

2 June 2025

*To: The Independent Board Committee and
the Independent Shareholders of
Wai Chun Group Holdings Limited*

Dear Sirs and Madams,

**CONNECTED TRANSACTION IN RELATION TO
PROPOSED ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate), particulars of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 2 June 2025 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement, on 11 April 2025 (after trading hours), the Company entered into the Subscription Agreement with Existing Bondholder A, Mr. Lam Ching Kui (a connected person of the Company), pursuant to which 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.

As at the Latest Practicable Date, Mr. Lam Ching Kui, being 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 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. Therefore, Existing Bondholder A and its associates (including Existing Bondholder B) are connected persons of the Company, and the Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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Existing Bondholder A and its associates (including Existing Bondholder B) are required to abstain from voting on the resolutions in respect of the Subscription at the SGM. To the best of the information, belief and knowledge of the Directors, save for Existing Bondholder A and its associates (including Existing Bondholder B), no other Shareholder has any material interest in the Subscription and the grant of the Specific Mandate. Save that Mr. Lam Ka Chun, who is an executive director of the Company and the son of Existing Bondholder A, is deemed to be interested in the Subscription and the transactions contemplated thereunder (including the grant of the Specific Mandate), who had abstained from voting, none of the Directors had a material interest 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).

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wan Bo and Mr. Wong Po Keung, has been established to advise the Independent Shareholders in respect of the terms of the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable so far as the Independent Shareholders as concerned, and in the interest of the Company and the Shareholders as a whole, taking into account our recommendation.

We, INCU Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Except for being appointed as independent financial adviser to the Company regarding (i) the alteration to the terms of the Existing First Convertible Bonds and Existing Second Convertible Bonds, which the circular has been despatched on 20 October 2023; and (ii) the alteration to the terms of the Existing Convertible Bonds, which the circular has been despatched on 13 December 2024, we have not acted as an independent financial adviser and have not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Subscription, and accordingly, are eligible to give independent advice and recommendations on the terms of the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate). Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company and the management of the Group. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the Latest Practicable Date. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the Circular misleading in all material respects. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We will notify the Shareholders of any material change of information in the Circular up to the date of SGM.

Our review and analyses were based upon, among others, (i) the information provided by the Group including the Circular, the Subscription Agreement and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 31 March 2024 (the “**Annual Report 2023/24**”) and interim report of the Company for the six months ended 30 September 2024 (the “**Interim Report 2024/25**”); and (ii) our discussion with the Directors and the management of the Group with respect to the terms of and the reasons for entering into of the Subscription Agreement, the businesses and future outlook of the Group. We have not, however, for the purpose of this exercise, conducted any in-depth independent investigation into the businesses or affairs and future prospects of the Group and the subscriber nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinions and recommendations in respect of the Subscription, we have taken into consideration of the following principal factors and reasons:

(I) Background of the Subscription

On 11 April 2025 (after trading hours), the Company entered into the Subscription Agreement with Existing Bondholder A, Mr. Lam Ching Kui (a connected person of the Company), pursuant to which 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.

As at the Latest Practicable Date, Mr. Lam Ching Kui, being Existing Bondholder A, is the ultimate controlling Shareholder, 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 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. Mr. Lam Ching Kui and Ka Chun are also the holders of the Existing Convertible Bonds. The Existing Convertible Bonds with the total outstanding amount of HK\$218.18 million could be converted at the conversion price of HK\$0.1 per Share to a maximum of 2,181,800,000 Shares in total, but subject to the restriction of the public float requirement under the Listing Rules.

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. Existing Bondholder A is the father of Mr. Lam Ka Chun, the chairman and chief executive officer of the Company.

(II) Background and financial performance of the Group

(i) Background of the Group

The Company is an investment holding company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange.

The Group is principally engaged in (i) general trading (the “**General Trading**”); and (ii) sales and integration services of computer and communication systems, and design, consultation and production of information system software and management training services (the “**Sales and Integration Services**”).

(ii) Financial performance of the Group

Set out below is the financial information of the Group for each of the financial years ended 31 March 2023 and 31 March 2024 (“**FY2023**” and “**FY2024**”, respectively) as extracted from the Annual Report 2023/24 and the six months ended 30 September 2023 and 30 September 2024 (“**HY2023/24**” and “**HY2024/25**”, respectively) as extracted from the Interim Report 2024/25:

Consolidated financial performance of the Group

	FY2023	FY2024	HY2023/24	HY2024/25
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue from General Trading	170,419	241,956	120,248	21,915
Revenue from Sales and Integration Services	<u>6,384</u>	<u>31,933</u>	<u>32,136</u>	<u>21,210</u>
Total revenue	<u>176,803</u>	<u>273,889</u>	<u>152,384</u>	<u>43,125</u>
Loss for the year/period	(51,752)	(36,474)	(18,686)	(16,471)
Loss for the year/period attributable to the owners of the Company	(50,721)	(36,531)	(18,969)	(16,813)

Table 1: Summary of the consolidated financial performance of the Group

FY2023 vs FY2024

As set out in above Table 1, the revenue of the Group for FY2024 was approximately HK\$273.89 million, representing an increase of approximately HK\$97.09 million or 54.9% as compared with that of approximately HK\$176.80 million for FY2023. According to the Annual Report 2023/24, the increase in revenue was mainly due to (a) the substantial increase in revenue of General Trading of approximately HK\$71.54 million, which the demand for chemical trading rebounded after the resumption of normal operation and the release of the anti-pandemic measures of COVID-19 in the PRC; and (b) the substantial increase in revenue of Sales and Integration Services of approximately HK\$25.55 million as a result of the release of the anti-pandemic measures of COVID-19 in the PRC causing a strong rebound of the demand from the market.

Due to the increase in revenue of the Group for FY2024, the Group recorded loss attributable to the owners of the Company of approximately HK\$36.53 million for FY2024, representing a decrease in loss of approximately HK\$14.19 million or 27.98% as compared with that of approximately HK\$50.72 million for FY2023. As a result, the Group recorded net cash outflow from operating activities of approximately HK\$8.79 million and HK\$8.52 million for FY2023 and FY2024 respectively.

We also noted that the Group recorded finance costs of approximately HK\$26.16 million and HK\$26.41 million for FY2023 and FY2024 respectively, which had created continuous financial pressure to the Group.

HY2023/24 vs HY2024/25

The revenue of the Group for HY2024/25 was approximately HK\$43.13 million, representing a decrease of approximately HK\$109.25 million or 71.70% as compared with that of approximately HK\$152.38 million for HY2023/24. According to the Interim Report 2024/25 and our discussion with the management of the Company, the decrease in revenue was due to (i) the substantial decrease in revenue of General Trading of approximately HK\$98.33 million as a result of the decrease in demand of chemical product caused by the economic slowdown in the PRC, which led to the decrease in purchase orders from PRC customers; and (ii) the decrease in revenue of Sales and Integration Services of approximately HK\$10.92 million as a result of the decrease in customer's order of the services of integration system after end of contracts of two customers.

The loss attributable to the owners of the Company was approximately HK\$16.81 million for HY2024/25, representing a decrease in loss of approximately HK\$2.16 million or 11.39% as compared with that of approximately HK\$18.97 million for HY2023/24. Such decrease was mainly due to combined effect of (i) the decrease in revenue of the Group as discussed above; (ii) the decrease in administrative expenses of approximately HK\$3.27 million as a result of the decrease in staff cost for HY2024/25; and (iii) the increase in finance costs from approximately HK\$12.68 million for HY2023/24 to approximately HK\$13.44 million for HY2024/25 as a result of the increase in imputed interest of the Existing Convertible Bonds and Other Loan. The coupon rate of the Existing Convertible Bonds has been subsequently reduced to nil under the alteration consent letters entered into between Existing Bondholders and the Company dated 6 November 2024.

Due to the net loss for HY2023/24 and HY2024/25 as discussed above, the Group recorded net cash outflow from operating activities of approximately HK\$8.32 million and HK\$104.65 million for HY2023/24 and HY2024/25 respectively. The significant increase in cash outflow from operating activities was mainly due to the decrease in revenue.

Consolidated financial position of the Group

	As at 31 March 2024 HK\$'000 (Audited)	As at 30 September 2024 HK\$'000 (Unaudited)
Non-current assets		
Property, plant and equipment	4	1
Right-of-use assets	59	59
	63	60
Current assets		
Trade receivables	1,279	7,318
Other receivables, prepayments and deposits	30,599	25,759
Bank balances and cash	127	144
	32,005	33,221
Total assets	32,068	33,281
Current liabilities		
Trade payables	12,627	18,057
Other payables and accruals	32,575	35,476
Lease liabilities	2,050	1,188
Convertible bonds	39,729	199,547
	86,981	254,268
Non-current liabilities		
Other payables	3,915	3,915
Loans from ultimate holding company	13,679	13,450
Amount due to an ultimate controlling party	18,863	18,951
Lease liabilities	98	—
Convertible bonds	148,820	—
	185,375	36,316
Total liabilities	272,356	290,584
Net current liabilities	(54,976)	(221,047)
Net liabilities	(240,288)	(257,303)

Table 2: Summary of the consolidated financial position of the Group

Non-current assets and current assets

As set out in the above Table 2, the non-current assets and the current assets of the Group remained stable between 31 March 2024 and 30 September 2024. However, the Group had only bank balances and cash of approximately HK\$0.14 million as at 30 September 2024.

Non-current liabilities and current liabilities

As set out in the above Table 2, the non-current liabilities of Group decreased from approximately HK\$185.38 million as at 31 March 2024 to approximately HK\$36.32 million as at 30 September 2024, representing a decrease of approximately HK\$149.06 million or 80.4%, while the current liabilities of the Group increased from approximately HK\$86.98 million as at 31 March 2024 to approximately HK\$254.27 million as at 30 September 2024, representing an increase of approximately HK\$167.29 million or 192.3%. The decrease in non-current liabilities of the Group and increase in current liabilities of the Group were mainly due to reclassification of the convertible bonds from non-current liabilities to current liabilities as the Existing Convertible Bonds would originally mature in 2025 as at 30 September 2024. The total amount of the convertible bonds in the consolidated statement of financial position of the Group increased from approximately HK\$188.55 million as at 31 March 2024 to approximately HK\$199.55 million as at 30 September 2024, which was mainly due to the imputed interest of the Existing Convertible Bonds. After completion of the alteration to terms of the Existing Convertible Bonds under the alteration consent letters entered into between Existing Bondholders and the Company dated 6 November 2024 (“**Alteration of Terms**”), the maturity date of all of the Existing Convertible Bonds has been extended to 31 December 2027 and the coupon rate has been reduced to nil.

As discussed with the management of the Company, the loans from ultimate holding company and amount due to an ultimate controlling party with the aggregate amount of approximately HK\$32.40 million as at 30 September 2024 represent the Shareholder’s Loan and Other Loan. As at the Latest Practicable Date, the aggregate amount of the Shareholder’s Loan and Other Loan is approximately HK\$44.80 million and both the Shareholder’s Loan and Other Loan have been reclassified as current liabilities of the Group. The increase in the Shareholder’s Loan and Other Loan was primarily due to the additional financial support by Mr. Lam Ching Kui and Wai Chun Investment Fund and the corresponding increase in accrued interest.

(iii) Debt position and going concern issue

The Group had total debts of approximately HK\$223.24 million and approximately HK\$233.14 million (including loans from ultimate holding company, amount due to an ultimate controlling party, convertible bonds and lease liabilities) as at 31 March 2024 and 30 September 2024 respectively. The net debts (net of cash and cash equivalents) to total assets ratio of the Group is approximately 700.1% as at 30 September 2024, representing an increase of approximately 4.4% as compared with approximately 695.7% as at 31 March 2024.

According to the Annual Report 2023/24, as the Group incurred a loss attributable to owners of the Company of approximately HK\$36.53 million for FY2024 and as at 31 March 2024, the Group had net current liabilities and net liabilities of approximately HK\$54.98 million and HK\$240.29 million respectively, the auditors of the Company have expressed material uncertainty relating to the going concern issue of the Company, which may cast significant doubt on the Group's ability to continue as a going concern. According to the Interim Report 2024/25, the Group incurred a loss attributable to owners of the Company of approximately HK\$16.81 million for HY2024/25 and as at 30 September 2024, the Group had net current liabilities of approximately HK\$221.05 million and net liabilities of approximately HK\$257.30 million respectively. Therefore, the Directors have prepared the consolidated financial statements on a going concern basis based on the assumptions and measures that Mr. Lam Ching Kui, Wai Chun Investment Fund and Wai Chun Holdings Group Limited will not demand the Company for repayment of the loan due to them nor cancel the undrawn loan facilities until all other liabilities of the Group have been satisfied, and will not demand for repayment within twelve months after the date of approval of the consolidated financial statements of the Group for HY2024/25 and the Company will continue to negotiate with potential investors to raise funds and implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs. As confirmed by the management of the Company, as at the Latest Practicable Date, (i) no investor has expressed any interest in debt or equity fundraising of the Company given that the Group was in net current liabilities and net liabilities position as at 30 September 2024; and (ii) other than the Subscription, the Company is not in any negotiation and/or any discussion with any potential investor for fundraising activities or financing arrangement of the Company.

According to the Letter from the Board, Existing Bondholder A has been financing the operations of the Group through the provision of the Shareholder's Loan and Other Loan to the Group. The outstanding principal amount and accrued interest under the Shareholder's Loan and Other Loan payable by the Company to Existing Bondholder A and/or its associates are expected to amount to HK\$45,000,000 as at the Completion Date. The Shareholder's Loan and Other Loan bear an interest rate of 6.25% per annum.

We note that (i) the revenue of the Group decreased in HY2024/25 as compared with HY2023/24; (ii) the Group recorded net loss attributable to owners of the Company for FY2023, FY2024 and HY2024/25; (iii) the Group had a low cash level of only approximately HK\$0.14 million as at 30 September 2024; (iv) the Group had high net current liabilities of approximately HK\$221.05 million as at 30 September 2024; (v) the Group was in a net liabilities position as at 30 September 2024; (vi) the Group had high net debts (net of cash and cash equivalents) to total assets ratio of approximately 700.1% as at 30 September 2024; (vii) the auditors of the Company have expressed material uncertainty relating to the going concern issue of the Company in the Annual Report 2023/24; and (viii) the Shareholder's Loan and Other Loan have a high interest rate of 6.25% per annum. Having considered that (a) the Group may not be able to generate sufficient funding from operating activities to repay the Shareholder's Loan and Other Loan under the financial performance and the financial position of the Group as disclosed above; (b) the outstanding principal amount and accrued interest under the Shareholder's Loan and Other Loan will be fully settled by the issue of the New Convertible Bonds; and (c) the interest rate of the New Convertible Bonds is much less than that of the Shareholder's Loan and Other Loan, we consider that the Subscription can reduce the finance costs of the Group and provide some time for the Group to implement measures to improve the working capital and cash flows of the Group and to seek and arrange for external funding from potential investors.

(III) Reasons for and benefits of the Subscription

(i) Reasons for and benefits of entering into the Subscription Agreement

As stated in the Letter from the Board, the subscription amount payable by 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 Existing Bondholder A and/or its associates which is expected to amount to HK\$45,000,000 as at the Completion Date. Existing Bondholder A had been financing the operations of the Group through the provision of the Shareholder's Loan and Other Loan to the Group. The Shareholder's Loan and the Other Loan were unsecured, carried fixed interest rate at 6.25% per annum and repayable on demand. The Board considers that the Shareholder's Loan which bear interest at 6.25% per annum together with the Other Loan which is also owed to the controlling shareholder, 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 Other Loan (together with the accrued interest). The Company has reached out with banks and financial institutions for external financing, but 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 considered 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 will also be improved as the Shareholder's Loan and Other Loan (together with the accrued interest), which have been included in the current liabilities as at Latest Practicable Date, will be reclassified from current liabilities to non-current liabilities after the Subscription becomes effective; (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 Other Loan (together with the accrued interest) will be fully settled upon the exercise in full of the conversion rights of the New Convertible Bonds without requiring any cash outflow on the Company; and (v) the issue of the New Convertible Bonds would not have an immediate dilution effect on the shareholding of the Company subject to the minimum public float requirement under the Listing Rules.

We have reviewed the Subscription Agreement, the Annual Report 2023/24 and the Interim Report 2024/25. Based on our analysis of the Group's financial statement as discussed in section headed "(II) Background and financial performance of the Group" above in this letter, the Group recorded loss attributable to the owners of the Company of approximately HK\$50.72 million, HK\$36.53 million and HK\$16.81 million for FY2023, FY2024 and HY2024/25 respectively. As the Shareholder's Loan and Other Loan bear a higher interest rate of 6.25% per annum as compared with the interest rate of the New Convertible Bonds of 2.00% per annum, the Subscription will reduce the finance costs of the Group, which will in turn improve the financial performance of the Group subject to final audit. Furthermore, the Group has financial difficulties to repay the Shareholder's Loan and Other Loan, which have a high interest rate of 6.25% per annum, given that the bank balances and cash of the Group as at 30 September 2024 was approximately HK\$0.14 million only. As the New Convertible Bonds will be redeemed at 98% of the principal amount at maturity, which will fall on the third anniversary of the date of issue of the New Convertible Bonds, the Subscription will lessen the financial pressure of the Group if the New Convertible Bonds are redeemed upon maturity. After considering the reasons for and benefits of the Subscription as discussed above, we consider that entering into the Subscription is in the interests of the Company and the Shareholder as a whole.

(ii) Fund raising activities of the Company in the past 12 months

As stated in the Letter from the Board, other than the Alteration of Terms, the Company has not raised fund on any issue of equity securities in the past 12 months immediately before the Latest Practicable Date.

(iii) Other financing alternatives

We have discussed with the management of the Company in respect of the consideration of other ways of fund-raising such as debt financing and other equity fund raising method to settle the Shareholder's Loan and Other Loan. The following set out the summary of our discussion:

(a) Debt financing

The Directors have considered that (i) further debt financing may not be available given the Group's net current liabilities and net liabilities position as at 30 September 2024; (ii) the cost of debt financing may increase together with additional requirements with asset pledging or guarantees to be provided by the Group; and (iii) further debt financing will increase the financial costs of the Group and using debt financing to replace the Shareholder's Loan and Other Loan may further weaken the cashflow and financial position of the Group as the interest rate of the new debts may be higher than that of the New Convertible Bonds. Based on our analysis on the financial position of the Group as discussed in the section headed "(II) Background and financial performance of the Group" above and after considering that the Group's was at net current liabilities and net liabilities position as at 30 September 2024, the proposed interest rate of 2% per annum of the New Convertible Bonds is considered acceptable as (i) other than the Subscriber, no investor has shown any interest in providing debt financing to the Company; (ii) the Existing Convertible Bonds were originally issued under the interest rate of 2% per annum at their issue date, which the interest rate was subsequently reduced to nil together with the reduction in conversion price and redemption amount and extension of maturity date that collectively constitute the Alteration of Terms as a whole; (iii) the Subscription provides an opportunity to the Group to reduce its interest costs, extend the repayment of the Shareholder's Loan and Other Loan and improve the financial position of the Group; and (iv) the interest rate of the New Convertible Bonds is less than the 12-month Hong Kong Dollar Interest Settlement Rates (i.e., HIBOR) of approximately 2.96% as extracted from the website of Hong Kong Association of Banks (<https://www.hkab.org.hk/en/rates/hibor>) as at the Latest Practicable Date. Therefore, we concur with the Directors' view that given the financial position of the Group, obtaining debt financing from financial institutions may not be feasible, and higher interest rates from external new debts as compared with that of the New Convertible Bonds will impose additional financial burden on the Group.

(b) Placing of new shares

The Directors have considered that given the Group's net current liabilities and net liabilities position as 30 September 2024, the placing agent may face difficulties and take time to seek for potential investor(s) and the potential investor(s) may require a higher placing discount to the trading price of the Shares to fulfill the capital requirement for the Shareholder's Loan and Other Loan. The Directors also consider that it is higher cost to arrange a placing of new shares, as the placing agent would charge commission with reference to certain percentages of the amount of the fund raising as compared with no commission from the Subscription, and the placing of new shares will cause an immediate dilution to the shareholding of existing Shareholders as compared with that the conversion of the New Convertible Bonds is restricted as further discussed in section headed "(VI) Shareholding structure and possible dilution effect of the New Convertible Bonds" below in this letter. Therefore, rather than conducting placing of new shares to repay the Shareholder's Loan and Other Loan, we agree with the Directors' view that entering into the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

(c) Rights issue or open offer

With regard to the viability of a rights issue or an open offer, the Directors have considered that given the Group's net current liabilities and net liabilities position as at 30 September 2024, the fund raising from a rights issue or an open offer may be costly and more time consuming. We agree with the Directors' view that, as compared with the Subscription, (i) more documentation is typically required for the rights issue or an open offer, such as the prospectus; (ii) it is more costly to arrange a rights issue or open offer than the Subscription as it is expected that the Company would incur higher cost to arrange a rights issue or an open offer as more professional parties would need to be engaged in an open offer or a rights issue; and (iii) it generally takes longer time to arrange rights issue or open offer. Furthermore, the Subscription provides a higher degree of certainty, whereas the outcome of a rights issue or open offer for the fundraising amount would be subject to the uncertainty of the subscription level given the net current liabilities and net liabilities position of the Group.

As discussed with the management of the Company, as at the Latest Practicable Date, no investor has expressed any interest in debt or equity fundraising of the Company. Given that the Group was in net current liabilities and net liabilities position as at 30 September 2024 as discussed in the section headed “(II) Background and financial performance of the Group” above in this letter, even if such equity financing and borrowings are available, we consider that it is difficult for the Company to obtain external financing without lengthy negotiations with banks and potential investors and the outcome of such financing methods are highly uncertain as compared with the Subscription. As mentioned above, with reference to the 12-month Hong Kong Dollar Interest Settlement Rates of approximately 2.96% as at the Latest Practicable Date, the financial costs of new debts will be higher than the New Convertible Bonds and additional asset pledging or guarantees may be required. As such, the Subscription will provide more time for the Group to seek for financial resources and to conduct suitable fund raising when the Group’s financial performance and market condition improves in the future. Therefore, after considering the constraints of the debt and equity fundraising alternatives and the financial position of the Group, we consider that the Company has limited fundraising alternatives and we concur with the Directors’ view that the Subscription is more preferable than the above financing alternatives.

(IV) Major terms of the New Convertible Bonds

On 11 April 2025 (after trading hours), the Company entered into the Subscription Agreement with Existing Bondholder A (a connected person of the Company) pursuant to which 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 principal terms of the New Convertible Bonds are set out below:

Issuer:	The Company
Subscriber:	Mr. Lam Ching Kui
Issue price:	100% of the principal amount
Principal amount:	HK\$45,000,000
Conversion price:	HK\$0.09 per Conversion Share, subject to adjustments
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
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 (i) 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 (ii) 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 500,000,000 Conversion Shares at the initial conversion price of HK\$0.09 per New 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 holder of the New Convertible Bonds 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 holder of the New Convertible Bonds 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

Completion of the Subscription Agreement is conditional upon:

- (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 fulfillment 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 fulfillment of the condition precedent set out in condition (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 above conditions have been fulfilled.

(V) Our assessment on the Conversion Price

In assessing the fairness and reasonableness of the Conversion Price, we have primarily taken into account (i) the financial position of the Group, which has been discussed in the section headed “(II) Background and financial performance of the Group” above in this letter; (ii) the historical Share price performance; and (iii) the market comparables in respect of recent issuance of convertible bonds/notes.

As stated in the Letter from the Board, the Conversion Price of HK\$0.09 (subject to adjustments) per Conversion Share, which 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, was determined after arm’s length negotiations between the Company and Existing Bondholder A with reference to the recent trading prices of the Shares for approximately one year prior to the Last Trading Day and was agreed after considering that the Company and Existing Bondholder A agreed at a lower interest rate of 2% per annum which would in turn alleviate the future interest burden of the Company. The Conversion Price represents:

- (i) 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;
- (ii) a discount of approximately 5.26% to the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on Last Trading Day;
- (iii) a discount of approximately 16.36% over the average closing price of HK\$0.1076 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the Last Trading Day;
- (iv) 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
- (v) 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).

(i) *Review on the historical closing price of the Shares*

We have reviewed the chart illustrates the historical daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 12 April 2024 (being the approximately one year prior to the Last Trading Day) up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is adequate as it represents a reasonable period to reflect a general overview of the recent price movement of the Shares. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

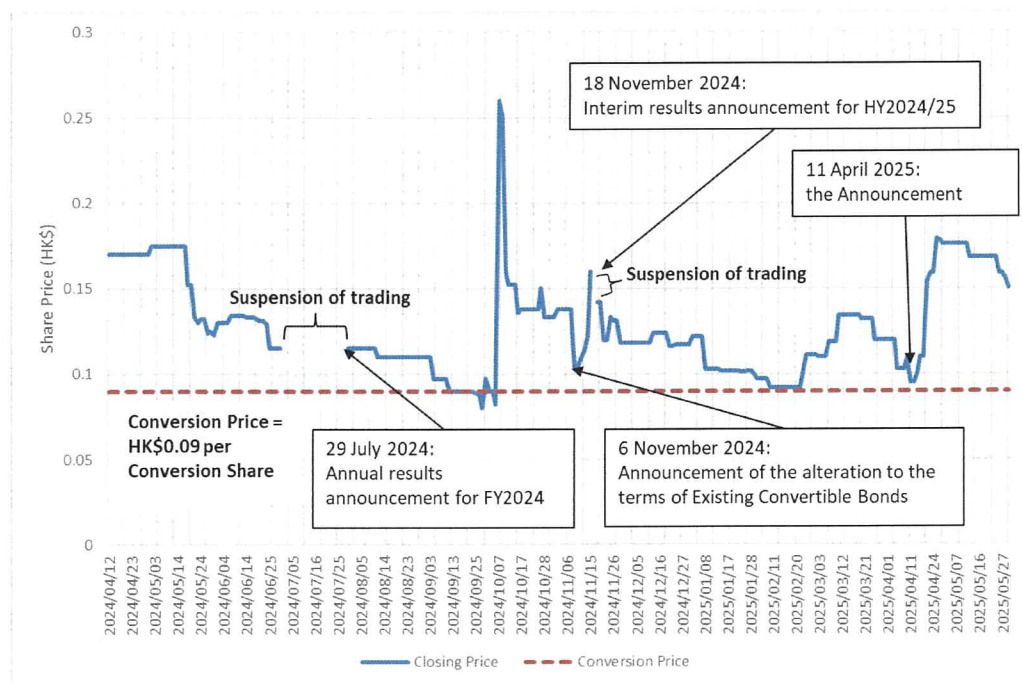


Chart 1: Historical Share price performance of the Company during the Review Period

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

As shown in the above Chart 1, during the Review Period, 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\$0.128 per Share. The Conversion Price of HK\$0.090 per Share is within the said price range of the Shares.

Although the Conversion Price of HK\$0.090 per Conversion Share is below the average closing price of the Shares during the Review Period, after considering that (i) the financial position of the Group as discussed in the section headed “(II) Background and financial performance of the Group” above in this letter; (ii) it would be difficult to determine the outcome and the pricing of alternative equity financing methods, such as placing, rights issue or open offer; (iii) a similar or higher discount to the closing price, as compared with that of the Conversion Price, may be required to attract potential investors or existing Shareholders to subscribe for the Shares; (iv) alternative equity financing methods may be relatively time-consuming; and (v) the Conversion Price is within the range in the comparable analysis as discussed in the sub-section headed “Comparison with recent issuance of convertible bonds/notes” below, we are of the view that the Conversion Price is fair and reasonable.

(ii) Comparison with recent issuance of convertible bonds/notes

To further assess the fairness and reasonableness of the Conversion Price, we have attempted to conduct the research on the website of the Stock Exchange in respect of issue, placing and subscription of convertible bonds/notes exercises (excluding A-share convertible bonds) with the following criteria: (i) the issuers are listed on the Stock Exchange, of which the shares were not in prolonged suspension at the date of the announcement; (ii) the market capitalisation of the issuers on the respective last trading day is not more than HK\$300 million; (iii) the issuers announced to issue or appoint a placing agent to place the convertible bonds/notes during the last six-month immediately preceding the date of the Subscription Agreement (the “**Comparable Period**”), excluding those for the acquisition transactions, corporate restructuring and takeover of the listed company; (iv) the duration of the convertible bonds/notes is at least one year and is not perpetual; and (v) the proposed issue of the convertible bonds/notes has not been terminated or lapsed as at the Latest Practicable Date. We have excluded perpetual convertible bonds/notes in our analysis as they are considered not comparable to the New Convertible Bonds in terms of the credit risk and interest rate risk incurred from the maturity of the convertible bonds/notes. Based on the above criteria, we identified an exhaustive list of 11 convertible securities (the “**Comparable Transactions**”). We consider that the Comparable Transactions were determined under similar market conditions and sentiment, and hence represent fair and representative samples and provide a general reference of this type of transaction in the market. We also consider that the Comparable Period is appropriate (i) to reflect the prevailing market conditions and sentiments in the Hong Kong stock market; (ii) to provide a general reference of the recent convertible securities transactions being conducted under similar market conditions; and (iii) to generate a reasonable and meaningful number of samples for the purpose of our analysis. Set out below is the Comparable Transactions analysis:

Date of announcement	Stock code	Name of company	Market capitalisation on the respective last trading day (HK\$ million)	Net assets position on the date of the announcement (Yes/No)	Connected transaction (Yes/No)	Duration (years)	Interest rate per annum	Premium/ (discount) of conversion price over/(to) the average closing price for the last five consecutive trading days immediately preceding the date of the relevant agreement	Premium/ (discount) of conversion price over/(to) the average closing price for the last five consecutive trading days immediately preceding the date of the relevant agreement	Completed as at the Latest Practicable Date (Yes/No)
2 April 2025	764	Eternity Investment Limited	206.26	Yes	No	2.0	5.0%	3.33%	nil	Yes
13 March 2025	8613	Oriental Payment Group Holdings Limited	256.39	Yes	No	1.0	7.0%	(13.53)%	(12.61)%	No
6 March 2025	276	Mongolia Energy Corporation Limited	97.83	No	Yes	3.0	3.0%	25.00%	22.20%	Yes
13 January 2025	1220	Zhidao International (Holdings) Limited	178.20	Yes	No	1.0	nil	22.20%	0.40%	No
27 December 2024	515	China Silver Technology Holdings Limited	48.73	Yes	No	3.0	8.0%	132.56% (Note 1)	140.38% (Note 1)	Yes
23 December 2024	764	Eternity Investment Limited	282.65	Yes	No	2.0	5.0%	4.59%	3.75%	Yes
20 December 2024	8360	Basic House New Life Group Limited	216.16	No	No	2.0 (Note 2)	6.0%	nil	4.20%	Yes
3 December 2024	6918	Kidztech Holdings Limited	95.56	Yes	No	2.0	12.0%	4.58%	4.58%	Yes
2 December 2024	1142	E&P Global Holdings Limited	46.41	No	No	5.0	nil	(21.88)%	(24.92)%	Yes
15 October 2024	8613	Oriental Payment Group Holdings Limited	227.77	Yes	No	1.0	7.0%	16.67%	27.97%	Yes
2 October 2024	274	Renaissance Asia Silk Road Group Limited	102.52	Yes	No	2.0	6.0%	25.00%	3.29%	Yes
					Maximum:	5.0	12.0%	25.00%	27.97%	
					Minimum:	1.0	nil	(21.88)%	(24.92)%	
					Average:	2.2	5.4%	6.60%	2.89%	
11 April 2025	1013	The Company	25.40	No	Yes	3.0	2.0%	(5.26)%	(16.36)%	No

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

Notes:

- As the premium of the conversion price of the convertible bonds/notes of China Silver Technology Holdings Limited is extremely higher than the other Comparable Transactions, we have excluded China Silver Technology Holdings Limited from our analysis of the conversion price as outlier.
- The maturity of the convertible bonds/notes of Basic House New Life Group Limited could be extended by the parties in writing. Since such convertible bonds/notes have not been extended as at the Latest Practicable Date, the duration in the above table is based on the original maturity date in our analysis.

(a) *Conversion price*

We note that (i) the premium/(discount) of the conversion price over/to the closing price on the respective date of relevant agreement of the Comparable Transactions (after excluding the outlier) ranged from a discount of approximately 21.88% to a premium of approximately 25.00%, with the average being premium of 6.60%; and (ii) the premium/(discount) of the conversion price over/to the average closing price for the last five consecutive trading days immediately preceding the date of relevant agreement of the Comparable Transactions (after excluding the outlier) ranged from a discount of approximately 24.92% to a premium of approximately 27.97%, with the average being premium of 2.89%. The discount of the Conversion Price is within the range of the Comparable Transactions.

As set out in the above table, among the Comparable Transactions, the conversion price of the convertible notes/bonds of Oriental Payment Group Holdings Limited (“**Oriental Payment**”) as announced on 13 March 2025 (as supplemented by the side letters dated 14 March 2025) and E&P Global Holdings Limited (“**E&P Global**”) as announced on 2 December 2024 represented a discount to the closing price on the respective date of relevant agreement and the average closing price for the last five consecutive trading days immediately preceding the date of relevant agreement. As compared with the New Convertible Bonds, the discount of the Conversion Price is less than the discount of the conversion price of the convertible notes/bonds of Oriental Payment and E&P Global to the closing price on the respective date of relevant agreement and the redemption of the New Convertible Bonds at maturity is more favourable than the convertible notes/bonds of Oriental Payment and E&P Global, which would be redeemed at 100% and 115% of the principal amount at maturity, respectively, in contrast to 98% redemption of the New Convertible Bonds.

In terms of the financial position, E&P Global, Basic House New Life Group Limited (“**Basic House New Life**”) and Mongolia Energy Corporation Limited (“**Mongolia Energy**”) were in net liabilities position on the date of the relevant announcement of the issue of the convertible notes/bonds.

We consider that E&P Global was in a similar situation as the Company after reviewing the announcement of E&P Global dated 2 December 2024, which included that (i) E&P Global was in net liabilities and net current liabilities position as at 30 September 2024; (ii) the auditors of E&P Global highlighted the material uncertainty related to the going concern of E&P Global; (iii) the cash position of E&P Global, which was approximately HK\$5.76 million as at 30 September 2024, was as low as the Group; and (iv) E&P Global had high reliance on the financial resources from shareholders, directors and related parties and had limited ability to procure external funding. As discussed above, the terms of the New Convertible Bonds are more favourable than that of convertible notes of E&P Global in terms of the discount of the conversion price and the redemption at maturity.

In the case of Basic House New Life, which was also in net liabilities position, while the conversion price of the convertible bonds of Basic House New Life represents a nil discount to the closing price on the respective date of relevant agreement, the interest rate of such convertible bonds was 6% per annum, which is higher than the interest rate of the New Convertible Bonds of 2% per annum. In addition, the convertible bonds of Basic House New Life would be redeemed at 100% of the principal amount at maturity while the New Convertible Bonds would be redeemed at 98% of principal amount at maturity.

Despite the fact that the conversion price of the convertible bonds of Mongolia Energy is premium over both the closing price on the respective date of relevant agreement and the average closing price for the last five consecutive trading days immediately preceding the date of relevant agreement, the interest rate of the convertible bonds of Mongolia Energy is higher than that of the New Convertible Bonds and the convertible bonds of Mongolia Energy would be redeemed at 100% of the principal amount at maturity while the New Convertible Bonds would be redeemed at 98% of principal amount at maturity. In respect of the financial condition of Mongolia Energy, Mongolia Energy was in net liabilities position as at 30 September 2024 and recorded loss attributable to the owners of the company for the six months ended 30 September 2024, but Mongolia Energy recorded profit attributable to the owners of the company for the year ended 31 March 2024. The cash level of Mongolia Energy, which was approximately HK\$75.46 million as at 30 September 2024, was higher than the cash level of Group of only approximately HK\$0.14 million as at 30 September 2024.

Although the discount of the Conversion Price is below the average of the Comparable Transactions, after carefully considering that (i) the Group was at net current liabilities position and net liabilities position as at 30 September 2024; (ii) the Group would not have sufficient cash and financial resources to repay the Shareholder's Loan and Other Loan given the low cash level of the Group; (iii) the Group has difficulty to obtain external financing and, even if such financing is available, a similar or higher discount to the closing price may be required and the outcome is uncertain; (iv) the interest rate of the New Convertible Bonds is lower than that of the Shareholder's Loan and Other Loan; (v) the terms of the New Convertible Bonds are more favourable than the convertible notes/bonds of E&P Global, Basic House New Life and Mongolia Energy, which were also in net liabilities position, in terms of the conversion price, interest rate and redemption as discussed above; and (vi) the conversion of the New Convertible Bonds is subject to the public float requirement and no mandatory general offer being triggered under Rule 26 of the Takeovers Code on Existing Bondholders, which will be further discussed in the section headed "(VI) Shareholding structure and possible dilution effect of the New Convertible Bonds" below in this letter, we consider that the Subscription is fair and reasonable and is in the interest of the Company and Shareholders as a whole.

(b) Duration

As shown in the table above, the duration of the Comparable Transactions ranged from 1 year to 5 years with an average duration of 2.2 years. The duration of the New Convertible Bonds is within the range and higher than the average of the Comparable Transactions.

(c) Interest rate

As shown in the table above, the interest rates of the Comparable Transactions ranged from nil to 12.0% per annum, with an average of approximately 5.4% per annum. The interest rate of the New Convertible Bonds is within the range and lower than the average of the Comparable Transactions. As such, the interest rate of the New Convertible Bonds is more favourable to the Company.

Shareholders should note that the financial position, business, operations, and prospects of listed companies of the Comparable Transactions may not be identical to those of the Group and we have not conducted any in-depth investigation into the respective businesses and operations of the companies of each Comparable Transactions. Therefore, we consider that the Comparable Transactions provide the Independent Shareholders a general reference as to the common market practice in respect of the terms of convertible bonds/notes issued by companies listed in Hong Kong as compared with that of the New Convertible Bonds. It would not be appropriate to conclude the Subscription solely based on the result of Comparable Transactions analysis. Therefore, we advise the Independent Shareholders taking a holistic approach to consider various factors as discussed in this letter to justify the fairness and reasonableness of the Subscription.

(VI) Shareholding structure and possible dilution effect of the New Convertible Bonds

Set out below is 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 the Shares); (iii) immediately after full conversion of the New Convertible Bonds only (assuming there being no other issue or repurchase of the Shares); and (iv) immediately after full conversion of the Existing Convertible Bonds and the New Convertible Bonds (assuming there being no other issue or repurchase of the Shares):

Name of Shareholder	(i) as at the Latest Practicable Date		(ii) immediately after full conversion of all the Existing Convertible Bonds only		(iii) immediately after full conversion of the New Convertible Bonds only		(iv) immediately after full conversion of the Existing Convertible Bonds and the New Convertible Bonds	
	Number of	Approximate	Number of	Approximate	Number of	Approximate	Number of	Approximate
	Shares	%	Shares	%	Shares	%	Shares	%
Existing Bondholder A (Note 1)	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 (Note 2)	194,292,325	72.66	621,292,325	25.37	194,292,325	25.32	621,292,325	21.07
	199,102,450	74.46	2,380,902,450	97.21	699,102,450	91.10	2,880,902,450	97.68
Other public Shareholders	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 Existing Bondholder A and the ultimate controlling shareholder of the Company, directly holds 4,810,125 Shares.
2. Ka Chun, being Existing Bondholder B, is a company owned as to 100% by Wai Chun Investment Fund, which is wholly-owned by Existing Bondholder A, Mr. Lam Ching Kui, and 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.

As stated in the Letter from the Board, upon fully conversion of the New Convertible Bonds at the Conversion Price of HK\$0.09 per Conversion Share, 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 enlarged by the allotment and issue of the 500,000,000 Conversion Shares assuming that there is no other change to the total number of the issued Shares from the Latest Practicable Date to the date when the New Convertible Bonds are converted in full.

For indicative purposes only, assuming that there is no change in the number of the issued Shares from the Latest Practicable Date up to the date when the conversion rights attaching to Existing Convertible Bonds and New Convertible Bonds are exercised in full, the shareholding of the Independent Shareholders will be diluted from approximately 25.54% to approximately 8.09% immediately after full conversion of the New Convertible Bonds only and from approximately 25.54% to approximately 2.32% immediately after full conversion of the Existing Convertible Bonds and the New Convertible Bonds.

However, according to the terms of the Existing Convertible Bonds and New Convertible Bonds, Existing Bondholders may only convert such number of Existing Convertible Bonds and New Convertible Bonds as would not cause the Company not to comply with the minimum public float requirement under the Listing Rules following the conversion of the Existing Convertible Bonds and New Convertible Bonds and the conversion rights attached to the Existing Convertible Bonds and New Convertible Bonds shall only be exercised on the condition that any conversion of Existing Convertible Bonds and New Convertible Bonds does not trigger a mandatory general offer obligation on Existing Bondholders under Rule 26 of the Takeovers Code.

We have discussed with the management of the Company and the management of the Company has confirmed that Existing Bondholders may not be able to convert the Existing Convertible Bonds and New Convertible Bonds in full in view of the restriction on conversion if the Company encounters insufficient public float. As such, either Existing Bondholder A or Existing Bondholder B may theoretically convert up to approximately 5,758,000 Conversion Shares (equivalent to the Existing Convertible Bonds of approximately HK\$575,800 based on the conversion price of the Existing Convertible Bonds of HK\$0.10 per conversion share or the New Convertible Bonds of approximately HK\$518,220 based on the Conversion Price of HK\$0.09 per Conversion Share) to comply with the minimum public float requirement under the Listing Rules, which will dilute the shareholding of the Independent Shareholders from approximately 25.54% to approximately 25.00%. Therefore, the immediate dilution effect to the shareholding of the Independent Shareholders is limited and restricted.

In view of (i) the reasons for and benefits of the Subscription as set out in the section headed “(III) Reasons for and benefits of the Subscription” in this letter above; and (ii) the restriction to the conversion of the New Convertible Bonds as discussed above, we consider that the level of dilution (subject to the restriction in respect of the minimum public float requirement of the Listing Rules) to the shareholding interests of the Independent Shareholders is acceptable.

(VII) Financial effects as a result of the Subscription

The financial effects of the Subscription set out below are purely for illustrative purposes only and do not reflect the future financial position of the Company or the Group.

(i) *Net assets value and gearing*

It is expected that the Subscription will not have an immediate material impact on the net asset value and gearing of the Group. However, the net current liabilities of the Group will be improved as the amount of the Shareholder's Loan and Other Loan (together with the accrued interest), which have 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.

(ii) *Earnings*

On initial recognition, the New Convertible Bonds shall be recognised as a compound financial instrument with a conversion option, which comprise an equity component and a liability component, on the consolidated financial statements of the Company. The carrying amount of the liability component is first determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the New Convertible Bonds as a whole. The liability component of the New Convertible Bonds is subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

As the interest rate of the New Convertible Bonds is lower than that of the Shareholder's Loan and Other Loan, it is expected that the Subscription will reduce the financial pressure of the Group by reducing the interest rate.

Based on the above, we consider that the Subscription is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

We note that the Conversion Price is below the average of the closing price of the Shares during the Review Period and the discount of the Conversion Price is below the average of the conversion price of the Comparable Transactions. Nevertheless, having taken into account the principal factors and reasons as discussed above, in particular:

- (i) the financial position of the Group, including the material uncertainty relating to going concern of the Group raised by the auditors of the Company as stated in the Annual Report 2023/24;
- (ii) the Group does not have sufficient cash to repay the Shareholder's Loan and Other Loan;
- (iii) the Subscription will improve the net current liabilities position of the Group;

- (iv) there are limited debt and equity financing alternatives available to the Group and the outcome is highly uncertain;
- (v) the New Convertible Bonds have a lower interest rate than that of the Shareholder's Loan and Other Loan;
- (vi) the Conversion Price is within the range of the Comparable Transactions; and
- (vii) the immediate dilution to the Independent Shareholders is limited due to the restriction in respect of the minimum public float requirement of the Listing Rules,

we are of the view that, although the Subscription Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group, the Subscription (including the grant of the Specific Mandate) is conducted on normal commercial terms and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

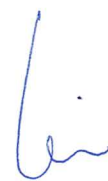
Accordingly, we would recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM for approving the terms of the Subscription Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

Yours faithfully,
For and on behalf of

INCU Corporate Finance Limited



Gina Leung
Managing Director



Psyche So
Associate Director

Ms. Gina Leung is a licensed person registered with the SFC and a responsible officer of INCU Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

Ms. Psyche So is a licensed person registered with the SFC and a responsible officer of INCU Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over eight years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.