

AmCap

Ample Capital Limited

豐盛融資有限公司

31 August 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

**CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION
OF NEW SHARES BY CONTROLLING SHAREHOLDER
UNDER SPECIFIC MANDATE**

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 Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 31 August 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Subscription under Specific Mandate

On 10 July 2023 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 1,123,500,000 Subscription Shares at the Subscription Price of HK\$0.067 per Subscription Share to the Subscriber pursuant to the terms of the Subscription Agreement.

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Member of Ample Finance Group 豐盛金融集團成員

The Subscription Shares represent approximately 49.23% of the existing issued Shares of 2,282,082,652 Shares at the Latest Practicable Date and approximately 32.99% of the enlarged issued Shares of 3,405,582,652 Shares immediately following Completion, assuming that there will be no change in the total number of issued Shares (other than the issue of the Subscription Shares) between the Latest Practicable Date and Completion.

As stated in the Board Letter, as at the Latest Practicable Date, the Subscriber is an investment holding company incorporated in British Virgin Islands, which is wholly owned by Mr. Wu. The Subscriber is the controlling shareholder which beneficially owns 1,309,881,110 Shares, representing approximately 57.40% of the issued share capital of the Company, and hence a connected person of the Company under the Listing Rules. Accordingly, The Subscription Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Subscription Shares to be issued and allotted to the Subscriber will be allotted and issued under the Specific Mandate to be obtained at the EGM, the Subscription by the Subscriber is subject to the Independent Shareholders' approval.

With reference to the Board Letter, Mr. Wu and its associate(s) will abstain from voting on the relevant ordinary resolution(s) at the EGM. Save as disclosed and to the best of the knowledge, information and belief of the Directors, no other Shareholder has a material interest in the Subscription Agreement and the transactions contemplated thereunder (including without limitation, the allotment and issue of the Subscription Shares to the Subscriber and the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to the Subscriber), and is required to abstain from voting on the resolutions to approve the aforesaid matters at the EGM.

To the best of the knowledge and belief of the Directors, save that Mr. Wu and Mr. Wu Liantao (who is the son of Mr. Wu) are deemed to be interested in the Subscription Agreement and have abstained from voting on the board resolution in connection with the Subscription Agreement, none of the Directors has any interest in the resolution(s) of the Board to consider and approve the Subscription Agreement and the transactions contemplated thereunder (including without limitation, the allotment and issue of the Subscription Shares to the Subscriber and the grant of the Specific Mandate to the Directors for the allotment and issue of the Subscription Shares to the Subscriber) or is otherwise required to abstain from voting on the relevant resolution(s) of the Board.

The Independent Board Committee comprising Ms. Chung Wing Yee, Mr. Ma Yu-heng, Ms. Yang Xuping and Mr. Zhong Shuirong, all being independent non-executive Directors, has been established to advise the Independent Shareholders on (i) whether the terms of the Subscription are on normal commercial terms and are fair and reasonable; (ii) whether the Subscription is conducted in the ordinary and usual course of the business of the Company and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Subscription and transactions contemplated thereunder at the EGM, after taking into account the factors and reasons considered by the Independent Financial Adviser and its conclusion and advice.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for the appointment as this appointment as the Independent Financial Adviser in respect of the Subscription and the transactions contemplated thereunder, there were no other engagements between us and the Group in the past two years that could reasonably be regarded as relevant to our independence. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to give independent advices in respect of Subscription and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. The Shareholders will be informed as soon as possible if there is any material change to the information or representations disclosed and made to us in this circular after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Subscription. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the management. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 as contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

A. BACKGROUND INFORMATION

1. Information of the Group

The Company is an investment holding company and the Group is principally engaged in (1) production and sale of frozen concentrated orange juice (“FCOJ”) and other related products; and (2) production and sale of Summi 100% freshly squeezed orange juice and other products.

a) *Financial results of the Group*

Set out below are extracts of financial information of the Group for each of the years ended 30 June 2021 (“FY2021”) and 30 June 2022 (“FY2022”) as extracted from the annual report of the Company for FY22 (“2022 Annual Report”) and the supplemental announcements to the 2022 Annual Report, and for each of the six months ended 31 December 2021 (“6M2021”) and 31 December 2022 (“6M2022”) as extracted from the interim report of the Company for 6M2021 (“2021 Interim Report”) and 6M2022 (“2022 Interim Report”).

	6M2022 RMB'000 (Unaudited)	6M2021 RMB'000 (Unaudited)	FY2022 RMB'000 (Audited)	FY2021 RMB'000 (Audited)
Revenue	14,608	19,635	30,172	111,168
Gross profit	1,126	2,096	7,178	4,231
Gross profit margin	7.7%	10.7%	23.8%	3.8%
Finance cost	(5,225)	(12,586)	(26,599)	(30,491)
Loss attributable to the owners of the Company	(17,887)	(29,709)	(39,807)	(48,360)

	As at 31 December 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Unaudited)	As at 30 June 2022 RMB'000 (Audited)	As at 30 June 2021 RMB'000 (Audited)
Cash and cash equivalent	8,750	5,420	5,420	3,770
Borrowings <i>(Note)</i>	163,496	183,264	183,264	259,458
Corporate bond <i>(Note)</i>	122,558	116,702	116,702	99,697
Total assets	152,846	143,913	143,913	177,284
Total liabilities	428,750	401,908	401,908	414,027
Deficit attributable to the owners of the Company	(275,904)	(257,995)	(257,828)	(236,585)

Note: figures represented a summation of current and non-current portion of the liabilities.

FY2022 compared to FY2021

The Group recorded revenue of approximately RMB30.2 million for FY2022, representing a decrease of approximately 72.9%, as compared to that of FY2021 of approximately RMB111.2 million. The decrease of the revenue was mainly due to the decrease in export business for Summi brand products and other products to the South East Asia. Due to the appreciation of RMB against other currencies in South East Asia, the Group faced fierce competition for its export business. However, the gross profit of the Group was approximately RMB7.2 million for FY2022, representing an increase of approximately 69.7%, as compared to that of FY2021 of approximately RMB4.2 million. The gross profit margin was 23.8% for FY2022 compared to 3.8% for FY2021. The increase in gross profit margin was mainly due to the effect of reversal of impairment losses recognised in respect of inventories which were utilised during the year. The finance cost of the Group decreased from approximately RMB30.5 million for FY2021 to RMB26.6 million for FY2022, which was mainly due to the decrease in interest expenses on convertible bonds from approximately RMB3.8 million for FY2021 to nil for FY2022. The Group recorded a decrease in loss attributable to the owners of the Company for FY2022 of approximately RMB39.8 million compared to RMB48.4 million for FY2021, representing a decrease of approximately 17.7%.

6M2022 compared to 6M2021

The Group recorded revenue of approximately RMB14.6 million for 6M2022, representing a decrease of approximately 25.6%, as compared to that of 6M2021 of approximately RMB19.6 million. The decrease in revenue was mainly due to the cessation of a subsidiary in Malaysia for the distribution and sale of Summi brand products and other products in Malaysia after 30 June 2022. The gross profit of the Group was approximately RMB1.1 million for 6M2022, representing a decrease of approximately 46.3%, as compared to that of 6M2021 of approximately RMB2.1 million. The finance cost of the Group decreased from approximately RMB12.6 million for 6M2021 to RMB5.2 million for 6M2022, which was mainly due to the decrease in interest expenses on bank loans from approximately RMB11.2 million for 6M2021 to RMB5.2 for 6M2022. The Group recorded a decrease in loss attributable to the owners of the Company for 6M2022 of approximately RMB17.9 million compared to RMB29.7 million for 6M2021, representing a decrease of approximately 39.8%.

As at 31 December 2022, the Group's financial position remained tight with a deficit attributable to the owners of the Company of approximately RMB275.9 million. The Group had cash and cash equivalent of approximately RMB8.8 million, borrowings of approximately RMB163.5 million and corporate bond of approximately RMB122.6 million as at 31 December 2022.

With reference to the above and as advised by the Company, despite the Group's decline in revenue due to the setback in the export business in South East Asia, the Directors had made effective efforts to remedy the loss attributable to the owners of the Company and deficit attributable to the owners of the Company by reducing the finance cost through repayment of borrowings as reflected by the 2022 Annual Report and the 2022 Interim Report, which was consistent for the purpose of this Subscription.

B. THE SUBSCRIPTION

1. Principal terms of the Subscription Agreement

Set out below are the summary of principal terms of the Subscription Agreement, details of which are set out in the section titled “The Subscription Agreement” in the Letter from the Board.

Date

10 July 2023 (after trading hours of the Stock Exchange)

Parties

- (i) the Company (as issuer); and
- (ii) the Subscriber (as subscriber)

Subscription Price

HK\$0.067 per Subscription Share

Subscription Shares

The Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, an aggregate of 1,123,500,000 Subscription Shares, representing approximately 49.23% of the existing issued Shares of 2,282,082,652 Shares as at the Latest Practicable Date and approximately 32.99% of the enlarged issued Shares of 3,405,582,652 Shares immediately following Completion, assuming that there will be no change in the total number of issued Shares (other than the issue of the Subscription Shares) between the Latest Practicable Date and Completion.

2. Information of the Subscriber

As at the Latest Practicable Date, the Subscriber is an investment holding company incorporated in British Virgin Islands, which is wholly owned by Mr. Wu. The Subscriber is the controlling shareholder which beneficially owns 1,309,881,110 Shares, representing approximately 57.40% of the issued share capital of the Company, and hence a connected person of the Company under the Listing Rules.

3. Reasons for and benefits of the Subscription and the use of proceeds

Amid the uncertain global economic outlook, the general business environment remains challenging in coming year. The Group has been maintaining its current beverage series while also developing a series of new products by leveraging the Group's advantages in food and beverage industry to support the growth of the Group, and identifying new locations for setting up new plants in Hong Kong for the Company's products.

The Directors consider that the Subscription offers a good opportunity to raise additional funds to strengthen the financial position, reduce the gearing level of the Company and broaden the capital base of the Group so as to facilitate its future development.

The aggregate gross proceeds of the Subscription will be approximately HK\$75,274,500. The aggregate net proceeds of the Subscription, after the deduction of related fees and expenses, will be approximately HK\$74,710,000.

The Company intends to apply the net proceeds from the Subscription for the following purposes:

- (i) as to 90% for repayment of debts of the Group. Approximately 32% will be used to settle the other borrowings of the Group which amounted approximately RMB21.5 million and approximately 68% will be used to repay the corporate bond Bond VII of the Group; and
- (ii) as to 10% for the Group's general working capital which will be used to cover the general operational expense such as administrative expenses mainly included general office administrative expenses and salaries and for the maintenance of the existing business, and to settle professional fees such as audit fees, legal costs, fees of financial advisers and financial printing fees.

Based on our desktop research on the Comparables, as detailed under the below paragraph "Comparables" of this letter, six out of the nine identified transactions utilized more than 80% of the net proceeds in repayment of liabilities and replenishing general working capital. In this regard, we consider the reasons for the Subscription and the use of proceeds reasonable and not uncommon.

a) Financing alternatives

Upon our request, the Directors advised that they also considered other forms of fund-raising methods for the Group, such as other equity financing (i.e. placing of new Shares to independent third-party, rights issue, or open offer) and debt financing (i.e. bank borrowings or issuance of debt), before the entering into of the Subscription Agreement.

With reference to the 2022 Annual Report and 2022 Interim Report, the finance cost of the Group was approximately RMB26.6 million for FY2022 and RMB5.2 million for 6M2022. As at 31 December 2022, the Group had total borrowings of approximately RMB163.5 million as well as corporate bonds of approximately RMB122.6 million while cash and cash equivalents were approximately RMB8.8 million. In face of the net loss recorded for 6M2022 and FY2022 together with a deficiency of shareholders' equity as at 31 December 2022, further debt financing or borrowing would incur additional finance costs and worsen the gearing level of the Group. Moreover, the possibility of refinancing with favorable terms would be difficult. In fact, the Hong Kong prime lending rate has increased to 6.00% per annum in May 2023 from approximately 5.375% per annum in September 2022 according to The Hong Kong Mortgage Corporation Limited.

As mentioned in the Board Letter, the Board has also considered rights issue or open offer. Open offer and rights issue may impose financial burden on the Company. It will incur high underwriting commission and may not be beneficial to the Company and the Shareholders as a whole. The Company contacted two securities firms and was told that (i) it would be difficult to proceed the open offer and rights issue due to the recent market sentiment (in particular the low trading volume of the Shares) and the continuous net loss of the Company; or (ii) the rights issues or open offer may be proceeded with a deeper discount to the closing price of HK\$0.074 per Share as quoted on the Last Trading Day than the Subscription Price and incurred HK\$2.26 million or more underwriting commission for rights issue and open offer comparing to the Subscription. Based on our desktop research for the recent three months, we identified 16 rights issue and one open offer involving underwriting and/or placing and among these transactions we identified, the commission expenses for rights issue and open offer by companies listed on the Main Board of the Stock Exchange ranged from 0.2% to 7.1% which implies an additional cost ranging from approximately HK\$0.2 million to HK\$5.3 million for rights issue or open offer compared to the Subscription. We consider the review period is fair and reasonable to provide a general reference for the recent market practice which has also provided reasonable number of samples for our analysis purpose.

Therefore, the Directors consider that the Subscription represents a cost-effective means of financing to the Group comparing with the debt financing, rights issue or open offer. Notwithstanding the potential dilution effect to the existing Shareholders which will arise from the Subscription, having considered (i) the Subscription can relieve part of the Group's existing borrowings without depleting its existing financial resources; (ii) the Company has funding needs in relation to the repayment of outstanding debts, in which the Subscription would enable the Company to settle the current liabilities of the Company including but not limited to the other borrowings and the corporate bonds amounted approximately HK\$67 million in a timely and effective manner; (iii) the terms of the Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned; and (iv); the Subscription represents appropriate means of fund raising for the Company as a) it is less costly with no underwriting commission to be incurred for the Subscription; b) the Subscription is relatively less time consuming as it could normally be completed within 2 months as compared to around 2 to 3 months of rights issue and open offer; and c) there is material uncertainty on whether possible rights issue and open offer can be fully subscribed, the Directors are of the view that the Subscription are in the interests of the Company and the Shareholders as a whole.

Based on the above factors, the Directors consider and we concur that the Subscription is an appropriate fund-raising method currently available to the Group and is in the interests of the Company and Independent Shareholders as a whole.

b) Financial effects of the Subscription Agreement

Based on our discussion with and the representation from the Directors, we understand from the Directors that they have taken into account the following factors when they considered the potential impact of the Subscription Agreement on the financial positions of the Group.

According to 2022 Interim Report, the net liabilities and cash and cash equivalents of the Group amounted to approximately RMB275.9 million and RMB8.8 million as at 31 December 2022, respectively. Upon completion of the Subscription, it is expected that the net liabilities will be reduced by and cash and cash equivalents of the Group will increase by the net proceeds of approximately HK\$74.7 million (equivalent to approximately RMB68.5 million), being the estimated aggregate net proceeds of the Subscription. The Subscription is expected to have a positive impact on the Group's financial positions.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial positions of the Group will be upon completion of the Subscription.

4. Evaluation of the Subscription Price

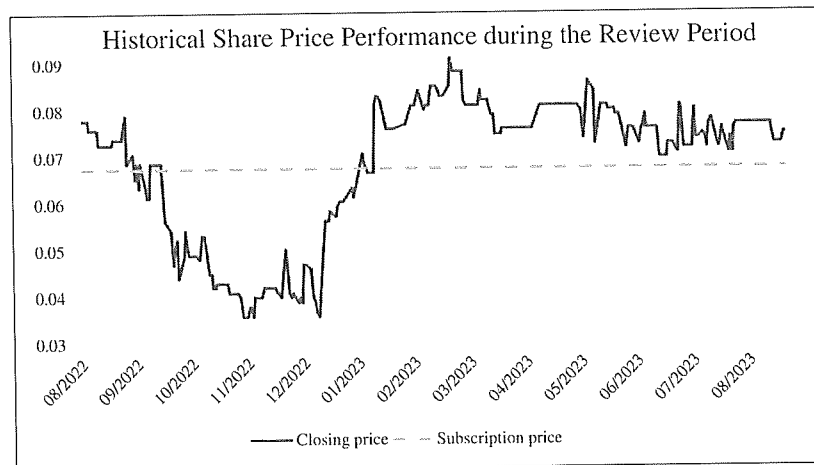
The price per Subscription Share of approximately HK\$0.067 represents:

- (a) a discount of approximately 9.46% to the closing price of HK\$0.074 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 9.46% to the closing price of HK\$0.074 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 9.46% to the average closing price of HK\$0.074 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (d) a discount of approximately 9.70% to the average closing price of HK\$0.0742 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and

The net subscription price, after deduction of relevant expenses is estimated to be approximately HK\$0.0665 per Subscription Share.

a) Historical Share price performance

We have reviewed the daily closing prices of the Shares for the period from 1 August 2022 (being the 12-month period prior to the Last Trading Day) and up to the Latest Practicable Date (the “**Review Period**”). 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 price prior to the Last Trading Day and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the Share price before the Last Trading Day represents a fair market value of the Company which the Shareholders expected. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:



Source: The Stock Exchange

During the Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.092 per Share and HK\$0.036 per Share respectively. The Subscription Price fell within the closing price range of the Shares during the Review Period and represented a slight discount of approximately 1.03% to the average closing price of the Shares of approximately HK\$0.0677 during the Review Period.

As depicted from the above chart, the closing prices of the Shares represented a general decreasing trend from August 2022 to November 2022, followed by an increasing trend from December 2022 to March 2023, and remained a relatively flattened trend with fluctuations up to the Last Trading Day.

Based on the above, we also noted that the Subscription Price was higher than the closing prices of the Shares in more than half of the total number of trading days during the Review Period. Given (i) the Subscription Price fell within the closing price range and was close to the average closing price of the Shares during the Review Period; (ii) the Group's business performance as reflected by the net loss for 6M2022, FY2022 and FY2021 while the Group's financial position remained tight with net liabilities; and (iii) the difficulties of alternative fund raising methods, the existing Shares may subject to further price volatility, we are of the view that the Subscription Price is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

b) Historical Share liquidity

The following table sets out the total trading volume per month and the average daily trading volume per month of the Share during the Review Period:

	Total trading volume of Share for the month/period (Shares)	Number of trading days (days)	Average daily trading volume (Shares)	% of average daily trading volume to total number of Shares held by the public as at the Last Trading Date (Approximately)	% of average daily trading volume to total number of Shares as at the Last Trading Date (Approximately)
2022					
July (8th to 29th)	3,248,000	16	203,000	0.02%	0.01%
August	4,464,000	23	194,087	0.02%	0.01%
September	35,356,000	21	1,683,619	0.20%	0.07%
October	7,460,000	20	373,000	0.04%	0.02%
November	7,384,000	22	335,636	0.04%	0.01%
December	13,256,000	20	662,800	0.08%	0.03%
2023					
January	53,024,000	18	2,945,778	0.35%	0.13%
February	3,496,000	20	174,800	0.02%	0.01%
March	21,028,000	23	914,261	0.11%	0.04%
April	2,272,000	17	133,647	0.02%	0.01%
May	39,008,000	21	1,857,524	0.22%	0.08%
June	35,252,000	21	1,678,667	0.20%	0.07%
July	62,892,000	20	3,144,600	0.37%	0.14%
August (up to the Latest Practicable Date)	19,784,000	18	1,099,111	0.13%	0.05%
Minimum	2,272,000	16	133,647	0.02%	0.01%
Maximum	62,892,000	23	3,144,600	0.37%	0.14%
Average	21,994,571	20	1,100,038	0.13%	0.05%

Source: The Stock Exchange

We noted from the above table that the average daily trading volume of the Shares was thin during the Review Period. During the Review Period, the Average Volume was below 1% of the total number of issued Shares held in public hands and the total number of issued Shares as at the Last Trading Day.

Given the low liquidity of the Shares as illustrated above, it is reasonable to set the Subscription Price at a discount to the closing price of the Share as at the Last Trading Day. To assess the fairness and reasonableness of the level of discount, we further performed comparables analyses, details of which are set out in the below section.

c) Comparables

In assessing the fairness and reasonableness of the Subscription Price, we identified subscription of new shares listed on the Main Board of the Stock Exchange under specific mandate (including connected transactions and transactions with independent third parties to demonstrate practices under comparable transactions regardless of the identities of counterparties), but excluding transactions involving restructuring (where restructuring usually involves a package of transactions with more factors to consider and discount is substantially larger for companies with greater financial distress), and the subscription prices of such transactions representing nil or discounts to their respective market closing price to the last trading day or announcement date, which were announced by Hong Kong listed companies during the six-month period from 10 January 2023 up to and including 10 July 2023 (the “**Comparables**”) to provide a general reference for the recent market practice in relation to the key terms of subscription under specific mandate under similar market condition. We consider that the review period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the Comparables as a whole provides a fair and representative sample.

Based on these criteria, we identified 9 Comparable Transactions as below and they are exhaustive. Shareholders should note that the market capitalisations, businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables and the subscriber(s) under the Comparables may or may not be connected person(s) of the subject company. Nevertheless, these factors would not affect the comparability of the Comparables as they serve for comparison among practices of listed companies in Hong Kong.

Date of announcement (2023)	Company name (Stock code)	Connected transaction	Discount of the subscription price to the average closing price per share for the last five consecutive trading days	Discount of the subscription price to the average closing price per share for the last five consecutive trading days up to and including the last trading day prior to the date of agreement in relation to the respective subscription of new shares	Theoretical value dilution
			Discount of the subscription price to the average closing price per share for the last five consecutive trading days	Discount of the subscription price to the average closing price per share for the last five consecutive trading days up to and including the last trading day prior to the date of agreement in relation to the respective subscription of new shares	
11 January	COFCO Joycome Foods Limited (1610)	Y	1.71%	2.13%	0.25%
18 January	Honghua Group Limited (196)	Y	1.71%	3.51%	0.75%
19 January	New Concepts Holdings Limited (2221)	N	13.64%	11.01%	1.24%
19 March	Suoxinda Holdings Limited (3680)	N	5.00%	6.86%	1.27%
26 April	New Huo Technology Holdings Limited (1611)	Y	9.57%	11.79%	0.46%
28 April	Energy International Investments Holdings Limited (353)	Y	5.50%	8.40%	1.82%
3 May	Shandong Fengxiang Co., Ltd. (9977)	N	0.45%	0.61%	0.08%
9 June	China Silver Technology Holdings Limited (515)	N	4.76%	5.66%	1.89%
4 July	China Ruyi Holdings Limited (136)	Y	17.53%	16.67%	3.50%
	Maximum discount		17.53%	16.67%	3.50%
	Minimum discount		0.45%	0.61%	0.08%
	Average		9.25%	9.71%	1.29%
10 July	The Company	Y	9.46%	9.46%	3.12%

According to the above table, the subscription prices of the Comparables ranged from a discount of approximately 0.45% to 17.53%, with an average of approximately 9.25% to the respective closing prices of the shares on the date of agreement in relation to the respective subscription. The subscription prices of the Comparables ranged from a discount of approximately 0.61% to 16.67%, with an average of approximately 9.71% to the respective average closing prices of the shares for the five consecutive trading days up to and including the last trading day prior to the date of agreement in relation to the respective subscription of the new shares. There would be a theoretical dilution effect for the Subscription represented by a discount of approximately 3.12%, calculated based on the theoretical diluted price of approximately HK\$0.0717 per Share to the theoretical benchmarked price of HK\$0.074 per Share (taking into account the higher of (a) the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day; and (b) the average of the closing prices of the Shares as quoted on the Stock Exchange for the previous five consecutive trading days prior to the date of the Announcement). The theoretical value of the Subscription fell within the range of the Comparables' and close to the highest of the Comparables of approximately 3.50%. Although the theoretical value dilution was close to the highest of the Comparables', having considered the unappealing financial performance of the Company, being net loss for FY2021, FY2022 and 6M2022 and a deficiency of shareholders' equity as at 31 December 2022, we consider a higher theoretical value dilution is reasonable.

Having considered the following factors, including:

- (i) the discount to the closing price of the Shares on the date of agreement of the Subscription Price fell within the range of the Comparables' and was close to the average of the Comparables';
- (ii) the discount to the average closing price of the Shares for the five consecutive trading days up to and including the last trading day prior to the date of agreement of the Subscription Price fell within the range of the Comparables' and was close to the average of the Comparables'; and
- (iii) the theoretical value dilution of the Subscription fell within the range of the Comparables' and close to the highest of the Comparables',

as such, we are of the view that the terms of the Subscription Agreement, including the Subscription Price, are fair and reasonable and on normal commercial terms, and the entering into of the Subscription Agreement and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole.

5. Possible dilution effect on the shareholding interests of the public Shareholders

As at the Latest Practicable Date, the Company had a total of 2,282,082,652 Shares in issue. Set out below is the shareholding structure of the Company: (i) as at the Latest Practicable Date; and (ii) immediately after Completion assuming that there are no changes in the total number of issued Shares between the Latest Practicable Date and the allotment and issue of the Subscription Shares:

	As at the Latest Practicable Date		Immediately after Completion	
	No. of Shares	Approximately	No. of Shares	Approximately
The Subscriber (<i>Note</i>)	1,309,881,110	57.40%	2,433,381,110	71.45%
Ms. Hu Mingyue	120,784,960	5.29%	120,784,960	3.55%
Public Shareholders	851,416,582	37.31%	851,416,582	25.00%
Total	2,282,082,652	100.00%	3,405,582,652	100.00%

Note: The Subscriber is Rui Er Holdings Company Limited, a company incorporated in the British Virgin Islands and is owned as to 100% by Mr. Wu beneficially. Therefore, Mr. Wu and Ms. Yang Xijuan (the spouse of Mr. Wu) are deemed to be interested in these shares under the SFO.

As shown in the above table, we noted that the shareholding in the Company held by the public Shareholders would be diluted from approximately 37.31% as at the Latest Practicable Date to approximately 25.00% immediately after Completion. We are aware of the Subscription will incur a dilution effect on the shareholding of the exiting public Shareholders. Nonetheless, having considered that (i) the Subscription can resolve the eminent funding needs of the Company and improve the financial position of the Group; and (ii) the terms of the Subscription Agreement, including the Subscription Price as analysed in the above sections, are considered fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the potential dilution effect on the shareholding interests of the public Shareholders to be acceptable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above and as summarised below,

- (i) the Company's net loss recorded for FY2021, FY2022 and 6M2022 together with a deficiency of shareholders' equity as at 31 December 2022;
- (ii) the funding needs to repay the current liabilities of the Company;
- (iii) the difficulties and possible increased time and cost of alternative fund raising methods;

- (iv) the low trading volume of the Shares;
- (v) the discount to the closing price of the Shares on the date of agreement of the Subscription Price fell within the range of the Comparables' and close to the average of the Comparables';
- (vi) the discount to the average closing price of the Shares for the five consecutive trading days up to and including the last trading day prior to the date of agreement of the Subscription Price fell within the range of the Comparables' and close to the average of the Comparables'; and
- (vii) the theoretical value dilution of the Subscription fell within the range of the Comparables' and close to the highest of the Comparables',

we are of the opinion that (i) the terms of the Subscription Agreement, including the Subscription Price are on normal commercial terms and are fair and reasonable; and (ii) although the Subscription is not in the ordinary and usual course of business of the Group, the Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend 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 Subscription and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully, for and on behalf of
Ample Capital Limited



T.Y. Yeung
President



Jenny Law
Vice President

Mr. T.Y. Yeung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Mr. T.Y. Yeung has over 13 years' experience in the corporate finance industry.

Ms. Jenny Law is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Ms. Jenny Law has over 10 years' experience in the corporate finance industry.