
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in State Innovation Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This circular appears for information only and does not constitute an invitation or offer to Shareholders or any other persons to acquire, purchase, or subscribe for securities of the Company.

STATE INNOVATION HOLDINGS LIMITED

國科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8275)

**(i) PROPOSED RIGHTS ISSUE
ON THE BASIS OF THREE (3) RIGHTS SHARES
FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE;
(ii) CHANGE IN BOARD LOT SIZE;
(iii) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
AND
(iv) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Capitalised terms used in this cover page shall have the same meaning as those defined in this circular.

A letter from the Board is set out on pages 7 to 30 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 31 of this circular. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-26 of this circular.

It should be noted that the Shares will be dealt in on an ex-rights basis from Monday, 17 April 2023. Dealings in the Rights Shares in nil-paid form are expected to take place from Friday, 28 April 2023 to Monday, 8 May 2023 (both days inclusive). If the conditions of the Rights Issue are not fulfilled, the Rights Issue will not proceed. Any person contemplating dealing in the nil-paid Rights Shares during the period from Friday, 28 April 2023 to Monday, 8 May 2023 (both days inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional and/or may not proceed. Any person contemplating dealing in the Shares and/or the Rights Shares in their nil-paid form are recommended to consult his/her/its/their own professional advisers.

The notice convening the EGM to be held at Units 1203B, 1204–1205, 12/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong, on 12 April 2023, at 11:00 a.m. is set out on EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or via the designated URL (<https://spot-meeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company as soon as possible and in any event no less than 48 hours before the time appointed for the holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM (or any adjournment thereof) should you so wish.

The Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares and is subject to the fulfilment of conditions. Please refer to the section headed "Conditions of the Rights Issue" in this circular. In the event that the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent placees on a best effort basis under the Compensatory Arrangements. Any Unsubscribed Rights Shares or NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Shareholders and potential investors are advised to exercise caution when dealing in the Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled.

23 March 2023

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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EXPECTED TIMETABLE

Set out below is the expected timetable for the proposed Rights Issue which is indicative only and has been prepared on the assumption that the conditions of the Rights Issue will be fulfilled. The expected timetable is subject to change. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.

Expected Timetable	Date 2023
Latest time for lodging transfers of Shares to qualify for attendance and voting at the EGM.	4:30 p.m. on Friday, 31 March
Closure of the register of members of the Company for attending the EGM (both days inclusive).	Monday, 3 April to Wednesday, 12 April
Latest time for lodging forms of proxy for the purpose of the EGM	11:00 a.m. on Monday, 10 April
Record date for determining attendance and voting at the EGM.	Wednesday, 12 April
Expected date and time of the EGM	11:00 a.m. on Wednesday, 12 April
Announcement of the poll result of the EGM.	Wednesday, 12 April
Register of members of the Company re-opens	Thursday, 13 April
Last day of dealing in the Shares on a cum-rights basis.	Friday, 14 April
First day of dealing in the Shares on an ex-rights basis	Monday, 17 April
Latest time for the Shareholders to lodge transfer documents to Shares in order to qualify for the Rights Issue	4:30 p.m. on Tuesday, 18 April
Closure of the register of members of the Company for the Rights Issue (both days inclusive)	Wednesday, 19 April to Tuesday, 25 April

EXPECTED TIMETABLE

Expected Timetable	Date 2023
Record Date for determining entitlements to the Rights Issue	Tuesday, 25 April
Register of members of the Company re-opens	Wednesday, 26 April
Despatch of Prospectus Documents (in the case of Non-Qualifying Shareholders, the Prospectus only)	Wednesday, 26 April
Effective date of the change in board lot size from 10,000 Shares to 20,000 Shares	Friday, 28 April
First day of dealing in nil-paid Rights Shares (in the board lot size of 20,000 Shares)	Friday, 28 April
Designated broker starts to stand in the market to provide matching services for odd lots of the Shares	9:00 a.m. on Friday, 28 April
Latest time for splitting of the PAL	4:30 p.m. on Wednesday, 3 May
Last day of dealing in nil-paid Rights Shares (in the board lot size of 20,000 Shares)	Monday, 8 May
Latest Time for lodging transfer documents of nil-paid Rights Shares in order to qualify for the Compensatory Arrangement	4:00 p.m. on Thursday, 11 May
Latest Time for Acceptance of and payment for the Rights Shares.	4:00 p.m. on Thursday, 11 May
Announcement of the number of Unsubscribed Rights Shares and NQS Unsold Rights Shares subject to the Compensatory Arrangements	Monday, 15 May
Commencement of placing of Unsubscribed Rights Shares and NQS Unsold Rights Shares by the Placing Agent	Tuesday, 16 May
Latest time of placing of Unsubscribed Rights Shares and NQS Unsold Rights Shares by the Placing Agent	4:00 p.m. on Thursday, 18 May
Latest Time for Termination	Friday, 19 May

EXPECTED TIMETABLE

Expected Timetable	Date 2023
Announcement of results of the Rights Issue (including results of the placing of Unsubscribed Rights Shares and NQS Unsold Rights Shares and the amount of the Net Gain per Unsubscribed Rights Share and NQS Unsold Rights Share under the Compensatory Arrangements)	Monday, 22 May
Despatch of refund cheques, if any, if the Rights Issue is terminated, on or before	Tuesday, 23 May
Despatch of share certificates of fully-paid Rights Shares	Tuesday, 23 May
Expected first day of dealings in fully-paid Rights Shares	Wednesday, 24 May
Payment of Net Gain to relevant No Action Shareholders (if any).	Friday, 9 June
Designated broker ceases to stand in the market to provide matching services for odd lots of the Shares	4:00 p.m. on Friday, 9 June

All time and dates in this circular are references to Hong Kong local time and dates. Dates or deadlines stated in this circular for events in the timetable are indicative only and may be extended or varied. Any further changes to the expected timetable will be announced by the Company as and when appropriate.

EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, “extreme conditions” caused by super typhoons as announced by the Government of Hong Kong or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Thursday, 11 May 2023. Instead, the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Thursday, 11 May 2023. Instead, the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

EXPECTED TIMETABLE

If the latest time for acceptance of and payment for the Rights Shares does not take place on or before 4:00 p.m. on Thursday, 11 May 2023, the dates mentioned in this section may be affected. An announcement will be made by the Company in such event.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:

“2022 CB Placing”	the placing of convertible bonds under specific mandate previously conducted by the Company as announced on 23 May 2022 and approved on 23 September 2022
“2022 Rights Issue”	the rights issue previously conducted by the Company as announced on 14 January 2022 and completed in April 2022
“AI”	artificial intelligent
“Announcement”	the announcement of the Company dated 17 February 2023 in relation to, among other things, the Rights Issue
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the Board of Directors
“Bondholder(s)”	the placee(s) of the 2022 CB Placing and/or any person who is for the time being the registered holder of the Convertible Bond(s)
“Business Day(s)”	a day (excluding Saturday and Sunday and any day on which “extreme conditions” caused by super typhoons is announced by the Government of Hong Kong or a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
“CB Placing Agent”	Astrum Capital Management Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the placing agent appointed by the Company for the 2022 CB Placing
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“Change in Board Lot Size”	the proposed change in board lot size of the Shares for trading on the Stock Exchange from 10,000 Shares per board lot to 20,000 Shares per board lot
“Company”	State Innovation Holdings Limited, a company incorporated in the Cayman Island with limited liability whose issued shares are listed on the Stock Exchange (stock code: 8275)
“Compensatory Arrangements”	the compensatory arrangements pursuant to Rule 10.31(1)(b) of the GEM Listing Rules as described in the paragraph headed “Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares and the Compensatory Arrangements” in this circular
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Convertible Bond(s)”	the 2.5% unsecured redeemable convertible bonds in the aggregate principal amount of up to HK\$30,000,000 to be issued by the Company regarding the 2022 CB Placing
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving, among other things, the Rights Issue and the transactions contemplated thereunder
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Committee”	has the meaning ascribed to it in the GEM Listing Rules
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Increase in Authorised Share Capital”	the proposed increase in the authorised share capital of the Company from HK\$200,000,000 divided into 400,000,000 Shares of HK\$0.50 each to HK\$450,000,000 divided into 900,000,000 Shares of HK\$0.50 each by the creation of an additional 500,000,000 new unissued Shares
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, which has been established under the GEM Listing Rules to advise the Independent Shareholders in respect of the Rights Issue and transaction contemplated thereunder
“Independent Financial Adviser”	Kingsway Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
“Independent Shareholder(s)”	any Shareholder(s) who is(are) not required to abstain from voting on the resolution relating to the Rights Issue at the EGM under the GEM Listing Rules
“Independent Third Party(ies)”	any persons or company and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquires, are third parties independent of and not connected with the Company and its connected persons (or any of their respective associate)
“Last Trading Day”	17 February 2023 being the last trading day of the Shares on the Stock Exchange prior to the publication of the Announcement
“Latest Lodging Time”	4:30 p.m. on Tuesday, 18 April 2023 or such other date as the Company may agree, being the latest time for the Shareholders to lodge transfer of Shares in order to qualify for the Rights Issue
“Latest Practicable Date”	14 March 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular

DEFINITIONS

“Latest Time for Acceptance”	4:00 p.m. on Thursday, 11 May 2023 or such later time or date as may be determined by the Company, being the latest time for acceptance of, and payment for, the Rights Shares as described in the Prospectus Documents
“Latest Time for Termination”	Friday, 19 May 2023 or such later date as the Company and the Placing Agent may agree in writing, being the latest time to terminate the Placing Agreement
“McKinsey Survey”	the survey named The State of AI in 2020, dated 17 November 2020, by McKinsey Global Survey
“Net Gain”	the aggregate of any premiums (being the aggregate amount paid by the placees after deducting the aggregate amount of the Subscription Price for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares placed by the Placing Agent under the Placing Agreement) under the Compensatory Arrangements
“Net Proceeds”	the net proceeds of the Rights Issue
“No Action Shareholder(s)”	Qualifying Shareholder(s) who do not subscribe for the Rights Shares (whether partially or fully) under the PALs or their renounees who hold any nil-paid rights at the time such nil-paid rights are lapsed, and/or the Non-Qualifying Shareholders (if any)
“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Shares to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“NQS Unsold Rights Share(s)”	the Rights Share(s) which would otherwise has/have been provisionally allotted to the Non-Qualifying Shareholders (if any) in nil-paid form that has/have not been sold by the Company
“Overseas Shareholder(s)”	the Shareholder(s) with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date

DEFINITIONS

“PAL(s)”	the provisional allotment letter(s) proposed to be issued to the Qualifying Shareholders in connection with the Rights Issue
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Placing”	the offer by way of private placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares on a best effort basis by the Placing Agent and/or its sub-placing agents(s), who and whose ultimate beneficial owners shall not be the Shareholder(s) and shall be the Independent Third Party(ies), to the independent placee(s) during the Placing Period on the terms and subject to the conditions set out in the Placing Agreement
“Placing Agent”	Excalibur Global Financial Group Limited, a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO, being the placing agent appointed by the Company for the Placing
“Placing Agreement”	the placing agreement dated 17 February 2023 and entered into between the Company and the Placing Agent in relation to the placing of Unsubscribed Rights Shares and the NQS Unsold Rights Shares
“Placing Period”	a period commencing from the first Business Day after the date of announcement of the number of Unsubscribed Rights Shares and the NQS Unsold Rights Shares, which is expected to be Tuesday, 16 May 2023, and ending at the 4:00 p.m. on Thursday, 18 May 2023
“Placing Shares”	all the Unsubscribed Rights Shares and the NQS Unsold Rights Shares
“Prospectus”	the prospectus to be despatched to the Shareholders containing details of the Rights Issue
“Prospectus Documents”	collectively, the Prospectus and PAL
“Prospectus Posting Date”	the date of despatch of the Prospectus Documents

DEFINITIONS

“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date, other than the Non-Qualifying Shareholder(s)
“Record Date”	Tuesday, 25 April 2023 or such other date as may be determined by the Company, being the date for determining entitlements of Shareholders to participate in the Rights Issue
“Registrar”	Tricor Investor Services Ltd., at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong
“Rights Issue”	the proposed issue of the Rights Shares by way of rights on the basis of three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date at the Subscription Price pursuant to the Prospectus Documents
“Rights Share(s)”	up to 240,002,067 new Shares proposed to be allotted and issued by the Company to the Qualifying Shareholders or subscription pursuant to the Rights Issue, assuming no change in the number of Shares in issue on or before the Record Date
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value HK\$0.5 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.147 per Rights Share
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Unsubscribed Rights Shares”	Rights Shares that are not subscribed by the Qualifying Shareholders
“%”	per cent

LETTER FROM THE BOARD

STATE INNOVATION HOLDINGS LIMITED

國科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8275)

Executive Director:

Tang Kwai Leung Stanley

Independent non-executive Directors:

Mr. He Dingding

Ms. Chan Tsz Hei Sammi

Ms. Liu Ching Man

Registered office:

Windward 3, Regatta Office Park

PO Box 1350, Grand Cayman

KY1-1108

Cayman Islands

Principal place of business in Hong Kong:

Room 1204, 12/F, Block 2

Golden Industrial Building

16–26 Kwai Tak Street

Kwai Chung, New Territories

Hong Kong

23 March 2023

To the Shareholders

Dear Sir or Madam,

**(i) PROPOSED RIGHTS ISSUE
ON THE BASIS OF THREE (3) RIGHTS SHARES
FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE;
(ii) CHANGE IN BOARD LOT SIZE;
(iii) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
AND
(iv) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcements of the Company dated 17 February, 24 February, 3 March, 10 March and 13 March 2023, in relation to, among other things, the Rights Issue, the Change in Board Lot Size and the Increase in Authorised Share Capital. The Board proposed to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date at the Subscription Price of HK\$0.147 per Rights Share to raise HK\$35.28 million by issuing 240,002,067 Rights Shares to the Qualifying Shareholders. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to the Non-Qualifying Shareholders (if any). On 17 February 2023 (after trading hours), the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees on a best effort basis.

LETTER FROM THE BOARD

The purpose of this circular is to provide you, among other things, (i) further details of the Rights Issue; (ii) further details of the Change in Board Lot Size; (iii) further details of the Increase in Authorised Share Capital; (iv) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (v) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Rights Issue; (vi) certain financial information and other general information of the Company as required under the GEM Listing Rules; and (vii) a notice convening the EGM.

RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	Three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK\$0.147 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	160,001,378 Shares
Number of Rights Shares	:	Up to 240,002,067 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	Up to HK\$120,001,033.50 (assuming no change in the share capital of the Company on or before the Record Date)
Number of Shares as enlarged by the allotment and issue of the Rights Shares	:	Up to 400,003,445 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued)

As at Latest Practicable Date, the 2022 CB Placing is not completed. The Company have mutually agreed with the CB Placing Agent that the 2022 CB Placing will not be completed on or before the Record Date, therefore there is no Bondholder on or before the Record Date, and the Bondholder(s) are not entitled to participate in the Rights Issue.

As at the Latest Practicable Date, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

LETTER FROM THE BOARD

Assuming no change in the share capital of the Company on or before the Record Date, 240,002,067 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 150% of the total number of issued Shares as at the Latest Practicable Date; and (ii) 60% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

Non-underwritten basis

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 Rights Shares not taken up by the Qualifying Shareholders or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent placees on a best effort basis under the Compensatory Arrangements. Any Unsubscribed Rights Shares and NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue. There is no minimum amount to be raised under the Rights Issue. As the Rights Issue will proceed on a non-underwritten basis, any Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

As at the Latest Practicable Date, the Board has not received any information from any Shareholders of their intention to take up their entitlement under the Rights Issue nor any undertaking from any Shareholders that they will undertake to subscribe for the Rights Shares.

Despite the Rights Issue is conducted on a non-underwritten basis, any Rights Shares not subscribed by the Qualifying Shareholders (i.e. the Unsubscribed Rights Shares), including the NQS Unsold Rights Shares (if any) will be placed by the Placing Agent on the market to independent placees on a best effort basis. The Company considers that such placing arrangement at a placing price of not less than the Subscription Price is attractive to encourage independent placees to subscribe for the Unsubscribed Rights Shares and the NQS Unsold Rights Shares (if any). Based on the above, the Company is optimistic that the Qualifying Shareholders and the independent placees (if any) will subscribe for the Rights Shares and raise the necessary proceeds for the Company.

LETTER FROM THE BOARD

Subscription Price

The Subscription Price is HK\$0.147 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of 26.50% to the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 26.50% to the average of the closing prices of approximately HK\$0.200 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 28.29% to the average of the closing prices of approximately HK\$0.205 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 34.38% to the average of the closing prices of approximately HK\$0.224 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 12.50% to the theoretical ex-rights price of approximately HK\$0.168 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represent a discount of approximately 16.00%, represented by the theoretical diluted price of approximately HK\$0.168 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.200 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date of approximately HK\$0.200 per Share) of HK\$0.200 per Share;
- (vii) a cumulative theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) in aggregation with the 2022 Rights Issue and the 2022 CB Placing represented by a discount of approximately 22.17%, represented by the cumulative theoretical diluted price of approximately HK\$0.932 per Share to the benchmarked price of HK\$0.725 per Share in respect of the 2022 Rights Issue and the 2022 CB Placing (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the benchmarked price of the 2022 Rights Issue, being HK\$0.725 per Share and the benchmarked price of HK\$0.417 of the 2022 CB Placing which was at a premium);
- (viii) a discount of 32.26% to the closing price of HK\$0.217 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

LETTER FROM THE BOARD

- (ix) a discount of approximately 53.48% to the audited net asset value per Share of approximately HK\$0.316 (based on the latest published consolidated net asset value of the Group of approximately HK\$50,526,000 as at 31 March 2022 as disclosed in the annual report of the Company for the year ended 31 March 2022 and 160,001,378 Shares in issue as at the Latest Practicable Date).

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotment of Rights Shares will be approximately HK\$0.140. The estimated Net Proceeds (assuming no change in the number of Shares in issue on or before the Record Date) after deducting the related expenses of the Rights Issue will be approximately HK\$33.48 million.

The Subscription Price and the subscription rate (i.e. three (3) Rights Shares for every two (2) Shares held on the Record Date) was determined with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong and the impact of COVID-19 pandemic; (iii) the latest business performance and financial position of the Group; and (iv) the reasons for and benefits of Rights Issue as discussed in the section headed “REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS” in this circular.

In determining the Subscription Price, which represents a discount of 26.50% to the closing price of HK\$0.200 per Share on the Last Trading Day, the Directors have considered, among other things as mentioned above, market price of the Shares traded on the Stock Exchange from 18 November 2022 to the Last Trading Day, representing approximately three months prior to and including the Last Trading Day (the “**Relevant Period**”), as a benchmark to reflect the prevailing market conditions and recent market sentiment. During the Relevant Period, the Shares were traded on the Stock Exchange with closing price ranges between the lowest closing price of HK\$0.199 per Share on 10 February 2023 and the highest closing price of HK\$0.375 per Share on 2 December and 5 December 2022. In general, the daily closing price per Share during the Relevant Period demonstrates a downward trend.

The Directors (excluding the members of the Independent Board Committee whose opinion will be set forth in this circular after having been advised by the Independent Financial Adviser) consider that, despite any potential dilution impact of the proposed Rights Issue on the shareholding interests of the Shareholders, the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account that (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue can sell the nil-paid rights in the market; (ii) the Rights Issue allows the Qualifying Shareholders to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company; (iii) the proceeds from the Rights Issue can fulfil the funding needs of the Group; and (iv) as the daily closing price per Share during the Relevant Period demonstrates a downward trend, the Subscription Price which represents a discount to the closing price on the Latest Trading Day can attract the Qualifying Shareholders to participate in the Rights Issue.

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Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company, and not be a Non-Qualifying Shareholder on the Record Date.

Shareholders with their Shares held by a nominee (or held in CCASS) should note that the Board will consider the said nominee (including HKSCC Nominees Limited) as one single Shareholder according to the register of members of the Company and are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date.

In order to be registered as a member of the Company on the Record Date, a Shareholder must lodge the relevant transfer(s) of Share(s) (with the relevant share certificates) for registration with the Registrar at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 4:30 p.m. on Tuesday, 18 April 2023. The last day of dealing in the Shares on cum-rights basis is Friday, 14 April 2023. The Shares will be dealt with on an ex-rights basis from Monday, 17 April 2023.

The Company will dispatch the Prospectus Documents to the Qualifying Shareholders on or before the Prospectus Posting Date. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL to them. A copy of the Prospectus will also be made available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.beavergroup.com.hk).

Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted.

Rights of Overseas Shareholders

The Prospectus will not be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders, if any, may not be eligible to take part in the Rights Issue.

The basis for excluding the Non-Qualifying Shareholder(s), if any, from the Rights Issue will be set out in the Prospectus. The Company will send the Prospectus (without the PAL) to the Non-Qualifying Shareholders for their information only.

In compliance with the necessary requirements of the GEM Listing Rules, the Company will make enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholder(s) (if any). If, based on legal opinions, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholder(s) on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s), the Rights Issue will not be extended to such Overseas Shareholder(s). Based on the register of members of the Company as at the Latest Practicable Date, there is no Overseas Shareholder.

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The Company reserves the right to treat as invalid any acceptance of or applications for Rights Shares where it believes that such acceptance or application would violate the applicable securities or other laws or regulations of any territory or jurisdiction. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

Arrangements for the Non-Qualifying Shareholders Rights Shares

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation or equivalent legislation of any jurisdictions other than Hong Kong.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. If the proceeds from each such sale, less expenses, are more than HK\$100, the excess will be paid on pro-rata basis to the relevant Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for its own benefit to cover the administrative costs that it would have incurred. Any unsold entitlements of Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders will be offered for subscription by the Placing Agent to the Places under the Placing.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of the enquiries made by the Directors pursuant to Rule 17.41(1) of the GEM Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.

Closure of register of members

The register of members of the Company will be closed from Monday, 3 April 2023 to Wednesday, 12 April 2023 (both days inclusive) for determining the Shareholders' entitlements to attend and vote at the EGM.

The register of members of the Company will be closed from Wednesday, 19 April 2023 to Tuesday, 25 April 2023 (both days inclusive) for determining the Shareholders' entitlements to the Rights Issue.

No transfer of Shares will be registered during the book closure periods.

Basis of provisional allotment

The basis of the provisional allotment shall be three (3) Rights Shares for every two (2) Shares in issue and held by the Qualifying Shareholders at the close of business on the Record Date at the Subscription Price payable in full on acceptance and otherwise on the terms and subject to the conditions set out in the Prospectus Documents.

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Application for all or any part of a Qualifying Shareholder's provisional allotment should be made by lodging a duly completed PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance. There will be no excess application arrangements in relation to the Rights Issue.

Fractional entitlements to the Rights Shares

No fractional entitlements to the Rights Shares shall be issued to the Shareholders and no entitlements of the Non-Qualifying Shareholders to the Rights Shares shall be issued to the Non-Qualifying Shareholders. All fractions of the Rights Shares shall be rounded down to the nearest whole number of Rights Shares and aggregated and, if a premium (net of expenses) can be achieved, sold in the market by the Company.

Odd lots matching services

In order to facilitate the trading of odd lots of the Rights Shares arising from the Rights Issue and the Change in Board Lot Size, the Placing Agent has been appointed as designated broker by the Company to match the purchase and sale of odd lots of the Shares at the relevant market price per Share. The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not Shareholder; and (ii) they are Independent Third Parties. Holders of the Shares in odd lots represented by valid share certificates for the Shares who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full board lot, may directly or through their brokers, contact the Placing Agent at (852) 2844-9876 or by facsimile at (852) 2526-0618 during the period from 9:00 a.m. on Friday, 28 April 2023 to 4:00 p.m. on Friday, 9 June 2023 (both days inclusive). Holders of odd lots of Shares should note that successful matching of the sale and purchase of odd lots of Shares is on a best effort basis and not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers.

Status of the Rights Shares

The Rights Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

Share certificates and refund cheques for the Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Tuesday, 23 May 2023. Refund cheques in respect of wholly or partially unsuccessful applications for Rights Shares (if any) are expected to be posted on or before Tuesday, 23 May 2023 by ordinary post, at the respective Shareholders' own risk, to their registered addresses.

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Stamp duty and other applicable fees

Dealing in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy or any other applicable fees and charges in Hong Kong.

Taxation

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf. It is emphasised that none of the Company, the Directors nor any other parties involved in the Rights Issue accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposal of, dealings in or exercising any rights in relation to the Shares or the Rights Shares.

Procedures in respect of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares and the Compensatory Arrangements

According to Rule 10.31(1)(b) of the GEM Listing Rules, the Company will make arrangements to dispose of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of the Shareholders to whom they were offered by way of the Rights Issue. Accordingly, on 17 February 2023(after trading hours), the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees on a best effort basis.

Pursuant to the Placing Agreement, the Company has appointed the Placing Agent to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares during the Placing Period to independent placees on a best effort basis, and any premium over the Subscription Price for those Rights Shares that is realised will be paid to those No Action Shareholders on a pro-rata basis. The Placing Agent will, on a best effort basis, procure, by not later than 4:00 p.m. on Thursday, 18 May 2023, acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares. Any Unsubscribed Rights Shares and the NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

Net Gain (if any) will be paid (without interest) to the No Action Shareholders as set out below on pro rata basis (but rounded down to the nearest cent):

- A. the relevant Qualifying Shareholders (or such persons who hold any nil-paid rights at the time such nil-paid rights are lapsed) whose nil-paid rights are not validly applied for in full, by reference to the extent that Shares in his/her/its nil-paid rights are not validly applied for; and

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- B. the relevant Non-Qualifying Shareholders with reference to their shareholdings in the Company on the Record Date.

If and to the extent in respect of any Net Gain, any No Action Shareholders become entitled on the basis described above to an amount of HK\$100 or more, such amount will be paid to the relevant No Action Shareholder(s) in Hong Kong Dollars only and the Company will retain individual amounts of less than HK\$100 for its own benefit.

Application for listing of the Rights Shares

The Company will apply to the GEM Listing Committee for the listing of, and the permission to deal in, the Rights Shares, in both their nil-paid and fully-paid forms.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of the dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The nil-paid and fully-paid Rights Shares are expected to have the same board lot size as the Shares, i.e. 20,000 Shares in one board lot upon the Change in Board Lot Size becoming effective. No part of the securities of the Company is listed or dealt in or on which listing or permission to dealing is being or is proposed to be sought on any other stock exchange.

Shareholders are advised to consult their professional advisers if they are in doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the fully-paid Rights Shares and, regarding Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sales of the nil-paid Rights Shares on their behalf.

Conditions of the Rights Issue

The Rights Issue is conditional upon:

- (i) the Rights Issue having been approved by the Independent Shareholders at the EGM;
- (ii) the delivery to the Stock Exchange for authorization and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their attorneys or agents duly

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authorised in writing) in accordance with section 342C of the Companies (WUMP) Ordinance as having been approved by resolutions of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies (WUMP) Ordinance not later than the Prospectus Posting Date;

- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders by no later than the Prospectus Posting Date;
- (iv) the GEM Listing Committee granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and the permission to deal in, the Rights Shares (in their nil-paid and fully-paid forms) by no later than the business day prior to the first day of their dealings;
- (v) compliance with the requirements under the applicable laws and regulations of Hong Kong and Cayman Islands; and
- (vi) the Placing Agreement not being terminated.

The Company shall use its reasonable endeavours to procure the fulfilment of the conditions above (to the extent it is within its power to do so), and shall do all the things required to be done by it pursuant to the Prospectus Documents or otherwise reasonably necessary to give effect to the Rights Issue. If any of the above conditions are not fulfilled on or before the Latest Time for Termination, the Rights Issue will not proceed.

Placing Agreement for the Unsubscribed Rights Shares and NQS Unsold Rights Shares

Details of the Placing Agreement are summarised as follows:

Date	:	17 February 2023 (after trading hours)
Issuer	:	The Company
Placing Agent	:	Excalibur Global Financial Group Limited

The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not Shareholder; and (ii) they are Independent Third Parties.

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- Placing Period : A period commencing from the first Business Day after the date of announcement of the number of Unsubscribed Rights Shares and the NQS Unsold Rights Shares, which is expected to be Tuesday, 16 May 2023, and ending at the 4:00 p.m. on Thursday, 18 May 2023.
- Commission and expense : Subject to completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 2.5% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares and NQS Unsold Rights Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.
- Placing price of the Unsubscribed Rights Shares and NQS Unsold Rights Shares : The placing price of the Unsubscribed Rights Shares and NQS Unsold Rights Shares shall be not less than the Subscription Price and the final price determination will be depended on the demand for and the market conditions of the Unsubscribed Rights Shares and NQS Unsold Rights Shares during the process of placement.
- Placees : The Unsubscribed Rights Shares and NQS Unsold Rights Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies).

For the avoidance of doubt, no placee shall become a substantial shareholder of the Company as a result of the Placing. The Company will continue to comply with the public float requirements under Rule 11.23(7) of the GEM Listing Rules and the Placing will not have any implication under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing.

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Ranking of the placed Unsubscribed Rights Shares and NQS Unsold Rights Shares : The placed Unsubscribed Rights Shares and NQS Unsold Rights Shares (when allotted, issued and fully paid, if any) shall rank *pari passu* in all respects among themselves and with the existing Shares in issue as at the date of completion of the Rights Issue.

Conditions of the Placing Agreement : The Placing is conditional upon the fulfillment of the following conditions:

- (i) the GEM Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Rights Shares, including the Placing Shares;
- (ii) the approval of the Rights Issue by the Independent Shareholders at the EGM;
- (iii) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion; and
- (iv) the Placing Agreement not having been terminated in accordance with the provisions thereof, including provisions regarding the force majeure events.

In the event that the above condition precedents have not been fulfilled or waived (where applicable) on or before the Latest Time for Termination, all rights, obligations and liabilities of the parties thereunder in relation to the Placing shall cease and determine and none of the parties shall have any claim against the other in respect of the Placing (save for any antecedent breaches thereof).

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The terms of the Placing Agreement, including the commission payable, was determined after arm's length negotiation between the Placing Agent and the Company and is on normal commercial terms with reference to (i) the market comparables including the average placing commission of 2.94% of the recent proposed rights issue announced by the companies listed on GEM of the Stock Exchange within 12 months prior to the Last Trading Day; (ii) the net loss attributable to owners of the Company of approximately HK\$20.5 million recorded by the Group for the nine months ended 31 December 2022; (iii) the gross proceeds of the Rights Issue of HK\$35.28 million; and (iv) the downward trend of the daily closing price of the Shares of the Company during the Relevant Period. The Directors consider that the terms of Placing Agreement in respect of the Unsubscribed Rights Shares and NQS Unsold Rights Shares (including the commission payable) are on normal commercial terms.

As explained above, the Unsubscribed Rights Shares and NQS Unsold Rights Shares will be placed by the Placing Agent to independent places on a best effort basis for the benefits of the No Action Shareholders. If all or any of the Unsubscribed Rights Shares and NQS Unsold Rights Shares are successfully placed, any premium over the Subscription Price will be distributed to the relevant No Action Shareholders.

The Board is of the view that the above Compensatory Arrangements are fair and reasonable and are in the best interests of the Shareholders as a whole:

- (i) the arrangements are in compliance with the requirements under Rule 10.31(1)(b) of the GEM Listing Rules under which the No Action Shareholders may be compensated even if they do nothing (i.e. neither subscribe for Rights Shares nor sell their nil-paid rights) because under the arrangements, the Unsubscribed Rights Shares and the NQS Unsold Rights Shares will be first offered to Independent Third Parties and any premium over the Subscription Price will be paid to the No Action Shareholders. The commission payable to the Placing Agent and the related fees and expenses in relation to such placing will be borne by the Company;
- (ii) the Compensatory Arrangements (including the determination of the placing price) will be managed by an independent licensed placing agent which is subject to the stringent code of conduct over, among others, pricing and allocation of the placing Shares. The Placing Agent and its ultimate beneficial owner(s) (i) are not Shareholder; and (ii) are Independent Third Parties; and
- (iii) the Compensatory Arrangements will not only provide an additional channel of participation in the Rights Issue for the Qualifying Shareholders and the Non-Qualifying Shareholders, it also provides a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company.

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REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is a foundation contractor primarily specialising in bored piling works as well as other foundation works. The Group is also engaged in leasing of machinery. As stated in the announcement of the Company dated 13 May 2022, in order to enhance the future competitiveness and influence, the Group has a plan to develop new business segments in the field of technological innovation, on the basis of consolidating its existing businesses.

The maximum net proceeds of the Rights Issue, after deducting all relevant expenses are estimated to be approximately HK\$33.48 million (assuming no change in the number of Shares in issue on or before the Record Date). The estimated net subscription price per Rights Share after deducting the relating expenses of the Rights Issue will be approximately HK\$0.140. The Company intends to apply the net proceeds from the Rights Issue as to (i) approximately 55.26% (or approximately HK\$18.50 million) will be used for the expansion of the foundation business capacity of the Group; (ii) approximately 22.40% (or approximately HK\$7.5 million) will be used for the development of the AI business, including but not limited to AI translation; and (iii) approximately 22.34% (or approximately HK\$7.48 million) will be used as the general working capital of the Group.

The Construction Business

In order to consolidate Group's foundation business and expand its capacity, the Group plans to acquire sets of pile casing, with cost of HK\$18.50 million. The pile casing is important equipment in the foundation work, it is used to stabilize the drilled shaft excavation and then removed after or during placement of fluid concrete.

Over the years, the Group has periodically leased construction equipment from third-party construction equipment rental services providers to supply its foundation service capacity when its self-owned equipment has been under deployment or unavailable. Occasionally, the third-party construction equipment rental services providers may not be able to provide the construction machinery on time, which may cause the schedule delay in construction projects and increase the construction costs.

According to the 2022–23 Budget announced by the Hong Kong government, the annual capital expenditure on infrastructure will reach approximately HK\$100 billion and approximately 15,200 transitional housing units will be introduced in the next few years. Taking into consideration the long term development of the Hong Kong construction industry in light of the 2022–23 Budget, the Directors consider that there will be an increase in demand for the Group's foundation services. In order to capture the growing demand for foundation services in Hong Kong, it is part of the Group's business strategy to enhance the variety and quantity of its foundation equipment in order to strengthen its service capacity and enhance its market position in Hong Kong.

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Based on the aforesaid and in light of the growing demand of construction service in Hong Kong, the Board considers that it is in the interest of the Group to acquire additional sets of pile casing for the provision of foundation services taking into account the followings:

- (i) acquisition of the pile casings can reduce the risk of unavailability of the pile casings from third-party construction equipment rental services providers, thereby facilitating the Group in fulfilling its project schedule; and
- (ii) the Group can lease the pile casings to other foundation services providers to increase revenue of the Group while the pile casing is idle.

The AI Business

In order to develop new business segments in the field of technological innovation, the Company intend to use the relevant Net Proceeds to set up the AI business by hiring team for operation of the AI business and developing and/or acquiring the respective AI system. The Company may either hire a team of talents to develop the respective AI system or to acquire the system with further enhancement. The Company expects that the total fund required to develop the AI business is approximately HK\$7.50 million. As at the Latest Practicable Date, the Company had not yet enter into any agreement in relation to the AI business.

The AI translation system customises the process of translation and create a memory of files to provide a customised categorisation, glossary and style for each user. The application of AI system can enhance work efficiency, increase the cost effectiveness and decrease the risk arise from human error.

The AI, coined as a term at the Dartmouth Conference in 1956, has evolved from symbolic AI which tried to teach computers how to reason abstractly to the point today where some people have speculated an era that robots will soon be replacing human jobs. While AI is rapidly developing as an inevitable component of emerging technologies, there is no widely accepted definition of it. AI generally refers to a machine-based system (especially a computer system) that can accomplish tasks requiring skills and abilities associated with human intelligence, such as visual and speech recognition, reasoning, learning and problem solving. In recent years, AI has developed not only as a field of research, but also as a technology that expands across a wide range of applications. It is estimated that AI has the potential to reshape the competitive landscape of companies and jobs, as well as delivering additional HK\$123.1 trillion to the global gross domestic product in 2030.

The “Outline of the 14th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and the Long-Range Objectives Through the Year 2035*” (中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要) approved by the National People’s Congress of the PRC set out the plan to develop China into an innovative country and a strong country in science and technology, also expressed clear support for Hong Kong’s development into an international innovation and technology hub.

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According to the McKinsey Survey, half of its respondents from a variety of industries have adopted AI to serve at least one function in their company, and it has increased the revenue. Businesses use AI for inventory, sales forecasting, pricing optimization and other purposes, including the translation especially in international trade. AI translation tools are capable to work with the traditional text and even offer instant translation during audio and video calls. Comparing to the traditional translation tools, AI translation has significant advance in the cost and productivity.

The Company will charge the AI business customers on different terms depending on the needs of the users, including but not limited to (i) monthly subscription with a monthly fee covering a certain amount and type of services provided; or (ii) by each word/page translated. As an international commercial hub, the Directors believe that accurate and efficient translation is widely needed in many different industries in Hong Kong especially finance related businesses.

As at Latest Practicable Date, the Company is in negotiation with potential partners and has identified relevant system and platform to acquire. The Board plans to complete the setup of the AI business segment by the end of 2023 and commence at early 2024.

In the light of the above mentioned, considering (i) the ever-increasing market demand of the AI translation tools for the recovering international business; (ii) high level of academic research of AI technology in Hong Kong; and (iii) PRC has expressed clear support for Hong Kong's development into an international innovation and technology hub, the Board believes that the applied AI industry has a promising prospect, therefore that developing AI business will enable the Group to benefit from diversified revenue streams and will drive the development of the Company's financial business and accelerate its expansion.

As the Rights Issue will be on a non-underwritten basis, the actual amount of the Net Proceeds cannot be ascertained at this moment. In the event that the Rights Issue is under-subscribed, the above use of proceeds will be adjusted by the Company accordingly and the Net Proceeds are expected to be utilised with proportional reductions in the same usage scenarios as above.

In the event that the Rights Issue is voted down by the Shareholders, the Company will further explore other fundraising alternatives. Depending on the results of such fundraising activities, the expansion of the foundation business capacity of the Group and the development of the AI business may or may not proceed.

The Board has considered various ways of raising funds and believe that the Rights Issue is the most efficient way in terms of time and costs for the Company. The Board considers it is prudent to finance the Group's long-term growth by long term financing, preferably in the form of equity which will not increase the Group's finance costs. In addition, the Company had preliminarily consulted brokerage companies for underwriting the Rights Issue but has not received any favourable feedback due to the current capital market situation apart from the Placing Agent who expressed its interest in acting as a placing agent on best effort basis.

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The Board has considered other fundraising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. The Company has contacted with certain banks for securing bank loan facilities, upon the discussion, the Board considers that the debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations, as at 30 September 2022, the gearing ratio of the Group, calculated as the total debts divided by the total equity, was approximately 13.9%. In addition, debt financing may not be achievable on favourable terms in a timely manner. As for equity fund raising, such as placing of new Shares, it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. As for open offer, while it is similar to a rights issue, offering qualifying shareholders to participate, it does not allow free trading of rights entitlements in the open market. 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).

The Board considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholders (if any) should note that their shareholdings in the Company will be diluted.

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE RIGHTS ISSUE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue (assuming all Shareholders have taken up their entitled Rights Shares); (iii) immediately after completion of the Rights Issue (assuming none of the Shareholders have taken up any entitled Rights Share); (iv) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming full acceptance) to the full conversion of the Convertible Bonds); and (v) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of

LETTER FROM THE BOARD

issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds), for illustration purposes only, assuming there are no changes in the share capital of the Company on or before the Record Date:

	(i) As at the Latest Practicable Date	(ii) Immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders	(iii) Immediately upon completion of the Rights Issue assuming no acceptance by any Qualifying Shareholder and all Unsubscribed Rights Shares have been placed by the Placing Agent	(iv) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds)	(v) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds)
	Number of issued Shares	Number of issued Shares	Number of issued Shares	Number of issued Shares	Number of issued Shares
	Approx. %	Approx. %	Approx. %	Approx. %	Approx. %
Mr. Lam Yu Chor (Note 1)	33,098,750	82,746,875	33,098,750	82,746,875	33,098,750
Ms. Wong Fei Heung Terbe (Notes 2 and 3)	21,790,000	54,475,000	21,790,000	54,475,000	21,790,000
Other public Shareholders	105,112,628	262,781,570	105,112,628	262,781,570	105,112,628
Independent placees	-	-	240,002,067	-	240,002,067
Bondholders	-	-	-	54,545,454	54,545,454
Total	160,001,378	400,003,445	400,003,445	454,548,899	454,548,899

Notes:

- Mr. Lam Yu Chor (“**Mr. Lam**”) legally and beneficially owns the entire issued share capital of Goldstone Wealth Management Limited (“**Goldstone**”), which is the general partner of Goldstone 1 LPF. Therefore, Mr. Lam is deemed, or taken to be, interest on all Shares held by Goldstone for the purpose of the SFO. Mr. Lam is the director of Goldstone.
- Ms. Wong Fei Heung Terbe (“**Ms. Wong**”) legally and beneficially owns the entire issued share capital of Success Run International Limited (“**Success Run**”). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 18,350,000 Shares held by Success Run for the purpose of the SFO. Ms. Wong is the sole director of Success Run.

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3. Ms. Wong legally and beneficially owns the entire issued share capital of Lion Spring Enterprises Limited (“Lion Spring”). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 3,440,000 Shares held by Lion Spring for the purpose of the SFO. Ms. Wong is the director of Lion Spring.

FUND RAISING EXERCISE IN THE PAST TWELVE MONTHS

The Company has conducted the following equity fund raising activities during the twelve months immediately preceding the date of the Announcement and up to the Latest Practicable Date:

Date of Announcement	Event	Net proceeds raised (Approximately)	Proposed use of proceeds	Actual use of proceeds
24 February 2022	Rights issue on the basis of three rights shares for every two shares	HK\$42.6 million	<ul style="list-style-type: none"> (i) approximately HK\$3.1 million for repayment of the principal amount and interest accrued thereon of the promissory notes issued by the Company on 13 December 2021 to China New Economy Fund Limited in the principal amount of HK\$3.0 million with an interest of 8% per annum due six months after the date of issue of the promissory notes (i.e. 13 June 2022); (ii) approximately HK\$20 million for the acquisition of a new office premise and the relevant renovation cost; (iii) approximately HK\$7 million for recruitment of additional full-time staff who will be responsible for implementing and overseeing quality control to enhance the Group’s operational capacity and efficiency in foundation and site formation works and bored piling works, as well as additional full-time staff who will be responsible for business development to acquire more business opportunities and broaden the sources of income; (iv) approximately HK\$3 million for business development and marketing expenses in order to expand the Group’s customer base and acquire more projects; and 	<p>All net proceeds have been fully utilised as intended.</p> <p>The net proceeds in the amount of HK\$17.6 million have been utilised as intended.</p> <p>All net proceeds had not been utilised.</p> <p>The net proceeds in the amount of HK\$1.2 million have been utilised as intended.</p>

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Date of Announcement	Event	Net proceeds raised (Approximately)	Proposed use of proceeds	Actual use of proceeds
			(v) the remaining balance of approximately HK\$9.5 million for general working capital due to the tightened cash flow of the Group as a result of the negative impacts of the COVID-19 pandemic on the foundation industry including supply chain disruptions, workforce shortages due to illness and preventative quarantines, and work stoppages due to measures imposed by the government.	All net proceeds have been utilised as intended.
2 September 2022	Placing of Convertible Bonds	HK\$29.4 million	For the financial assistance business	As at Latest Practicable Date, the 2022 CB Placing is not completed.
11 November 2022	Placing of new shares under general mandate	HK\$6.5 million	For the general working capital of the Group	All net proceeds have been utilised as intended.

Save as disclosed above, the Company did not raise any other funds by issue of equity securities during the twelve months immediately preceding the date of the Announcement and up to the Latest Practicable Date.

CHANGE IN BOARD LOT SIZE

Reference is made to the Company's announcement dated 10 March 2023, the Board proposed to change the board lot size of the Shares for trading on the Stock Exchange from 10,000 Shares to 20,000 Shares with effect from 9:00 a.m. on Friday, 28 April 2023.

The Shares are currently traded in board lots of 10,000 Shares upon completion of the Rights Issue, the expected market value per board lot of the Shares will be HK\$1,680 (based on the theoretical ex-rights price of approximately HK\$0.168 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day).

As set out in the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by Hong Kong Exchanges and Clearing Limited, it is requested that the value of each board lot shall be no less than HK\$2,000, the Board proposes to change the board lot size for trading of the Shares from 10,000 Shares to 20,000 Shares. Upon the completion of the Rights Issue and the Change in Board Lot Size becoming effective, the Shares will be traded in

LETTER FROM THE BOARD

board lot of 20,000 Shares and the estimated market value per board lot of the Shares will be HK\$3,360 (based on the theoretical ex-rights price of approximately HK\$0.168 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day). The Board believes that the Change in Board Lot Size may save the transaction and registration costs incurred by the Shareholders and potential investors of the Company.

The Change in Board Lot Size will not affect any of the relative rights of the Shareholders. The Board considers that the Change in Board Lot Size is in the interest of the Company and the Shareholders as a whole.

No new share certificate for existing Shares will be issued as a result of the Change in Board Lot Size, and therefore there will be no arrangement for free exchange of existing share certificate in board lot size of 10,000 Shares to new share certificates in board lot size of 20,000 Shares.

As from Friday, 28 April 2023, any new share certificates will be issued in board lot of 20,000 Shares each (except for odd lots or where the share registrar is otherwise instructed). All existing share certificates in board lot of 10,000 Shares each will continue to be good evidence of legal title to such Shares and continue to be valid for transfer, trading, delivery and settlement purposes. Save and except for the change in the number of Shares of each board lot, new share certificate will have the same format and colour as the existing certificates of the Shares.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Board proposed to increase the authorised share capital of the Company from HK\$200,000,000 divided into 400,000,000 Shares of HK\$0.50 each to HK\$450,000,000 divided into 900,000,000 Shares of HK\$0.50 each by the creation of an additional 500,000,000 new unissued Shares.

The Board believes that the Increase in Authorised Share Capital will provide the Company with greater flexibility to raise funds by Rights Issue and other possible fund-raising activities in the future and is in the interests of the Company and the Shareholders as a whole.

The proposed Increase in Authorised Share Capital is subject to the approval of the Shareholders by way of an ordinary resolution at the EGM.

GEM LISTING RULES IMPLICATIONS

As the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to approval by the Independent Shareholders at the EGM by poll in accordance with the requirements of Rule 10.29(1) of the GEM Listing Rules and any controlling shareholder and their respective associates or where there is no controlling shareholder, the Directors (excluding independent non-executive Directors), the chief executive

LETTER FROM THE BOARD

of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Rights Issue.

As at the Latest Practicable Date, (i) the Company does not have any controlling shareholder; and (ii) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors or the chief executive of the Company or their respective associates are interested in any Share, therefore no Shareholders will be required to abstain from voting of the Rights Issue in accordance with Rule 10.29(1) of the GEM Listing Rules.

The Rights Issue (whether on its own or when aggregated with the 2022 Rights Issue and the 2022 CB Placing) 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.

As at Latest Practicable Date, save for the Rights Issue, the Placing, the Company did not have any plan and had not entered into any negotiation, agreement, arrangement or undertaking to conduct any other corporate action or arrangement that may affect the trading of the Company's shares in the next 12 months.

GENERAL

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve, among other things, the Rights Issue and the transactions contemplated thereunder.

Subject to the approval of the Rights Issue by the Independent Shareholders at the EGM the Prospectus Documents containing further details of the Rights Issue and the transactions contemplated thereunder, are expected to be despatched to the Qualifying Shareholders on Wednesday, 26 April 2023, and the Prospectus will be despatched to the Non-Qualifying Shareholders for information purposes only to the extent permitted under the relevant laws and regulations and reasonably practicable.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND THE NIL-PAID RIGHTS

The Shares will be dealt on an ex-rights basis from Monday, 17 April 2023. Dealings in the nil-paid rights are expected to take place from Friday, 28 April 2023 to Monday, 8 May 2023 (both days inclusive). If the conditions of the Rights Issue (please refer to the paragraph headed "Conditions of the Rights Issue" in this circular) are not fulfilled, the Rights Issue will not proceed.

Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or the nil-paid rights is advised to exercise caution when dealing in the Shares and/ or the nil-paid rights.

LETTER FROM THE BOARD

The Rights Issue will proceed on a non-underwritten basis irrespective of the acceptance of the provisionally allotted Rights Shares. Any person who is in any doubt about his/ her/its position or any action to be taken is recommended to consult his/her/its own professional advisor(s). Any Shareholder or other person dealing in the Shares or in the nil-paid rights up to the time at which the Rights Issue becomes unconditional will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed.

RECOMMENDATIONS

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. He Dingding, Ms. Chan Tsz Hei Sammi and Ms. Liu Ching Man, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. Kingsway Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the letter from the Independent Board Committee set out on page 31 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from the Independent Financial Adviser set out on pages IFA-1 to IFA-26 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

The Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) consider that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors whose views are expressed in the letter from the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM.

The Directors also consider that the Increased in Authorised Share Capital are in the interest of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

By Order of the Board
State Innovation Holdings Limited
Tang Kwai Leung Stanley
Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

STATE INNOVATION HOLDINGS LIMITED

國科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8275)

23 March 2023

To the Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE
ON THE BASIS OF THREE (3) RIGHTS SHARES
FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 23 March 2023 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned.

Kingsway Capital Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect. Having taken into account the terms of the Rights Issue, and the advice from Kingsway Capital Limited, we are of the opinion that the terms of the Rights Issue and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Rights Issue and the transactions contemplated thereunder.

Your Faithfully
Independent Board Committee of
State Innovation Holdings Limited

He Dingding
*Independent non-executive
Director*

Chan Tsz Hei Sammi
*Independent non-executive
Director*

Liu Ching Man
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Kingsway Capital Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the Rights Issue which has been prepared for the purpose of incorporation in this circular:

SUNWAH KINGSWAY
新華滙富

Kingsway Capital Limited
7/F, Tower One, Lippo Centre,
89 Queensway,
Hong Kong

23 March 2023

*To the Independent Board Committee and
the Independent Shareholders of
State Innovation Holdings Limited*

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TWO (2) SHARES HELD ON THE RECORD DATE

A. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) fairness and reasonableness of the terms of the proposed Rights Issue; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions at the EGM, details of which are set out in the “Letter from the Board” in the circular (the “**Circular**”) issued by the Company to the Shareholders dated 23 March 2023 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the Announcement, in relation to, among other things, the Rights Issue. On 17 February 2023, the Company proposes to raise gross proceeds of up to approximately HK\$35.28 million before expenses by way of a rights issue of 240,002,067 Rights Shares at the Subscription Price of HK\$0.147 each and on the basis of three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date (assuming no change in the issued share capital of the Company on or before the Record Date).

In accordance with Rule 10.29(1) of the GEM Listing Rules, as the Rights Issue will increase the number of the issued Shares by more than 50%, the Rights Issue must be made conditional on approval by Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the ordinary resolution to approve the Rights Issue at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Company has no controlling Shareholder as defined under the GEM Listing Rules and none of the Directors or the chief executive of the Company and their respective associates is interested in any Shares. Therefore, no Shareholder is required to abstain from voting in favour of the proposed resolutions to approve the Rights Issue and the transaction contemplated thereunder at the EGM.

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. He Dingding, Ms. Chan Tsz Hei Sammi and Mr. Liu Ching Man, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to make recommendations to the Independent Shareholders on how to vote at the EGM. We have been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Rights Issue. In our capacity as the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee as to whether the terms of the Rights Issue and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole and make recommendations to the Independent Shareholders on how to vote at the EGM so far as the Independent Shareholders are concerned and such appointment has been approved by the Independent Board Committee.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. BASIS OF OUR OPINION

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

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

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

We consider that we have reviewed all currently available information and documents, among others: (i) the Placing Agreement dated 17 February 2023; (ii) annual report of the Company for the year ended 31 March 2022 (the “**2022 Annual Report**”); (iii) the interim report of the Company for the six months ended 30 September 2022 (the “**2022 Interim Report**”); (iv) the third quarterly report of the Company for the nine months ended 31 December 2022 (the “**2022 Third Quarterly Report**”); and (v) other information contained in the Circular, which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice.

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

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Rights Issue and the transactions contemplated thereunder, we have considered the principal factors and reasons set out below:

1. Information on the Group

The Group is a foundation contractor primarily specializing in bored piling works as well as other foundation works. The Group is capable of installing bored piles with diameters ranging from 1.5 metres to 3 metres of various pile lengths. The Group has invested considerably in reinforcing its machinery and the Group possesses all necessary standard plant and machinery and equipment for its construction of bored piles. The Group is also engaged in leasing of machinery.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Historical financial performance of the Group

Set out below is a summary of the (i) audited consolidated financial information of the Group the years ended 31 March 2022 (“**FY2022**”) and 31 March 2021 (“**FY2021**”), as extracted from the 2022 Annual Report; (ii) unaudited consolidated financial information of the Group for the six months ended 30 September 2022 (“**6M2022**”) and 30 September 2021 (“**6M2021**”) as extracted from the 2022 Interim Report; and (iii) the unaudited consolidated financial results of the Group for the nine months ended 31 December 2022 and 31 December 2021 (“**Q32022**” and “**Q32021**”, respectively) as extracted from the 2022 Third Quarterly Report:

	FY2021 <i>HK\$'000</i> (audited)	FY2022 <i>HK\$'000</i> (audited)	Q32021 <i>HK\$'000</i> (unaudited)	Q32022 <i>HK\$'000</i> (unaudited)
Revenue				
– Construction contract income	139,675	146,737	108,981	83,837
– Rental income from machinery	2,116	–	–	2,507
Total revenue for the year/period	<u>141,791</u>	<u>146,737</u>	<u>108,981</u>	<u>86,344</u>
Loss for the year/period	<u>(14,714)</u>	<u>(37,796)</u>	<u>(16,068)</u>	<u>(20,565)</u>
	As at 30 September 2022 <i>HK\$'000</i> (unaudited)	As at 30 September 2021 <i>HK\$'000</i> (unaudited)	As at 31 March 2021 <i>HK\$'000</i> (audited)	As at 31 March 2022 <i>HK\$'000</i> (audited)
Current assets	66,742	56,538	76,682	56,538
Total assets	125,538	112,593	132,694	112,593
Current liabilities	54,263	56,427	65,797	56,427
Total liabilities	58,828	62,067	77,928	62,067
Net current assets	12,479	111	10,885	111
Net assets	66,710	50,526	54,766	50,526
Bank and cash balances	18,187	4,340	7,532	4,340

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2022

As disclosed in the 2022 Annual Report, in FY2022, the revenue of the Group increased by approximately HK\$4.9 million or approximately 3.5% from approximately HK\$141.8 million for FY2021 to approximately HK\$146.7 million for FY2022. Such increase was mainly attributable to the increase in contracts awarded during the year.

In FY2022, the Group recorded net loss of approximately HK\$37.8 million, representing an increase by approximately HK\$23.1 million or approximately 156.9% as compared to net loss of approximately HK\$14.7 million for FY2021. Such increase in net loss was mainly attributable to (i) the decrease in gross profit as a result of cost overrun in the Group's bored piling projects, mainly driven by the project located in Hung Hom which experienced delay in work progress; (ii) the loss arising from the increase of an allowance for impairment loss of financial assets of approximately HK\$5.1 million; and (iii) the decrease in other income of approximately HK\$3.9 million as a result of the absence of subsidies of the employment support scheme under the anti-epidemic fund, set up by the government of Hong Kong during FY2022.

The net current assets position of the Group decreased from approximately HK\$10.9 million as at 31 March 2021 to approximately HK\$0.1 million as at 31 March 2022 (with bank and cash balances decreased from approximately HK\$7.5 million as at 31 March 2021 to approximately HK\$4.3 million as at 31 March 2022). The Group's net assets decreased from approximately HK\$54.8 million as at 31 March 2021 to approximately HK\$50.5 million as at 31 March 2022. As at 31 March 2022, total liabilities of the Group amounted to approximately HK\$62.1 million, which mainly comprised of trade and retention payables of approximately HK\$36.0 million, accruals and other payables of approximately HK\$9.7 million, lease liabilities of approximately HK\$7.7 million, bank and other borrowings of approximately HK\$5.2 million and promissory note payable of HK\$3.0 million. Current ratio of the Group decreased slightly from approximately 1.2 times as at 31 March 2021 to approximately 1.0 times as at 31 March 2022 and the gearing ratio of the Group decreased from approximately 64.2% as at 31 March 2021 to approximately 31.5% as at 31 March 2022.

Q32022

As disclosed in the 2022 Third Quarterly Report, in Q32022, the revenue of the Group decreased by approximately HK\$22.7 million or approximately 20.8% from approximately HK\$109.0 million for Q32021 to approximately HK\$86.3 million for Q32022. Such decrease was primarily due to the decrease of construction contract income with fewer and lower value of contracts awarded to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In Q32022, the Group recorded net loss of approximately HK\$20.6 million, which increased by approximately HK\$4.5 million as compared to the net loss of approximately HK\$16.1 million for Q32021. The increase in net loss was mainly attributable to (i) the decrease in gross profit due to fewer and lower value of contracts awarded to the Group and cost overrun in the Group's bored piling projects, mainly driven by the project located in Hung Hom which experienced delay in work progress; and (ii) the increase in administrative expenses due to the increase in legal and professional fee for the Company's rights issue exercise in 2022.

6M2022

The net current assets position of the Group improved from approximately HK\$0.1 million as at 30 September 2021 to approximately HK\$12.5 million as at 30 September 2022 (with bank and cash balances increased from approximately HK\$4.3 million as at 30 September 2021 to approximately HK\$18.2 million as at 30 September 2022). The Group's net assets increased from approximately HK\$50.5 million as at 30 September 2021 to approximately HK\$66.7 million as at 30 September 2022. As at 30 September 2022, total liabilities of the Group amounted to approximately HK\$58.8 million, which mainly comprised of trade and retention payables of approximately HK\$37.2 million, accruals and other payables of approximately HK\$12.3 million, lease liabilities of approximately HK\$6.5 million and bank and other borrowings of approximately HK\$2.8 million. Current ratio of the Group increased from approximately 1.0 times as at 31 March 2022 to approximately 1.2 times as at 30 September 2022 and the gearing ratio of the Group decreased from approximately 31.5% as at 31 March 2022 to approximately 13.9% as at 30 September 2022.

3. Background of Reasons for the Rights Issue and the Use of Proceeds

Reasons for the Rights Issue and the Use of Proceeds

It is estimated that the Company will raise gross proceeds up to approximately HK\$35.28 million from the Rights Issue and the relevant expenses would be approximately HK\$1.8 million, which includes placing commission and professional fees payable to legal advisors, financial printer and other parties involved in the Rights Issue. Accordingly, the Directors intended to utilise the Net Proceeds as to (i) approximately 55.26% (or approximately HK\$18.50 million) for the expansion of the foundation business capacity of the Group; (ii) approximately 22.40% (or approximately HK\$7.5 million) for the development of the AI business, including but not limited to AI translation; and (iii) approximately 22.34% (or approximately HK\$7.48 million) as the general working capital of the Group.

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The Construction Business

The Group is a foundation contractor primarily specialising in bored piling works as well as other foundation works. The Group is also engaged in leasing of machinery. As set out in the “Letter from the board”, the Group plans to acquire sets of pile casing with the aim to consolidate Group’s foundation business and expand its capacity, with cost of approximately HK\$18.50 million. Over the years, the Group has periodically leased construction equipment from third-party construction equipment rental services providers to supply its foundation service capacity when its self-owned equipment has been under deployment or unavailable. Occasionally, according to the Board, the third-party construction equipment rental services providers may not be able to provide the construction machinery on time, which may cause the schedule delay in construction projects and increase the construction costs of the Group.

We note that based on the 2022–23 Budget announced by the Hong Kong government, the annual capital expenditure on infrastructure will reach approximately HK\$100 billion and approximately 15,200 transitional housing units will be introduced in the next few years. Taking into account the long-term development of the Hong Kong construction industry in light of the 2022–23 Budget, the Directors consider that there will be an increase in demand for the Group’s foundation services.

Upon discussions with the management of the Company, we were given the understanding that, it is part of the Group’s business strategy to enhance the variety and quantity of its foundation equipment in order to strengthen its service capacity, enhance its market position in Hong Kong and to capture the growing demand for foundation services in Hong Kong.

The AI Business

As stated in the “Letter from the Board”, the Company has identified new business opportunity in the field of technological innovation created by the rapid growth of AI technology and government support towards digital transformation of Hong Kong enterprise. The Company intends to use the relevant Net Proceeds to set up the AI business by hiring team for operation of the AI business and developing and/or acquiring the respective AI system, including AI translation system that customises the process of translation and create a memory of files to provide a customised categorisation, glossary and style for each user. The Company may either hire a team of talents to develop the respective AI system or to acquire the system with further enhancement. The Company expects that the total fund required to develop the AI business is approximately HK\$7.50 million. As at the Latest Practicable Date, the Company had not yet entered into any agreement in relation to the AI business.

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Through the AI Business, the Company expects to charge the potential customers on different terms depending on the needs of the users, including but not limited to (i) monthly subscription with a monthly fee covering a certain amount and type of services provided; or (ii) by each word/page translated. As an international commercial hub, the Directors believe that accurate and efficient translation is widely needed in many different industries in Hong Kong especially finance related businesses. As at Latest Practicable Date, the Company is in negotiation with potential partners and has identified relevant system and platform to acquire. The Board plans to complete the setup of the AI business segment by the end of 2023 and commence at early 2024.

In order to get a better grasp of the development of AI industry in Hong Kong and the PRC, we have conducted our own desktop research. We note that based on the 2023-24 Budget announced by the Hong Kong government, the Hong Kong government is eyeing to develop Hong Kong into a smart city through (i) investing approximately HK\$200 million to enhance the operation of the “iAM Smart” platform launched by the Hong Kong government; (ii) introducing tax deduction scheme to encourage the Telecommunications industry to invest in infrastructure for providing better communication services to Hong Kong; (iii) launching a Digital Transformation Support Pilot Programme to support digital transformation of Hong Kong enterprise; and (iv) allocating HK\$50 million to expedite the Web3 ecosystem development in Hong Kong. The above document demonstrated the vision and long-term action plan of the Hong Kong government to accelerate the digital transformation of the city through providing financial support and implementation of new government policies. The Ministry of Industry and Information Technology issued the “Three Year Action Plan to Promote the Development of the New Generation of AI Industry (2018–2020)” (《促進新一代人工智能產業發展三年行動計劃(2018-2020)》), proposing to accelerate the development of the AI industry and promote the deep integration of AI and the real economy. This document supports the cultivation of intelligent products including high precision AI translation system and promotes goal of the PRC governments to improve the accuracy of translation between Chinese and foreign languages and minority languages in China. We consider that the action plan introduced by the PRC government will drive demand and create new business opportunities for the AI business of the Group in China market.

Upon discussions with the management of the Company, we were given the understanding that, the Group targets to diversity into a promising industry to broaden the Group’s income stream and increase shareholders’ return with the AI business. Taking into consideration of (i) the acquisition of the foundation equipment would strengthen the Group’s service capacity, reduce the risk of unavailability of the pile casings from third-party construction equipment rental services providers, thereby facilitating the Group in fulfilling its project schedule and the expected growing demand in foundation business in Hong Kong and (ii) the expected positive prospects of the AI business and developing AI business will diversify revenue streams of the

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Group, we concur with the Directors' view that the Group can enhance its financial position through the Rights Issue by applying the Net Proceeds in the manner as stated above.

As the Rights Issue will be on a non-underwritten basis, the actual amount of the Net Proceeds cannot be ascertained at this moment. In the event that the Rights Issue is undersubscribed, the above use of proceeds will be adjusted by the Company accordingly and the net proceeds from the Rights Issue are expected to be utilised with proportional reductions in the same usage scenarios as above.

Fund-raising alternatives

As advised by the Directors, apart from the Rights Issue, the Directors have considered various ways of raising funds and believe that the Rights Issue is the most efficient way in terms of time and costs for the Company. The Board considers it is prudent to finance the Group's long-term growth by long term financing, preferably in the form of equity which will not increase the Group's finance costs.

The Directors has considered other fundraising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing and open offer. As advised by the management of the Company, the Group has contacted with its main commercial banks and was unable to secure any additional bank loan facilities due to its worsening financial performance during FY2022. The Directors also note that debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations. We have reviewed the 2022 Annual Report and the 2022 Interim Report and note that the Group was loss-making for both FY2022 and FY2021 with net losses increased from approximately HK\$14.7 million for FY2021 to approximately HK\$37.8 million for FY2022, with a gearing ratio of approximately 13.9% as at 30 September 2022. Given that the Group recorded consecutive losses for FY2022 and FY2021 and that its main commercial banks refused to grant additional bank loan facilities to the Group, it is unlikely for the Group to obtain bank borrowings at favourable terms in a timely manner. In addition, further debt financing or bank borrowings could create additional pressure to the liquidity of the Company and be subject to possible lengthy due diligence review. As such, we concur with the view of the management of the Company that debt financing may not be a viable financing alternative.

As for equity fund raising, such as placing of new Shares, the Directors are of the view that it is relatively smaller in scale as compared to fund raising through rights issue and it would lead to immediate dilution in the shareholding interest of existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company, which is not the intention of the Company. While an open offer is similar to a rights issue, offering qualifying shareholders to participate, the Directors consider that it does not allow free trading of rights entitlements in the open market. Lastly, we consider that although an open offer is

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similar to a rights issue which provides the Qualifying Shareholders with equal opportunity to participate in proportion to their existing shareholder interest, an open offer is less favourable to the Shareholders compared to a rights issue due to the flexibility of the shareholders being able to sell their entitled nil-paid rights when they do not wish to take up the entitlements under the rights issue.

In addition, the Company had preliminarily consulted other brokerage companies (including the Placing Agent) for underwriting the Rights Issue but has not received any favourable feedback due to the current capital market situation. As advised by the management of the Company, none of the brokerage companies shown interest in acting as an underwriter to the Rights Issue. Having considered the feedback from the brokerage companies, the Board was of the view that the terms of the placing agreement including the commission rate proposed by the Placing Agent was reasonable and favorable to the Company. As such, the Company subsequently decided to conduct the Rights Issue on non-underwritten basis and to adopt the placing arrangement simultaneously in order to ensure sufficient funds could be raised. Having considered that (i) none of the brokerage companies shown interest in acting as an underwriter to the Rights Issue; and (ii) the placing commission for the Compensatory Arrangements will only be incurred if there are any Unsubscribed Rights Shares to be placed by the Placing Agent and such Unsubscribed Rights Shares are placed successfully, we concur with the view of the Directors that conducting the Rights Issue on a non-underwritten basis is in the interests of the Company and the Shareholders as a whole.

Taking into account the benefits and potential cost of each of the fundraising alternatives as mentioned above, we concur with the view of the Directors that placing of new Shares would only be available to certain placees who are not necessarily the existing Shareholders which would result in immediate dilution in the shareholding interest of existing Shareholders is therefore less favourable to the Shareholders compared to a rights issue. We concur with the view of the management of the Company that the Rights Issue allows the Group to strengthen the capital base of the Company at a more cost-effective method, while at the same time allowing the Qualifying Shareholders to maintain their proportional shareholdings in the Company, and is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Rights Issue

The Board proposed to implement the Rights Issue on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date at the Subscription Price of HK\$0.147 per Rights Share to raise up to gross proceeds of approximately HK\$35.28 million by issuing 240,002,067 Rights Shares to the Qualifying Shareholders (assuming no change in the issued share capital of the Company on or before the Record Date).

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Further details of the Rights Issue are set out below:

Basis of the Rights Issue	:	Three (3) Rights Shares for every two (2) Shares held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK\$0.147 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	160,001,378 Shares
Number of Rights Shares	:	Up to 240,002,067 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	Up to HK\$120,001,033.50 (assuming no change in the share capital of the Company on or before the Record Date)
Number of Shares as enlarged by the allotment and issue of the Rights Shares	:	Up to 400,003,445 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued)

As at Latest Practicable Date, the 2022 CB Placing is not completed. The Company have mutually agreed with the CB Placing Agent that the 2022 CB Placing will not be completed on or before the Record Date, therefore there is no Bondholder on or before the Record Date, and the Bondholder(s) are not entitled to participate in the Rights Issue.

As at the Latest Practicable Date, the Company does not have any options outstanding under any share option scheme of the Company or any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares. The Company has no intention to issue or grant any Shares, convertible securities, warranties and/or options on or before the Record Date.

Assuming no change in the share capital of the Company on or before the Record Date, 240,002,067 Rights Shares to be issued pursuant to the terms of the Rights Issue represents (i) 150% of the total number of issued Shares as at the Latest Practicable Date; and (ii) 60% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares.

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Non-underwritten basis

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 Rights Shares not taken up by the Qualifying Shareholders or holders of nil-paid rights together with the NQS Unsold Rights Shares will be placed to independent placees on a best effort basis under the Compensatory Arrangements. Any Unsubscribed Rights Shares and NQS Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue. There is no minimum amount to be raised under the Rights Issue. As the Rights Issue will proceed on a non-underwritten basis, any Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, the Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 10.26(2) of the GEM Listing Rules.

As at the Latest Practicable Date, the Board has not received any information from any Shareholders of their intention to take up their entitlement under the Rights Issue nor any undertaking from any Shareholders that they will undertake to subscribe for the Rights Shares.

Subscription Price

The Subscription Price is HK\$0.147 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 26.50% to the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 26.50% to the average of the closing prices of approximately HK\$0.200 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

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- (iii) a discount of approximately 28.29% to the average of the closing prices of approximately HK\$0.205 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 34.38% to the average of the closing prices of approximately HK\$0.224 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 12.50% to the theoretical ex-rights price of approximately HK\$0.168 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represent a discount of approximately 16.00%, represented by the theoretical diluted price of approximately HK\$0.168 per Share to the benchmarked price (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.200 per Share and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the Latest Practicable Date of approximately HK\$0.200 per Share) of HK\$0.200 per Share;
- (vii) a cumulative theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) in aggregation with the 2022 Rights Issue and the CB Placing represented by a discount of approximately 22.17%, represented by the cumulative theoretical diluted price of approximately HK\$0.932 per Share to the benchmarked price of HK\$0.725 per Share in respect of the 2022 Rights Issue and the CB Placing (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the benchmarked price of the 2022 Rights Issue, being HK\$0.725 per Share and the benchmarked price of HK\$0.417 of the CB Placing which was at a premium);
- (viii) a discount of approximately 32.26% to the closing price of HK\$0.217 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (ix) a discount of approximately 53.48% to the audited net asset value per Share of approximately HK\$0.316 (based on the latest published consolidated net asset value of the Group of approximately HK\$50,526,000 as at 31 March 2022 as disclosed in the annual report of the Company for the year ended 31 March 2022 and 160,001,378 Shares in issue as at the Latest Practicable Date).

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As stated in the Letter from the Board, the Subscription Price and the subscription rate (i.e. three (3) Rights Shares for every two (2) Shares held on the Record Date) was determined with reference to, among others, (i) the market price of the Shares under the prevailing market conditions; (ii) the prevailing market conditions of the capital market in Hong Kong and the impact of COVID-19 pandemic; (iii) the latest business performance and financial position of the Group; and (iv) the reasons for and benefits of Rights Issue as discussed in the section headed “REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS” in the Circular.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the theoretical closing prices of the Shares and the trading liquidity of the Shares for the period from 17 February 2022, being the 12-month period prior to the date of the Announcement, up to and including the Last Trading Day (“**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 prices prior to the Announcement and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the closing prices of the Shares before the Announcement represent a fair market value of the Company which the Shareholders expected, while that after the Announcement, the value may have taken into account the potential upside of the Rights Issue which may distort the analysis. The chart below illustrates the daily closing price per Share (“**Closing Price**”) versus the Subscription Price of HK\$0.147 per Rights Share during the Review Period:



Source: the website of the Stock Exchange (www.hkex.com.hk)

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During the Review Period, the highest Closing Price was HK\$0.9 recorded on 29 March 2022 and the lowest Closing Price was HK\$0.199 recorded on 10 February 2023. The Subscription Price of HK\$0.147 represents a discount of approximately 83.7% to the highest Closing Price during the Review Period and a discount of approximately 26.1% to the lowest Closing Price during the Review Period. The average Closing Price of the Review Period was approximately HK\$0.46, which means the Subscription Price has a discount of approximately 68.0% over the average Closing Price during the Review Period.

As illustrated in the chart above, during the Review Period, the Closing Price was traded higher than the Subscription Price. It can be observed from the above chart that the daily Closing Price substantially increased from HK\$0.5 to HK\$0.9 between 15 March 2022 to 29 March 2022 and showed a gradual downward trend since then. As discussed with the management of the Company, they were not aware of any reason for such substantial change in the Closing Price in March 2022 and the reason for the general downward trend of the Closing Price during the Review Period. We have also reviewed the announcements published by the Company during such period and we are not aware of any information which caused the substantial change in Closing Price.

As discussed in the section headed “Comparison to other rights issue” in this letter below, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue.

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Table A

	Total trading volume of the Shares in the month <i>(No. of Shares)</i>	Number of trading days in the month	Average daily trading volume of the Shares in the month <i>(No. of Shares)</i> <i>(Note 1)</i>	Percentage of average daily trading volume to total number of Shares <i>(Note 2)</i>
2022				
February	13,953,549	17	820,797	0.30%
March	23,609,594	23	1,026,504	1.90%
April	27,062,500	18	1,503,472	2.78%
May	74,232,700	20	3,711,635	2.75%
June	17,550,600	21	835,743	0.62%
July	24,357,936	20	1,217,897	0.90%
August	70,526,700	23	3,066,378	2.27%
September	20,353,600	21	969,219	0.72%
October	1,343,000	20	67,150	0.05%
November	43,631,000	22	1,983,227	1.47%
December	50,529,200	20	2,526,460	1.58%
2023				
January	31,822,850	18	1,767,936	1.10%
February (up and including the Last Trading Day)	21,821,200	17	1,283,600	0.80%

Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading in the Shares on the Stock Exchange was suspended for the whole trading day.
2. The calculation 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 at the Last Trading Day, the Company has no controlling Shareholder as defined under the GEM Listing Rules.

We have also reviewed the trading volume of the Shares during the Review Period. We note that during the Review Period, the average daily trading volume per month of the Shares as compared with the total issued Shares at the end of the respective month/period (the “**Trading Liquidity Ratio**”) ranged from approximately 0.05% to approximately 2.78% with the mean of approximately 1.33%.

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In view of this, we considered the trading liquidity of the Shares were thin during the Review Period, with six months (being February, June, July, September, October 2022 and February 2023) less than 1.0% to the then total number of issued Shares as at the end of their respective month/period. We anticipate that the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are therefore of the view that it is reasonable to set the Subscription Price at a discount to the average Closing Price to encourage the Qualifying Shareholders to participate in the Rights Issue and to maintain their respective shareholding interests in the Company.

Comparison to other rights issue

In order to assess the fairness and reasonableness of the Subscription Price, we exhaustively conducted a search of recent proposed rights issue exercises, announced by the companies listed on GEM of the Stock Exchange (excluding those terminated or lapsed or announced but not yet completed) within approximately 12 months prior to the Last Trading Day (the “**Comparison Period**”) to understand the trend of the recent market practice. Based on our research, we have identified a total of 14 rights issue comparables (the “**Comparables**”) during the Comparison Period.

We consider the Comparison Period of approximately 12 months is adequate and appropriate given that (i) such period would provide us with the recent and relevant information to demonstrate the prevailing market practice prior to the Announcement under the prevailing market conditions; and (ii) we are able to identify sufficient and reasonable samples size for selection of Comparables within the Comparison Period. We note that the terms of the rights issue announced by the Comparables may not be directly comparable to the terms of the Rights Issue announced by the Group due to the differences in business activities and performances. We note that the business activities of the Comparables may not be directly comparable to the business activities carried out by the Group. We consider that despite the terms of the rights issue depend on various factors, including the dilution effect to shareholding, funding needs and use of proceeds, discounts to share price, etc., they are often influenced by the recent market trends for rights issue. Although the Comparables included rights issue on different basis of entitlement, and involved issuers which engaged in different business or with different financial performance and funding needs from the Company, we consider that the Comparables are suitable to serve as a general reference for the purpose of an assessment on the Subscription Price, as (i) all of the Comparables and the Company are listed on GEM of the Stock Exchange which are similar in size of operation as GEM is positioned as a market designed to accommodate small and mid sized companies; (ii) our analysis is mainly concerned with the comparison of subscription price to closing price, theoretical ex-rights price, maximum dilution on the shareholding and theoretical dilution effect; and (iii) the Comparables were included without any artificial selection or filtering on our part thus they represented a true and fair view of the recent market trends for rights issue.

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Table B

Date of announcement	Company (stock code)	Basis of entitlement	Maximum amount of funds to be raised from the rights issue HK\$ million	Discount of subscription price over the closing price per share on the last trading day prior to the respective last trading day (Approximately %)	Discount of the subscription price over the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to announcement in relation to the respective rights issue (Approximately %)	Maximum dilution on the shareholding (Approximately %)	Theoretical dilution effect (Note 2) (Approximately %)	Excess Application/ Placing (Note 3)	Underwriting arrangement	Placing Commission (%)	Underwriting commission (%)
29/12/2022	New Amante Group Limited (8412)	1 for 2	12.6	(10.6)	(7.3)	33.3	(5.6)	Excess application	Underwritten on a best effort basis	N/A	1.5
21/10/2022	C&N Holdings Limited (8430)	3 for 1	32.5	(13.3)	(3.7)	75	(10.0)	Placing	Non-underwritten	1.5	N/A
10/8/2022	Easy Repay Finance & Investment Limited (8079)	1 for 2	14.4	(45.0)	(35.1)	33.3	(16.1)	Placing	Non-underwritten	7.1	N/A
4/8/2022	Xinyi Electric Storage Holdings Limited (8328)	1 for 10	393.9	(18.8)	(17.4)	9.1	(1.7)	Excess application	Non-underwritten	N/A	N/A
14/7/2022	Wan Cheng Metal Packaging Company Limited (8291)	1 for 1	24.0	(25.0)	(14.3)	50.0	(16.5)	Placing	Non-underwritten	2.5	N/A
17/6/2022	Ocean Star Technology Group Limited (8297)	1 for 2	31.5	(41.2)	(32.0)	33.3	(13.9)	Excess application	Underwritten on a best effort basis	N/A	1
10/6/2022	Gameone Holdings Limited (8282)	1 for 2	22.4	(40.4)	(31.2)	33.3	(13.5)	Excess application	Underwritten on a best effort basis	N/A	1.5
25/5/2022	F8 Enterprises (Holdings) Group Limited (8347)	1 for 2	17.1	(5.6)	(3.7)	33.3	(1.9)	Excess application	Underwritten on a best effort basis	N/A	5
18/5/2022	K Group Holdings Limited (8475)	2 for 1	50.2	(28.8)	(12.3)	66.7	(20.4)	Excess application	Underwritten on a best effort basis	N/A	3
12/5/2022	KOALA Financial Group Limited (8226)	2 for 1	83.5	(4.8)	(1.6)	66.7	(4.7)	Excess application	Underwritten on a best effort basis	N/A	3

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Date of announcement	Company (stock code)	Basis of entitlement	Maximum amount of funds to be raised from the rights issue HK\$ million	Discount of subscription price over the closing price per share on the last trading day of the respective subscription price	Discount of the subscription price over the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to announcement	Maximum dilution on the shareholding (Approximately %)	Theoretical dilution effect (Note 2) (Approximately %)	Excess Application/Placing (Note 3)	Underwriting arrangement	Placing Commission (%)	Underwriting commission (%)
28/4/2022	Palinda Group Holdings Limited (8179)	1 for 2	29.3	(39.8)	(30.6)	33.3	(13.3)	Excess application	Fully-underwritten	N/A	7.1
28/4/2022	Life Concepts Holdings Limited (8056)	3 for 2	48.6	(7.0)	(2.9)	60.0	(9.3)	Excess application	Underwritten on a best effort basis	N/A	1
3/3/2022	China Eco-Farming Limited (8166)	1 for 2	8.9	(10.1)	(7.0)	33.3	(5.3)	Excess application	Underwritten on a best effort basis	N/A	2
28/2/2022	Zioncom Holdings Limited (8287)	1 for 2	23.1	(16.7)	(11.4)	33.3	(5.6)	Placing	Non-underwritten	2.5	N/A
17/2/2023	The Group	3 for 2	35.3	(26.5)	(12.5)	60.0	(22.2)	Placing	Non-underwritten	2.5	N/A
			Maximum	(4.8)	(1.6)		(1.7)				
			Minimum	(45.0)	(35.1)		(20.4)				
			Average	(21.9)	(15.0)		(9.8)				

Notes:

- In order to calculate the average, minimum and maximum percentage of the placing commission of the Comparable Transactions, we have excluded the minimum placing commissions and absolute placing commissions.
- The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Rules Governing the Listing of Securities on the Stock Exchange or Rule 10.44A of the GEM Listing Rules.
- Pursuant to Rule 10.31(1) of the GEM Listing Rule.
- N/A represents the respective fundraising exercise did not involve underwriters nor placing agents.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the Table B, we note that (i) the subscription prices to the closing price on the Last Trading Day prior to the announcement of the Comparables ranged from a discount of approximately 4.8% to a discount of approximately 45.0%, with an average discount of approximately 21.9%. The discount of the Subscription Price to the closing price per Share as at the Last Trading Day of approximately 26.5% is within the range; (ii) the theoretical ex-rights price per Share based on the closing price per share on the last trading day prior to announcement in relation to the respective Comparables ranged from approximately 1.6% to a discount of approximately 35.1%, with an average discount of approximately 15.0%. The discount of the Subscription Price to the theoretical ex-rights price per Share on the Last Trading Day of approximately 12.5% is within the range; (iii) the theoretical dilution effect of the Comparables ranged from approximately 1.7% to approximately 20.4% with an average discount of approximately 9.8%. The theoretical dilution effect represented by the Rights Issue of approximately 22.2% is slightly greater than the range of the theoretical dilution effect of the Comparables. Having considered that (i) the net proceeds from the Rights Issue would improve the Group's financial condition; and (ii) the Subscription Price favors the Qualifying Shareholders to subscribe for the Rights Shares and maintain their respective pro-rata shareholding interests in the Company, we consider that the theoretical dilution effect represented by the Rights Issue is acceptable so far as the Independent Shareholders are concerned.

Taking into consideration that, (i) the Subscription Price of the Rights Issue has a discount of approximately 68.0% to the average Closing Price of HK\$0.46 during the Review Period; (ii) the trading liquidity of the Shares were generally thin during the Review Period and the Subscription Price at a discount may enhance the attractiveness of the Shares among the thin trading liquidity; (iii) the discount of the Subscription Price is within the range of the Comparables; (iv) a review period of 12 months prior to the Announcement to be exhaustive for a representation of proposed rights issue in the recent market; and (v) the discount of the Subscription Price to the recent market price of the Share is necessary to encourage the Qualifying Shareholders to participate the Rights Issue under recent market uncertainties, we are of the view that the setting of the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Potential dilution effect on the interests of the Independent Shareholders

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon completion of the Rights Issue (assuming all Shareholders have taken up their entitled Rights Shares); (iii) immediately after completion of the Rights Issue (assuming none of the Shareholders have taken up any entitled Rights Share); (iv) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming full acceptance) to the full conversion of the Convertible Bonds); and (v) immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds), for illustration purposes only, assuming there are no changes in the share capital of the Company on or before the Record Date:

	(i) As at the Latest Practicable Date	(ii) Immediately upon completion of the Rights Issue assuming full acceptance by all Qualifying Shareholders	(iii) Immediately upon completion of the Rights Issue assuming no acceptance by any Qualifying Shareholder and all Unsubscribed Rights Shares have been placed by the Placing Agent	(iv) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming full acceptance) to the full conversion of the Convertible Bonds)	(v) Immediately upon full conversion of the Convertible Bonds (assuming there will be no change in the total number of issued Shares from the date of completion of the Rights Issue (assuming no acceptance) to the full conversion of the Convertible Bonds)
	Number of issued Shares	Approx. %	Number of issued Shares	Approx. %	Number of issued Shares
Mr. Lam Yu Chor (Note 1)	33,098,750	20.69	33,098,750	8.27	33,098,750
Ms. Wong Fei Heung Terbe (Notes 2 and 3)	21,790,000	13.62	21,790,000	5.45	21,790,000
Other public Shareholders	105,112,628	65.69	105,112,628	26.28	105,112,628
Independent places Bondholders	-	-	240,002,067	60.00	240,002,067
	-	-	-	-	54,545,454
Total	160,001,378	100.00	400,003,445	100.00	454,548,899
					100.00
					454,548,899
					100.00

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. Mr. Lam Yu Chor (“**Mr. Lam**”) legally and beneficially owns the entire issued share capital of Goldstone Wealth Management Limited (“**Goldstone**”), which is the general partner of Goldstone 1 LPF. Therefore, Mr. Lam is deemed, or taken to be, interested in all Shares held by Goldstone for the purpose of the SFO. Mr. Lam is the director of Goldstone.
2. Ms. Wong Fei Hung Terbe (“**Ms. Wong**”) legally and beneficially owns the entire issued share capital of Success Run International Limited (“**Success Run**”). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 18,350,000 Shares held by Success Run for the purpose of the SFO. Ms. Wong is the sole director of Success Run.
3. Ms. Wong legally and beneficially owns the entire issued share capital of Lion Spring Enterprises Limited (“**Lion Spring**”). Therefore, Ms. Wong is deemed, or taken to be, interested in all the 3,440,000 Shares held by Lion Spring for the purpose of the SFO. Ms. Wong is the director of Lion Spring.

The Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future business development of the Company should they wish to do so. However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. Details of the changes in shareholding structure of the Company resulting from completion of the Rights Issue are set out in the table above. Assuming there will be no change in the shareholding structure of the Company before completion of the Rights Issue, if (i) all Right Shares are subscribed for by the Qualifying Shareholders, the shareholding of the public Shareholders will remain at 65.7%; and (ii) assuming none of the Qualifying Shareholders takes up any of the Rights Shares and all Unsubscribed Rights Shares have been placed by the Placing Agent, the shareholding of the public Shareholders will decrease from approximately 65.7% as at the Latest Practicable Date to approximately 26.3% upon completion of the Rights Issue. The possible maximum dilution effect to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Issue is approximately 60.0%. The above scenario is for illustrative purpose only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors, including the results of acceptance of the Rights Issue.

We are aware of the potential maximum dilution effect as a result of the Rights Issue. However, having taken into account that (i) all Qualifying Shareholders are offered an equal opportunity to maintain their shareholding interests in the Company and allowed to participate in the business growth of the Company; (ii) the theoretical dilution effect of 22.2% of the Rights Issue is slightly greater than the range of that of the Comparables, which was mainly due to the cumulative theoretical dilution effect created by 2022 CB Placing and 2022 Rights Issue; (iii) the shareholding of the Qualifying Shareholders would not be diluted if they choose to subscribe for their entitled Rights Shares in full; and (iv) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the markets if they do not want to take up the rights entitlement, we are of the opinion that the potential dilution effect of the Rights Issue is justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Excess application

As stated in the Letter from the Board, the Qualifying Shareholders will not be entitled to subscribe for any Rights Shares in excess of their respective entitlements. We have reviewed the Comparables and noted that 4 out of 14 Comparables did not offer excess application to their shareholders and 5 out of 14 Comparables were conducted on non-underwritten basis. Therefore, we consider that the absence of excess application arrangement is not an uncommon market practice. As such, we are of the view that the absence of excess application arrangement is acceptable so far as the Independent Shareholders are concerned.

Placing price

Pursuant to the Placing Agreement, the placing price (the “**Placing Price**”) of each of the Unsubscribed Rights Share and/or the NQS Unsold Rights Share shall be not less than the Subscription Price. The final price determination is depends on the demand and market conditions of the Unsubscribed Rights Shares and/or the NQS Unsold Rights Shares during the process of the Placing.

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 paragraph headed “Subscription Price” in this letter above, we consider that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned.

Placing commission

As set out in the Letter from the Board, the terms of the Placing Agreement, including the rate of placing commission, were determined after arm’s length negotiation between the Company and the Placing Agents with reference to (i) the market comparables including the average placing commission of 2.94% of the recent proposed rights issue announced by the companies listed on GEM of the Stock Exchange within 12 months prior to the Last Trading Day; (ii) the net loss attributable to owners of the Company of approximately HK\$20.5 million recorded by the Group for the nine months ended 31 December 2022; (iii) the gross proceeds of the Rights Issue of HK\$35.28 million; and (iv) the downward trend of the daily closing price of the Shares of the Company during the Relevant Period and the Placing Agent to the Company will receive 2.5% of the placing price.

According to the Comparables as set out in Table B, the placing commission rate of the Comparables ranged from approximately 1.3% to approximately 7.1%, with an average placing commission rate of approximately 3.4%. As the placing commission rate of approximately 2.5% is below the average placing commission of the Comparables and falls within the range of the Comparables, we are of the view that the placing commission rate charged by the Placing Agent is not unreasonable and is in the interests of the Company and Independent Shareholders as a whole.

5. Financial effects of the Rights Issue

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible assets attributable to owners of the Company as at 30 September 2022 was approximately HK\$66.7 million.

Net assets

Assuming no further issuance of Shares on or before the Record Date, (i) the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company would increase to approximately HK\$100.2 million as at 30 September 2022 upon completion of the Rights Issue; and (ii) the unaudited pro forma adjusted consolidated net tangible assets per share attributable to owners of the Company would be approximately HK\$0.42 before the completion of the Rights Issue and approximately HK\$0.25 upon completion of the Rights Issue as at 30 September 2022.

Liquidity

According to the 2022 Interim Report, as at 30 September 2022, the cash and cash equivalents of the Group was approximately HK\$18.2 million and the Group had current assets of approximately HK\$66.7 million, current liabilities of approximately HK\$54.2 million. Accordingly, (i) the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 September 2022 was approximately 1.2 times; and (ii) the gearing ratio of the Group (being the total debts divided by the total equity of the Group) as at September 2022 was approximately 13.9%. Immediately upon completion of the Rights Issue, the cash and cash equivalents of the Group is expected to increase by the expected net proceeds from the Rights Issue of approximately HK\$33.48 million.

Upon completion of the Rights Issue and assuming that the Rights Shares are fully subscribed, it is expected that (i) the current ratio of the Group will be increased from approximately 1.2 times to approximately 1.8 times; and (ii) the gearing ratio of the Group will be decreased from approximately 13.9% to approximately 9.3%. As such, the current ratio, the gearing ratio and the liquidity of the Group will be improved upon the completion of the Rights Issue before utilising the net proceeds.

As the Rights Issue will improve the liquidity position of the Group, we are of the view that the Rights Issue are in the interests of the Company and the Shareholders as a whole.

Shareholders should note that the aforesaid analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon completion of the Rights Issue and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of (i) the financial position of the Company as at 30 September 2022 or any future date; or (ii) the net assets per Share of the Company as at 30 September 2022 or any future date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

C. RECOMMENDATION

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

- (i) the proceeds from the Rights Issue will enable the Group to strengthen its foundation service capacity and diversify its revenue streams by developing the AI business;
- (ii) the Qualifying Shareholders may have difficulties in acquiring or selling a significant number of Shares in the open market if the same trading pattern of the Shares persists during and after the completion of the Rights Issue without exerting impact on the market price of the Shares. We are therefore of the view that setting the Subscription Price at a discount to the average Closing Price would encourage the Qualifying Shareholders to participate in the Rights Issue, and to maintain their respective shareholding interests in the Company as stated under the paragraph headed “Subscription Price” in this letter;
- (iii) the Subscription Price is fair and reasonable in our view for the reasons set out in earlier sections headed “Subscription Price” and “Comparison to other rights issue” in this letter; and
- (iv) Rights Issue is conducted on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportionate interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company, and the maximum dilution effect will only occur when the Qualifying Shareholders do not subscribe for their proportionate Rights Shares,

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

Yours faithfully,
For and on behalf of
Kingsway Capital Limited
Jackson Wong
Managing Director

Note: Mr. Jackson Wong is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Kingsway Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in and completed various advisory transactions involving companies listed in Hong Kong in respect of the Takeovers Code for over 10 year.

1. FINANCIAL SUMMARY OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 March 2020, 2021 and 2022, the three months ended 30 June 2022, the six months ended 30 September 2022 and three and nine months ended 31 December 2022 were disclosed on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (<http://www.bervergroup.com.hk>). Set out below are links to the relevant financial reports of the Company:

- (i) The annual report of the Company for the year ended 31 March 2022 published on 30 June 2022 (pages 83 to 148):

<https://www1.hkexnews.hk/listedco/listconews/gem/2022/0630/2022063000015.pdf>

- (ii) The annual report of the Company for the year ended 31 March 2021 published on 29 June 2021 (pages 79 to 140):

<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0629/2021062900572.pdf>

- (iii) The annual report of the Company for the year ended 31 March 2020 published on 30 June 2020 (pages 70 to 130):

<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0630/2020063000681.pdf>

- (iv) The first quarterly report of the Company for the three months ended 30 June 2022 published on 9 August 2022 (pages 2 to 9):

<https://www1.hkexnews.hk/listedco/listconews/gem/2022/0809/2022080901386.pdf>

- (v) The interim report of the Company for the six months ended 30 September 2022 published on 9 November 2022 (pages 3 to 20):

<https://www1.hkexnews.hk/listedco/listconews/gem/2022/1109/2022110901098.pdf>

- (vi) The third quarterly report of the Company for the three and nine months ended 31 December 2022 published on 7 February 2023 (pages 2 to 8):

<https://www1.hkexnews.hk/listedco/listconews/gem/2023/0207/2023020700439.pdf>

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 January 2023, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the indebtedness of the Group was as follows:

(a) Borrowings

The Group had aggregate outstanding borrowings of approximately HK\$2,621,000 comprising:

- (i) An unsecured bank borrowing of approximately HK\$1,914,000 with an interest rate of 3.37% per annum; and
- (ii) Other borrowing of approximately HK\$707,000 with interest rates range from 5.53% to 8.18% per annum, which are secured by a charge over the property, plant and equipment with carrying amount of approximately HK\$2,731,000.

An unsecured bank borrowing of approximately HK\$1,914,000 is guaranteed by the Government of the Hong Kong Special Administrative Region and personal guaranteed by Mr. Tang Kwai Leung, Stanley and Mr. Chui Koon Yau, being the directors of Triangular Force Construction Engineering Limited, an indirect wholly-owned subsidiary of the Company. All other borrowing is guaranteed by the Company. Bank and other borrowings that due for repayment after one year contain repayment on demand clause were classified as current liabilities.

(b) Lease liabilities

The Group had lease liabilities of approximately HK\$5,696,000 in respect of finance leases for certain warehouse and property, plant and equipment. Lease liabilities of approximately HK\$235,000 are guaranteed by the Company and approximately HK\$794,000 are guaranteed by a director of a subsidiary of the Group.

Save as aforesaid and apart from intra-group liabilities, the Group did not, at the close of the business on 31 January 2023, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptance (other than normal trade bills and payables), acceptance credits, or any guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources presently available to the Group, including the existing cash and bank balances, available facilities and the estimated Net Proceeds and the placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As stated in the profit warning announcement of the Company dated 1 August 2022, the Company recorded a net loss of ranging from approximately HK\$13.2 million to approximately HK\$18.6 million for the three months ended 30 June 2022 as compared with a net profit of HK\$0.2 million for the corresponding period in 2021. The Board considers that the increase in net loss was primarily attributable to (i) the decrease in gross profit due to cost overrun in the Group's bored pilling projects, mainly the project located in Hung Hom which experienced delay in work progress; and (ii) the increase in administrative expenses due to the increase in legal and professional fee for the Company's rights issue in 2022 and increase in marketing expenses for business development.

As stated in the profit warning announcement of the Company dated 1 November 2022, the Company recorded a net loss of ranging from approximately HK\$21.2 million to approximately HK\$28.2 million for the six months ended 30 September 2022 as compared with a net loss of HK\$10.8 million for the corresponding period in 2021. The Board considers that the increase in net loss was primarily attributable to (i) the decrease in revenue due to lower value of contracts awarded to the Group; (ii) the decrease in gross profit due to cost overrun in the Group's bored pilling projects, mainly the project located in Hung Hom which experienced delay in work progress; and (iii) the increase in administrative expenses due to the increase in legal and professional fee for the Company's rights issue in 2022.

As stated in the profit warning announcement of the Company dated 31 January 2023, the Company recorded a net loss of ranging from approximately HK\$17.6 million to approximately HK\$25.6 million for the nine months ended 31 December 2022 as compared with a net loss of HK\$16.3 million for the corresponding period in 2021. The Board considers that the increase in net loss was primarily attributable to (i) the decrease in revenue due to lower value of contracts awarded to the Group; (ii) the decrease in gross profit due to cost overrun in the Group's bored pilling projects, mainly the project located in Hung Hom which experienced delay in work progress; and (iii) the increase in administrative expenses due to the increase in legal and professional fee for the Company's rights issue in 2022.

As at the Latest Practicable Date, save as aforesaid, the Directors confirm there had been no material adverse change in the financial or trading position of the Group since 31 March 2022 (being the date to which the latest published audited financial statements of the Group were made up).

5. FINANCIAL AND TRADING PROSPECT

The Group is a foundation contractor primarily specialising in bored piling works as well as other foundation works. The Group is also engaged in leasing of machinery.

For the year ended 31 March 2022, the Group's revenue amounted to approximately HK\$146.74 million, which was solely derived from its construction contract income, representing an increase of approximately 3.5% when compared to the Group's revenue of approximately HK\$141.79 million for last year. No revenue was recorded from the leasing of machinery during the year ended 31 March 2022, as compared to the revenue of approximately HK\$2.12 million recorded for the preceding year.

For the nine months ended 31 December 2022, the Group's revenue amounted to approximately HK\$86.34 million, representing a decrease of approximately 20.77% when compared to the Group's revenue of approximately HK\$108.98 million for last year. The Group has recorded a revenue of approximately HK\$2.51 million from the leasing of machinery during the nine months ended 31 December 2022, as compared to no revenue recorded for the preceding year.

The Directors are of the view that the general outlook of the industry and the business environment in which the Group operates will remain challenging. The outbreak of COVID-19 throughout the period has created economic uncertainty to Hong Kong and imposed negative impacts on the foundation industry, including supply chain disruptions, workforce shortages due to illness and preventative quarantines, and work stoppages due to measures imposed by the government.

Looking ahead, the Group will adhere to prudent financial management in project selection and cost control. The Group will continue to strive to improve its operational efficiency and profitability of its business. The Group will also proactively seek potential business opportunity that will broaden the sources of income and increase the return of shareholders. In order to enhance the future competitiveness and influence, the Group has a plan to develop new business segments in the field of technological innovation, on the basis of consolidating its existing businesses. The Directors believe that the finance and technology industry, including AI and fintech industry, has a promising prospect. The Board considers the application of AI technology in financial translation business allows the Group to participate in the rapid growing fintech industry in Hong Kong. The Board believes that the development of finance and technology industry will enable the Group to benefit from diversified revenue streams, as well as market deployment and preparation in advance for its entry into the Hong Kong financial services market and technology industry which offers growth potential and better capital return.

The Group will invest in (i) the manpower and information system to enhance its operational capacity and efficiency in foundation and site formation works and bored piling works; (ii) the financial assistance business; and (iii) the AI business.

A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Paragraph 13 of Appendix 1B and Paragraph 31 of Chapter 7 of the GEM Listing Rules is set out below to illustrate the effects of the Rights Issue on the consolidated net tangible assets of the Group as if the Rights Issue had taken place on 30 September 2022.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and because of its hypothetical nature, may not give a true picture of the financial position of the Group following the Rights Issue.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 30 September 2022, adjusted as described below:

Unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2022	Estimated net proceeds from the Rights Issue	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 September 2022
<i>(Note 1)</i>	<i>(Note 2)</i>	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>66,710</u>	<u>33,480</u>	<u>100,190</u>

Unaudited pro forma adjusted
consolidated net tangible assets per
Share immediately after completion
of the Rights Issue *(Note 3)*

HK\$0.25

Notes:

1. The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2022 are based on the consolidated net assets in the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2022 included in the Group's published interim report for the six months ended 30 September 2022.
2. The estimated net proceeds from the Rights Issue are based on 240,002,067 Rights Shares at the Subscription Price of HK\$0.147 per Rights Share, after deduction of the underwriting fees and other share issue related expenses payable by the Company of approximately HK\$1,800,000.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share as at 30 September 2022 immediately after the completion of the Rights Issue as if the Rights Issue of 240,002,067 had been completed on 30 September 2022, but does not take into account any shares which have been or may be issued upon the exercise of options granted under the share option scheme subsequent to 30 September 2022.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2022.

B. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

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*The Board of Directors
State Innovation Holdings Limited*

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of State Innovation Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma adjusted consolidated net tangible assets as at 30 September 2022 as set out on pages II-1 to II-2 of the Circular issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Section A of Appendix II to this Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Rights Issue on the Group’s net tangible assets as at 30 September 2022 as if the transaction had been taken place at 30 September 2022. As part of this process, information about the Group’s net tangible assets has been extracted by the Directors from the Group’s unaudited condensed consolidated financial statements as included in the interim report for the six months ended 30 September 2022, on which an interim report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 13 of Appendix 1B and paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the GEM of The Stock exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2022 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We make no comments regarding the reasonableness of the amount of net proceeds from the Rights Issue, the application of those net proceeds, or whether such use will actually take place as described under "Reasons for the Rights Issue and the use of proceeds" set out on page 21 of the Circular.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

RSM Hong Kong

Certified Public Accountants

Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which 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 this 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 this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital in the Company (i) as at the Latest Practicable Date; and (ii) immediately following the allotment and issue of the Rights Shares, assuming there is no further issue or repurchase of Shares from the Latest Practicable Date up to and including the date of completion of the Rights Issue, will be as follows:

i. As at the Latest Practicable Date:

<i>Authorised:</i>		<i>HK\$</i>
<u>400,000,000</u>	Shares of HK\$0.50 each	<u>200,000,000.00</u>

Issued and paid-up share capital:

<u>160,001,378</u>	Shares of HK\$0.50 each	<u>80,000,689.00</u>
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ii. Immediately following the Increase in Authorised Share Capital becoming effective and the allotment and issue of the Rights Shares, assuming there is no further issue or repurchase of Shares from the Latest Practicable Date up to and including the date of completion of the Rights Issue:

<i>Authorised:</i>		<i>HK\$</i>
<u>900,000,000</u>	Shares of HK\$0.50 each	<u>450,000,000.00</u>

Issued and paid-up share capital:

160,001,378	Shares of HK\$0.50 each	80,000,689.00
240,002,067	Rights Shares to be allotted and issued upon completion of the Rights Issue of HK\$0.5 each	120,001,033.50
<u>400,003,445</u>	Shares in issue immediately after completion of the Rights Issue of HK\$0.50 each	<u>200,001,722.50</u>

All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank *pari passu* in all respects with the existing Shares in issue on the date of allotment of the Rights Shares in fully-paid form.

The Company will apply to the GEM Listing Committee for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company had no outstanding debt securities, derivatives, options, warrants or other securities in issue which are convertible into or giving rights to subscribe for, convert or exchange into, any Shares.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executives of the Company or their associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) have to be notified to the Company and the Stock Exchange pursuant to the standard of dealings by directors set out in Rules 5.46 to 5.67 of the GEM Listing Rules.

Long position in the Shares

Name	Nature of interest	Number of Shares held	Approximately percentage or attributable percentage of shareholding
Goldstone 1 LPF	Beneficial owner	33,098,750 (Note 1)	20.69%
Goldstone Wealth Management Limited	Beneficial owner	33,098,750 (Note 1)	20.69%

Name	Nature of interest	Number of Shares held	Approximately percentage or attributable percentage of shareholding
Mr. Lam Yu Chor	Interest in controlled corporations	33,098,750 (Note 1)	20.69%
Success Run International Limited	Beneficial owner	18,350,000 (Note 2)	11.47%
Ms. Wong Fei Heung Terbe	Interest in controlled corporations	21,790,000 (Note 2)	13.62%
Mr. Tai Pik Yeung Tyler	Beneficial owner	8,834,000	5.52%

Notes:

- (1) Mr. Lam Yu Chor (“**Mr. Lam**”) legally and beneficially owns the entire issued share capital of Goldstone Wealth Management Limited (“**Goldstone**”), which is the general partner of Goldstone 1 LPF. Therefore, Mr. Lam is deemed, or taken to be, interest on all Shares held by Goldstone for the purpose of the SFO. Mr. Lam is the director of Goldstone.
- (2) Ms. Wong Fei Heung Terbe (“**Ms. Wong**”) legally and beneficially owns the entire issued share capital of Success Run International Limited (“**Success Run**”) and Lion Spring Enterprises Limited (“**Lion Spring**”), the latter of which hold 3,440,000 Shares, representing approximately 2.15% of the entire issued share capital of the Company. Therefore, Ms. Wong is deemed, or taken to be, interested in all the 21,790,000 Shares held by Success Run and Lion Spring for the purpose of the SFO. Ms. Wong is the sole director of Success Run and the director of Lion Spring.

Save as disclosed above, as at the Latest Practicable Date, as far as the Directors are aware, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

4. DIRECTORS’ INTERESTS IN CONTRACT AND ASSET

As at the Latest Practicable Date, none of the Directors, directly or indirectly, had any interest in any assets which had since 31 March 2022 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group. As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates was interested in any business which competed, or might compete, either directly or indirectly, with the business of the Group pursuant to the GEM Listing Rules.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by members of the Group after the date falling two years immediately preceding the date of the Announcement up to and including the Latest Practicable Date:

- (i) the Placing Agreement;
- (ii) the acquisition agreement dated 29 January 2023 entered between the Goldstone Finance Limited ("**Goldstone Finance**"), a wholly-owned subsidiary of the Company, and Ashe Capital Holding Limited ("**Ashe Capital**"), pursuant to which Ashe Capital has agreed to sell and Goldstone Finance has agreed to purchase the 1,423 ordinary shares in the Central Champion Holding Limited ("**Central Champion**"), representing 14.23% issued share capital of the Central Champion at the consideration of HK\$8,100,000. For further details, please refer to the announcement of the Company dated 29 January 2023;
- (iii) the placing agreement dated 11 November 2022 entered into between the Company and the Orient Securities Limited in relation to the placing of up to 25,001,378 Shares on a best efforts basis, at the placing price of HK\$0.270 per placing share for which a placing commission of 3.5% of the aggregate amount equal to the placing price multiplied by the actual number of placing shares successfully placed by the placing agent. For further details, please refer to the announcement of the Company dated 11 November 2022;

- (iv) the acquisition agreement dated 23 May 2022 entered between the Longson Enterprise Development Company Limited (“**Longson**”), a wholly-owned subsidiary of the Company, and Alpha Rich Limited (“**Alpha Rich**”), pursuant to which Alpha Rich has agreed to sell and Longson has agreed to purchase the properties located at office no. 3, 4 & 5 on 2nd floor Yue Shing Commercial Building, 15–16 Queen Victoria Street & 3–7 Man Yee Lane, Hong Kong at the consideration of HK\$15,500,000. For further details, please refer to the announcement of the Company dated 23 May 2022;
- (v) the placing agreement dated 23 May 2022 entered into between the Company and the Astrum Capital Management Limited in relation to the placement of the 2.5% unsecured redeemable convertible bonds in the aggregate principal amount of up to HK\$30,000,000 to be issued by the Company for which a placing commission of 2% of the aggregate principal amount of the convertible bond successfully placed by the placing agent. For further details, please refer to the announcement of the Company dated 23 May 2022;
- (vi) the placing agreement dated 14 January 2022 and entered into between the Company and Gransing Securities Co., Limited in relation to the placing of shares of the Company for the 2022 Rights Issue;
- (vii) the placing agreement dated 1 September 2021 entered into between the Company and the Tiger Faith Securities Limited in relation to the placing of up to 45,000,000 Shares on a best efforts basis, at the placing price of HK\$0.175 per placing share for which a placing commission of 4.5% of the aggregate amount equal to the placing price multiplied by the actual number of placing shares successfully placed by the placing agent. For further details, please refer to the announcement of the Company dated 1 September 2021;
- (viii) the provisional sale and purchase contract and the formal contract dated 26 February 2021, entered between the TMP Machinery Engineering Limited (“**TMP Machinery**”), an indirect wholly-owned subsidiary of the Company, and International Automobiles Limited (“**International Automobiles**”), pursuant to which International Automobiles has agreed to sell and TMP Machinery has agreed to purchase a truck for construction material transportation at a consideration HK\$1,650,000. For further details, please refer to the announcement of the Company dated 26 February 2021;
- (ix) the contract dated 26 February 2021, entered between the Triangular Force Construction Engineering Limited (“**Triangular Force**”), an indirect wholly-owned subsidiary of the Company and Zenvick Engineering Services Limited (“**Zenvick**”), pursuant to which Triangular Force has agreed to sell and Zenvick has agreed to purchase a hydraulic drill rig with relevant accessories at a consideration HK\$2,000,000. For further details, please refer to the announcement of the Company dated 26 February 2021; and

- (x) the contract dated 26 February 2021, entered between the Triangular Force an indirect wholly-owned subsidiary of the Company and Sanroc International (Hong Kong) Limited (“**Sanroc**”), pursuant to which Triangular Force has agreed to sell and Sanroc has agreed to purchase construction equipment including two reverse circulation drilling machines, two casing oscillators and one power pack at a consideration HK\$6,634,000. For further details, please refer to the announcement of the Company dated 26 February 2021.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion, letter or advice contained in this circular (the “**Experts**”):

Name	Qualification
RSM Hong Kong	Certified Public Accountant
Kingsway Capital Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of above Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters or reports and the reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of above Experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of above Experts didn’t not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2022, being the date to which the latest published audited accounts of the Company were made up.

10. CORPORATE INFORMATION AND PARTIES TO THE RIGHTS ISSUE

Board of Directors

Executive Director

Mr. Tang Kwai Leung Stanley (*Chairman*)

Independent Non-Executive Directors

Mr. He Dingding

Ms. Chan Tsz Hei Sammi

Ms. Liu Ching Man

Registered office	Windward 3, Regatta Office Park PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Principal place of business in Hong Kong	Room 1204, 12/F, Block 2 Golden Industrial Building 16–26 Kwai Tak Street Kwai Chung New Territories, Hong Kong
Authorised representatives and compliance officer	Mr. Tang Kwai Leung Stanley Mr. Lee Man Tai (<i>FCCA, FCPA</i>)
Company secretary	Mr. Lee Man Tai (<i>FCCA, FCPA</i>)
Auditors and reporting accountants	RSM Hong Kong <i>Certified Public Accountants</i> 29th Floor, Lee Garden Two 28 Yun Ping Road Causeway Bay, Hong Kong
Legal adviser to the Company as to Hong Kong laws	David Fong & Co. Unit A, 12/F, China Overseas Building 139 Hennessy Road Wanchai, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Kingsway Capital Limited 7/F, Tower 1, Lippo Centre 89 Queensway Hong Kong
Placing Agent	Excalibur Global Financial Group Limited Unit 3711, 37/F, West Tower Shun Tak Centre 168–200 Connaught Road Central Sheung Wan Hong Kong
Principal bankers	Nanyang Commercial Bank, Limited The Hongkong and Shanghai Banking Corporation Limited DBS Bank (Hong Kong) Limited

Hong Kong share registrar and transfer office	Tricor Investor Services Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Principal share registrar and transfer office in Cayman Islands	Ocorian Trust (Cayman) Limited Windward 3, Regatta Office Park PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Stock Code	8275
Company Website	www.beavergroup.com.hk

11. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, placing commission (assuming nil acceptance of the Rights Shares by the Qualifying Shareholders and placing all Unsubscribed Rights Shares and the NQS Unsold Rights Shares by the Placing Agent), printing, registration, translation, legal and accountancy charges are estimated to be up to approximately HK\$1.8 million, which are payable by the Company.

12. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Executive Director

Mr. Tang Kwai Leung Stanley (“**Mr. Tang**”), aged 54, is the executive Director and chairman of the Board responsible for overseeing the corporate strategy, operational management of the Group, and a co-founder of the Group. Mr. Tang attended secondary school education in Hong Kong. Mr. Tang completed a construction safety supervisor course organised by the Construction Industry Training Authority in 1999. He also obtained a trade test certification card for piling operative (bored pile) issued by the Construction Industry Training Authority in 2002, a certificate of rigger & signaller safety training issued by the Hong Kong Safety Training Association in November 2008 and a certificate for operation of crawler-mounted mobile crane in May 2014.

Mr. Tang has approximately 25 years of experience in construction and foundation work industry. Before establishing Triangular Force Construction Engineering Limited (“**Triangular Force**”) in 2008, he accumulated approximately 10 years of experience working for China Overseas (Hong Kong) Limited as a foreman for intermittent periods from October 1994 to December 2007, his last position as a general foreman. He also worked for Hsin Chong (Foundations) Limited as a site foreman from August 2000 to May 2001.

Independent non-executive Directors

Mr. He Dingding (“**Mr. He**”), aged 46, was appointed as the independent non-executive Director on 14 May 2021. He is also the chairman of the audit committee of the Company (the “**Audit Committee**”) and a member of the remuneration committee of the Company (the “**Remuneration Committee**”) and nomination committee of the Company (the “**Nomination Committee**”).

Mr. He graduated from Nanyang Technological University, Singapore with a bachelor’s degree in civil engineering. Mr. He was awarded the CFA Charter by the CFA Institute in September 2006. Mr. He has more than 18 years of extensive experiences in capital markets, corporate finance, investment and finance, and corporate management through working in investment banks, advisory firms and listed companies in Singapore and Hong Kong since 2005.

Mr. He was an independent non-executive director and a member of the audit committee of China Kangda Food Company Limited, the issued shares of which are listed on the Main Board of both the Stock Exchange and Singapore Exchange Securities Trading Limited (stock codes: 834 and P74, respectively), between August 2012 and June 2015. Mr. He was a non-executive director and a member of the audit committee of Perfect Group International Holdings Limited, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 3326), between March 2017 and February 2018 and was subsequently appointed as its deputy chief executive officer between March 2018 and August 2018. Since August 2018, Mr. He has been an independent non-executive director and a member of the audit committee of Sino Harbour Holdings Group Limited, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1663). From May 2021 to September 2021, He had also been an independent non-executive director and a chairman of the audit committee of Crown International Corporation Limited, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 727).

Ms. Chan Tsz Hei Sammi (“**Ms. Chan**”), aged 37, was appointed as the independent non-executive Director on 1 June 2021. She is also the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee.

Ms. Chan is a practising solicitor admitted in Hong Kong in 2018 and a member of the Law Society of Hong Kong. Ms. Chan has also been a Certified Management Accountant of Australia since 2016 and a lawyer of the Supreme Court of New South Wales since 2014. Ms. Chan has a Postgraduate Certificate in Laws and a Bachelor of Laws degree from the City University of Hong Kong and a Bachelor of Business Administration in Accounting and Finance degree from the University of Hong Kong.

Ms. Chan is currently the company secretary and authorised representative under Rule 3.05 of the Rules Governing the Listing of Securities on the Stock Exchange of Bamboos Health Care Holdings Limited, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2293). She is also currently the company secretary and

authorised representative under Rule 5.24 of the GEM Listing Rules of AV Promotions Holdings Limited, the issued shares of which are listed on GEM of the Stock Exchange (stock code: 8419).

Ms. Liu Ching Man (“**Ms. Liu**”), aged 33, was appointed as the independent non-executive Director on 1 June 2021. She is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee.

Ms. Liu graduated from the Upper Iowa University with a Bachelor of Psychology degree and obtained a master of business administration degree from The Hong Kong Polytechnic University. She is well experienced in the investor relationship and public relationship industry. She has extensive experience in financial public relations. She participated and prepared many listing ceremonies, roadshows and fund-raising. She also has experience on blockchain development. She previously led development of cryptocurrency exchanges and Web 3.0 blockchain. She is an executive director of Jiading Group Holdings Limited, the shares of which are listed on GEM of the Stock Exchange (stock code: 8153).

Company secretary

Mr. Lee Man Tai (“**Mr. Lee**”), aged 46, joined the Company in June 2021 and has been acting as the chief financial officer of the Company. He has been appointed as company secretary of the Company since August 2021. He graduated from Lingnan University, Hong Kong in 2000 with a bachelor’s degree in business administration and The Hong Kong Polytechnic University in 2010 with a master’s degree in business administration. He was admitted as a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants in 2012. He has been a licensed representative and responsible officer for Type 1 (advising on dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) since 2017 and 2020, respectively.

Mr. Lee has approximately 20 years of working experience in the financial industry. From October 2006 to October 2012, he acted as the chief financial officer and company secretary of China Yuanbang Property Holdings Limited (中國元邦房地產控股有限公司), a company listed on Mainboard of the Singapore Exchange Limited (stock code: CYBP.SP or BCD.SI). From October 2012 to May 2014, he acted as the chief financial officer and company secretary of China 33 Media Group Limited (中國三三傳媒集團有限公司), a company listed on GEM of the Stock Exchange (stock code: 8087). He acted as the chief financial officer and company secretary of Flying Financial Service Holdings Limited (匯聯金融服務控股有限公司), a company listed on GEM of the Stock Exchange (stock code: 8030), from July 2014 to April 2015 and from August 2014 to April 2015, respectively. He also acted as the financial controller and company secretary of Chanco International Group Limited (卓高國際集團有限公司) (now known as China International Development Corporation Limited (中聯發展控股集團有限公司)), a company listed on Main Board of

the Stock Exchange (stock code: 264), from April 2015 to January 2016 and from April 2015 to September 2015, respectively.

Since January 2016, Mr. Lee has been an independent non-executive director of China Energy Development Holdings Limited (中國能源開發控股有限公司), a company listed on Main Board of the Stock Exchange (stock code: 228). Since November 2016, he has been an independent non-executive director of Progressive Path Group Holdings Limited (進昇集團控股有限公司), a company listed on Main Board of the Stock Exchange (stock code: 1581). Since December 2019, he has been an independent non-executive director of Rizhao Port Jurong Co., Ltd. (日照港裕廊股份有限公司), a company listed on Main Board of the Stock Exchange (stock code: 6117). Since June 2021, he has been an independent non-executive director of MEIGU Technology Holding Group Limited (美固科技控股集團有限公司), a company listed on GEM of the Stock Exchange (stock code: 8349).

Business address of the Directors

The business address of the Directors is same as the Company's principal place of business in Hong Kong at Room 1104A, 11/F, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan, Hong Kong.

13. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board (the “**Audit Committee**”) comprised all of the independent non-executive Directors, namely Mr. He Dingding (the chairman of the Audit Committee), Ms. Chan Tsz Hei Sammi and Ms. Liu Ching Man. The background, directorship and past directorship (if any) of each of the members of the Audit Committee are set out in the section headed “12. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY” in this appendix. The primary role and function of the Audit Committee are to oversee the relationship with the external auditors, to review the Group's preliminary quarterly results, interim results and annual results and to monitor compliance with statutory and listing requirements.

14. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.beavergroup.com.hk) from the date of this circular up to and including the date of the EGM:

- (i) the letter from the Board, the text of which is set out on pages 7 to 30 of this circular;
- (ii) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 31 of this circular;
- (iii) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages IFA-1 to IFA-26 of this circular;

- (iv) the accountant's report on the unaudited pro forma financial information of the Group issued by RSM Hong Kong, the text of which is set out in Appendix II to this circular; and
- (v) the written consents referred to in the paragraph under the heading "9. EXPERTS AND CONSENTS" in this appendix.

15. LANGUAGE

In case of any inconsistency between the English and Chinese versions of this circular, the English version will prevail.

16. MISCELLANEOUS

- (i) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (ii) As at the Latest Practicable Date, there is no material foreign exchange exposure to the Company. Therefore, no financial instrument was made to hedge such exposures.

NOTICE OF EXTRAORDINARY GENERAL MEETING

STATE INNOVATION HOLDINGS LIMITED

國科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8275)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of State Innovation Holdings Limited (the “**Company**”) will be held at 11:00 a.m. at Units 1203B, 1204–1205, 12/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong on 12 April 2023 for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to the passing of the resolution numbered 2 below:
 - (a) the allotment and issue of 240,002,067 new Shares (assuming no further issue and repurchase of shares of the Company up to the Record Date (as defined below)) (the “**Rights Shares**”) pursuant to an offer by way of rights to the shareholders of the Company (the “**Shareholders**”) at the subscription price of HK\$0.147 per Rights Share (the “**Subscription Price**”) on the basis of three (3) Rights Shares for every two (2) Shares held by the Shareholders (“**Qualifying Shareholders**”) whose names appear on the register of members of the Company on 25 April 2023, or such other date as may be determined by the Company for determining entitlements of Shareholders to participate in the Rights Issue (as defined below) (the “**Record Date**”), as described in further details in a circular issued by the Company dated 23 March 2023 (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), save for the Shareholders whose addresses as of the Record Date are outside of Hong Kong (if any) to whom the Directors, based on legal opinions to be provided by the legal advisers to the Company, consider it necessary or expedient not to offer the Rights Shares on account either of the legal restrictions under the laws of the relevant place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s) (“**Non-Qualifying Shareholders**”), and on and subject to such terms and conditions as may be determined by the Directors (the “**Rights Issue**”), be and is hereby approved, confirmed and ratified;
 - (b) the placing agreement dated 17 February 2023 (the “**Placing Agreement**”) and entered into between the Company and Excalibur Global Financial Group Limited (a copy of which has been produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification), in

NOTICE OF EXTRAORDINARY GENERAL MEETING

relation to the placing of the Rights Shares not subscribed by the Qualifying Shareholders and/or the Rights Share(s) which would otherwise has/have been provisionally allotted to the Non- Qualifying Shareholder(s) in nil-paid form that has/have not been sold by the Company at the placing price of not less than the Subscription Price on a best effort basis, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

- (c) the board of Directors or a committee thereof be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to any Non-Qualifying Shareholders, and to do all such acts and things or make such arrangements as it considers necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (d) any one or more Directors be and is/are hereby authorised to do all such acts, deeds and things, to sign and execute all such further documents or deeds and to take such steps as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient to carry out or to give effect to or in connection with the Rights Issue, the Placing Agreement and the transactions contemplated thereunder.”

2. “THAT

- (a) the authorised share capital of the Company be and is hereby increased from HK\$200,000,000 divided into 400,000,000 ordinary shares of HK\$0.50 each to HK\$450,000,000 divided into 900,000,000 ordinary shares of HK\$0.50 each by creating an additional 500,000,000 new unissued ordinary shares in the share capital of the Company (the “**Increase in Authorised Share Capital**”) ; and
- (b) any one or more of the directors of the Company (the “**Director**”) be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/her/they to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Increase in Authorised Share Capital.”

Hong Kong, 23 March 2023

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. The register of members of the Company will be closed from 3 April 2023 to 12 April 2023 (both day inclusive) for the purpose of determining the eligibility of the shareholders of the Company to attend and vote at the Meeting (or any adjournment thereof). During the closure of the register of members of the Company, no transfer of Shares will be effect. In order to qualify for attending and voting at the Meeting (or any adjournment thereof), all transfer of Shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the offices of the Company's share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 31 March 2023.
2. All resolutions at the Meeting (or any adjournment thereof) will be taken by poll pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the GEM Listing Rules.
3. Any member of the Company entitled to attend and vote at the Meeting (or any adjournment thereof) is entitled to appoint one, or if he holds two or more shares, appoint more than one proxy to attend and vote instead of him. A proxy needs not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
4. Where there are joint holders of any Share, any one of such joint holder may vote at the Meeting (or at any adjournment thereof), either personally or by proxy, in respect of such Share as if he/she/it was solely entitled thereto, but if more than one of such joint holders be present at the Meeting (or at any adjournment thereof) personally or by proxy, that the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the offices of the Company's share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or via the designated URL (<https://spot-emeeting.tricor.hk>) by using the username and password provided on the notification letter sent by the Company not less than 48 hours before the time appointed for the holding of the Meeting (i.e. by 11:00 a.m. on 10 April 2023) or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting or any adjournment thereof (as the case may be) if he/she/it so desires. If a member of the Company attends the Meeting after having deposited the form of proxy, his/her/its form of proxy will be deemed to have been revoked.
7. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning or "extreme conditions after super typhoons" announced by the Government of Hong Kong is/are in effect any time after 7:00 a.m. on the date of the Meeting, the meeting will be postponed. The Company will post an announcement on the websites of the Company at www.beavergroup.com.hk and the Stock Exchange at www.hkexnews.hk to notify members of the date, time and place of the rescheduled meeting.

As at the date of this notice, the Board comprises Mr. Tang Kwai Leung Stanley as executive Director; and Mr. He Dingding, Ms. Chan Tsz Hei Sammi and Ms. Liu Ching Man as independent non-executive Directors.