

2 June 2025

To the Shareholders

Dear Sir or Madam,

**(I) CONNECTED TRANSACTION:
PROPOSED ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE;
AND
(II) NOTICE OF SPECIAL GENERAL MEETING**

As disclosed in the Announcement, the Company entered into the Subscription Agreement with the Existing Bondholder A, Mr. Lam Ching Kui (a connected person of the Company) pursuant to which the Existing Bondholder A conditionally agreed to subscribe for and the Company conditionally agreed to issue the New Convertible Bonds in the principal amount of HK\$45,000,000.

The Conversion Shares will be allotted and issued under the Specific Mandate. Completion is subject to the Independent Shareholders' approval at the SGM and the listing approval to be granted by the Listing Committee. The purpose of this circular is to provide you with, among others, (i) details of the Subscription Agreement involving the issue of the New Convertible Bonds under the Specific Mandate to be sought at the SGM; (ii) a notice convening the SGM; and (iii) other information as required under the Listing Rules.

PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

The Subscription Agreement

On 11 April 2025, the Company entered into the Subscription Agreement with the Existing Bondholder A (a connected person of the Company) pursuant to which the Existing Bondholder A conditionally agreed to subscribe for and the Company conditionally agreed to issue the New Convertible Bonds in the principal amount of HK\$45,000,000 under the Specific Mandate.

The New Convertible Bonds carry the Conversion Rights to convert into the Conversion Shares at the Conversion Price of HK\$0.09 per Conversion Share (subject to adjustment). The subscription amount payable by the Existing Bondholder A under the Subscription Agreement shall be satisfied by way of offsetting the outstanding principal amount and accrued interest under the Shareholder's Loan and the Other Loan, payable by the Company to the Existing Bondholder A and/or its associates at Completion Date.

The principal terms of the Subscription Agreement are summarised below:

Date

11 April 2025

Party

- (1) The Company as issuer; and
- (2) Mr. Lam Ching Kui as subscriber

Subscription of New Convertible Bonds

Pursuant to the Subscription Agreement, Mr. Lam Ching Kui conditionally agreed to subscribe for New Convertible Bonds with an aggregate principal amount of HK\$45,000,000.

Conditions precedent to the Subscription Agreement

Completion shall be conditional on the following conditions precedent being satisfied:

- (i) the passing by the Independent Shareholders of relevant resolutions at the SGM in compliance with the requirements of the Listing Rules approving (a) the Subscription Agreement and the transactions contemplated thereunder; and (b) the issue of the New Convertible Bonds and the grant of the Specific Mandate for the allotment and issue of the Conversion Shares to Mr. Lam Ching Kui in accordance with the terms of the Subscription Agreement;
- (ii) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;

- (iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares to be allotted and issued upon exercise of the Conversion Rights attaching to the New Convertible Bonds;
- (iv) none of the warranties given by the Company thereunder having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect; and
- (v) none of the warranties given by Mr. Lam Ching Kui thereunder having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect.

The Company shall use its best endeavours to procure the fulfilment of the conditions precedent set out in conditions (i), (ii), (iii) and (iv) above as soon as practicable and in any event on or before the Long Stop Date. Mr. Lam Ching Kui shall use its best endeavours to procure the fulfilment of the conditions precedent set out in conditions (v) above as soon as practicable and in any event on or before the Long Stop Date. The conditions precedent set out in conditions (i), (ii) and (iii) above are incapable of being waived. Mr. Lam Ching Kui may at any time by notice in writing to the Company waive the condition set out in condition (iv) above. The Company may at any time by notice in writing to Mr. Lam Ching Kui to waive the condition set out in condition (v) above.

In the event that any of the conditions precedent referred to above is not fulfilled or waived (to the extent it is capable of being waived) on or before the Long Stop Date, the Subscription Agreement shall cease and determine and no party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Subscription Agreement save in respect of any antecedent breach of any obligation thereof.

As at the Latest Practicable Date, none of the conditions have been fulfilled.

Principal terms and conditions of the New Convertible Bonds

Issuer:	The Company
Subscriber:	Mr. Lam Ching Kui
Principal amount:	HK\$45,000,000
Issue price:	100% of the principal amount of the New Convertible Bonds
Interest rate:	2% per annum accrued on a daily basis of a 365-day year and payable quarterly in arrears.
Redemption at maturity:	98% of the principal amount of the New Convertible Bonds.

Ranking: The New Convertible Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of the Company and shall at all times rank pari passu among themselves and with all existing and future unsubordinated and unsecured obligations of the Company, and shall entitle the holder(s) thereof to receive repayment in priority over the Shareholders.

Conversion price: Initially HK\$0.09 per Conversion Share, subject to adjustments.

Form and denomination: The New Convertible Bonds will be issued in registered form in the denomination of HK\$1,000,000 each.

Adjustment events: If the following events occur, the Conversion Price shall be adjusted:

(a) Consolidation or sub-division of the Shares

If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the conversion price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.

(b) *Capitalisation of profits or reserves*

If and whenever the Company shall issue (other than in lieu of the whole or part of a cash dividend and other than issue that would amount to a capital distribution) any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), Shares paid up out of distributable profits or reserves and/or share premium account or capital redemption reserve fund issued in lieu of the whole or any part of a relevant cash dividend, being a scrip dividend (but only to the extent that the market value of such Shares exceeds 110% of the amount of such relevant cash dividend or the relevant part thereof), the conversion price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalisation.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for such issue.

(c) *Capital distribution*

If and whenever the Company shall make any capital distribution to the Shareholders (in their capacity as such) (whether on a reduction of capital or otherwise) or shall grant to such Holders rights to acquire for cash assets of the Company or any of its subsidiaries, the conversion price in force immediately prior to such distribution or grant shall be reduced by multiplying it by the following fraction:

$$\frac{A-B}{A}$$

where:

A = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the next preceding day of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by the independent auditors, of the portion of the capital distribution or of such right which is attributable to one Share. For avoidance of doubt, if the capital distribution is distributions in cash the fair market value shall be the cash value and determination by the independent auditors is not required.

Provided that (aa) if in the opinion of the independent auditors, the use of the fair market value as aforesaid produces a result which is significantly inequitable, such independent auditors may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and (bb) the provisions of this paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for the capital distribution or grant.

(d) Issue of Shares for subscription by way of rights

If and whenever the Company shall offer to Shareholders new Shares for subscription by way of rights, or shall grant to Shareholders any options or warrants to subscribe for new Shares, at a price which is less than 90% of the market price on the date of the announcement of the terms of the offer or grant, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of the announcement of such offer or grant by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price per share and the denominator is the number of Shares in issue immediately before the date of such announcement plus the aggregate number of Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant.

Provided however that no such adjustment shall be made if the Company shall make a like offer or grant (as the case may be) at the same time to the Holders (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) as if it had exercised the Conversion Rights under the New Convertible Bonds registered in their names that the Holders hold out of the total principal amount of the New Convertible Bonds outstanding at the time of the proposed redemption.

(e) (aa) *Issue of convertible or exchangeable securities*

If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share (as defined in this paragraph (e) below) initially receivable for such securities is less than 90% of the market price on the date of the announcement of the terms of issue of such securities, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the total effective consideration receivable for the securities issued would purchase at such market price per Share and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

(bb) Modification of rights of convertible or exchangeable securities

If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this sub-paragraph (e) are modified so that the total effective consideration per Share (as defined below) initially receivable for such securities shall be less than 90% of the market price on the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such modification by a fraction of which the numerator is the number of Shares in issue immediately before the date of such modification plus the number of Shares which the total effective consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price and of which the denominator is the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of the conversion price provided that corresponding adjustment has already been made to the conversion price in respect of such an event.

For the purposes of this paragraph (e), the “total effective consideration” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the total effective consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the conversion or exchange rate or the exercise of such subscription rights at the subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

- (f) *Issue of Shares being made wholly for cash at a price less than 90% of the market price per Share*

If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 90% of the market price on the date of the announcement of the terms of such issue, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

- (g) If and whenever the Company shall issue Shares for the acquisition of asset at a total effective consideration per Share (as defined in this paragraph (g) below) which is less than 90% of the market price at the date of the announcement of the terms of such issue, the conversion price shall be adjusted in such manner as may be determined by the independent auditors. Such adjustment shall become effective on the date of issue.

For the purpose of this paragraph (g) “total effective consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “total effective consideration per Share” shall be the total effective consideration divided by the number of Shares issued as aforesaid.

Conversion Shares:

Based on the principal amount of the New Convertible Bonds of HK\$45,000,000, the New Convertible Bonds is convertible into a total of 500,000,000 Conversion Shares at the initially conversion price of HK\$0.09 per Conversion Share (subject to adjustments).

Conversion period:

The period commencing from the issue date of the New Convertible Bonds up to 4:00 p.m. on the day immediately prior to and exclusive of the maturity date of the New Convertible Bonds.

Conversion rights and restrictions:	The holder of the New Convertible Bonds shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the New Convertible Bonds registered in its name into the Conversion Shares provided further that (i) any conversion shall be made in amounts of not less than a whole multiple of HK\$1,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the New Convertible Bonds is less than: HK\$1,000,000, the whole (but not part only) of the outstanding principal amount of the New Convertible Bonds may be converted; and (ii) the exercise of the conversion right attaching to the New Convertible Bonds will not cause the Company to be unable to meet the public float requirement under the Listing Rules.
Early redemption at the option of the Company:	The Company shall be entitled at its sole discretion, by giving not less than fourteen (14) days' notice to the holders of the New Convertible Bonds, propose to the holders to redeem the outstanding New Convertible Bonds (in multiples of HK\$1,000,000 or such lesser amount as may represent the entire principal amount thereof) an amount equivalent to 100% of the principal amount of such outstanding New Convertible Bonds at any time after the date of issue of the New Convertible Bonds up to and including the date falling fourteen (14) days immediately before the maturity date of the New Convertible Bonds.
Ranking of Conversion Shares:	The Conversion Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the relevant conversion date including the right to all dividends or other distributions, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the relevant conversion date.
Maturity date:	The date falling on the third anniversary of the date of issue of the New Convertible Bonds.
Voting rights:	The Subscriber shall not have any right to attend or vote in any general meeting of the Company.

Transferability:	Subject to compliance with the Listing Rules, the New Convertible Bonds may be transferred or assigned in whole or in part in integral multiples of HK\$1,000,000 by the Subscriber to any party.
Listing:	No application will be made by the Company for the listing of the New Convertible Bonds on the Stock Exchange. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
Security:	The obligations of the Company under the New Convertible Bonds are unsecured.

Conversion Shares

Upon full conversion of the New Convertible Bonds at the Conversion Price of HK\$0.09 each (subject to adjustments), a maximum of 500,000,000 Conversion Shares will be allotted and issued which represents:

- (i) approximately 186.99% of the issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 65.16% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares (assuming there is no other change to the total number of Shares from the Latest Practicable Date to the date when the Conversion Rights are exercised in full).

Conversion Price

The Conversion Price of HK\$0.09 (subject to adjustments) per Conversion Share represents:

- (a) a discount of approximately 40.00% to the closing price of HK\$0.150 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a discount of approximately 5.26% to the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 16.36% to the average closing price of approximately HK\$0.1076 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately preceding the Last Trading Day;

- (d) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 11%, represented by the theoretical diluted price (as defined under Rule 7.27B of the Listing Rules) of approximately HK\$0.0961 per Share, to the benchmarked price of HK\$0.1076 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (a) the closing price of HK\$0.0950 per Share on the Last Trading Day and (b) the average closing price of HK\$0.1076 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the Last Trading Day); and
- (e) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) in aggregation with the Existing Convertible Bonds represented by a discount of approximately 23%, represented by the cumulative theoretical diluted price of approximately HK\$0.1061 per Share to the theoretical benchmarked price of HK\$0.1380 per Share in respect of the Alteration of Terms (as defined under Rule 7.27B of the Listing Rules, taking into account the benchmarked price of the Alteration of Terms, being HK\$0.1380 per Share).

The Conversion Price of HK\$0.09 (subject to adjustments) per Conversion Share was arrived at after arm's length negotiations between the Company and the Existing Bondholder A with reference to the recent trading prices of the Shares before entering into the Subscription Agreement for approximately one year prior to the Last Trading Day, the daily closing prices of the Shares ranged from the lowest of HK\$0.080 per Share, to the highest of HK\$0.260 per Share with an average closing price of HK\$0.124 per Share. The Conversion Price of HK\$0.090 per Share is within the said price range of the Shares and it represents a discount to the closing price of the Shares on the Last Trading Day and the average closing price of the Shares on the last five trading days immediately preceding the Last Trading Day because the Company and the Existing Bondholder A have agreed at a lower interest rate of 2% per annum which would in turn alleviate the future interest burden of the Company.

The Directors (excluding Mr. Lam Ka Chun, the son of the Existing Bondholder 1 who had abstained from voting due to conflict of interests) consider that the Conversion Price is fair and reasonable and is in the interests of the Shareholders as a whole.

Completion

The completion of the Subscription Agreement shall take place at or before 4:00 p.m. on the second Business Day (or such other date as agreed by the Company and the Existing Bondholder A) after fulfillment of all the conditions precedent set out above.

Minimum public float requirement

Pursuant to the terms of the New Convertible Bonds, the Conversion Rights are restricted by the public float requirement under the Listing Rules. In other words, the Existing Bondholder A may only convert such number of New Convertible Bonds into Shares which would not cause the Company to not comply with the public float requirement under the Listing Rules following the conversion.

Before the exercise of the Conversion Rights, the Existing Bondholder A shall deliver a written conversion notice to the Company setting out the principal amount of New Convertible Bonds to be converted into Conversion Shares. Having taken into account the conversion price as adjusted by the occurrence of triggering events as mentioned above (if any), if the issue of the Conversion Shares pursuant to the exercise of the Conversion Rights by the Existing Bondholder A would result in the Company to not comply with the minimum public float requirement under the Listing Rules, then the Company shall not allow the Existing Bondholder A to exercise such Conversion Rights so as to maintain the minimum public float requirement, and the conversion notice shall be void.

Effects on shareholding structure of the Company

For illustration purposes only, set out below the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full conversion of all the Existing Convertible Bonds only (assuming there being no other issue or repurchase of Shares); (iii) immediately after full conversion of the New Convertible Bonds only (assuming there being no other issue or repurchase of Shares); and (iv) immediately after full conversion of all the Existing Convertible Bonds and the full conversion of the New Convertible Bonds (assuming there being no other issue or repurchase of Shares) is as follows:

Name of Shareholders	As at the Latest Practicable Date		Immediately after full conversion of all the Existing Convertible Bonds Only <i>(note 3 and note 4)</i>		Immediately after full conversion of New Convertible Bonds Only <i>(note 3 and note 4)</i>		Immediately after full conversion of all the Existing Convertible Bonds and the New Convertible Bonds <i>(note 3 and note 4)</i>	
	Number of Approximate Shares		Number of Approximate Shares		Number of Approximate Shares		Number of Approximate Shares	
		%		%		%		%
Existing Bondholder A <i>(note 1)</i>	4,810,125	1.80	1,759,610,125	71.84	504,810,125	65.78	2,259,610,125	76.62
Existing Bondholder B <i>(note 2)</i>	194,292,325	72.66	621,292,325	25.37	194,292,325	25.32	621,292,325	21.07
Other Public Shareholders <i>(note 4)</i>	199,102,450	74.46	2,380,902,450	97.21	699,102,450	91.10	2,880,902,450	97.68
	68,287,081	25.54	68,287,081	2.79	68,287,081	8.09	68,287,081	2.32
Total	267,389,531	100.00	2,449,189,531	100.00	767,389,531	100.00	2,949,189,531	100.00

Notes:

- (1) Mr. Lam Ching Kui, being the Existing Bondholder A and the ultimate controlling shareholder of the Company, directly holds 4,810,125 Shares.
- (2) Ka Chun Holdings Limited, being the Existing Bondholder B, is a company owned as to 100% by Wai Chun Investment Fund, which is wholly-owned by Mr. Lam Ching Kui, Ka Chun Holdings Limited directly holds 194,292,325 Shares.
- (3) Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

- (4) Pursuant to the terms and conditions of the Existing Convertible Bonds and the New Convertible Bonds, the bondholders shall not exercise the conversion rights attached or attaching to the Existing Convertible Bonds and the New Convertible Bonds if, as a result of such exercise, it will cause the public float of the Company to fall below the percentage prescribed under the Listing Rules, and any conversion shall also be subject to no mandatory general offer being triggered under Rule 26 of the Takeovers Code on the bondholder.

Dilution and financial effects of the issue of the New Convertible Bonds

For indicative purposes only and subject to the minimum public float requirement of the Listing Rules and the relevant restrictions under the Subscription Agreement, upon full conversion of the New Convertible Bonds at the Conversion Price, the New Convertible Bonds will be convertible into 500,000,000 new Shares, representing approximately 186.99% of the total number of issued Shares and approximately 65.16% of the total number of issued Shares as enlarged by the allotment and issue of the Conversion Shares as at the Latest Practicable Date.

Assuming no outstanding Share Options being exercised and that there is no change in the number of issued Shares from the Latest Practicable Date up to the date when the Conversion Rights are exercised in full, the existing shareholding of the Independent Shareholders will be diluted from approximately 25.54% before full conversion of the New Convertible Bonds to approximately 8.09% immediately after full conversion of the New Convertible Bonds. However, as mentioned above, it has been set out in the terms of the New Convertible Bonds that the Existing Bondholder A may only convert such number of New Convertible Bonds that would not cause the Company to not comply with the minimum public float requirement under the Listing Rules following the conversion.

In view of (i) the reasons for and benefits of entering into the Subscription Agreement as set out below; (ii) the terms of the Subscription Agreement and the New Convertible Bonds being fair and reasonable and in the interests of the Shareholders as a whole; and (iii) the minimum public float requirement of the Listing Rules and relevant restrictions under the Subscription Agreement, the Board is of the view that the feasible level of dilution (subject to the minimum public float requirement of the Listing Rules and the relevant restrictions under the Subscription Agreement) to the shareholding interests of the Independent Shareholders is acceptable.

Equity fund raising activities of the Company in the past 12 months

In the past twelve months immediately preceding the Latest Practicable Date, the Company and the Existing Bondholders have entered into alteration consent letters and conditionally agreed to amend the terms of all the Existing Convertible Bonds with total principal amount of HK\$218,180,000 under specific mandate as disclosed in the circular of the Company dated on 12 December 2024 and which was approved in the SGM held on 8 January 2025 and completed on 17 January 2025. The subscription amount was satisfied by way of offsetting certain debt liabilities owed by the Company to the Existing Bondholder A and/or its associates and there was no remaining net proceeds from such fund-raising exercise to be utilised by the Company.

Save as disclosed above, the Company has not conducted any equity fund raising activity in the past twelve-month period immediately preceding the Latest Practicable Date.

Mandate to issue the Conversion Shares

The issue and allotment of the Conversion Shares under the Specific Mandate are subject to the approval of the Independent Shareholders at the SGM.

USE OF PROCEEDS FROM PROPOSED ISSUE OF NEW CONVERTIBLE BONDS

The gross proceeds from the issue of the New Convertible Bonds are expected to be approximately HK\$45,000,000. The subscription amount payable by the Existing Bondholder A under the Subscription Agreement shall be satisfied by way of offsetting the outstanding principal amount and accrued interest under the Shareholder's Loan and Other Loan, payable by the Company to the Existing Bondholder A and/or its associates which is expected to amount to a total of HK\$45,000,000 as at Completion Date.

OTHER FUND-RAISING METHOD

The Board has explored other fund-raising methods including debt financing and equity financing before entering into the Subscription Agreement. External debt financing such as bank loan would give additional financial pressure to the Group and would further weaken the cash flow and financial position of the Group. In addition, the Group has difficulties in obtaining external debt financing from financial institutions due to the weak financial performance and net current liabilities position of the Group. It is expected that the cost of external debt financing would be higher and the terms of the external debt financing might require a higher interest rate, pledge of assets or financial guarantee.

The Board has also explored but not decided to conduct equity placement to independent third parties that might require a higher discount on the placing price and would bring an immediate dilution effect on the shareholding of the Company. Additional financial burden to the Group would arise as equity placement would incur placing commission to the placing agent and other professional expenses. The placing agent has difficulties to seek potential placees due to the weak financial performance and net current liabilities position of the Group, and the low trading volume of the Shares. Besides, conducting equity financing by way of right issue or open offer might require a higher discount on the issue price, a lengthier process and a higher cost to professional parties for such fund-raising exercise, and would cause immediate dilution to the Shareholders who do not participate in the right issue or open offer as compared to the Subscription which does not bring any immediate dilution effect on the shareholding of the Company.

As at the Latest Practicable Date, other than the Subscriber, no investor has shown any interest in providing debt or equity financing to the Company.

Having considered the above factors, the Board considers that the Subscription is the feasible and realistic option for the Group to improve its short-term liquidity position and avoid immediate dilution effect on the shareholding of the Independent Shareholders although the Group may still have a relatively high gearing ratio in the short run. The Board considers that the Subscription is in the interests of the Company and the Shareholders as a whole and it will provide financial flexibility to the Group in managing its future cash flow with the reclassification of the Shareholder's Loan and the Other Loan (together with the accrued interest) from current liabilities to non-current liabilities after the Subscription becomes effective at the Completion Date. The reduction in the interest rates will ease the interest burden of the Company.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENT

The Company is an investment holding company incorporated in Bermuda, whose issued Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in (i) general trading; (ii) sales and integration services of computer and communication systems, and design, consultation and production of information system software and management training services.

The subscription amount payable by the Exiting Bondholder A under the Subscription Agreement shall be satisfied by way of offsetting the outstanding principal amount and accrued interest under the Shareholder's Loan and the Other Loan, payable by the Company to the Existing Bondholder A and/or its associates as at Completion Date. Since the Group incurred losses of approximately HK\$36,474,000 and HK\$16,471,000 for the year ended 31 March 2024 and the six months ended 31 September 2024 and had low cash and bank balance of only approximately HK\$127,000 as at 31 March 2024 and HK\$144,000 as at 31 March 2024 and 31 September 2024 respectively, the Existing Bondholder A had been financing the operations of the Group through the provision of the Shareholder's Loan and the Other Loan to the Group. The aggregate amount of the Shareholder's Loan and Other Loan and accrued interest is approximately HK\$44,800,000 as at the Latest Practicable Date and is expected to increase to HK\$45,000,000 as at Completion Date due to the additional financial support by the Existing Bondholder A and Wai Chun Investment Fund, which is wholly owned by the Existing Bondholder A. The Shareholder's Loan and the Other Loan are unsecured, carried fixed interest rate at 6.25% per annum and repayable on demand as at the Latest Practicable Date.

The Board considers that the Shareholder's Loan which bears interest at 6.25% per annum together with the Other Loan which is also owed to the controlling Shareholder, the Existing Bondholder A, represents a heavy financial burden to the Group as the Company has a capital deficit of HK\$257,303,000 as at 30 September 2024. In view of the above, the Board has reviewed and explored different approaches to settle the Shareholder's Loan and the Other Loan (together with the accrued interest) The Company has reached out with banks and financial institutions for external financing, however it was not feasible due to the weak financial performance and the net current liabilities and net liabilities position of the Group as at 31 March 2024 and 30 September 2024. As at the Latest Practicable Date, no bank or financial institution has shown any interest in providing financing to the Company. After the negotiation between the Company and the Existing Bondholder A, Existing Bondholder A did not accept the nil interest rate as proposed by the Company and only agreed to subscribe for the New Convertible Bonds unless the Company accepted his proposal in respect of the Subscription. The Board considers the issue of the New Convertible Bonds to be the most effective and suitable for reducing the amount of interest expense incurred by the Group per annum, enhancing the financial position of the Group and reducing the gearing ratio of the Group and is in the interests of the Shareholders as a whole even though the proposed interest rate of the New Convertible Bonds is higher than that of the Existing Convertible Bonds after considering that (i) the New Convertible Bonds bear a lower interest rate of 2% per annum and will be able to minimize the short-term financial burden to the Group as total interest in three years amounting to approximately HK\$5.74 million will be saved; (ii) the net current liabilities of the Group as at the Latest Practicable Date will also be improved as the Shareholder's Loan and the Other Loan (together with the accrued interest), which has been included in the current liabilities as at the Latest Practicable Date, will be reclassified from current liabilities to non-current liabilities after the Subscription becomes effective at the Completion Date; (iii) the financial pressure on the Company for redemption of the New Convertible Bonds at the maturity date would also be lessened because of the redemption discount of 2% at the maturity of the New Convertible Bonds; (iv) the principal amount of the Shareholder's Loan and the Other Loan (together

with the accrued interest) will be fully settled upon the exercise in full of the Conversion Rights without requiring any cash outflow; and (v) the issue of the New Convertible Bonds does not have an immediate dilution effect on the shareholding of the Company subject to the minimum public float requirement under the Listing Rules.

In view of the above, the Directors (excluding Mr. Lam Ka Chun, the son of the Existing Bondholder A who had abstained from voting due to conflict of interest) are of the view that the terms of Subscription Agreement are on normal commercial terms and the issue of the New Convertible Bonds are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Mr. Lam Ching Kui, the Existing Bondholder A, is the ultimate controlling shareholder of the Company, who is interested in 4,810,125 Shares personally, representing approximately 1.80% of the total number of the issued Shares, and through his indirect interests in the Existing Bondholder B, Ka Chun, was taken to be interested in total 199,102,450 Shares representing approximately 74.46% of the total number of the issued Shares as at the Latest Practicable Date. Accordingly, the Existing Bondholder A is a connected person of the Company and the Subscription constitutes a connected transaction under the Listing Rules and will be subject to reporting and announcement requirements, as well as the approval of the Independent Shareholders at the SGM by way of poll. The Existing Bondholder A and its associates (including the Existing Bondholder B) will abstain from voting for the relevant resolutions approving the Subscription Agreement at the SGM.

The Existing Bondholder A is an investor who has made investments in listed securities and has been engaged in industrial and residential property development in the PRC and commercial property investment in Hong Kong for over 30 years. The Existing Bondholder A is the father of Mr. Lam Ka Chun (the chairman and chief executive officer of the Company), who is deemed to be interested in the Subscription and was required to abstain from voting on the resolutions passed by the Board to approve the Subscription and the transactions contemplated thereunder (including the grant of the Specific Mandate).

An application will be made to the Stock Exchange for its approval for the listing of, and permission to deal in the Conversion Shares pursuant to the terms and conditions of the New Convertible Bonds.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been established, comprising all the independent non-executive Directors, to advise the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the New Convertible Bonds, the allotment and issue of the Conversion Shares, and the grant of the Specific Mandate. INCU has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

SPECIAL GENERAL MEETING

The SGM will be held by the Company at Rooms 4001-02, 40/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong at 3:30 p.m. on Friday, 20 June 2025, to consider and if thought fit, to approve, among other things, the entering into of the Subscription Agreement and the transactions contemplated thereunder.

The Existing Bondholder A and its associates (including the Existing Bondholder B) shall abstain from voting on the resolutions approving the Subscription Agreement and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, to the best knowledge of the Directors, other than the Existing Bondholder A and its associates (including the Existing Bondholder B), no other Shareholder is required to abstain from voting on the resolutions to be proposed at the SGM.

The notice of the SGM is set out on pages 66 to 67 of this circular.

PROXY ARRANGEMENT

The form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange and the website of the Company. For those who intend to direct a proxy to attend the SGM, please complete the form of proxy and return the same in accordance with the instructions printed thereon. In order to be valid, the above documents must be delivered to the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for the SGM or any resumed session.

You are urged to complete and return the form of proxy whether or not you intend to attend the SGM. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any subsequent meetings following the adjournments thereof) should you wish to do so.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 June 2025 to Friday, 20 June 2025 (both days inclusive), during which time no share transfers will be effected. The Shareholders whose names appear on the register of members of the Company on 20 June 2025 are entitled to attend and vote in respect of the resolution to be proposed at the SGM.

RECOMMENDATION

The Independent Board Committee, having considered the advice from IFA, considers that (i) the terms of the Subscription Agreement are fair and reasonable; (ii) the terms of the Subscription Agreement are on normal commercial terms; and (iii) the Subscription Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Subscription Agreement to be proposed at the SGM.

The Directors, excluding Mr. Lam Ka Chun (the son of the Existing Bondholder A) who had abstained from voting at the Board meeting due to conflict of interest, consider the terms of the Subscription Agreement are fair and reasonable in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding Mr. Lam Ka Chun) recommend the Independent Shareholders to vote in favour of the resolution in respect of the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) to be proposed at the SGM.

The recommendation of the Independent Board Committee is set out on pages 26 to 27 in this circular and the letter from IFA is set out on pages 28 to 61 in this circular.

VOTE BY POLL

In accordance with Rule 13.39(4) of the Listing Rules and the Bye-laws of the Company, all the votes at the SGM must be taken by poll. The methods of voting by the Shareholders at the SGM will be conducted by the combination of on-site voting and online voting. The Company will appoint scrutineers to handle vote-taking procedures at the SGM. An announcement on the poll results will be published by the Company after the SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

ADDITIONAL INFORMATION

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

By Order of the Board
Wai Chun Group Holdings Limited



Lam Ka Chun
Chairman and Chief Executive Officer