



Gram Capital Limited
嘉林資本有限公司

22 November 2024

*To: The independent board committee and the independent shareholders
of Honbridge Holdings Limited*

Dear Sir/Madam,

**CONNECTED TRANSACTIONS
IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSONS**

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 Subscriptions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 22 November 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 13 October 2024, the Company entered into (i) the Subscription Agreement I with Hong Bridge Capital, pursuant to which Hong Bridge Capital conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 4,500,000,000 Subscription Shares at the Subscription Price of HK\$0.08 per Subscription Share; and (ii) the Subscription Agreement II with Mr. Xu, pursuant to which Mr. Xu conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue 200,000,000 Subscription Shares at the Subscription Price of HK\$0.08 per Subscription Share.

With reference to the Board Letter, the Subscriptions constitute connected transactions of the Company under the GEM Listing Rules, which is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

The Independent Board Committee comprising Mr. Chan Chun Wai, Tony, Mr. Ma Gang and Mr. Ha Chun (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Subscriptions are on normal commercial terms and are fair and reasonable; (ii) whether the Subscriptions are conducted in the ordinary and usual course of the business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Subscription Agreements and transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and/or the management of the Company. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Subscriptions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Hong Bridge Capital, Mr. Xu or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Subscriptions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscriptions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Subscriptions

Information on the Group

With reference to the Board Letter, the Company is principally engaged in (i) research and development and production of lithium-ion power batteries for new energy vehicles; (ii) provision of online car-hailing services in Europe; and (iii) investment in the field of resources such as iron ore resources and resources exploration and exploitation.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2023 as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report") and six months ended 30 June 2024 (with comparative figures) as extracted from the Company's interim report for 1H2024 (the "2024 Interim Report"):

	For the year ended 31 December 2023 ("FY2023") (audited) HK\$'000	For the year ended 31 December 2022 ("FY2022") (audited) HK\$'000	Year-on-year change Approximate %
Revenue from continuing operations	226,961	130,491	73.93
— <i>Sale of lithium batteries</i>	158,045	95,727	65.10
— <i>Battery testing service income</i>	15,870	13,370	18.70
— <i>Platform service and riding service income</i>	40,133	19,079	110.35
— <i>Advertising and related income</i>	1,364	372	266.67
— <i>Motor vehicles rental income</i>	11,549	1,943	494.39
Gross profit from continuing operations	50,660	31,666	59.98
Loss from continuing operations	(158,811)	(262,759)	(39.56)
Loss attributable to owners of the Company	(106,519)	(199,156)	(46.51)

	For the six months ended 30 June 2024 ("1H2024") (unaudited) HK\$'000	For the six months ended 30 June 2023 ("1H2023") (unaudited) HK\$'000	Year-on-year change Approximate %
Revenue	71,447	135,921	(47.43)
— <i>Sale of lithium batteries</i>	44,666	101,333	(55.92)
— <i>Battery testing service income</i>	1,388	4,831	(71.27)
— <i>Battery swapping service income</i>	Nil	2,450	N/A
— <i>Online car-hailing service and related income</i>	25,393	27,307	(7.01)
Gross profit	21,305	21,473	(0.78)
Loss for the period	(53,123)	(47,356)	12.18
Loss attributable to owners of the Company	(42,484)	(38,759)	9.61

	As at 30 June 2024 HK\$'000	As at 31 December 2023 HK\$'000	As at 31 December 2022 HK\$'000
Cash and cash equivalents	151,282	166,953	165,452
Equity attributable to owners of the Company	4,290,627	4,988,185	4,671,558

As depicted from the table above, the Group's revenue from continuing operations was approximately HK\$227 million for FY2023, represented an increase of approximately 73.93% as compared to that for FY2022. Such increase was mainly due to increases in sale of lithium batteries and platform service and riding service income. Along with the aforesaid increase in the Group's revenue from continuing operations, the Group's gross profit from continuing operations also increased by approximately 59.98% from FY2022 to FY2023. Nevertheless, the Group continued to make loss for FY2023.

As depicted from the table above, the Group's revenue was approximately HK\$71 million for 1H2024, represented a decrease of approximately 47.43% as compared to that for 1H2023. Such decrease was mainly due to decrease in sale of lithium batteries (which was contributed by the Group's Zhejiang lithium-ion manufacturing plant operated by a non-wholly owned subsidiary of the Company, namely, Zhejiang Forever New Energy Company Limited ("Zhejiang Forever")). With reference to the 2024 Interim Report, decrease in sale of lithium batteries from 1H2023 to 1H2024 was mainly due to substantial decrease in lithium-ion battery pack orders for the Group's major product as demand of the car model which installed the Group's battery pack was lower than expected. On the other hand, sales of parking and starting battery for heavy trucks was not satisfactory as the products faced keen competition and certain distributors endured a difficult period on cashflow. The Group's gross profit for 1H2024 approximated to that for 1H2023 and the Group continued to make loss for 1H2024.

With reference to the independent auditor's report as contained in the 2023 Annual Report, the Group incurred a loss from continuing operations of approximately HK\$159 million for FY2023, and as of 31 December 2023, the Group had provision for repayment to the government of approximately HK\$148 million and bank borrowings of approximately HK\$20 million that were repayable within one year while its cash and cash equivalents amounted to approximately HK\$167 million only. These conditions, along with other matters, indicated existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern (the "**Material Uncertainty Related to Going Concern**").

According to the 2024 Interim Report, the Group incurred loss of approximately HK\$53 million for 1H2024, and as of 30 June 2024, the Group had (i) provision for repayment to the government of approximately HK\$155 million (including approximately HK\$37 million under current liabilities and approximately HK\$118 million under non-current liabilities); and (ii) bank borrowings of approximately HK\$20 million that were repayable within one year, while its cash and cash equivalents amounted to approximately HK\$151 million.

With reference to the 2023 Annual Report and 2024 Interim Report:

- (i) An iron ore project (the “**SAM Project**”) in Brazil is operated by Sul Americana de Metais S.A. (“**SAM**”), an indirect wholly owned subsidiary of the Company.
- (ii) As of 30 June 2024, the Group had accumulatively provided US\$81.8 million to SAM for preliminary work of the SAM Project. In addition to the acquisition consideration of US\$78.42 million, the cumulative investment had reached approximately US\$160.22 million.
- (iii) The total investment of the SAM Project is estimated to be US\$3.25 billion.
- (iv) The environmental license of the SAM Project in Brazil involves three types of licenses: preliminary license (“**LP**”), installation license (“**LI**”) and operation license (“**LO**”). Among them, the LP is the most important to the project as it confirms environmental feasibility and approves the location and design of the project, and establishes basic requirements and conditions to be met in the next phases of the implementation of the project. The LP is also a prerequisite for obtaining the LI, LO, and other necessary approvals or implementing the project.
- (v) By assuming that the LP is granted in fourth quarter of 2025, there is a chance for SAM to obtain the LI in the second quarter of 2027 and commence trial production in the second half of 2030. The operation commencement date is expected to be early 2031.

Information on Hong Bridge Capital

With reference to the Board Letter, Hong Bridge Capital is a company incorporated in the British Virgin Islands with limited liability and is the controlling Shareholder. As at the Latest Practicable Date, it is an investment holding company and ultimately controlled by Mr. Li.

Information on Mr. Xu

With reference to the Board Letter, Mr. Xu, an executive Director, holds directorship and senior management positions in certain entities in the Controlling Shareholder Group including Hong Bridge Capital and Geely International Tech HK, and is a Shareholder holding 222,000,000 Shares, representing approximately 2.25% of the total issued share capital of the Company, as at the Latest Practicable Date.

Reasons for and benefits of the Subscriptions and use of proceeds

With reference to the Board Letter, the Company considers that the Subscriptions will facilitate the development of the existing business of the Company and improve the financial position of the Group for its future development and working capital. In light of the prevailing financial conditions of the Group, the Company also considers the Subscriptions to be a suitable financing option as compared to other means of financing as it enables the Group to raise capital in an efficient manner without increasing the interest burden of the Group.

Financing alternatives

As mentioned in the section headed “Information on the Group” above, the Group was loss-making for FY2022, FY2023 and 1H2024 and the Material Uncertainty Related Going Concern was stated in the independent auditor’s report as contained in the 2023 Annual Report. With reference to the 2023 Annual Report and the 2024 Interim Report, the Group’s net cash generated from operating activities was approximately HK\$15 million for FY2023 and net cash used in operating activities was approximately HK\$40 million for FY2022 and approximately HK\$18 million for 1H2024. The SAM Project, which is a significant project of the Group, also requires substantial amount of investment before it commences operation (expected to commence in early 2031).

As advised by the Directors, in light of the prevailing financial conditions of the Group, the Board considers the Subscriptions to be suitable financing means as compared to other means of financing as it enables the Group to raise capital without increasing interest burden on the Group. The Directors further advised that they also considered other forms of fund raising methods for the Group, such as other equity financing (i.e. placing of new shares to independent third parties, rights issue or open offer) and debt financing, before conducting the Subscriptions.

In respect of the debt financing, it will incur additional finance costs, increase gearing level of the Group and may be subject to corporate guarantee from controlling shareholder, lengthy due diligence and negotiations with lenders.

In respect of placing of new shares to independent third parties, the Directors considered that given the Group's prevailing financial conditions, low trading liquidity of the Shares and the Company's GEM listing status, the Company has difficulties in seeking investors and/or placing agents with favourable placing commission rate.

In respect of rights issue or open offer, the Directors considered that (i) such fundraising activities may incur additional costs, including but not limited to placing commission and other professional fees; (ii) given the Group's prevailing financial conditions, low trading liquidity of the Shares and the Company's GEM listing status, the Company has difficulties in seeking underwriters or placing agents (in the event that controlling/substantial Shareholder acts as an underwriter, the Company must make placing arrangements described in Rules 10.31(1)(b) or 10.42(1)(b) of the GEM Listing Rules) with favourable commission rate; and (iii) if the rights issue or open offer is not underwritten, its results will be uncertain.

With reference to the Board Letter, the Company has explored the options of equity/debt financing in 2023 and 2024 and discussed with over 10 potential investors/placing agents (including private equity funds, sector funds, family offices, sizable companies in the same industry as the Group, investment banks and financial institutions) for subscription of Shares/convertible bonds, and yet failed to realise any plan due to lukewarm interest of investors and unfavourable terms of proposed transactions to the Group. Such unfavourable terms include requiring the Group to provide performance target guarantee; requesting financial institutions to provide performance bonds; imposing obligations on the controlling Shareholder to repurchase the Shares at a premium price; restricting Company to issue and allot Shares lower than a prescribed price per Share; and setting high interest rate (in the case of convertible bonds).

Based on the above factors, the Directors considered that the Subscriptions are (i) suitable financing means as compared to other financing means; and (ii) demonstrate confidence of the controlling Shareholder and Mr. Xu on the Group.

Having considered the above factors, in particular:

- (i) debt financing will incur additional finance costs, increase gearing level of the Group;
- (ii) given the Group's prevailing financial conditions, low trading liquidity of the Shares and the Company's GEM listing status, the Company may have difficulties in seeking investors and/or placing agents with favourable placing commission rate;
- (iii) rights issue or open offer may incur additional costs and the Company may have difficulties in seeking underwriters or placing agents with favourable commission rate; and

- (iv) the Subscriptions demonstrate confidence of the controlling Shareholder and Mr. Xu on the Group,

we are of the view that the Subscriptions are suitable financing means for the Group.

Use of proceeds

With reference to the Board Letter, the gross proceeds from the Subscriptions, that is the total consideration of the Subscriptions, will be HK\$376 million and the estimated net proceeds from the Subscriptions, after deduction of relevant legal and advisory costs, will be approximately HK\$375 million (the “**Net Proceeds**”). The Company intends to use the Net Proceeds as follows:

- (i) approximately HK\$285.1 million for development of and investment in mineral-related projects;
- (ii) approximately HK\$25.0 million for operating fund for Zhejiang Forever;
- (iii) approximately HK\$21.3 million for operating fund for online car-hailing services business in France (the “**Online Car-hailing Services Business**”); and
- (iv) approximately HK\$43.6 million for operating fund for the headquarters of the Group in Hong Kong (the “**HK Headquarters**”).

Development of and investment in mineral-related projects

As aforementioned, the SAM Project is a significant project of the Group and it requires substantial amount of investment before it commences operation (expected to commence in early 2031). As advised by the Directors, the Company intends to apply part of the Net Proceeds for (i) the preparation and application of the LP, which is a prerequisite for obtaining the LI, LO, and other necessary approvals or implementing the project; and (ii) land acquisition after obtaining the LP. For our due diligence purpose, we obtained budgeting plan from the Company regarding the preparation and application of the LP and noted that funding will be applied for various procedures/aspects such as alternative study, conceptual engineering, environmental impact assessment, staff and general administrative costs. Given the importance of the SAM Project, we consider application of part of the Net Proceeds on the SAM Project to be reasonable.

In addition, we noted from the 2024 Interim Report that the Group is identifying suitable investment opportunity in resource sector. With reference to the Board Letter, as at the Latest Practicable Date, the Group is in the course of identifying potential project and no legally binding agreements have been entered by the Group for the investment in any mineral-related projects.

Operating fund for Zhejiang Forever, Online Car-hailing Services Business and HK Headquarters

For our due diligence purpose, we obtained budgeting plans regarding Zhejiang Forever, the Online Car-hailing Services Business and the Group's headquarters in Hong Kong. Based on the said budgeting plans, funding will be applied for staff cost, legal and professional fees, rental expenses and/or other administrative expenses.

Based on the above, the intended uses of the Net Proceeds will improve the Group's financial position and facilitate the Group's business development and operation.

Having considered (i) reasons for and benefits of the Subscriptions as mentioned above; (ii) the Subscriptions are suitable financing means as compared to other financing means; and (iii) that the intended uses of the Net Proceeds will improve the Group's financial position and facilitate the Group's business development and operation, we are of the view that although the Subscriptions are not conducted in the ordinary and usual course of business of the Group, they are in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Subscriptions

Set out below are the summarised terms of the Subscriptions as contemplated under the Subscription Agreements, details of which are set out under the section headed "SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE" of the Board Letter.

Agreement date:	13 October 2024
Parties to the Subscription Agreement I:	(1) the Company (as issuer); and (2) Hong Bridge Capital (as subscriber)
Number of Subscription Shares under Subscription Agreement I:	4,500,000,000
Parties to the Subscription Agreement II:	(1) the Company (as issuer); and (2) Mr. Xu (as subscriber)
Number of Subscription Shares under Subscription Agreement II:	200,000,000

Subscription Price:

The Subscription Price is HK\$0.08 per Subscription Share, which represents:

- (i) a discount of approximately 88.06% to the closing price of HK\$0.67 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 75.00% to the closing price of HK\$0.320 per Share as quoted on the Stock Exchange on the Last Trading Date (the “**LTD Discount**”); and
- (iii) a discount of approximately 77.01% to the average closing price of HK\$0.348 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date (the “**5-Day Discount**”).

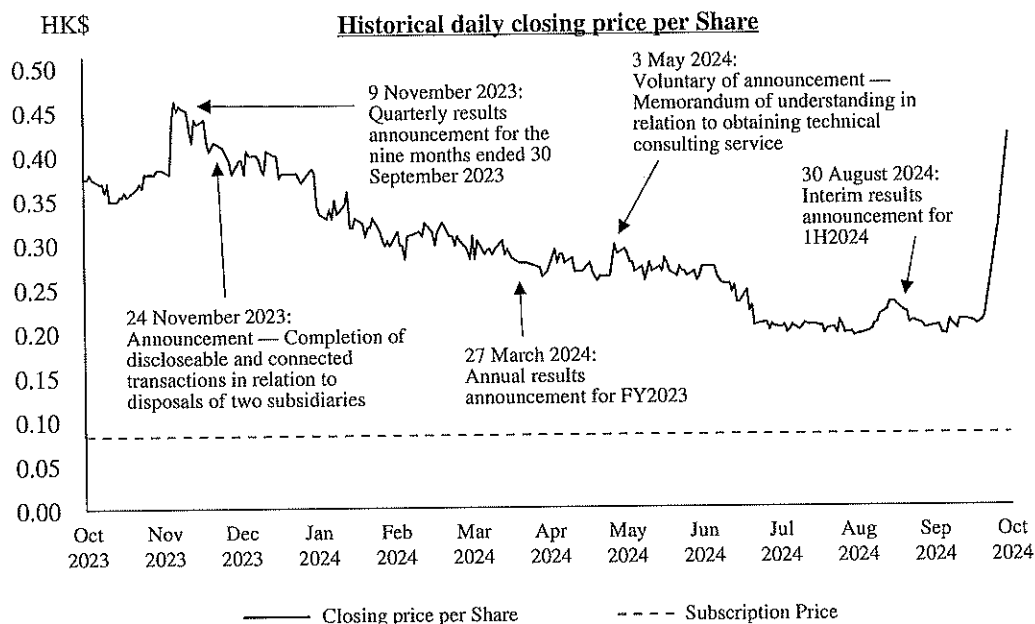
With reference to the Board Letter, the Subscription Price was arrived at after arm’s length negotiations between the Company and the Subscribers with reference to the recent market prices of the Shares and current market conditions.

In order to assess the fairness and reasonableness of the Subscription Price, we conducted the following analysis:

a) Share price performance

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 3 October 2023 to Last Trading Date, being a period of approximately one year up to and including the Last Trading Date (the “**Shares**

Review Period”) which is a commonly adopted period for share price analysis, to illustrate the general trend and level of movement of the closing prices of the Shares:



Source: the Stock Exchange's website

During the Shares Review Period, the highest and lowest closing prices of Shares as quoted on the Stock Exchange were HK\$0.450 recorded on 8 November 2023 and HK\$0.188 recorded on 6 August 2024 respectively.

During the Shares Review Period, the closing price of the Shares increased from HK\$0.365 on 3 October 2023 to HK\$0.450 on 8 November 2023. Thereafter, the closing price of the Shares followed a decreasing trend and reached HK\$0.188 on 6 August 2024. Subsequently, the closing price of Shares fluctuated at a relatively low level and surged significantly to HK\$0.410 on 7 October 2024 and reached HK\$0.320 on 10 October 2024.

The Subscription Price of HK\$0.08 per Subscription Share falls below the closing prices of Shares during the Shares Review Period.

b) *Liquidity*

Set out below are (i) the number of trading days; (ii) the percentage of the Shares' average daily trading volume (the "Average Volume") as compared to the total number of issued Shares held by the public as at the Last Trading Date; and (iii) the percentage of the Average Volume as compared to the total number of issued Shares as at the Last Trading Date, during the Shares Review Period:

Month	No. of trading days in each month	% of the Average Volume to total number of issued Shares as at the date of the Latest Practicable Date	% of the Average Volume to total number of issued Shares held by the public as at the date of the Latest Practicable Date
		%	%
2023			
October	20	0.01	0.04
November	22	0.02	0.04
December	19	0.01	0.01
2024			
January	22	0.01	0.03
February	19	0.01	0.02
March	20	0.01	0.02
April	20	0.01	0.03
May	21	0.01	0.04
June	19	0.02	0.06
July	22	0.01	0.02
August	22	0.01	0.03
September	19	0.02	0.05
October (up to and including the Last Trading Date)	7	0.13	0.36

Source: The Stock Exchange's website

Notes:

1. Based on 3,662,563,742 Shares held by the public as at the Last Trading Date.
2. Based on 9,854,533,606 Shares as at the Last Trading Date.

We noted from the above table that the liquidity of the Shares was low during the Shares Review Period. The Average Volume during the Shares Review Period (except for October 2024 (up to and including the Last Trading Date)) was all below 0.1% of (i) the total number of issued Shares held by the public; and (ii) the total number of issued Shares, as at the Last Trading Date. The Average Volume in October 2024 (up to and including the Last Trading Date) was below 0.5% of (i) the total number of issued Shares held by the public; and (ii) the total number of issued Shares, as at the Last Trading Date.

Given the low liquidity of the Shares as illustrated above, it is reasonable to set the Subscription Price at a discount to the closing price of the Shares as at the Last Trading Date.

c) Comparables

As part of our analysis, we also identified subscription of new ordinary shares listed on the Stock Exchange under specific mandate for cash consideration which were announced by Hong Kong listed companies (and were not lapsed or terminated) during the six-month period from 10 April 2024 up to and including the Last Trading Date. We consider the six-month review period to be reasonable as it allows us to identify sufficient comparable transactions recently announced up to and including the Last Trading Date. We identified 13 transactions (the “**Comparables**”) which met the said criteria and they are exhaustive. Shareholders should note that the businesses, operations, financial positions and prospects of the Company are not the same as the subject companies of the Comparables. Nevertheless, the Comparables can demonstrate recent market practices of Hong Kong listed companies.

Company name (stock code)	Date of announcement	Premium/(discount) of the subscription price to the closing price per share on the last full trading day immediately prior to the agreement date in relation to the respective subscription of new shares (%)	Premium/(discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to the agreement date in relation to the respective subscription of new shares (%)
China Silver Technology Holdings Limited (515)	19 April 2024	(16.28)	(15.09)
Television Broadcasts Limited (511)	13 May 2024	7.24	11.42
Labixiaoxin Snacks Group Limited (1262)	13 May 2024	(5.17)	(12.14)

Company name (stock code)	Date of announcement	Premium/(discount) of the subscription price to the closing price per share on the last full trading day immediately prior to the agreement date in relation to the respective subscription of new shares (%)	Premium/(discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to the agreement date in relation to the respective subscription of new shares (%)
Cornerstone Technologies Holdings Limited (8391)	22 May 2024	12.28	18.96
Wenye Group Holdings Limited (1802)	7 June 2024	(3.51)	(10.71)
China Ruifeng Renewable Energy Holdings Limited (527)	21 June 2024	(21.29)	(21.41)
Winshine Science Company Limited (209)	8 July 2024	(9.09)	(9.09)
Well Link Securities Holdings Limited (8350)	2 September 2024	65.56	66.89
China Hongguang Holdings Limited (8646)	4 September 2024	(42.80)	(38.63)
Sunway International Holdings Limited (58)	27 September 2024	96.08 (Note 1)	96.08 (Note 1)
CircuTech International Holdings Limited (8051)	4 October 2024	(2.60) (Note 2, 4)	(0.92) (Note 2, 4)
CircuTech International Holdings Limited (8051)	4 October 2024	26.62 (Note 3, 4)	28.80 (Note 3, 4)
Virtual Mind Holding Company Limited (1520)	10 October 2024	13.64	29.87
Maximum (excluding the outlier)		65.56	66.89
Minimum (excluding the outlier)		(42.80)	(38.63)
Average (excluding the outlier)		2.05	3.99
The Subscriptions	18 October 2024	(75.00)	(77.01)

Source: the Stock Exchange's website

Notes:

1. The premium of relevant transaction was exceptionally high (more than two standard deviation away from the mean) and considered to be an outlier.
2. The relevant discount was represented by the subscription price for first subscription of the relevant transaction.

3. The relevant premium was represented by the subscription price for second subscription of the relevant transaction.
4. The first subscription and second subscription were treated as two separate data samples to form our data analysis.

According to the above table, the subscription prices of the Comparables (excluding the outlier) ranged from a discount of approximately 42.80% to a premium of approximately 66.56%, with an average premium of approximately 2.05% over the respective closing prices of the shares on the last full trading day immediately prior to the agreement date in relation to respective subscription (the “**LTD Discount/Premium Market Range**”). The LTD Discount falls below the LTD Discount/Premium Market Range.

According to the above table, the subscription prices of the Comparables (excluding the outlier) ranged from a discount of approximately 38.63% to a premium of approximately 66.89% with an average premium of approximately 3.99% over the respective average closing prices of the shares for the last five consecutive full trading days immediately prior to the agreement date in relation to the respective subscription of new shares (the “**5-Day Discount/Premium Market Range**”). The 5-Day Discount falls below the 5-Day Discount/Premium Market Range.

Analysis on the Subscription Price

As illustrated above:

- (i) The Subscription Price of HK\$0.08 per Subscription Share falls below the closing prices of Shares during the Shares Review Period.
- (ii) The LTD Discount falls below the LTD Discount/Premium Market Range.
- (iii) The 5-Day Discount falls below the 5-Day Discount/Premium Market Range.

In light of the above, the LTD Discount and 5-Day Discount are relatively deep.

With reference to the Board Letter and as confirmed by the Directors, notwithstanding the deep discount and dilution effect of the Subscriptions, the Board is the view that the Subscriptions are fair and reasonable, after considering the factors as set out under the section headed “REASONS FOR THE SUBSCRIPTIONS AND USE OF PROCEEDS” of the Board Letter, including: (i) status of and uncertainty in the SAM Project; (ii) lack of financing alternatives; (iii) unsatisfactory financial performance of the Group; and (iv) benefits derived from the Subscriptions.

To understand under what circumstances Hong Kong listed companies would conduct share subscription transactions at deep discounts, we searched for subscription of new ordinary shares listed on the Stock Exchange under specific mandate for cash consideration with relatively deep discounts (i.e. over 75% (being the LTD Discount)) to the then latest closing prices of the issuer's shares (the "Deep Discount Transactions") which were announced by Hong Kong listed companies (and were not lapsed or terminated) during the three years up to and including the Last Trading Date (for identifying sufficient transactions for assessment). The following transactions were identified on a non-exhaustive basis for analysis of "deep discounts" transactions which were not frequently conducted in the market.

Company name (stock code)	Date of announcement	Discount of the subscription price to the closing price per share on the last full trading day immediately prior to the agreement date in relation to the respective subscription of new shares (%)	Discount of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to the agreement date in relation to the respective subscription of new shares (%)
C&D Newin Paper & Pulp Corporation Limited (formerly known as SAMSON PAPER HOLDINGS LIMITED) (731) ("C&D Newin")	22 November 2021	(96.68)	(96.61)
Japan Kyosei Group Company Limited (formerly known as Fullsun International Holdings Group Co., Limited) (627) ("Japan Kyosei")	13 September 2022	(93.58)	(92.44)
China Health Technology Group Holding Company Limited (formerly known as China Bozza Development Holdings Limited) (1069) ("China Health Tech")	30 December 2022	(87.12)	(87.62)

Company name (stock code)	Date of announcement	Discount of the subscription price to the closing price per share on the last full trading day immediately prior to the agreement date in relation to the respective	Discount of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to the agreement date in relation to the respective
		subscription of new shares (%)	subscription of new shares (%)
CA Cultural Technology Group Limited (1566) ("CA Cultural Tech")	15 March 2023	(78.39)	(77.63)

Further information on the subject companies of the above transactions is set out below:

Company name (stock code)	Last published full year net (loss) attributable to owners of the company prior to the date of transaction announcement (Note)	Last published equity/(deficit) attributable to owners of the company prior to the date of transaction announcement (Note)	Last published net current assets/(liabilities) prior to the date of transaction announcement (Note)	Average % of (A) the shares' average daily trading volume in each of the 12 months prior to the last trading day before publication of transaction announcement; to (B) total number of issued shares as at the date of transaction announcement
C&D Newin (731)	Approximately HK\$(3,768) million for the year ended 31 March 2021	Approximately HK\$(1,970.8) million as at 30 September 2021	Approximately HK\$(2,682.7) million as at 30 September 2021	Approximately 0.04%

Company name (stock code)	Last published full year net (loss) attributable to owners of the company prior to the date of transaction announcement (Note)	Last published equity/(deficit) attributable to owners of the company prior to the date of transaction announcement (Note)	Last published net current assets/ (liabilities) prior to the date of transaction announcement (Note)	Average % of (A) the shares' average daily trading volume in each of the 12 months prior to the last trading day before publication of transaction announcement; to (B) total number of issued shares as at the date of transaction announcement
Japan Kyosei (627)	Approximately RMB(579.8) million for the year ended 31 December 2021	Approximately RMB(390.7) million as at 30 June 2022	Approximately RMB26.0 million as at 30 June 2022	Approximately 0.32%
China Health Tech (1069)	Approximately RMB(20.4) million for the year ended 30 June 2022	Approximately RMB(306.6) million as at 30 June 2022	Approximately RMB(334.9) million as at 30 June 2022	Approximately 0.14%
CA Cultural Tech (1566)	Approximately HK\$(1,050.2) million for the year ended 31 March 2022	Approximately HK\$(108.7) million as at 30 September 2022	Approximately HK\$(533.5) million as at 30 September 2022	Approximately 1.04%
The Company	Approximately HK\$(106.5) million for the year ended 31 December 2023	Approximately HK\$4,290.6 million as at 30 June 2024	Approximately HK\$108.3 million as at 30 June 2024	Approximately 0.02%

Note: According to the then published financial results announcements or transaction circular.

With reference to C&D Newin's circular dated 31 December 2021, repayment obligations of certain indebtedness of the C&D Newin group had been accelerated by certain creditors and the C&D Newin group was unable to meet the repayment obligations. On 24 July 2020, the Supreme Court of Bermuda ordered that the joint provisional liquidators be appointed to C&D Newin, for the purpose of, inter alia, formulating, proposing and implementing a restructuring plan of the indebtedness of C&D Newin. As part of C&D Newin's restructuring, an independent third party investor subscribed for C&D Newin's new shares and the net proceeds therefrom were applied for discharging the C&D Newin's debts under the scheme of arrangement between C&D Newin and scheme creditors, and payment of restructuring expenses in accordance with the restructuring agreement.

With reference to Japan Kyosei's circular dated 23 June 2023, Japan Kyosei had substantial debts which were due and payable. Despite that Japan Kyosei recorded positive net assets value as of 31 December 2021 and 31 December 2022, most of the assets of Japan Kyosei were real estate projects which were unlikely to be liquidated in a short period of time and hence Japan Kyosei faced severe liquidity issues in settling the overdue (or matured) debts. Japan Kyosei proposed a scheme of arrangement between itself and its creditors. An independent third party subscriber subscribed for Japan Kyosei's new shares and the net proceeds therefrom were applied to settle the debts and liabilities to the creditors under the scheme.

With reference to China Health Tech's circular dated 3 March 2023, provisional liquidation of China Health Tech and appointment of joint provisional liquidators pursuant to the order of the Grand Court of the Cayman Islands was recognised by the High Court of Hong Kong on 5 February 2021. On 23 August 2022, China Health Tech as the borrower, an independent third party investor as the lender, and the joint provisional liquidators entered into a funding agreement, pursuant to which the investor agreed to grant a credit facility of up to HK\$26.0 million to China Health Tech for preparation and implementation of a restructuring (including a creditors' scheme), and to support the business operation of China Health Tech group. As part of the restructuring, the independent third party investor subscribed for China Health Tech's new shares and the net proceeds therefrom were applied for distribution of the creditors' scheme cash consideration and relevant cost for restructuring, general working capital and business development of China Health Tech group's forestry management and ginseng-related businesses.

With reference to CA Cultural Tech's joint announcement dated 15 March 2023, CA Cultural Tech received statutory demands from certain creditors against CA Cultural Tech's outstanding debts from time to time and that winding-up petitions have also been filed by some of these creditors against CA Cultural Tech. CA Cultural Tech has been actively seeking to restructure its business and improve its financial position. CA Cultural Tech has been able to identify an independent third party investor and entered into a term sheet setting out their in-principle

understanding with regard to a proposed restructuring which involves, among other things, creditors' scheme and subscriptions of CA Cultural Tech's new shares and convertible bonds by the investor. CA Cultural Tech intends to use net proceeds therefrom for settlement of creditors' scheme cash consideration, settlement of professional fees and expenses in connection with the proposed restructuring and any remaining proceeds for the working capital requirement of CA Cultural Tech group.

Based on our observation on the transactions above, we noted that the subject companies set subscription prices at deep discounts to justify for subscribers'/ investors' risks in their investments (i.e. subscription of new shares of the subject companies) and willingness to invest and provide funding when the subject companies were under serve financial pressures (and also with low shares trading liquidity prior to the date of transaction announcements). Save for the transaction of CA Cultural Tech (which has not held general meeting for approving the transaction by independent shareholders), all of the transactions above were approved by independent shareholders at general meetings with over 99.99% votes for relevant resolutions.

Although the Group is not in a dire financial position as compared to those of the subject companies of the Deep Discount Transactions, the Group is under serve financial pressures given the followings:

- (i) The Group was loss-making for FY2022, FY2023 and 1H2024 and the Material Uncertainty Related Going Concern was stated in the independent auditor's report as contained in the 2023 Annual Report.
- (ii) As of 30 June 2024, the Group had (a) provision for repayment to the government of approximately HK\$155 million (including approximately HK\$37 million under current liabilities and approximately HK\$118 million under non-current liabilities); and (b) bank borrowings of approximately HK\$20 million that were repayable within one year, while its cash and cash equivalents amounted to approximately HK\$151 million.
- (iii) With reference to the 2023 Annual Report and the 2024 Interim Report, the Group's net cash generated from operating activities was approximately HK\$15 million for FY2023 and net cash used in operating activities was approximately HK\$40 million for FY2022 and HK\$18 million for 1H2024.
- (iv) The SAM Project, which is a significant project of the Group, also requires substantial amount of investment before it commences operation (expected to commence in early 2031).

In addition, the liquidity of the Shares was low during the Shares Review Period.

The above conditions indicate material uncertainty and risks for a subscriber of new Shares of the Company.

Despite that the LTD Discount and 5-Day Discount are relatively deep as illustrated above, we consider the Subscription Price to be fair and reasonable after considering the followings:

- (i) The Company has explored the options of equity/debt financing in 2023 and 2024 and discussed with over 10 potential investors/placing agents (including private equity funds, sector funds, family offices, sizable companies in the same industry as the Group, investment banks and financial institutions) for subscription of Shares/convertible bonds, and yet failed to realise any plan due to lukewarm interest of investors and unfavourable terms of proposed transactions to the Group.
- (ii) Based on our observation on the Deep Discount Transactions, Hong Kong listed companies may set subscription prices at deep discounts to justify for subscribers'/investors' risks in their investments (i.e. subscription of new shares of the subject companies) and willingness to invest and provide funding when they are under serve financial pressures (and also with low shares trading liquidity). Although the Group is not in a dire financial position as compared to those of the subject companies of the Deep Discount Transactions, the LTD Discount and 5-Day Discount are less than those of the Deep Discount Transactions.
- (iii) Having also considered the substantial funding need of the Group's operation and business development, we consider that it is justifiable for the Company to set the Subscription Price at deep discount to justify the Subscribers' (a) material uncertainty and risks associated with their investments under the Subscriptions; and (b) willingness to invest and provide substantial funding to the Company.

Having considered the principal terms of the Subscriptions as set out above, we are of the view that the terms of the Subscriptions are on normal commercial terms and are fair and reasonable.

3. Possible dilution effect on the shareholding interests of the public Shareholders

With reference to the shareholding table in the section headed “EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY” of the Board Letter, the shareholding interests of the other public Shareholders would be diluted by approximately 12.00 percentage points from approximately 37.16% as at the Latest Practicable Date to approximately 25.16% immediately after Completion (assuming no other change in the issued share capital of the Company from the Latest Practicable Date to the date of Completion). Taking into account (i) the aforementioned reasons for and benefits of the Subscriptions; (ii) the Net Proceeds will improve the Group’s financial position and facilitate the Group’s business development and operation (hence, benefit the Company and the Shareholders as a whole), whereas the other public Shareholders are not required to further invest into the Company; and (iii) the terms of the Subscriptions being fair and reasonable, we are of the view that the aforesaid dilution is acceptable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Subscriptions are on normal commercial terms and are fair and reasonable; and (ii) although the Subscriptions are not conducted in the ordinary and usual course of business of the Group, they are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscriptions and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.