximately HK$1.3 million for 1H2023/24, as compared to a loss of approximately HK$2.9 million for 1H2022/23. As referred to the Interim Report 2023/24 and advised by the Management, such turnaround was mainly due to (i) the increase in gross profit for 1H2023/24 as discussed above; and (ii) the decrease in administrative expenses and other operating expenses of approximately HK$1.2 million for 1H2023/24 due to strengthen cost control in staff costs and other operating expenses.

(b) Financial position

Set out below is a summary of the consolidated statements of financial position of the Group as at 31 March 2023 as extracted from the Annual Report 2022/23 and as at 30 September 2023 as extracted from the Interim Report 2023/24:

	As at 30 September 2023 (Unaudited) *HK$'000*	**As at 31 March 2023** (Audited) *HK$'000*
Non-current assets	**8,902**	**9,975**
Current assets	**52,788**	**48,257**
Trade receivables	51,933	45,901
Other receivables	815	1,980
Bank balances and cash	40	376
Current liabilities	**20,427**	**18,274**
Trade payables	2,725	2,239
Other payables	5,204	3,850
Bank overdrafts	4,959	4,255
Bank borrowings	7,539	7,930
Net current assets	**32,361**	**29,983**
Net assets	**41,263**	**39,958**

The decrease of the Group's non-current assets from approximately HK$10.0 million as at 31 March 2023 to approximately HK$8.9 million as at 30 September 2023 was mainly due to the decrease in property, plant and equipment during 1H2023/24 mainly attributable to the annual depreciation over diesel tank wagons, as advised by the Management. Current assets of the Group increased from approximately HK$48.3 million as at 31 March 2023 to approximately HK$52.8 million as at 30 September 2023. Such increase was mainly a result of the increase in trade receivables of approximately HK$6.0 million during 1H2023/24 attributable to the increase in revenue and more sale to construction sector customers which have longer credit period, as advised by the Management. The Group's bank balances and cash amounted to HK$40,000 as at 30 September 2023.

The current liabilities of the Group increased from approximately HK$18.3 million as at 31 March 2023 to approximately HK$20.4 million as at 30 September 2023. Such increase was primarily attributable to the increase in other payables of approximately HK$1.4 million mainly due to the unpaid salary to senior management during the period of COVID-19 pandemic.

The Group's current ratio was around the same at approximately 2.6 as at 31 March 2023 and 30 September 2023 respectively. The gearing ratio was stabled at approximately 0.303 as at 30 September 2023 (as at 31 March 2023: approximately 0.305).

(c) Prospect

In the first quarter of 2023 and the late fourth quarter of 2022, a series of precautionary and quarantine control measures in Hong Kong and the PRC were cancelled respectively. As discussed in the Interim Report 2023/24, the demand in diesel oil from cross-boundary transportation sector was improved accordingly. However, it is noted by the Group that the demand is still below the level before the COVID-19 pandemic. Despite the decrease of average crude oil price in 1H2023/24, crude oil prices maintained at high level. The high purchase cost of diesel oil directly creates pressure on the operating cash flow of the Group. For 1H2023/24, the Group had negative cashflow in operating activities.

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

(a) Use of proceeds

As stated in the Board's Letter, assuming full subscription under the Rights Issue, the expected gross proceeds of the Rights Issue will be up to approximately HK$24.0 million and the relevant expenses would be approximately HK$1.0 million, which includes placing commission and professional fees payable to financial adviser, legal advisers and other parties involved in the Rights Issue. Accordingly, the estimated net proceeds of the Rights Issue, after deducting the related expense, will be up to approximately HK$23.0 million. The Company intends to use the net proceeds from the Rights Issue as to (i) approximately HK$5.0 million for the repayment of bank overdrafts of the Group; (ii) approximately HK$5.0 million for the repayment of bank borrowings of the Group; (iii) approximately HK$6.0 million for repayment of trade payables and other payables of the Group; and (iv) approximately HK$7.0 million for general working capital of the Group. The repayments of bank overdrafts, bank borrowings and trade payables and other payables of the Group are expected to be within around three months upon completion of the Rights Issue whereas the remaining proceeds are expected to be the general working capital of the Group for the forthcoming 15 months upon completion of the Rights Issue.

As shown in the paragraphs headed "Background information of the Group" above, the Group recorded bank overdrafts and bank borrowings of approximately HK$5.0 million and HK$7.5 million respectively as at 30 September 2023. According to the Interim Report 2023/24 and as stated in the Board's Letter, the bank overdrafts of the Group are interest bearing, being Hong Kong Interbank Offered Rate plus 4% per annum. We reviewed the relevant monthly statement from August 2023 to November 2023 provided by the Management and noted that the interest of bank overdrafts varied monthly due to the change of the Hong Kong Interbank Offered Rate every month and ranged between approximately 6.5% to 9.7% during such period. It is also noted that the bank borrowings of the Group are interest bearing, being 2.5% below Hong Kong dollar prime rate per annum (i.e. effectively 3.625% per annum). As noted from the abovementioned monthly statements provided by the Management, the bank borrowings are repayable in various monthly instalments up to 2032 and 2033. Taking into account the above, we concur with the view of the Directors that it is prudent to obtain fund for partial repayment and also save part of the associated interest expenses having considered the low level of bank balance and cash of the Group (i.e. approximately HK$40,000 as at 30 September 2023) and the related interest expenses.

As shown in the paragraphs headed "Background information of the Group" above, the Group recorded trade payables and other payables of approximately HK$2.7 million and HK$5.2 million respectively as at 30 September 2023. As disclosed in the Interim Report 2023/24, the trade payables are non-interest bearing and the Group is normally granted with credit terms of within 30 days. As maintaining stable supply is crucial to the operation of the Group, we concur with the view of the Directors that repaying trade payables and other payables is beneficial to the Group.

As discussed in the paragraphs headed "Background information of the Group" above, the high purchase cost of diesel oil directly creates pressure on the operating cash flow of the Group and the Company had negative cashflow in operating activities for 1H2023/24. As at 30 September 2023, the Group's bank balances and cash amounted to HK$40,000. We enquired with the Management regarding the working capital to be required by the Group. It is expected that the related expenses would be generally approximately HK$0.45 million per month, which include legal and professional fees, staffs cost and director emoluments, utilities and office expenses and rental repayment. We consider the use of proceeds of the Group for general working capital can enhance the liquidity of the Group.

Having considered (i) the latest bank balance and cash position of the Group; (ii) the decrease in interest cost after the settlement of the bank overdrafts and bank borrowings; (iii) the obligation of the Group to repay the trade payables and other payables and the default of which may adversely affect the relation between the Group and its suppliers; (iv) the enhanced liquidity of the Group after utilising the net proceeds for general working capital; and (v) the financial position and liquidity of the Group will be enhanced after the repayment of the indebtedness of the Group, we are of the view that the intended use of proceeds from the Rights Issue is fair and reasonable.

(b) Fund-raising alternatives

As stated in the Board's Letter, apart from the Rights Issue, 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.

We noted from the Board that given the outstanding bank borrowings and bank overdrafts of the Group, bank borrowings, if available, would result in additional interest burden of the Company and create further pressure to the liquidity of the Company. Hence, the Board does not consider it to be beneficial to the Company. We are advised by the Management that, despite the above, the Company still tried to obtain further bank facilities but no positive feedback had been received.

As for placing of new Shares, it 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. We understood from the Management that during previous negotiation with a securities firm, such securities firm expressed no interest in relation to be the placing agent for placing of new Shares under general mandate of the Company.

As for open offer, while it is similar to a rights issue, offering Qualifying Shareholders to participate, it does not allow free trading of rights entitlements in the open market. Under rights issue, the Qualifying Shareholders can increase their respective interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability) or reduce their respective interests in the shareholding of the Company by disposing of their rights entitlements in the open market (subject to the market demand). The Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue are able to sell the nil-paid rights in the market. We noted from the Management that the Company had approached two securities firms for being the underwriter(s) of the Rights Issue. However, such two securities firms both indicated that they had no interest in becoming the underwriter of the Rights Issue. The Company further asked the Placing Agent to be the placing agent of the Rights Issue. After several rounds of negotiations, the Company entered into the Placing Agreement with the Placing Agent.

After taking into account the reasons for the Company for not adapting the various fund-raising alternatives as well as the works done by the Company to seek for alternative fund-raising activities, we consider, under the current circumstances, the Company has exhausted all possible fund-raising options and concur with the view of the Directors that the Rights Issue is an appropriate fund-raising method to the Group.

3. Principal terms of the Rights Issue

The Company proposed, subject to, among other things, the Share Consolidation becoming effective, to raise gross proceeds of up to approximately HK$24.0 million before expenses (assuming full subscription under the Rights Issue) by issuing up to 80,000,000 Rights Shares (assuming no further issue or repurchase of the Shares or Consolidated Shares on or before the Record Date) by way of rights issue at the Subscription Price of HK$0.30 per Rights Share, on the basis of two (2) Rights Shares for every one (1) Consolidated Share held on the Record Date. The Rights Issue is not underwritten and will not be extended to the Excluded Shareholder(s) (if any). Please refer to the section headed "Proposed Rights Issue" in the Board's Letter for details of the Rights Issue.

(a) The Subscription Price

The Subscription Price of HK$0.30 represents:

(i) a discount of 38.78% to the theoretical closing price of HK$0.490 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.049 per Existing Share as quoted on the Stock Exchange on the Last Practicable Date;

(ii) a discount of approximately 34.78% to the theoretical closing price of HK0.460 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK$0.046 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 34.78% to the theoretical closing price of HK$0.460 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK$0.046 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 37.76% to the theoretical closing price of approximately HK$0.482 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK$0.0482 per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 15.49% to the theoretical ex-rights price of approximately HK$0.355 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the benchmarked price of approximately HK$0.464 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.046 and the average closing price of HK$0.0464 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day);

(vi) a discount of approximately 70.0% to the audited consolidated net asset value per Consolidated Share of approximately HK$1.00 (based on the latest published audited consolidated net asset value of the Group of approximately HK$39.96 million as disclosed in the annual report of the Company for the year ended 31 March 2023 and 40,000,000 Consolidated Shares assuming the Share Consolidation has become effective);

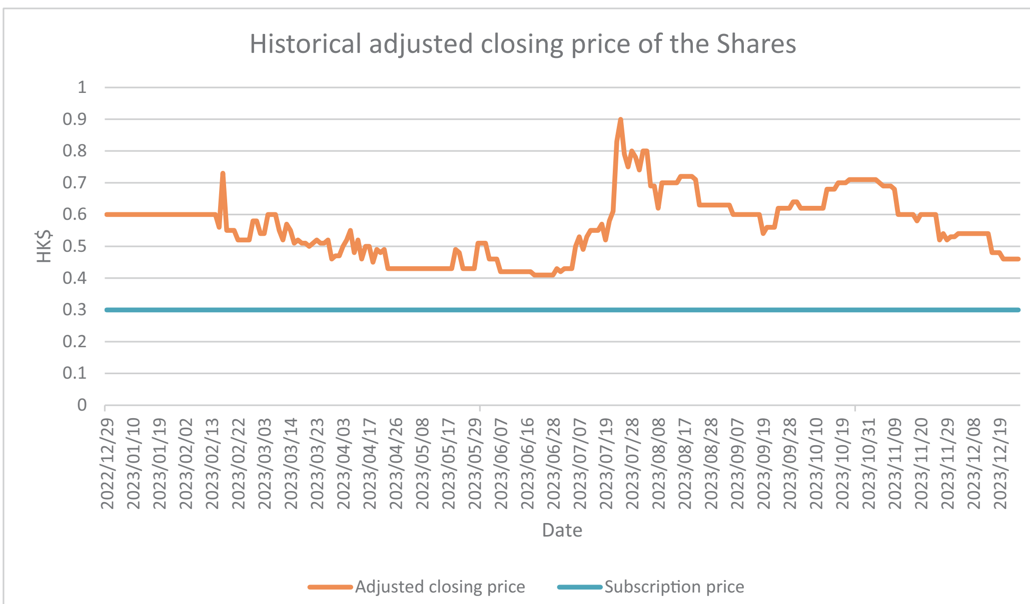
(vii) a discount of approximately 70.87% to the unaudited consolidated net asset value per Consolidated Share of approximately HK$1.03 (based on the latest published unaudited consolidated net asset value of the Group of approximately HK$41.26 million as disclosed in the interim report of the Company for the six months ended 30 September 2023 and 40,000,000 Consolidated Shares assuming the Share Consolidation has become effective); and

(viii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 23.49% represented by the theoretical diluted price of approximately HK$0.355 to the benchmarked price of approximately HK$0.464 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.046 and the average closing price of HK$0.0464 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day).

As mentioned in the Board's Letter, the Subscription Price was determined with reference to, among other things, (i) the prevailing market price and recent trading performance of the Shares; (ii) the latest business performance and financial position of the Group; (iii) the Existing Share has been trading substantially below the net asset value of the Company; (iv) the prevailing market conditions of the capital market in Hong Kong; and (v) the amount of funds the Company intends to raise under the Rights Issue.

(i) ***Historical price performance of the Shares***

In order to assess the fairness and reasonableness of the Subscription Price, we performed a review on the historical closing price of the Shares during the period from 29 December 2022, being 12 months immediately preceding the Last Trading Day, and up to the Last Trading Day (the "**Review Period**"). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares which reflect prevailing market sentiments and the comparison between the closing price of the Shares and the Subscription Price is relevant for the assessment of the fairness and reasonableness of the Subscription Price. The chart below illustrates the historical adjusted closing price of the Shares during the Review Period:



Source: The Stock Exchange (www.hkex.com.hk)

After a steady period of around two months after the start of the Review Period, the adjusted closing price of the Shares gradually dropped to the lowest of HK$0.41 in late June and then rocketed and peaked at HK$0.90 on 25 July 2023. After that, the adjusted closing price of the Shares fluctuated in an overall downward trend. The closing price per Share ranged from HK$0.41 and HK$0.90 with an average closing price of approximately HK$0.56 during the Review Period.

It is noted that the Subscription Price of HK$0.30 per Rights Share is below the adjusted closing prices per Share throughout the Review Period and represents (i) a discount of approximately 66.7% to the highest closing price; (ii) a discount of approximately 26.8% to the lowest closing price; and (iii) a discount of approximately 46.4% to the average daily closing price during the Review Period.

With reference to the paragraph headed "Comparison with recent rights issue exercises" below, we note that it is a common market practice that the subscription price of a rights issue is set at a discount to the prevailing market prices of the relevant shares to enhance its attractiveness and to encourage the existing shareholders to participate in a rights issue as to meet the companies' need for additional funding. We concur with the view of the Directors that the Subscription Price being set at a discount to the prevailing market prices of the Shares is in line with the general practice and is acceptable.

(ii) Historical liquidity of the Shares

The table below sets out information of the market trading liquidity of the Shares during the Review Period:

Month/period	**Total trading volume** *No. of Shares*	**Number of trading days**	**Average daily trading volume** *No. of Shares*	**Percentage of the average daily trading volume to the total number of issued Shares** *(Note 1)*
2022				
December (from 29 December 2022)	180,000	2	90,000	0.02%
2023				
January	1,410,000	18	78,333	0.02%
February	10,620,000	20	531,000	0.13%
March	5,160,000	23	224,348	0.06%
April	6,450,000	17	379,412	0.09%
May	1,410,000	21	67,143	0.02%
June	3,340,000	21	159,048	0.04%
July	21,140,000	20	1,057,000	0.26%
August	1,560,000	23	67,826	0.02%
September	1,080,000	19	56,842	0.01%
October	2,570,000	20	128,500	0.03%
November	1,830,000	22	83,182	0.02%
December (up to the Last Trading Day)	1,340,000	18	74,444	0.02%

Source: The Stock Exchange (www.hkex.com.hk)

Note:

1. It is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue at the end of each month/period.

As shown in the table above, the average daily trading volume of the Shares in each month/period ranged from 56,842 Shares in September 2023 to 1,057,000 Shares in July 2023 during the Review Period, representing approximately 0.01% to approximately 0.26% of the total number of issued shares as at the end of the month/period respectively. The Shares were generally illiquid in the open market.

Having considered the thin trading volume of the Shares, we are of the view that the Company is unlikely to be able to raise equity funds from third parties without a substantial discount to the prevailing Share price. It is also difficult to attract the existing Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at discount to the historical closing prices of the Shares. To attract the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the development of the Group, we consider that the Subscription Price being set at discount to the prevailing market price of the Shares is reasonable and acceptable.

(iii) Comparison with recent rights issue exercises

To assess the fairness and reasonableness of the terms of the Rights Issue, we conducted market research on recent proposed rights issue transactions which were announced in the six-month period preceding the last trading day i.e. from 29 June 2023 to 28 December 2023. We identified an exhaustive list of 16 rights issue comparables (the "**Comparables**") based on the selection criteria that (i) the shares of the company are listed on the Stock Exchange; and (ii) the maximum gross proceeds are less than HK$50 million (taking into account the maximum gross proceeds from the Rights Issue is up to approximately HK$24.0 million). While the Comparables may have different principal business activities, scale of operations, market capitalisations, profitability and financial positions as compared to those of the Company, having considered that our analysis is mainly concerned with the principal terms of the rights issues under the prevailing market sentiment, we are of the view that the Comparables can provide a reasonable reference as to how the recent market generally perceives rights issues. Set out below are the details of the Comparables:

No.	Company name	Stock code	Date of announcement	Basis of entitlement	Maximum gross proceeds *HK$'million*	Premium/(discount) of the subscription price over/(to) the closing price on the respective last trading day *%*	Premium/(discount) of the subscription price over/(to) the theoretical ex-right price based on the closing price on the respective last trading day *%*	Premium/(discount) of the subscription price over/(to) the latest consolidated net asset value per share *(Note 1)* *%*	Theoretical dilution effect *%*	Excess application *Y/N*	Fully underwritten *Y/N*	Placing commission *(Note 2)* *%*
1	Huasheng International Holding Limited	1323	28/12/2023	1 for 2	28.97	(12.21)	(8.73)	(93.85)	3.82	N	N	3.0
2	Major Holdings Limited	1389	14/12/2023	2 for 3	30.16	(53.10)	(40.46)	(56.96)	21.24	N	Y	3.0
3	Imperium Financial Group Limited	8029	8/12/2023	1 for 2	45.69	(11.11)	(7.69)	NA	3.70	N	N	2.0
4	Finsoft Financial Investment Holdings Limited	8018	5/12/2023	3 for 1	27.98	(28.16)	(8.92)	(83.12)	21.12	N	N	3.5
5	China Financial Leasing Group Limited	2312	1/12/2023	1 for 1	20.81	(32.58)	(19.46)	(63.96)	16.29	Y	Y	NA
6	Lapco Holdings Limited	8472	24/11/2023	3 for 1	43.20	(30.23)	(9.77)	(84.85)	22.67	N	N	2.5
7	Gameone Holdings Limited	8282	21/11/2023	1 for 2	13.20	6.80	4.46	(11.29)	NA	Y	Y	NA
8	Universe Printshop Holdings Limited	8448	3/10/2023	3 for 2	34.43	(14.81)	(8.00)	NA	11.06	N	Y	1.5
9	Royal Century Resources Holdings Limited	8125	15/9/2023	5 for 1	36.06	(19.30)	(3.77)	(84.97)	16.14	N	N	1.0
10	Asian Citrus Holdings Limited	73	11/9/2023	1 for 2	43.74	(31.37)	(24.57)	(45.31)	11.11	Y	N (best effort)	NA
11	Orient Securities International Holdings Limited	8001	6/9/2023	1 for 2	7.46	(50.82)	(40.79)	(93.67)	17.47	N	N	0.5
12	Rare Earth Magnesium Technology Group Holdings Limited	601	3/9/2023	1 for 2	15.80	(39.85)	(23.81)	(97.12)	13.53	Y	Y	NA
13	Almana Limited	8186	11/8/2023	3 for 1	18.79	(26.67)	(8.33)	22.22	22.58	N	N	1.0
14	Platt Nera International Limited	1949	24/7/2023	1 for 2	20.00	(57.98)	(47.92)	(54.13)	19.33	N	N	3.0
15	Tasty Concepts Holding Limited	8096	14/7/2023	5 for 2	27.50	4.71	1.52	566.67 *(Note 3)*	2.59	N	N	fixed fee of HK$100,000 +2.5% *(Note 4)*
16	Classified Group (Holdings) Limited	8232	6/7/2023	3 for 2	14.25	(14.80)	(6.58)	(49.10)	8.80	N	Y	fixed fee of HK$38,000 *(Note 4)*
					Minimum	(57.98)	(47.92)	(97.12)	2.59			0.5
					Maximum	6.80	4.46	22.22	22.67			3.5
					Median	(27.42)	(8.83)	(63.96)	16.14			2.3
	The Company	8631	28/12/2023	2 for 1	24.00	(34.78)	(15.49)	(70.87)	23.49	N	N	1.0

Notes:

1. NA denotes that net asset value is not applicable due to the net liabilities position of the respective Comparable.

2. NA denotes that the respective Comparable did not involve placing agents.

3. It is considered as outlier. As such, it is excluded from the analysis.

4. Different from usual market practice of placing commission charging on a percentage, the placing commission of rights issue this Comparable is fixed or include a fixed fee. As such, it is excluded from the analysis.

It is noted from the above table that there are 14 out of 16 Comparables set the subscription price at a discount to their prevailing market price. It indicates that it is common to set the subscription price of a rights issue at a discount to its prevailing market price in order to enhance the attractiveness and encourage shareholders to participate.

As noted from the above table,

(i) the subscription price to the closing price on the respective last trading day of the Comparables ranged from a discount of approximately 57.98% to a premium of approximately 6.80%, with a median discount of approximately 27.42%. The Subscription Price represents a discount of approximately 34.78% to the theoretical closing price per Consolidated Shares on the Last Trading Day, which is within the range of that of the Comparables, and represents a slightly higher discount than the median of that of the Comparables;

(ii) the subscription price to the theoretical ex-right price on the respective last trading day of the Comparables ranged from a discount of approximately 47.92% to a premium of approximately 4.46%, with a median discount of approximately 8.83%. The Subscription Price represents a discount of approximately 15.49% to the theoretical ex-rights price per Consolidated Shares on the Last Trading Day, which is within the range of that of the Comparables, and represents a slightly higher discount than the median of that of the Comparables;

(iii) the subscription price to the latest consolidated net asset value per share of the Comparables ranged from a discount of approximately 97.12% to a premium of approximately 22.22%, with a median discount of approximately 63.96%. The Subscription Price represents a discount of approximately 70.87% to the net asset value of the Group based on the latest published unaudited consolidated net asset value of the Group of approximately HK$41.26 million as at 30 September 2023 and 40,000,000 Consolidated Shares, which is within the range of that of the Comparables, and represents a slightly higher discount than the median of that of the Comparables; and

(iv) the theoretical dilution effect of the Comparables ranged from approximately 2.59% to approximately 22.67%, with a median of approximately 16.14%. The theoretical dilution effect of the Rights Issue of approximately 23.49% is slightly above the range of that of the Comparables.

Although the theoretical dilution effect of the Rights Issue of is slightly above the range of that of the Comparables, having taken into account (i) it is a common market practice for listed issuers in Hong Kong to set subscription price of a rights issue at a discount to the market price in order to enhance the attractiveness of a rights issue; (ii) the discounts represented by the Subscription Price to the theoretical closing price, the theoretical ex-rights price and the latest published net asset value per Consolidated Share fall within the respective range of that of the Comparables; (iii) the closing price of the Shares was generally in downward trend since late October 2023; (iv) the trading volume of the Shares was thin and the Shares were generally illiquid in the open market; (v) the funding needs of the Group to repay its debts and payables as well as general working capital of the Group; and (vi) the fact that the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price so long as they are offered with an equal opportunity to participate in the Rights Issue, we are of the view that the Subscription Price is fair and reasonable.

(b) No excess application

As mentioned in the Board's Letter, there will be no excess application arrangements in relation to the Rights Issue. Amongst the Comparables, 12 out of 16 Comparables did not offer excess application for its shareholders. As such, we consider the absence of excess application in rights issue is not an uncommon market practice. Instead of excess application arrangement, the Company has arranged the Compensatory Arrangements and the Placing.

(c) Placing commission

The Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed as agent of the Company (either by itself or through its sub-placing agents) to procure independent Placees, on a best effort basis, to subscribe for the Unsubscribed Rights Shares and the ES Unsold Rights Shares as part of the Compensatory Arrangements. For further details of the principal terms of the Placing Agreement, please refer to section headed "Placing Agreement" in the Board's Letter.

As set out in the Board's Letter, the placing fee shall be 1.0% of the aggregate placing price of the Unsubscribed Rights Shares and the ES Unsold Rights Shares successfully placed by or on behalf of the Placing Agent. It is noted from the Comparables that the placing commission of the Comparables ranged from 0.5% to 3.5%, with a median of approximately 2.3%. The placing commission is within the range and below the median of that of the Comparables. 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. Potential dilution effects of the Rights Issue on the shareholding structure of the Group

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 "Effects on the shareholding structure of the Company" in the Board's Letter, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Excluded Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue and their aggregate shareholding interests in the Company may be reduced by a maximum of approximately 66.67%. It should be noted that the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including but not limited to the results of acceptance of the Rights Issue.

Having taken into account (i) all Qualifying Shareholders are provided an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company; (ii) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the Rights Issue entitlements; (iii) shareholding dilution is generally inherent in all rights issue; (iv) the imminent need of financial resources for the Company to repay debts and payables, as well as general working capital taking into account the latest financial position of the Group; and (v) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraph headed "Possible financial effects of the Rights Issue" below, we are of the view that the potential dilution effect on the shareholding is acceptable.

5. Possible financial effects of the Rights Issue

It should be noted that the figures and financial effects shown below are for illustrative purpose only and does not purport to represent how the financial position of the Group will become upon completion of the Rights Issue.

Net tangible assets

The unaudited consolidated net tangible assets of the Group attributable to owners of the Company was approximately HK$41.3 million and HK$1.03 per Share as at 30 September 2023. As set out in Appendix II to the Circular, upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company immediately after completion of the Rights Issue would increase to approximately HK$64.2 million and decrease to approximately HK$0.54 per Share. The decrease in net tangible asset per Share is mainly due to the increase in the number of shares outstanding upon completion of the Rights Issue as the Rights Share shall be issued at a discount as compared to the unaudited consolidated net tangible asset per Consolidated Share before completion of the Rights Issue. Despite the decrease in net tangible assets per share as a result of the Rights Issue, the Rights Issue is expected to have a positive impact on the financial position of the Group.

Liquidity

According to the Interim Report 2023/24, as at 30 September 2023, the bank balances and cash of the Group was HK$40,000 and the Group had current assets of approximately HK$52.8 million and current liabilities of approximately HK$20.4 million. The current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 September was approximately 2.6 times.

Taking into account the debt and payables to be settled by the net proceeds from the Rights Issue in aggregate of approximately HK$16.0 million and approximately HK$7.0 million of the net proceeds from the Rights Issue would be used for general working capital of the Group, the total debt of the Group would be reduced whilst the capital base of the Group would be enlarged accordingly.

Immediately upon completion of the Rights Issue, the bank balances and cash of the Group is expected to increase and the debt and payables of the Group is expected to reduce. The current ratio of the Group will be increased to approximately 13.6 times.

Based on the above analysis, in particular, the improvement of the financial position, the liquidity and current ratio of the Group, we are of the view that the Rights Issue has positive financial effects on the Group and is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors, in particular,

(i) the proceeds from the Rights Issue for repayments of the debt and payables, as well as general working capital of the Group;

(ii) the Rights Issue represents an appropriate fund-raising method to the Group under the current circumstances as compared to other fund-raising means;

(iii) the terms of the Rights Issue (including the Subscription Price and the Placing commission) are fair and reasonable; and

(iv) all Qualifying Shareholders are provided an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company and the maximum dilution effect only occur when the Qualifying Shareholders do not subscribe for their assured entitlements under the Rights Issue,

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 ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Global Mastermind Securities Limited

Michael Wong
Director

Chelsea Chong
Vice president

Mr. Michael Wong is a person licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and is a responsible officer of Global Mastermind Securities Limited who has over 20 years of experience in corporate finance industry.

Ms. Chelsea Chong is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Global Mastermind Securities Limited who has over 9 years of experience in corporate finance industry.