



GLOBAL MASTERMIND SECURITIES LIMITED
環球大通證券有限公司

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West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

17 April 2025

*To Independent Board Committee and the Independent Shareholders of
Good Fellow Healthcare Holdings Limited*

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY ONE (1) EXISTING 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 17 April 2025 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Company proposes to raise gross proceeds of up to (i) approximately HK\$28.2 million (assuming full subscription under the Rights Issue and no change in the number of Existing Shares on or before the Record Date) by issuing up to 563,649,988 Rights Shares; or (ii) approximately HK\$29.2 million (assuming full subscription under the Rights Issue and no change in the number of Existing Shares in issue except for the new Shares to be allotted and issued upon full conversion of the Convertible Preference Shares on or before the Record Date) by issuing up to 583,349,988 Rights Shares at the Subscription Price of HK\$0.05 per Rights Share on the basis of one (1) Rights Share for every one (1) Existing Share held by the Qualifying Shareholders at the close of business on the Record Date. The Rights Issue is not underwritten, only available to the Qualifying Shareholders and will not be extended to the Excluded Shareholder(s) (if any).

Given that the Rights Issue will increase the issued share capital of the Company by more than 50%, under Rules 10.24 and 10.29(1) of the GEM Listing Rules, the Rights Issue is subject to the approval of the Independent Shareholders by way of poll at the EGM at which any controlling Shareholders 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 approving the Rights Issue.

As at the Latest Practicable Date, (i) Mr. Ng was interested in 316,391,892 Shares through Solar Star, being a company incorporated in the British Virgin Islands with limited liability and owned as to 50% by Mr. Ng, 25% by Ms. Ng Si Wing, a sister of Mr. Ng, and 25% by Ms. Ng Yin, a sister of Mr. Ng; and (ii) Mr. Ng was legally and beneficially interested in 11,800,000 Shares, which in aggregate represents approximately 58.22% of the entire issued share capital of the Company. Accordingly, each of Solar Star, Mr. Ng and their respective associates shall abstain from voting in favour of the resolution approving the Rights Issue at the EGM.

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

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Wong Ka Wai, Jeanne, Mr. Lau Tak Kei Arthur and Mr. Lin Yaomin, has been established 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.

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 with the approval of the Independent Board Committee.

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, its subsidiaries, its associates or their respective substantial shareholders or associates 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, 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.

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 2024 (the “**Annual Report 2023/24**” respectively) and the interim report of the Company for the six months ended 30 September 2024 (the “**Interim Report 2024/25**”); 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 herein or 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

(a) Business

The Group is principally engaged in the provision of general hospital services in the PRC.

The Group operates one general hospital, namely 北京惠城醫院有限公司 (formerly known as 北京紫荊醫院有限公司) (“**Beijing Huicheng**”), in Beijing in the PRC. The operation of Beijing Huicheng has been suspended from January 2024 to April 2024 in accordance with the notice from 北京市東城區衛生健康委員會 due to demerit points accumulated in 2023. Further details are disclosed in the announcements of the Company dated 3 January 2024, 31 January 2024 and 22 April 2024.

Following the resumption of operations of Beijing Huicheng in April 2024, in view of the unsatisfactory performance of Beijing Huicheng since its resumption of operations and the challenges faced by the traditional healthcare business, Beijing Huicheng’s application for suspension of operation has been approved and the operation of which has been suspended in or around November 2024 and until 1 December 2025. In the event that Beijing Huicheng does not apply for the resumption of operation before the expiry of the such temporary suspension period, its relevant operation certificate will be cancelled in accordance with the applicable laws and regulations of the PRC.

The Company expects that the new site of the hospital will remain in the Dongcheng District of Beijing, with an increased gross site area which would entitle Beijing Huicheng to admit more patients. After completion of the Proposed Upgrade and Relocation (as defined below), Beijing Huicheng shall provide comprehensive general hospital services, covering, among others, general medical consultations, prescription of medications and complex surgical operations.

According to the announcement of the Company dated 10 February 2025, the Group expects to (i) identify suitable sites for resumption of operation of Beijing Huicheng on or before 31 May 2025; (ii) enter into the formal lease agreement with relevant lessor regarding the new site on or before 31 July 2025; (iii) complete the renovation of the new hospital on or before 15 October 2025; and (iv) obtain the Medical Institution Practising Certificate and resume the operations of Beijing Huicheng on or before 1 December 2025. The detailed plan and timetable of the Group for the resumption of operations of Beijing Huicheng is set out in the announcement of the Company dated 10 February 2025.

As advised by the Management, in the event that Beijing Huicheng does not apply for the resumption before the expiry of the temporary suspension period and its relevant operation certificate is cancelled, the Group's operation and financial position will be adversely affected in the long term.

Despite the abovementioned suspension of operation of hospital, as disclosed in the announcement of the Company dated 25 October 2024, the Group shall provide hospital management services to two parties for a term of five years pursuant to a cooperation and operational management agreement entered into between the parties.

(b) Financial performance

Set out below is the consolidated financial information of the Group for the two years ended 31 March 2023 and 2024 as extracted from the Annual Report 2023/24 and the six months ended 30 September 2023 and 2024 as extracted from the Interim Report 2024/25:

	For the six months ended 30		For the year ended 31 March	
	September		2024	2023
	2024	2023	2024	2023
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	10,435	26,125	38,962	55,353
Gross profit	8,181	19,391	18,674	27,009
Profit/(Loss) for the period/year	7,597	(7,409)	(17,387)	(5,677)

For the year ended 31 March 2024 ("FY2023/24")

For FY2023/24, the Group recorded a revenue of approximately HK\$39.0 million, representing a decrease of approximately 29.6%, as compared to the revenue of approximately HK\$55.4 million for the year ended 31 March 2023 ("FY2022/23"). As advised by the Management, the decrease in revenue was mainly due to the suspension of operation Beijing Huicheng from January 2024 and remained suspended as at 31 March 2024.

Despite the decrease in gross profit by approximately 30.7% from approximately HK\$27.0 million for FY2022/23 to approximately HK\$18.7 million for FY2023/24, the Group's gross profit margin remained stable at approximately 47.9% for FY2023/24 as compared to approximately 48.8% for FY2022/23.

The Group recorded loss for the year of approximately HK\$17.4 million for FY2023/24, representing an increase of approximately 205.3% as compared to approximately HK\$5.7 million as recorded for FY2022/23. As disclosed in the announcement of the Company dated 24 June 2024 and the Annual Report 2023/24, such increase in loss was primarily due to (i) the suspension of operation of Beijing Huicheng from January 2024 and remained suspended as at 31 March 2024; (ii) the decrease in other revenue of approximately HK\$5.1 million primarily due the absence of reversal of provision for legal claims; and (iii) impairment losses on the right of use assets and property, plant and equipment of Beijing Huicheng of approximately HK\$3.5 million for FY2023/24 (FY2022/23: approximately HK\$0.6 million) due to the suspension of operation of Beijing Huicheng as discussed above.

For the six months ended 30 September 2024 (“1H2024/25”)

For 1H2024/25, the Group recorded a revenue of approximately HK\$10.4 million, representing a decrease of approximately 60.2%, as compared to the Group's revenue of approximately HK\$26.1 million for the six months ended 30 September 2023 (“1H2023/24”). As referred to the announcement of the Company dated 1 November 2024, the decrease was mainly because the business of Beijing Huicheng has not been recovered despite its resumption of operation.

Despite the decrease in gross profit from approximately HK\$19.4 million for 1H2023/24 to approximately HK\$8.2 million for 1H2024/25, the Group's gross profit margin increased slightly from approximately 74.2% for 1H2023/24 to approximately 78.4% for the 1H2024/25.

The Group recognised net profit of approximately HK\$7.6 million for 1H2024/25, as compared to a loss of approximately HK\$7.4 million for 1H2023/24. As referred to the announcement of the Company dated 1 November 2024 and the Interim Report 2024/25, such turnaround was mainly due to (i) the one-off gain on disposal of subsidiaries for 1H2024/25 of approximately HK\$10.5 million (1H2023/24: nil); and (ii) the decrease in administrative expenses of approximately HK\$12.4 million for 1H2024/25 due to the decrease in staff costs. Excluding the one-off gain on disposal, the Group recorded net loss of approximately HK\$2.9 million for 1H2024/25.

(c) Financial position

Set out below is a summary of the consolidated statements of financial position of the Group as at 31 March 2024 and 30 September 2024 as extracted from the Interim Report 2024/25:

	As at 30 September 2024 (Unaudited) HK\$'000	As at 31 March 2024 (Audited) HK\$'000
Non-current assets	18,108	20,441
Property, plant and equipment	15,240	16,035
Right-of-use assets	2,600	4,138
Rental deposits	268	268
Current assets	6,560	8,705
Inventories	408	1,063
Trade and other receivables	4,228	3,761
Financial assets at fair value through profit or loss	294	237
Cash and cash equivalents	1,630	3,644
Current liabilities	14,662	25,615
Trade and other payables	5,155	15,510
Lease liabilities	2,010	3,006
Borrowings	7,493	7,099
Tax payables	4	–
Non-current liabilities	1,334	2,124
Borrowing	1,334	2,124
Net current liabilities	(8,102)	(16,910)
Net assets	8,672	1,407

As at 30 September 2024, the Group recorded cash and cash equivalents of approximately HK\$1.6 million (31 March 2024: approximately HK\$3.6 million) and the net current liabilities was approximately HK\$8.1 million (31 March 2024: approximately HK\$16.9 million). As at 30 September 2024, the Group has borrowings of approximately HK\$7.5 million which is similar to that as at 31 March 2024. The Group's gearing ratio, which is calculated as a ratio of outstanding debts (including borrowings and lease liabilities) less cash and cash equivalents to total equity, was approximately 106.2% (31 March 2024: approximately 610.2%). As at 30 September 2024, the Group's current ratio, calculated by dividing the current assets by the current liabilities, was approximately 0.45 (31 March 2024: approximately 0.34).

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

(a) Use of proceeds

As stated in the Board's Letter, the net proceeds of the Rights Issue, assuming full subscription, will be up to approximately HK\$26.7 million (assuming no change in number of Existing Shares in issue on or before Record Date) or approximately HK\$27.7 million (assuming no change in the number of Existing Shares in issue except for the new Shares to be allotted and issued upon full conversion of the Convertible Preference Shares on or before the Record Date). The Company intends to use the net proceeds from the Rights Issue (i) as to approximately HK\$10.6 million for the repayment of Shareholder's Loans, which is expected to be fully utilised before August 2025; (ii) as to approximately HK\$8.3 million for the development of the general hospital business of the Group, which is expected to be fully utilised before November 2025; and (iii) as to the remaining of approximately HK\$7.8 million (assuming no change in number of Existing Shares in issue on or before Record Date) or approximately HK\$8.8 million (assuming no change in the number of Existing Shares in issue except for the new Shares to be allotted and issued upon full conversion of the Convertible Preference Shares on or before the Record Date) for general working capital of the Group (including but not limited to the payment of salaries, rental expenses, professional fees and/or other corporate expenses), which is expected to be fully utilised before July 2026. In the event that the Rights Issue is undersubscribed or voted down by the Independent Shareholders, the Company will negotiate with Mr. Ng in relation to the repayment of the Shareholder's Loans and further explore other fundraising alternatives to meet the expected funding needs for the next twelve months.

Based on the principal and interest calculation of the Shareholder's Loans provided by the Management and as disclosed in the "Board's Letter", the total outstanding principal amount of the Shareholder's Loans together with the interest accrued amounted to approximately HK\$10.6 million. The Company has to repay the principal and interest accrued on or before July 2025. As discussed in the paragraphs headed "1. Background information of the Group – (c) Financial position" above, we noted that the Group current assets and cash and cash equivalents amounted to approximately HK\$6.6 million and HK\$1.6 million respectively as at 30 September 2024, which was insufficient to settle the Shareholder's Loans when they become due. As such, we consider utilising part of the net proceeds from the Rights Issue to repay the Shareholder's Loan is reasonable.

As disclosed in the announcement of the Company dated 10 February 2025, the operation of Beijing Huicheng had been temporarily suspended in or around November 2024, and the Group proposed to relocate Beijing Huicheng and upgrade it to a Grade II general hospital (the “**Proposed Upgrade and Relocation**”) with a view to improve the Group’s financial performance and enhance return to the Shareholders. The Group expects to (i) identify suitable sites for resumption of operation of Beijing Huicheng on or before 31 May 2025; (ii) enter into the formal lease agreement with the relevant lessor regarding the new site on or before 31 July 2025; (iii) complete the renovation of the new hospital on or before 15 October 2025; and (iv) obtain the Medical Institution Practising Certificate and resume the operations of Beijing Huicheng on or before 1 December 2025. As at the Latest Practicable Date, the Board had identified 2 sites for the Proposed Upgrade and Relocation but the shortlisted sites identified so far were not the most ideal sites in the opinion of the Board. The management of Beijing Huicheng will continue to exercise their best endeavours to identify a suitable site on or before 31 May 2025 to adhere to the expected timetable.

As advised by the Management, the total capital commitments in respect of the resumption of operation of Beijing Huicheng and the Proposed Upgrade and Relocation, which mainly comprising the renovation of the new hospital, the procurement of medical equipment, design fees and other operational expenses, are estimated to be no less than approximately HK\$23 million. The proceeds of approximately HK\$8.3 million allocated for the development of the general hospital business of the Group are insufficient to cover the expected costs and expenses associated with the Proposed Upgrade and Relocation. The remaining amount, as advised by the Management, is expected to be financed by shareholder’s loan and internal resources of the Group. Taking into account (i) that the Group’s operation and financial position will be adversely affected in the long term in the event that the relevant operation certificate of Beijing Huicheng is cancelled; and (ii) the low cash level of the Group, we consider utilising part of the proceeds for development of the general hospital business is crucial, and in the interests of the Company and the Shareholders as a whole.

In relation to utilising part of the use of proceeds as general working capital of the Group, with reference to the Interim Report 2024/25, we noted that the selling and distribution expenses and administrative expenses in aggregate amounted to approximately HK\$11.0 million. Thus, it is estimated that the related expenses would be generally approximately HK\$1.8 million per month. In view of the above and the low cash position of the Group of approximately HK\$1.6 million as at 30 September 2024, we consider the use of proceeds of the Group for general working capital is reasonable and can enhance the liquidity of the Group.

Having considered (i) the latest cash balance of the Group; (ii) the Shareholder's Loans together with the interest accrued of approximately HK\$10.6 million to be due soon; (iii) the Proposed Upgrade and Relocation with a view to improve the Group's financial performance and enhance return to the Shareholders; (iv) in the event that the Proposed Upgrade and Relocation does not proceed, Beijing Huicheng does not apply for the resumption before the expiry of the temporary suspension period and its relevant operation certificate is cancelled, the Group's operation and financial position will be adversely affected in the long term; (v) the enhanced liquidity of the Group after utilising the net proceeds for general working capital; and (vi) the financial position and liquidity of the Group will be enhanced after the repayment of the Shareholder's Loans as discussed in the paragraphs headed "5. Possible financial effects of the Rights Issue" below, we are of the view that the intended use of proceeds from the Rights Issue is fair and reasonable.

(b) Fund-raising alternatives

We noted from the Board that it has considered various ways of raising funds before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer.

The Board noted that as for debt financing, it will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations. In addition, debt financing may not be achievable on favourable terms in a timely manner. Given the continuous net loss position, net current liabilities position and the gearing ratio (being approximately 106.2% as at 30 September 2024) of the Group as discussed in the paragraphs headed "1. Background information of the Group" above, as well as the interest burden to be incurred to the Group, we are of the view that debt financing may not be beneficial to the Company under current circumstances.

As for equity fundraising, such as placing of new Shares, it is relatively smaller in scale as compared to fundraising through rights issue and it would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. Furthermore, given the extremely thin liquidity of the Shares as illustrated in the paragraphs headed "3. Principal terms of the Rights Issue – (a) The Subscription Price – (ii) Historical liquidity of the Shares" below, the attractiveness of the Company conducting equity fund-raising activities to potential investors other than the Shareholders of the Company may be limited and more time may be required to seek potential investor(s).

As for open offer, while it is similar to a rights issue and offer Qualifying Shareholders to participate, it does not allow free trading of rights entitlements in the open market. On the other hand, the Board considers that the Rights Issue, being pre-emptive in nature, would allow all Qualifying Shareholders to participate in the future development of the Company and at the same time offer more flexibility to the Qualifying Shareholders to choose whether to maintain, increase or decrease their respective pro rata shareholdings in the Company by taking up only their respective rights entitlement, acquiring additional rights entitlement or disposing of their rights entitlements in the open market (subject to availability).

Having taken into account the above, we are of the view that the consideration of the Board is fair and reasonable as the Company places the Shareholders' right of interests as a priority, and the Shareholders also have the discretion to decide whether to participate in the proposed Rights Issue.

3. Principal terms of the Rights Issue

The Company proposes to raise gross proceeds of up to (i) approximately HK\$28.2 million (assuming full subscription under the Rights Issue and no change in the number of Existing Shares on or before the Record Date) by issuing up to 563,649,988 Rights Shares; or (ii) approximately HK\$29.2 million (assuming full subscription under the Rights Issue and no change in the number of Existing Shares in issue except for the new Shares to be allotted and issued upon full conversion of the Convertible Preference Shares on or before the Record Date) by issuing up to 583,349,988 Rights Shares at the Subscription Price of HK\$0.05 per Rights Share on the basis of one (1) Rights Share for every one (1) Existing Share held by the Qualifying Shareholders at the close of business on the Record Date. The Rights Issue is not underwritten, only available to the Qualifying Shareholders 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\$0.05 represents:

- (i) a discount of approximately 30.56% to the closing price of HK\$0.072 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 12.28% to the closing price of HK\$0.057 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 19.35% to the average of the closing prices of approximately HK\$0.062 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 19.35% to the average of the closing prices of approximately HK\$0.062 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 7.41% to the theoretical ex-rights price of approximately HK\$0.054 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.057 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a discount of approximately 12.28% to the theoretical ex-rights price of approximately HK\$0.057 per Share as adjusted for the effect of the Rights Issue, based on the benchmarked price of HK\$0.064 per Existing Share (as defined under Rule 10.44A of the GEM Listing Rules);
- (vii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 10.94% to the existing Shareholders if they elect not to participate in the Rights Issue, which is calculated based on the theoretical ex-rights price of approximately HK\$0.057 per Existing Share and the benchmarked price of approximately HK\$0.064 per Existing Share (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.057 per Existing Share and the average of the closing prices of the Existing Shares as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day of approximately HK\$0.064 per Existing Share);
- (viii) a premium of approximately 2,400% over the consolidated net asset value per Existing Share of approximately HK\$0.002 (based on the latest published consolidated net asset value of the Company of HK\$1,407,000 and 563,649,988 Shares in issue as at 31 March 2024); and
- (ix) a premium of approximately 233.33% over the consolidated net asset value per Existing Share of approximately HK\$0.015 (based on the latest published consolidated net asset value of the Company of HK\$8,672,000 and 563,649,988 Shares in issue as at 30 September 2024).

We noted from the Board and as mentioned in the Board's Letter, the Subscription Price was determined by the Company with reference to, among others, (i) the recent closing prices of the Shares; (ii) prevailing market conditions and financial position of the Group; (iii) the amount of funds the Company intends to raise under the Rights Issue; and (iv) the reasons for 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 15 March 2024, 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 closing price of the Shares during the Review Period:



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

After peaked at HK\$0.31 on 5 April 2024, the closing price of the Shares dropped to a level around HK\$0.11 in late April 2024 and early May 2024. The closing price of the Shares rose gradually and reached another peak at HK\$0.275 on 4 July 2024. After that, the closing price of the Shares showed an overall downward trend. The closing price per Share ranged from HK\$0.056 and HK\$0.31 with an average closing price of approximately HK\$0.132 during the Review Period. Overall, we did not notice any specific reasons for the aforementioned movements of the closing prices during the Review Period. As advised by the Management, the Company is also not aware of any reasons for the aforementioned Share price trend.

It is noted that the Subscription Price of HK\$0.05 per Rights Share is below the closing prices per Share throughout the Review Period and represents (i) a discount of approximately 83.9% to the highest closing price; (ii) a discount of approximately 10.7% to the lowest closing price; and (iii) a discount of approximately 62.1% to the average daily closing price during the Review Period.

Although the Subscription Price has been lower than the closing price of the Shares during the Review Period, having considered (i) the closing price of the Shares showed an overall downward trend during the Review Period; (ii) the Subscription Price represents only a slight discount of approximately 10.7% to the lowest closing price of the Share during the Review Period; (iii) the extremely thin liquidity of the Shares as discussed in the paragraphs headed “3. Principal terms of the Rights Issue – (a) The Subscription Price – (ii) Historical liquidity of the Shares” below; (iv) it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in a rights issue as to meet the companies’ need for additional funding as discussed in the paragraphs headed “3. Principal terms of the Rights Issue – (a) The Subscription Price – (iii) Comparison with recent rights issue exercises” below, 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 fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(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)
2024				
March (from 8 March 2024)	589,800	15	39,320	0.0070%
April	5,812,150	20	290,608	0.0516%
May	1,245,733	21	59,321	0.0105%
June	1,897,723	19	99,880	0.0177%
July	51,200	22	2,327	0.0004%
August	638,000	22	29,000	0.0051%
September	860,000	19	45,263	0.0080%
October	1,085,200	21	51,676	0.0092%
November	1,027,200	20	51,360	0.0091%
December	96,400	20	4,820	0.0009%

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)
2025				
January	1,796,533	19	94,554	0.0168%
February	872,800	20	43,640	0.0077%
March	2,034,600	21	96,886	0.0172%
April (up to the Latest Practicable Date)	319,500	9	35,500	0.0063%

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 2,327 Shares in July 2024 to 290,608 Shares in April 2024 during the Review Period, representing approximately 0.0004% to approximately 0.0516% 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. The Company and us were not aware of any specific reasons for the increase in trading volume in April 2024.

Having considered the extremely 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 discount to the prevailing market prices 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 by companies listed on GEM in the six-month period preceding the Last Trading Day i.e. from 15 September 2024 to 14 March 2025), and not lapsed or terminated up to the Latest Practicable Date. We identified an exhaustive list of 11 rights issue comparables (the “Comparables”). While the Comparables may have different principal business activities, scale of operations, market capitalisations, profitability, financial positions and fund raising scale as compared to those of the Company, since the aim of our analysis is to (i) mainly concern with the principal terms of the rights issues under the prevailing market sentiment; (ii) provide a true and fair view of the recent market trends for rights issue exercises conducted by other issuers listed on GEM; and (iii) obtain a reasonable sample size to reflect the recent market practice of rights issue, we are of the view that the six-month period is sufficient and appropriate to have a meaningful comparison (11 Comparables have been included) and the Comparables, without any artificial selection or filtering in terms of their nature including but limited to market capitalisation and fund raising scale, 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	Market capitalisation as at the respective last trading day HK\$ million	Maximum gross proceeds HK\$ million	Basis of entitlement	the closing price on the respective last trading day %	Premium/(discount) of the subscription price over/(to)		Theoretical dilution effect %	Excess application or compensatory arrangements	Fully underwritten Y/N	Placing commission (Note 2) %
								the closing price on the respective last trading day %	the latest consolidated net asset value per share prior to the theoretical ex-right price based on the closing price on the respective last trading day (Note 1) %				
1.	Timeless Resources Holdings Limited	8028	27/2/2025	66.4	30.0	1 for 2	(9.64)	(6.81)	(23.28)	3.21	Excess application	N	NA
2.	China Safflower International Holding Group Limited	8623	14/2/2025	13.0	6.1	1 for 2	(6.78)	(4.62)	(82.79)	2.26	Compensatory arrangements	N	1.0
3.	Stream Ideas Group Limited	8401	7/2/2025	24.0	40.8	2 for 1	(15.00)	(5.56)	319.24 (Note 3)	11.58	Compensatory arrangements	Y	3.0
4.	China Demeter Financial Investments Limited	8120	31/12/2024	41.6	15.6	1 for 2	(25.00)	(18.18)	(59.08)	8.55	Compensatory arrangements	N	2.5
5.	Mansion International Holdings Limited	8456	20/12/2024	9.9	30.7	4 for 1	(22.90)	(5.50)	98.63 (Note 3)	18.80	Compensatory arrangements	N	1.5
6.	Royal Century Resources Holdings Limited	8125	13/12/2024	17.2	39.2	3 for 1	(23.95)	(7.30)	(82.69)	17.96	Compensatory arrangements	N	2.0
7.	Global Strategic Group Limited	8007	15/11/2024	14.6	51.1	4 for 1	(12.50)	(3.20)	(91.60)	11.30	Excess application	Partly	NA

No.	Company name	Stock code	Date of announcement	Market capitalisation as at the respective last trading day HK\$' million	Maximum gross proceeds HK\$' million	Basis of entitlement	Premium/(discount) of the subscription price over/(to)			Theoretical dilution effect %	Excess application or compensatory arrangements	Fully underwritten Y/N	Placing commission (Note 2) %
							the closing price on the respective last trading day %	the theoretical ex-right price based on the closing price on the respective last trading day %	the latest consolidated net asset value per share prior to the respective last trading day (Note 1) %				
8.	China 33 Media Group Limited	8087	21/10/2024	14.0	19.4	3 for 2	(7.41)	(3.23)	(55.62)	5.12	Compensatory arrangements	N	1.5
9.	V & V Technology Holdings Limited	8113	8/10/2024	70.7	24.2	1 for 2	(31.51)	(23.47)	(32.23)	10.50	Excess application	N	NA
10.	Palinda Group Holdings Limited	8179	4/10/2024	176.3	71.7	1 for 2	(18.70)	(13.29)	(66.10)	6.23	Excess application	N	NA
11.	Hatcher Group Limited	8365	23/9/2024	15.6	33.0	3 for 1	(31.50)	(10.40)	(94.10)	23.60	Compensatory arrangements	Y	0.0
			Minimum				(31.51)	(23.47)	(94.10)	2.26			0.00
			Maximum				(6.78)	(3.20)	(23.28)	23.60			3.00
			Average				(18.63)	(9.23)	(65.28)	10.83			1.64
	The Company	8143		32.1	29.2	1 for 1	(12.28)	(7.41)	233.33	10.94	Compensatory arrangement	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 and has been excluded from the analysis as it is exceptionally high as compared with other Comparables.

It is noted from the above table that all of the 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 6.78% to approximately 31.51%, with an average discount of approximately 18.63%. The Subscription Price represents a discount of approximately 12.28% to the closing price per Shares on the Last Trading Day, which is within the range of, and represents a lower discount than the average 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 3.20% to approximately 23.47%, with an average discount of approximately 9.23%. The Subscription Price represents a discount of approximately 7.41% to the theoretical ex-rights price per Shares on the Last Trading Day, which is within the range of, and represents a lower discount than the average of that of the Comparables;
- (iii) the subscription price to the latest consolidated net asset value per share of the Comparables (excluding outliers) ranged from a discount of approximately 23.28% to approximately 94.10%, with an average discount of approximately 65.28%. The Subscription Price represents a premium of approximately 233.33% to the net asset value of the Group based on the latest published unaudited consolidated net asset value of the Group of approximately HK\$8,672,000 as at 30 September 2024 and 563,649,988 Shares, which is above the range of that of the Comparables (excluding outliers); and
- (iv) the theoretical dilution effect of the Comparables ranged from approximately 2.26% to approximately 23.60%, with an average of approximately 10.83%. The theoretical dilution effect of the Rights Issue of approximately 10.94% is within the range of, and close to the average of that of the Comparables.

Although the Subscription Price over the net asset value of the Group per Share is significantly higher than the range of that of the Comparables, having taken into account (i) market price reflects how the market perceives a stock and thus is a more meaningful factor in determining subscription price as compared to net asset value per share; (ii) 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; (iii) the discounts represented by the Subscription Price to the closing price, the theoretical ex-rights price and the theoretical dilution effect fall within the respective range of that of the Comparables; (iv) the closing price of the Shares was generally in downward trend since July 2024; (v) the trading volume of the Shares was extremely thin and the Shares were generally illiquid in the open market; (vi) the funding needs of the Group to repay its loans, development of business as well as general working capital of the Group; and (vii) 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, 7 out of 11 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) Non-underwritten basis

Amongst the Comparables, only 2 out of 11 Comparables are fully underwritten. As such, we consider the non-underwritten basis in rights issue is not an uncommon market practice. Further, as underwriting commission is often charged based on an agreed percentage of the aggregate subscription price in respect of the actual number of shares underwritten by the underwriter, the underwriting fee for such arrangement shall increase the cost of a rights issue. We therefore consider non-underwritten basis of the Rights Issue is reasonable.

(d) Placing commission

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully-subscribed, any Unsubscribed Rights Shares and ES Unsold Rights Shares will be placed to independent placees on a best effort basis by the Placing Agent under the Compensatory Arrangements. For further details of the principal terms of the Placing Agreement, please refer to section headed "Placing Agreement for the Unsubscribed Rights Shares and ES Unsold Rights Shares" in the Board's Letter.

As set out in the Board's Letter, the placing commission shall be 1.0% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares and ES Unsold Rights Shares that have been successfully placed by the Placing Agent and/or its sub-placing agent(s). It is noted from the Comparables that the placing commission of the Comparables ranged from 0.00% to 3.00%, with an average of approximately 1.64%. The placing commission in relation to the Rights Issue is within the range, and lower than the average 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.

(e) *Placing price*

Pursuant to the Placing Agreement, the placing price of the Unsubscribed Rights Shares and ES Unsold Rights Shares shall be not less than the Subscription Price. The final price determination will depend on the demand for and the market conditions of the Unsubscribed Rights Shares and ES Unsold Rights Shares during the process of placement. Given that (i) the placing price shall be not less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraphs headed “3. Principal terms of the Rights Issue – (a) The Subscription Price” above, we consider that the placing price is fair and reasonable so far as the Independent Shareholders are concerned.

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 section headed “Change in the shareholding structure of the Company arising from the Rights Issue” 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 50.0%. 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 loans, development of business, as well as general working capital taking into account the latest financial position of the Group, in particular, the cash level; and (v) the positive impact on the financial position of the Group as a result of the Rights Issue as detailed in paragraphs headed “5. 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 HK\$11,693,000 and HK\$0.021 per Share as at 30 September 2024.

As set out in Appendix II to the Circular, upon completion of the Rights Issue, assuming no change in the number of Shares in issue on or before the Record Date, 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\$38,375,000 and HK\$0.034 per Share. Assuming new Shares are allotted and issued upon full conversion of the Convertible Preference Shares on or before the Record Date, but no other change in the issued Shares on or before the Record Date, 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\$39,360,000 and HK\$0.034 per Share.

Based on the above, the Rights Issue is expected to have a positive impact on the financial position of the Group.

Liquidity

According to the Interim Report 2024/25, as at 30 September 2024, the cash and cash equivalents of the Group was HK\$1,630,000. The Group had current assets of approximately HK\$6,560,000 and current liabilities of approximately HK\$14,662,000 as at 30 September 2024. The current ratio of the Group (being the current assets divided by the current liabilities) as at 30 September 2024 was approximately 0.45.

Taking into account the loan to be settled by the net proceeds from the Rights Issue in aggregate of approximately HK\$10.6 million and approximately HK\$7.8 million to HK\$8.8 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 cash and cash equivalents of the Group is expected to increase and the debts of the Group is expected to reduce. Assuming there is no change in number of Existing Shares in issue on or before Record Date, the current ratio of the Group will be increased to approximately 3.5.

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 loans, development of business, as well as general working capital of the Group;
- (ii) the Rights Issue represents an appropriate fund-raising method to the Group 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 activities under the SFO and is a responsible officer of Global Mastermind Securities Limited who has over 10 years of experience in corporate finance industry.