

25 August 2025

*To: The Independent Board Committee and
the Independent Shareholders of
Wai Chun Bio-Technology Limited*

Dear Sirs and Madams,

**CONNECTED TRANSACTION IN RELATION TO
PROPOSED ISSUE OF NEW 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 (as amended by the Supplemental Agreements) and the transactions contemplated thereunder (including the grant of the New Convertible Bonds 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 25 August 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 and the supplemental announcements of the Company dated 15 May 2025 and 20 August 2025 in relation to the First Supplemental Agreement and Second Supplemental Agreement for the extension of the Long Stop Date, on 14 April 2025 (after trading hours), the Company entered into the Subscription Agreement with Existing Bondholder 1, Mr. Lam Ching Kui (a connected person of the Company), pursuant to which Existing Bondholder 1 conditionally agreed to subscribe for and the Company conditionally agreed to issue the New Convertible Bonds in the principal amount of HK\$15,000,000 under the New Convertible Bonds Specific Mandate. On 15 May 2025 (after trading hours), the Company and Existing Bondholder 1 entered into the First Supplemental Agreement pursuant to which the parties agreed to extend the Long Stop Date to 29 August 2025 (or such other date as may be agreed by the Company and Existing Bondholder 1). On 20 August 2025 (after trading hours), the Company and Existing Bondholder 1 entered into the Second Supplemental Agreement pursuant to which the parties agreed to further extend the Long Stop Date to 30 September 2025 (or such other date as may be agreed by the Company and Existing Bondholder 1). Save for the above changes, all other terms and the conditions of the Subscription Agreement remain unchanged.

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As at the Latest Practicable Date, Mr. Lam Ching Kui, being Existing Bondholder 1, is the ultimate controlling shareholder of the Company, who is interested in 72,400 Existing Ordinary Shares personally, representing approximately 0.04% of the total number of Existing Ordinary Shares, and through his indirect interests in Existing Bondholder 2, Chinese Success, was taken to be interested in total 91,622,643 Existing Ordinary Shares representing approximately 51.34% of the total number of Existing Ordinary Shares. Therefore, Existing Bondholder 1 and its associates (including Existing Bondholder 2) 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.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Existing Bondholder 1 and its associates (including Existing Bondholder 2) are required to abstain from voting on the resolutions in respect of the Subscription at the EGM. To the best of the information, belief and knowledge of the Directors, save for Existing Bondholder 1 and its associates (including Existing Bondholder 2), no other Shareholder has any material interest in the Subscription. Save that Mr. Lam Ka Chun, who is an executive director of the Company and the son of Existing Bondholder 1, is deemed to be interested in the Subscription and the transactions contemplated thereunder (including the grant of the New Convertible Bonds 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 New Convertible Bonds Specific Mandate).

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Xu Huiling, Mr. Wang Ziniu and Mr. Wong Po Keung, has been established to advise the Independent Shareholders in respect of the terms of the Subscription Agreement (as amended by the Supplemental Agreements) and the transactions contemplated thereunder (including the grant of the New Convertible Bonds 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 IFA 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 the alteration to the terms of the Existing Convertible Bonds, which the circular has been despatched on 28 March 2025, 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 (as amended by the Supplemental Agreements) and the transactions contemplated thereunder (including the grant of the New Convertible Bonds 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 EGM.

Our review and analyses were based upon, among others, (i) the information provided by the Group including the Circular, the Subscription Agreement, the Supplemental Agreements and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 30 June 2024 (the “**Annual Report 2023/24**”) and interim report of the Company for the six months ended 31 December 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 (as amended by the Supplemental Agreements), 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 14 April 2025 (after trading hours), the Company entered into the Subscription Agreement with Existing Bondholder 1 (a connected person of the Company) pursuant to which Existing Bondholder 1 conditionally agreed to subscribe for and the Company conditionally agreed to issue the New Convertible Bonds in the principal amount of HK\$15,000,000 under the New Convertible Bonds Specific Mandate.

On 15 May 2025 (after trading hours), the Company and Existing Bondholder 1 entered into the First Supplemental Agreement pursuant to which the parties agreed to extend the Long Stop Date to 29 August 2025 (or such other date as may be agreed by the Company and Existing Bondholder 1). On 20 August 2025 (after trading hours), the Company and Existing Bondholder 1 entered into the Second Supplemental Agreement pursuant to which the parties agreed to further extend the Long Stop Date to 30 September 2025 (or such other date as may be agreed by the Company and Existing Bondholder 1). Save for the above changes, all other terms and the conditions of the Subscription Agreement remain unchanged.

As at the Latest Practicable Date, Mr. Lam Ching Kui, being Existing Bondholder 1, is the ultimate controlling Shareholder, who is interested in 72,400 Existing Ordinary Shares personally, representing approximately 0.04% of the total number of Existing Ordinary Shares, and through his indirect interests in Chinese Success, being Existing Bondholder 2, was taken to be interested in total 91,622,643 Existing Ordinary Shares representing approximately 51.34% of the total number of Existing Ordinary Shares. Existing Bondholders are also the holders of the Existing Convertible Bonds. Assuming the Alteration of Terms being effective, the Existing Convertible Bonds with the total outstanding amount of HK\$99.40 million could be converted at the Existing Convertible Bonds Conversion Price of HK\$0.06 per Conversion Share to a maximum of 1,656,666,666 Conversion Shares, but subject to the restriction of public float requirement under the Listing Rules and no mandatory general offer being triggered under the Takeovers Code.

Existing Bondholder 1 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.

(II) Background and financial performance of the Group

(i) Background of the Group

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

The Group is principally engaged in the manufacturing and sales of modified starch and other co-related bio-chemical products.

(ii) *Financial performance of the Group*

Set out below is the financial information of the Group for each of the financial years ended 30 June 2023 and 30 June 2024 (“FY2023” and “FY2024”, respectively) as extracted from the Annual Report 2023/24 and the six months ended 31 December 2023 and 31 December 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 manufacturing and sale of modified starch and other biochemical products	773,654	370,069	190,330	161,056
Loss for the year / period	(10,062)	(65,707)	(4,030)	(13,054)
Loss for the year / period attributable to the owners of the Company	(15,433)	(44,212)	(6,734)	(13,661)

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

FY2023 vs FY2024

As set out in above Table 1, all revenue of the Group was derived from manufacturing and sale of modified starch and other biochemical products. The revenue of the Group for FY2024 was approximately HK\$370.07 million, representing a decrease of approximately HK\$403.58 million or 52.17% as compared with that of approximately HK\$773.65 million for FY2023. According to the Annual Report 2023/24, the decrease in revenue was mainly due to the reduced consumption for the modified starch and other biochemical products resulted from economic slowdown in the PRC. Therefore, the Group has ceased certain low-performing product lines of one of its subsidiaries as part of its strategic restructuring to enhance overall operational efficiency, leading to the decrease in revenue.

Due to the decrease in revenue of the Group and the impairment loss on property, plant and equipment of approximately HK\$58.15 million for FY2024, the Group recorded loss attributable to the owners of the Company of approximately HK\$44.21 million for FY2024, representing an increase in loss of approximately HK\$28.78 million or 186.52% as compared with that of approximately HK\$15.43 million for FY2023.

Despite the net loss for FY2023 and FY2024, the Group recorded net cash inflow from operating activities of approximately HK\$48.89 million and HK\$52.09 million for FY2023 and FY2024 respectively, after the adjustments in respect of (i) the non-cash items, such as the imputed interest expenses of the Existing Convertible Bonds, the depreciation of the property, plant and equipment and right-of-use assets, the net impairment loss on trade and other receivable and the impairment losses on property, plant and equipment; and (ii) change in working capital. However, the Group has used (i) approximately HK\$28.18 million and HK\$40.04 million for the purchase of property, plant and equipment to replace and upgrade the old machinery for FY2023 and FY2024 respectively; and (ii) approximately HK\$19.46 million and HK\$15.19 million for the repayment of borrowings for FY2023 and FY2024 respectively. Therefore, the Group had an overall net cash outflow of approximately HK\$2.43 million and HK\$4.07 million for FY2023 and FY2024 respectively.

We also noted that the Group recorded finance costs of approximately HK\$17.11 million and HK\$17.91 million for FY2023 and FY2024 respectively, which had created continuous financial pressure to the Group's profit and loss.

HY2023/24 vs HY2024/25

The revenue of the Group for HY2024/25 was approximately HK\$161.06 million, representing a decrease of approximately HK\$29.27 million or 15.38% as compared with that of approximately HK\$190.33 million for HY2023/24. According to the Interim Report 2024/25, the decrease in revenue was mainly due to the continued reduction in consumption for the modified starch and other biochemical products resulted from economic slowdown in the PRC.

The loss attributable to the owners of the Company was approximately HK\$13.66 million for HY2024/25, representing an increase in loss of approximately HK\$6.93 million or 102.97% as compared with that of approximately HK\$6.73 million for HY2023/24. Such increase was mainly due to (i) the decrease in revenue as discussed above; (ii) the net impairment loss on trade and other receivable of approximately HK\$4.27 million made in HY2024/25; and (iii) the increase in finance costs from approximately HK\$8.83 million for HY2023/24 to approximately HK\$10.37 million for HY2024/25 as a result of the increase in imputed interest expenses of the Existing Convertible Bonds and Other Loan.

After the adjustments of non-cash items and change in working capital, the Group recorded net cash inflow from operating activities of approximately HK\$24.67 million and HK\$0.05 million for HY2023/24 and HY2024/25. The decrease in cash inflow from operating activities for HY2024/25 as compared with that for HY2023/24 was mainly due to the decrease in revenue as discussed above. Due to decrease of cash inflow from operating activities, the replacement and upgrade of the old machinery has been suspended in HY2024/25.

Consolidated financial position of the Group

	As at 30 June 2024 HK\$'000 (Audited)	As at 31 December 2024 HK\$'000 (Unaudited)
Non-current assets		
Property, plant and equipment	54,272	48,106
Right-of-use assets	26,425	25,101
Deferred tax assets	14,403	14,261
	<hr/> 95,100	<hr/> 87,468
Current assets		
Inventories	33,711	29,865
Trade receivables	29,160	23,111
Deposits, prepayment and other receivables	49,366	38,110
Bank balances and cash	2,161	1,784
	<hr/> 114,398	<hr/> 92,870
Total assets	209,498	180,338
Current liabilities		
Trade payables	99,054	67,987
Accruals and other payables	26,413	30,484
Contract liabilities	2,323	2,747
Borrowings	47,379	48,453
Tax payable	1,046	1,045
Lease liabilities	1,134	279
Convertible bonds	73,985	81,977
Loans from ultimate holding company	2,513	4,438
	<hr/> 253,847	<hr/> 237,410
Non-current liabilities		
Convertible bonds	10,891	11,732
Total liabilities	264,738	249,142
Net current liabilities	(139,449)	(144,540)
Net liabilities	(55,240)	(68,804)

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

(iii) Non-current assets and current assets

As set out in the above Table 2, the non-current assets of the Group decreased from approximately HK\$95.10 million as at 30 June 2024 to approximately HK\$87.47 million as at 31 December 2024, representing a slight decrease of approximately HK\$7.63 million or 8.02%. Such decrease was mainly due to the depreciation of the property, plant and equipment.

The current assets of the Group decreased from approximately HK\$114.40 million as at 30 June 2024 to approximately HK\$92.87 million as at 31 December 2024, representing a decrease of approximately HK\$21.53 million or 18.82%. The decrease in current assets of the Group was mainly due to the decrease in trade receivables and the decrease in deposits, prepayment and other receivables, including the impairment loss on trade and other receivable. Such decrease was in line with the decrease in revenue as discussed above.

As set out in the above Table 2, as at 31 December 2024, the Group only had bank balances and cash of approximately HK\$1.78 million. According to the Letter from the Board, as at the Latest Practicable Date, the bank balances and cash of the Group is approximately HK\$3.30 million and there is no loan and advances due to the Group.

(iv) Non-current liabilities and current liabilities

As set out in the above Table 2, the non-current liabilities of the Group remained stable. The current liabilities of the Group decreased from approximately HK\$253.85 million as at 30 June 2024 to approximately HK\$237.41 million as at 31 December 2024, representing a slight decrease of approximately HK\$16.44 million or 6.48%. Such decrease was mainly due to the combined effect of (a) decrease in the trade payable of approximately HK\$31.06 million, which was in line with the decrease in revenue; (b) the increase in accruals and other payables of approximately HK\$4.07 million; and (c) the increase in convertible bonds and loans from ultimate holding company of approximately HK\$9.92 million due to the provision of loan by Wai Chun Investment Fund and the accumulation of the imputed interest expenses.

The loans from ultimate holding company and loan from the controlling shareholder (as included in the borrowings) with the aggregate amount of HK\$7.87 million as at 31 December 2024 represent the Shareholder's Loan and Other Loan. According to the Letter from the Board, as at the Latest Practicable Date, the aggregate amount of the Shareholder's Loan and Other Loan are approximately HK\$15.00 million and expected to exceed HK\$15.00 million as at the Completion Date.

(v) Debt position and going concern issue

The Group had total debts of approximately HK\$135.90 million and approximately HK\$146.88 million (including loans from ultimate holding company, borrowings, convertible bonds and lease liabilities) as at 30 June 2024 and 31 December 2024 respectively. The net debts (net of cash and cash equivalents) to total assets ratio of the Group is approximately 80.46% as at 31 December 2024, representing an increase of approximately 16.62% as compared with approximately 63.84% as at 30 June 2024.

The Existing Convertible Bonds include Existing Convertible Bonds 1 in the aggregate principal amount of HK\$67,000,000, Existing Convertible Bonds 2 in the aggregate outstanding amount of HK\$20,150,000 and Existing Convertible Bonds 3 in the aggregate outstanding amount of HK\$12,250,000. All of the Existing Convertible Bonds are nil interest rate. According to the announcement of the Company dated 27 December 2024 and the circular of the Company dated 28 March 2025 in respect of the Alteration of Terms, on 27 December 2024 (after trading hours), the Company and Existing Bondholders entered into the alteration consent letters and conditionally agreed to amend the terms of the Existing Convertible Bonds as follows:

- (i) the Existing Convertible Bonds Conversion Price of the Existing Convertible Bonds be changed from HK\$0.25 per Conversion Share to HK\$0.06 per Conversion Share;
- (ii) the maturity date of Existing Convertible Bonds 1 and Existing Convertible Bonds 2 be extended from 18 January 2025 to 31 December 2027 and the maturity date of Existing Convertible Bonds 3 be extended from 14 March 2026 to 31 December 2027; and
- (iii) Existing Convertible Bonds 3 be redeemed at 95% of principal amount at maturity.

The above alteration to the terms of the Existing Convertible Bonds is conditional upon the Independent Shareholder's approval in the extraordinary general meeting of the Company held on 30 June 2025 and the Capital Reorganisation having become effective. On 30 June 2025, the resolutions in respect of the Alteration of Terms and the Capital Reorganisation have been approved in the extraordinary general meeting of the Company. The Capital Reorganisation is expected to become effective on 12 September 2025.

According to the Annual Report 2023/24, as the Group incurred a loss attributable to owners of the Company of approximately HK\$44.21 million for FY2024 and, as at 30 June 2024, the Group had net current liabilities and net liabilities of approximately HK\$139.45 million and HK\$55.24 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\$13.66 million for HY2024/25 and as at 31 December 2024, the Group had net current liabilities of approximately HK\$144.54 million and net liabilities of approximately HK\$68.80 million respectively. Therefore, the Directors have prepared the consolidated financial statements on a going concern basis based on the assumptions and measures that:

- (a) as at 31 December 2024, the Company has drawn down loan of approximately HK\$4.44 million and undrawn loan facilities of approximately HK\$65.56 million granted by Wai Chun Investment Fund ("**Wai Chun IF**"), its ultimate holding company;
- (b) in addition to the loan facilities granted by Wai Chun IF as stated above, Mr. Lam Ching Kui, being Existing Bondholder 1, has also undertaken to provide adequate funds to enable the Group to meet its liabilities and to settle financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving consolidated financial statements for HY2024/25;

- (c) the Company has planned and is in negotiation with potential investors to raise sufficient funds through fund-raising arrangement; and
- (d) the Directors will continue to 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 31 December 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 1 had been financing the operations of the Group through the provision of the Shareholder's Loan and Other Loan to the Group as there was no other offshore financing available to the Group. The terms of the Shareholder's Loan and Other Loan were determined after arm's length negotiations between the Company and Existing Bondholder 1. The outstanding principal amount and accrued interest under the Shareholder's Loan and Other Loan payable by the Company to Existing Bondholder 1 and/or its associates are expected to exceed HK\$15,000,000 as at the Completion Date. The Shareholder's Loan and Other Loan bear an interest rate of 6.25% per annum. As at the Latest Practicable Date, both Shareholder's Loan and Other Loan are repayable on demand.

We note that (i) the revenue of the Group decreased in FY2024 and HY2024/25 as compared with that in the previous year/period; (ii) the Group recorded net loss attributable to owners of the Company for both FY2024 and HY2024/25; (iii) the Group had a low cash level of only approximately HK\$3.30 million as at the Latest Practicable Date; (iv) the Group had high net current liabilities of approximately HK\$144.54 million as at 31 December 2024; (v) the Group was in a net liabilities position as at 31 December 2024; (vi) the Group had high net debts (net of cash and cash equivalents) to total assets ratio of approximately 80.46% as at 31 December 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 and are repayable on demand. 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 more 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 amended by the Supplemental Agreements)

As stated in the Letter from the Board, the subscription amount payable by Existing Bondholder 1 under the Subscription Agreement (as amended by the Supplemental Agreements) 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 1 and/or its associates as at the Completion Date. Existing Bondholder 1 had been financing the operations of the Company and its subsidiaries in Hong Kong through the provision of the Shareholder's Loan and Other Loan to the Group. The aggregate amount of the Shareholder's Loan and Other Loan and accrued interest is approximately HK\$15,000,000 as at the Latest Practicable Date and is expected to exceed HK\$15,000,000 as at Completion Date due to the additional financial support by Existing Bondholder 1 and Wai Chun Investment Fund, which is wholly owned by Existing Bondholder 1. The Shareholder's Loan and Other Loan are unsecured, carried an interest rate at 6.25% per annum as calculated by Hong Kong Prime Rate of 5.25% per annum plus 1% per annum, and repayable on demand as at the Latest Practicable Date. 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, represents a heavy financial burden to the Group as the Company has net current liabilities of approximately HK\$144.5 million as at 31 December 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 30 June 2024 and 31 December 2024. As at the Latest Practicable Date, no investor, bank or financial institution has shown any interest in providing financing to the Company. After the negotiation between the Company and Existing Bondholder 1, Existing Bondholder 1 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 financing method 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\$1.91 million will be saved; (ii) 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; (iii) the net current liabilities of the Group also will be improved as the Shareholder's Loan and Other Loan (together with the accrued interest) will be reclassified from current liabilities to non-current liabilities after the Subscription becomes effective; (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; (v) the conversion of the New Convertible Bonds would be restricted by the minimum public float requirement under the Listing Rules; and (vi) as at the Latest Practicable Date, no investor, bank or financial institution has shown any interest in providing financing to the Company.

We have reviewed the Subscription Agreement, the Supplemental Agreements, 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\$15.43 million, HK\$44.21 million and HK\$13.66 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. As disclosed in the Letter from the Board, the Group, through a subsidiary of the Company in the PRC, has provided a loan to a third party in the PRC with the balance of approximately HK\$21,224,000 as at 30 June 2024, which has been fully repaid as at the Latest Practicable Date and the proceeds from the repayment of the loan have been used to settle the trade payables to suppliers and general working capital in the PRC. In this regard, we have reviewed the payment records and value-added tax invoices of the relevant trade payables and operating expenses of the subsidiary of the Company in the PRC. Furthermore, as discussed with the management of the Company, there is no operating subsidiary in Hong Kong to generate cash inflow for the Group and the transfer of the funds from the PRC to Hong Kong is subject to regulatory constraints, including scrutiny of inter-company transactions by PRC authorities and strict cross border control policies, and thus offshore financing is needed for the repayment of the Shareholder's Loan and Other Loan. On the other hand, given that the bank balances and cash of the Group as at the Latest Practicable Date is approximately HK\$3.30 million only, the Group has financial difficulties to repay the Shareholder's Loan and Other Loan, which are repayable on demand. 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) Fundraising activities of the Company in the past 12 months

As stated in the Letter from the Board, other than the alteration consent letters dated 27 December 2024 entered into by the Company and Existing Bondholders to amend the terms of all the outstanding Existing Convertible Bonds, 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 fundraising 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 offshore debt financing may not be available given the Group's net current liabilities and net liabilities position as at 31 December 2024; (ii) the cost of the offshore debt financing may increase together with additional requirements with asset pledging or guarantees to be provided by the Group; and (iii) further offshore debt financing will increase the finance costs of the Group and using offshore 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 31 December 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, bank or financial institution has shown any interest in providing offshore debt financing to the Company; (ii) Existing Convertible Bonds 1 and Existing Convertible Bonds 2 were originally issued under the interest rate of 4% per annum and 2% per annum at their issue date respectively, 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 set out in the announcement of the Company dated 22 December 2022; (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 12-month Hong Kong Dollar Interest Settlement Rates (i.e., HIBOR) is approximately 3.18% 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 and any new borrowings from banks and financial institutions in Hong Kong will usually carry an interest rate of the HIBOR plus a percentage to be commercially agreed. Therefore, we concur with the Directors' view that the offshore debt financing may not be feasible due to the financial position of the Group and, even if such offshore debt financing is available, the higher interest rates from external new debts as compared with that of the New Convertible Bonds will impose the 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 at 31 December 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 Existing Ordinary 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 fundraising 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 will be subject to the conversion restriction in respect of the mandatory general offer obligation under the Takeovers Code and the minimum public float requirement of the Listing Rules 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 the Subscription 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 31 December 2024, the fundraising 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 while the outcome of a rights issue or open offer as to 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 confirmed by 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 other than the Subscription. Given that the Group was in net current liabilities and net liabilities position as at 31 December 2024 as discussed in the section headed “(II) Background and financial performance of the Group” above in this letter, even if such equity financing or 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 HIBOR of approximately 3.18% as at the Latest Practicable Date, the finance costs of new debts, which are usually an interest of the HIBOR plus a percentage to be commercially agreed, 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 fundraising 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 (as amended by the Supplemental Agreements)

On 14 April 2025 (after trading hours), the Company entered into the Subscription Agreement with Existing Bondholder 1 (a connected person of the Company) pursuant to which Existing Bondholder 1 conditionally agreed to subscribe for and the Company conditionally agreed to issue the New Convertible Bonds in the principal amount of HK\$15,000,000 under the New Convertible Bonds Specific Mandate.

On 15 May 2025 (after trading hours), the Company and Existing Bondholder 1 entered into the First Supplemental Agreement pursuant to which the parties agreed to extend the Long Stop Date to 29 August 2025 (or such other date as may be agreed by the Company and Existing Bondholder 1). On 20 August 2025 (after trading hours), the Company and Existing Bondholder 1 entered into the Second Supplemental Agreement pursuant to which the parties agreed to further extend the Long Stop Date to 30 September 2025 (or such other date as may be agreed by the Company and Existing Bondholder 1). Save for the above changes, all other terms and the conditions of the Subscription Agreement remain unchanged.

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\$15,000,000
Conversion price	:	HK\$0.070 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	:	(a) <i>Consolidation or sub-division of the shares</i>

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 subdivision 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 bondholders (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 bondholders hold out of the total principal amount of the 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 initial 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 initial conversion or exchange rate or the exercise of such subscription rights at the initial 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.

- New Convertible Bonds Conversion Shares : Based on the principal amount of the New Convertible Bonds of HK\$15,000,000, the New Convertible Bonds is convertible into 214,285,714 New Convertible Bonds Conversion Shares at the initial conversion price of HK\$0.070 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 New Convertible Bonds 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; (ii) the exercise of the conversion right attached to the New Convertible Bonds will not cause the Company to be unable to meet the public float requirement under the Listing Rules; and (iii) any conversion of the New Convertible Bonds does not trigger a mandatory general offer obligation on the holder of the New Convertible Bonds under Rule 26 of the Takeovers Code

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 New Convertible Bonds Conversion Shares	:	The New Convertible Bonds 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 New Convertible Bonds Conversion Shares
Security	:	The obligations of the Company under the New Convertible Bonds are unsecured

Completion of the Subscription Agreement (as amended by the Supplemental Agreements) is conditional upon:

- (i) the passing by the Independent Shareholders of relevant resolutions at the EGM 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 New Convertible Bonds Specific Mandate for the allotment and issue of the New Convertible Bonds Conversion Shares;
- (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 granting listing of and permission to deal in the New Convertible Bonds Conversion Shares to be allotted and issued upon exercise of the conversion rights attaching to the New Convertible Bonds;
- (iv) the Capital Reorganisation having become effective, which is expected to be 12 September 2025;
- (v) 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
- (vi) 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), (iv) and (v) 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 (vi) 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), (iii) and (iv) 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 (v) above. The Company may at any time by notice in writing to Mr. Lam Ching Kui to waive the condition set out in condition (vi) 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 (as amended by the Supplemental Agreements) 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 (as amended by the Supplemental Agreements) 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 New Convertible Bonds Conversion Price

In assessing the fairness and reasonableness of the New Convertible Bonds 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 Existing Ordinary Shares 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 New Convertible Bonds Conversion Price of HK\$0.070 was determined after arm’s length negotiations between the Company and Existing Bondholder 1 with reference to the prevailing market price of the Existing Ordinary Shares on the Stock Exchange before entering into the Subscription Agreement for approximately one year prior to the Last Trading Day and is not less than the par value of the HK\$0.01 per New Ordinary Share of the Company. The New Convertible Bonds Conversion Price represents:

- (i) a discount of approximately 70.46% to the closing price of HK\$0.237 per Existing Ordinary Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 7.89% to the closing price of HK\$0.076 per Existing Ordinary Share as quoted on the Stock Exchange on Last Trading Day;
- (iii) a discount of approximately 13.37% over the average closing price of HK\$0.0808 per Existing Ordinary 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 7%, represented by the theoretical diluted price (as defined under Rule 7.27B of the Listing Rules) of approximately HK\$0.0749 per Existing Ordinary Share, to the benchmarked price of HK\$0.0808 per Existing Ordinary Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (a) the closing price of HK\$0.0760 per Existing Ordinary Share on the Last Trading Day and (b) the average closing price of HK\$0.0808 per Existing Ordinary 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 Alteration of Terms represented by a discount of approximately 18%, represented by the cumulative theoretical diluted price of approximately HK\$0.0620 per Existing Ordinary Share to the theoretical benchmarked price of HK\$0.0760 per Existing Ordinary 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\$0.076 per Existing Ordinary Share).

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

We have reviewed the chart illustrates the historical daily closing price of the Existing Ordinary Shares as quoted on the Stock Exchange during the period commencing from 15 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 Existing Ordinary Shares. The following chart sets out the daily closing prices of the Existing Ordinary Shares on the Stock Exchange during the Review Period:

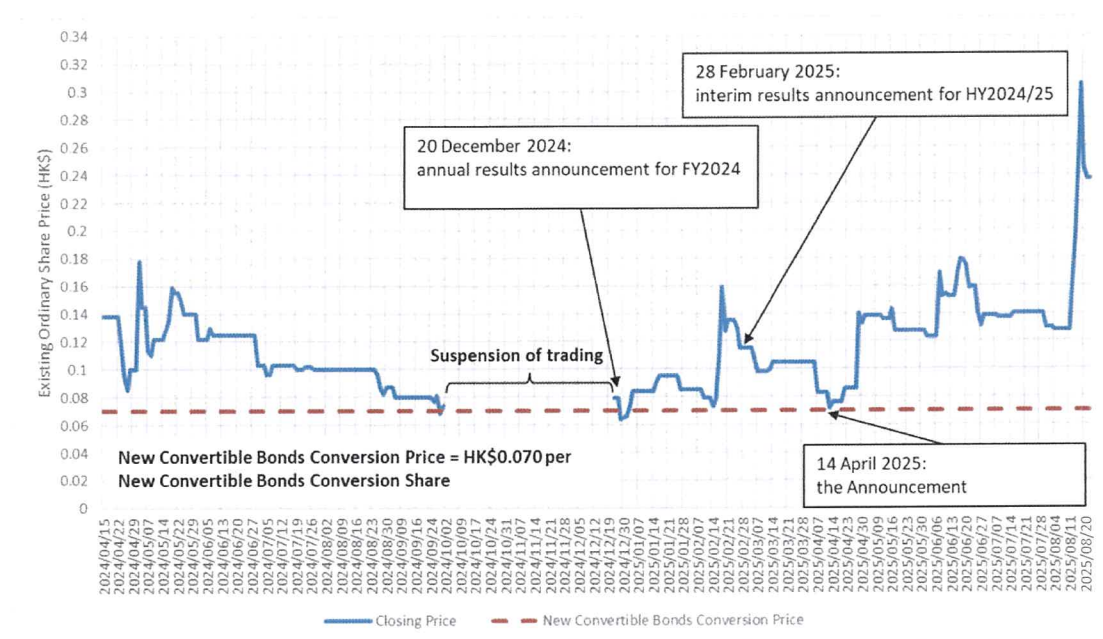


Chart 1: Historical Share price performance of the Company during the Review Period

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 Existing Ordinary Shares ranged from the lowest of HK\$0.064 per Existing Ordinary Share, to the highest of HK\$0.305 per Existing Ordinary Share with an average closing price of HK\$0.116 per Existing Ordinary Share. The New Convertible Bonds Conversion Price of HK\$0.070 per New Convertible Bonds Conversion Share is within the said price range of the Existing Ordinary Shares.

Although the New Convertible Bonds Conversion Price of HK\$0.070 per New Convertible Bonds Conversion Share is below the average closing price of the Existing Ordinary 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 New Convertible Bonds Conversion Price, may be required to attract potential investors or existing Shareholders to subscribe for the Existing Ordinary Shares; (iv) alternative equity financing methods may be relatively time-consuming; and (v) the New Convertible Bonds 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, the New Convertible Bonds Conversion Price is fair and reasonable.

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

To further assess the fairness and reasonableness of the New Convertible Bonds 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 convertible securities transactions being conducted under similar market conditions before entering into the Subscription Agreement; 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 closing price on the respective date of 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)
11 April 2025	1013	Wai Chun Group Holdings Limited	25.40	No	Yes	3.0	2.0%	(5.26)%	(16.36)%	Yes
2 April 2025	764	Eternity Investment Limited	206.26	Yes	No	2.0	5.0%	3.33%	nil	Yes
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%	Yes
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

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 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:	2.4	4.9%	7.42%	2.51%	
14 April 2025	660	The Company	13.56	No	Yes	3.0	2.00%	(7.89)%	(13.37)%	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 7.42%; 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 2.51%. The discount of the New Convertible Bonds 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 E&P Global Holdings Limited (“**E&P Global**”) as announced on 2 December 2024 and Wai Chun Group Holdings Limited (“**Wai Chun Group**”) as announced on 11 April 2025 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, except for the convertible bonds of Wai Chun Group, which the terms are similar to that of the New Convertible Bonds, the discount of the New Convertible Bonds Conversion Price is less than the discount of the conversion price of the convertible notes of 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 of E&P Global, which would be redeemed at 115% of the principal amount at maturity, in contrast to 98% redemption of the New Convertible Bonds.

In terms of financial position, E&P Global, Basic House New Life Group Limited (“**Basic House New Life**”), Mongolia Energy Corporation Limited (“**Mongolia Energy**”) and Wai Chun Group 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 and Wai Chun Group were in a similar situation as the Company after reviewing the announcement of E&P Global dated 2 December 2024 and Wai Chun Group dated 11 April 2025, which included that (i) E&P Global and Wai Chun Group were in net liabilities and net current liabilities position as at 30 September 2024; (ii) the auditors of E&P Global and Wai Chun Group highlighted the material uncertainty related to the going concern of E&P Global and Wai Chun Group; (iii) the cash position of E&P Global and Wai Chun Group, which were approximately HK\$5.76 million and HK\$0.14 million as at 30 September 2024 respectively, were as low as the Group; and (iv) E&P Global and Wai Chun Group 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 similar to the convertible bonds of Wai Chun Group but more favourable than the 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\$1.78 million and HK\$3.30 million as at 31 December 2024 and the Latest Practicable Date respectively.

Although the discount of the New Convertible Bonds 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 31 December 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 overall terms of the New Convertible Bonds are similar to the terms of the convertible bonds of Wai Chun Group and 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 2.4 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 4.9% 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 New Convertible Bonds are more favourable to the Company in terms of the interest rate.

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 of the outstanding Existing Convertible Bonds at the Existing Convertible Bonds Conversion Price only (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares and the Alteration of Terms being effective); (iii) immediately after full conversion of the New Convertible Bonds at the New Convertible Bonds Conversion Price only (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares); and (iv) immediately after full conversion of all of the outstanding Existing Convertible Bonds at the Existing Convertible Bonds Conversion Price and the New Convertible Bonds at the New Convertible Bonds Conversion Price (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares and the Alteration of Terms being effective):

Name of Shareholder	(i) as at the Latest Practicable Date		(ii) immediately after full conversion of all of the outstanding Existing Convertible Bonds at the Existing Convertible Bonds Conversion Price only (Note 3)		(iii) immediately after full conversion of the New Convertible Bonds at the New Convertible Bonds Conversion Price only (Note 3)		(iv) immediately after full conversion of all of the outstanding Existing Convertible Bonds and the New Convertible Bonds (Note 3)	
	Number of Existing Ordinary Shares		Number of Existing Ordinary Shares		Number of Existing Ordinary Shares		Number of Existing Ordinary Shares	
	Approximate		Approximate		Approximate		Approximate	
	%		%		%		%	
Existing Bondholder 1 (Note 1)	72,400	0.04	1,116,739,066	60.85	214,358,114	54.58	1,331,024,780	64.95
Existing Bondholder 2 (Note 2)	91,550,243	51.30	631,550,243	34.41	91,550,243	23.31	631,550,243	30.82
Sub-total	91,622,643	51.34	1,748,289,309	95.26	305,908,357	77.89	1,962,575,023	95.77
Other public Shareholders	86,853,810	48.66	86,853,810	4.74	86,853,810	22.11	86,853,810	4.23
Total	178,476,453	100.00	1,835,143,119	100.00	392,762,167	100.00	2,049,428,833	100.00

Notes:

1. Mr. Lam Ching Kui, being Existing Bondholder 1 and the ultimate controlling shareholder of the Company, directly holds 72,400 Existing Ordinary Shares.
2. Chinese Success, being Existing Bondholder 2, is a company owned as to 100% by Wai Chun Investment Fund, which is wholly-owned by Existing Bondholder 1, Mr. Lam Ching Kui, and holds 91,550,243 Existing Ordinary 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, assuming all the New Convertible Bonds are fully converted at the New Convertible Bonds Conversion Price of HK\$0.070 per New Convertible Bonds Conversion Share, a maximum of 214,285,714 New Convertible Bonds Conversion Shares will be allotted and issued upon exercise of the Conversion Rights in full, which represents:

- (i) approximately 120.06% of the issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 54.56% of the issued share capital of the Company as enlarged by the allotment and issue of the 214,285,714 New Convertible Bonds Conversion Shares assuming that there is no other change to the total number of Existing Ordinary Shares from the Latest Practicable Date to the date when the New Convertible Bonds are converted in full; and
- (iii) approximately 10.46% of the issued share capital of the Company as enlarged by the issue of the allotment and issue of the 214,285,714 New Convertible Bonds Conversion Shares and 1,656,666,666 Existing Convertible Bonds Conversion Shares assuming that there is no other change to the total number of Existing Ordinary Shares from the Latest Practicable Date to the date when the Existing Convertible Bonds and New Convertible Bonds are converted in full and the Alteration of Terms being effective.

For indicative purposes only, assuming that (i) there is no change in the number of issued Existing Ordinary Shares or New Ordinary Shares from the Latest Practicable Date up to the date when the conversion rights attaching to New Convertible Bonds and Existing Convertible Bonds are exercised in full; and (ii) the Alteration of Terms has become effective, the shareholding of the Independent Shareholders will be diluted from approximately 48.66% to approximately 22.11% immediately after full conversion of the New Convertible Bonds only and from approximately 48.66% to approximately 4.23% immediately after full conversion of the New Convertible Bonds and the Existing 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 or Existing Bondholders triggering a mandatory general offer obligation under the Takeovers Code.

Based on our discussion with the management of Company and for illustrative purposes only, in order to fulfill the conversion restriction in respect of the minimum public float requirement under the Listing Rules and not triggering the mandatory general offer obligation under the Takeovers Code, Existing Bondholder 1 and any parties acting in concert with him may theoretically convert the New Convertible Bonds only after 20 March 2026 up to approximately 169,000,000 Conversion Shares (equivalent to the New Convertible Bonds of approximately HK\$11.83 million based on the New Convertible Bonds Conversion Price of HK\$0.070 per New Convertible Bonds Conversion Share), which will dilute the shareholding of the Independent Shareholders from approximately 48.66% to approximately 25.00%. The above illustration is subject to the assumption that there is no change in the shareholding of Existing Bondholders (including any parties acting in concert) during the period from the Latest Practicable Date to 20 March 2026 and the Alteration of Terms has become effective. Therefore, the dilution effect to the shareholding of the Independent Shareholders is 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; (ii) limited debt and equity financing alternatives available to the Group as set out in the sub-section headed “ (iii) Other financing alternatives” in this letter above; and (iii) 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 mandatory general offer obligation under the Takeovers Code and 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 net debts to total assets ratio

It is expected that the Subscription will not have an immediate material impact on the net asset value and net debts to total assets ratio 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) in financial statements of the Group 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 subsequent 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 New Convertible Bonds Conversion Price is below the average closing price of the Existing Ordinary Shares during the Review Period and the discount of the New Convertible Bonds 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 New Convertible Bonds Conversion Price is within the range of the Comparable Transactions; and
- (vii) the dilution effect to the Independent Shareholders will be subject to the conversion restriction in respect of the mandatory general offer obligation under the Takeovers Code and the minimum public float requirement of the Listing Rules,

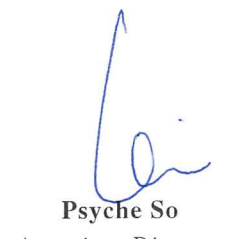
we are of the view that, although the Subscription Agreement (as amended by the Supplemental Agreements) and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Group, the Subscription (including the grant of the New Convertible Bonds Specific Mandate) 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 EGM for approving the terms of the Subscription Agreement (as amended by the Supplemental Agreements) and the transactions contemplated thereunder (including the grant of the New Convertible Bonds Specific Mandate).

Yours faithfully,
For and on behalf of
INCUCorporate 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 INCUCorporate 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 INCUCorporate 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.