

13 December 2024

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

Dear Sirs and Madams,

**CONNECTED TRANSACTION IN RELATION TO  
PROPOSED ALTERATION TO THE TERMS OF  
THE EXISTING CONVERTIBLE BONDS**

**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 Alteration Consent Letters and the transactions contemplated thereunder (including the grant of the Specific Mandate), particulars of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 13 December 2024 (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 of the Company dated 6 November 2024. On 6 November 2024 (after trading hours), the Company and the Existing Bondholders have entered into the Alteration Consent Letters and conditionally agreed to amend the terms of the Existing Convertible Bonds.

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As at the Latest Practicable Date, the Existing Bondholder B, a company incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding, is a controlling Shareholder interested in an aggregate of 194,292,325 Shares, representing in aggregate approximately 72.66% of the total number of issued Shares. The Existing Bondholder B is indirectly wholly-owned by the Existing Bondholder A, who is interested in 4,810,125 Shares personally, representing in aggregate approximately 1.80% of the total number of issued Shares. Therefore, the Existing Bondholder A and its associates including the Existing Bondholder B are connected persons of the Company, and the Alteration of Terms constitutes connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 28.05 of the Listing Rules, any alteration in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alteration takes effect automatically under the existing terms of such convertible debt securities. Accordingly, the Company will apply to the Stock Exchange for approval of the Alteration of Terms.

The grant of the Specific Mandate for the allotment and issue of the Conversion Shares is subject to approval by the Independent Shareholders at the SGM.

Save that Mr. Lam Ka Chun (the son of the Existing Bondholder A) is deemed to be interested in the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate), who had abstained from voting, none of the Directors had a material interest in the Alteration of Terms and was required to abstain from voting on the resolutions passed by the Board to approve the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate).

In addition to the Alteration of Terms, the Company also proposed to implement the Capital Reorganisation involving the Capital Reduction and the Share Sub-division as follows:

- (i) the issued share capital of the Company will be reduced by cancelling the paid-up capital to the extent of HK\$0.79 on each of the then issued Existing Ordinary Shares such that the par value of each issued Existing Ordinary Share will be reduced from HK\$0.8 to HK\$0.01; and
- (ii) immediately following the Capital Reduction, each of the authorised but unissued Shares of par value of HK\$0.8 each (including the authorized but unissued Shares arising from the Capital Reduction) be sub-divided into eighty (80) New Shares of par value of HK\$0.01 each.

Upon the Capital Reorganisation becoming effective, the New Ordinary Shares will be identical in all respects and rank *pari passu* with each other in relation to all future dividends and distributions which are declared, made or paid in accordance with the Memorandum and the Bye-laws. Similarly, the New Preference Shares will also be identical in all respects and will rank *pari passu* with each other.

## **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Wang Wei, Mr. Wan Bo and Ms. Kung Ying Tung, has been established to advise the Independent Shareholders in respect of the terms of the Alteration Consent Letters and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable so far as the Independent Shareholders as concerned, and in the interest of the Company and the Shareholders as a whole, taking into account our recommendation.

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

Except for being appointed as independent financial adviser by the Company in relation to alteration to the terms of the Existing First Convertible Bonds and the Existing Second Convertible Bonds, which the circular was issued to the Shareholders on 20 October 2023, we have not acted as independent financial adviser and has 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 Alteration of Terms. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Alteration of Terms, and accordingly, are eligible to give independent advice and recommendations on the terms of Alteration Consent Letters and the transactions contemplated thereunder (including the grant of the Specific Mandate). Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

## **BASIS OF OUR OPINION**

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

Our review and analyses were based upon, among others, (i) the information provided by the Group including the Circular, the Alteration Consent Letters and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 31 March 2024 (the “**Annual Report 2024**”) and the interim results announcement of the Company for the six months ended 30 September 2024 (“**Interim Results 2024**”); 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 Alteration Consent Letters. 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 Alteration of Terms, we have taken into consideration of the following principal factors and reasons:

### **(I) Background of the Alteration of Terms**

#### *The Alteration of Terms*

On 6 November 2024 (after trading hours), the Company and the Existing Bondholders have agreed to amend the terms of the Existing Convertible Bonds as follows:

- (i) the Interest Rates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds be reduced from 1% to 0% per annum and the interest rate of the Existing Third Convertible Bonds be reduced from 2% to 0% per annum;
- (ii) the Conversion Price be changed from HK\$0.384 per Conversion Shares to HK\$0.100 per Conversion Shares;
- (iii) the maturity date of the Existing First Convertible Bonds and the Existing Second Convertible Bonds be extended from 31 August 2025 to 31 December 2027 and the maturity date of the Existing Third Convertible Bonds be extended from 17 January 2025 to 31 December 2027; and
- (iv) the Existing Third Convertible Bonds be redeemed at 98% of principal amount at maturity.

Save for the Alteration of Terms above, all other terms and conditions of the Existing Convertible Bonds shall remain unchanged and in full force and effect.

### **(II) Background and financial performance of the Group**

#### *Background of the Group*

The Company was incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange.

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

*Financial performance of the Group*

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

*Consolidated financial performance of the Group*

	<b>FY2023</b>	<b>FY2024</b>	<b>HY2023</b>	<b>HY2024</b>
	<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>
<b>Revenue</b>				
– Sales and Integration Services				
Business	6,384	31,933	32,136	21,210
– General Trading Business	170,419	241,956	120,248	21,915
<b>Total revenue</b>	<b>176,803</b>	<b>273,889</b>	<b>152,384</b>	<b>43,125</b>
<b>Loss for the year/period</b>	<b>(51,762)</b>	<b>(36,474)</b>	<b>(18,686)</b>	<b>(16,471)</b>

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

(i) FY2023 vs FY2024

As set out in Table 1 above, the revenue of the Group for FY2024 increased by approximately HK\$97.09 million or 54.9% to approximately HK\$273.89 million, as compared with approximately HK\$176.80 million for FY2023. According to the Annual Report 2024, such increase in revenue was mainly due to (a) the substantial increase in revenue of the General Trading Business of approximately HK\$71.54 million, which the demand for chemical trading rebounded after the resumption of normal operation and the release of the anti-pandemic measures of COVID-19 in the PRC; and (b) the substantial increase in revenue of the Sales and Integration Services Business of approximately HK\$25.55 million as a result of the release of the anti-pandemic measures of COVID-19 in the PRC causing a strong rebound of the demand from the market.

Due to the increase in revenue, the consolidated net loss of the Group for FY2024 decreased by approximately HK\$15.29 million or 29.5% to approximately HK\$36.47 million as compared with approximately HK\$51.76 million for FY2023.

(ii) HY2023 vs HY2024

As set out in Table 1 above, the revenue of the Group for HY2024 decreased by approximately HK\$109.25 million or 71.7% to approximately HK\$43.13 million, as compared with approximately HK\$152.38 million for HY2023. According to the Interim Results 2024, such decrease in revenue was mainly due to the substantial decrease in revenue of General Trading Business as result of the decrease in demand of chemical product caused by the decrease in purchase orders from PRC customers.

Despite the decrease in revenue, the consolidated net loss of the Group for HY2024 decreased by approximately HK\$2.22 million or 11.9% to approximately HK\$16.47 million as compared with approximately HK\$18.69 million for HY2023. Such decrease was mainly due to the decrease in administrative expenses of approximately HK\$3.27 million, which was mainly resulted from the reduction in staff cost for HY2024, exceeding the decrease in gross profit of approximately HK\$0.29 million.

*Consolidated financial position of the Group*

	As at <b>31 March</b> <b>2024</b> <i>HK\$'000</i> <i>(Audited)</i>	As at <b>30 September</b> <b>2024</b> <i>HK\$'000</i> <i>(Unaudited)</i>
<b>Non-current assets</b>		
Property, plant and equipment	4	1
Deposits, prepayments and other receivables	59	59
	<u>63</u>	<u>60</u>
<b>Current assets</b>		
Trade receivables	1,279	7,318
Other receivables, prepayments and deposits	30,599	25,759
Bank balances and cash	127	144
	<u>32,005</u>	<u>33,221</u>
<b>Total assets</b>	<b>32,068</b>	<b>33,280</b>
<b>Current liabilities</b>		
Trade payables	12,627	18,057
Other payables and accruals	32,575	35,476
Lease liabilities	2,050	1,188
Convertible bonds	39,729	199,547
	<u>86,981</u>	<u>254,268</u>
<b>Non-current liabilities</b>		
Other payables	3,915	3,915
Loans from ultimate holding company	13,679	13,450
Amount due to ultimate controlling party	18,863	18,951
Lease liabilities	98	–
Convertible bonds	148,820	–
	<u>185,375</u>	<u>36,316</u>
<b>Total liabilities</b>	<b>272,356</b>	<b>290,584</b>
<b>Net current liabilities</b>	<b>(54,976)</b>	<b>(221,047)</b>
<b>Net liabilities</b>	<b>(240,288)</b>	<b>(257,303)</b>

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

*(i) Non-current assets and current assets*

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

*(ii) Non-current liabilities and current liabilities*

As set out in table 2 above, the non-current liabilities of Group decreased from approximately HK\$185.38 million as at 31 March 2024 to approximately HK\$36.32 million as at 30 September 2024, representing a decrease of approximately HK\$149.06 million or 80.4%, while the current liabilities of the Group increased from approximately HK\$86.98 million as at 31 March 2024 to approximately HK\$254.27 million as at 30 September 2024, representing an increase of approximately HK\$167.29 million or 192.3%. The decrease in non-current liabilities of the Group and increase in current liabilities of the Group were mainly due to reclassification of the convertible bonds from non-current liabilities to current liabilities as the Existing Convertible Bonds will mature in 2025 as further discussed below.

*(iii) Debt position*

The Group had total debts of approximately HK\$223.24 million and approximately HK\$233.14 million (including loans from ultimate holding company, amount due to an ultimate controlling party, convertible bonds and lease liabilities) as at 31 March 2024 and 30 September 2024 respectively. All of these debts are interest bearing or carried an interest rate implicit in the lease liabilities.

We note that 85.6% of the total debts of the Group as at 30 September 2024 were the Existing Convertible Bonds. The Existing First Convertible Bonds were issued on 31 August 2020 with an aggregate principal amount of HK\$152,000,000, which are convertible at HK\$0.384 per Conversion Share to a maximum of 395,833,333 Shares. The coupon rate and maturity date of the Existing First Convertible Bonds are 1% per annum and 31 August 2025 respectively before the Alteration of Terms. The Existing Second Convertible Bonds were issued on 30 November 2020 with an aggregate principal amount of HK\$23,480,000, which are convertible at HK\$0.384 per Conversion Share to a maximum of 61,145,833 Shares. The coupon rate and maturity date of the Existing Second Convertible Bonds are 1% per annum and 31 August 2025 respectively before the Alteration of Terms. Both the Existing First Convertible Bonds and the Existing Second Convertible Bonds will be redeemed at 98% of its principal amount at maturity. The Existing Third Convertible Bonds were issued on 18 January 2022 with an aggregate principal amount of HK\$42,700,000, which are convertible at HK\$0.384 per Conversion Share to a maximum of 111,197,916 Shares. The coupon rate and maturity date of the Existing Third Convertible Bonds are 2% per annum and 17 January 2025 respectively. The Existing Third Convertible Bonds will be redeemed at 100% of its principal amount at maturity.

The auditors of the Company have raised the going concern issue of the Company in the Annual Report 2024 after considering that the Group incurred a loss attributable to the owners of the Company of approximately HK\$36.53 million for FY2024, and as at 31 March 2024, the Group had net current liabilities and net liabilities of approximately HK\$54.98 million and HK\$240.29 million, respectively. As stated in the Annual Report 2024, the Directors have prepared the consolidated financial statements in the Annual Report 2024 on a going concern basis on the assumptions and measures that Mr. Lam Ching Kui, Wai Chun Investment Fund and Wai Chun Holdings Group Limited will not demand the Company for repayment of the loan due to them nor cancel the undrawn loan facilities until all other liabilities of the Group have been satisfied, and will not demand for repayment within twelve months after the date of approval of the Annual Report 2024. Furthermore, the Company will continue to negotiate with potential investors to raise funds and implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

As at 30 September 2024, the Group has bank balances and cash of approximately HK\$144,000, which is insufficient to repay the Existing Convertible Bonds upon their maturity dates. After considering (i) the net liabilities position of the Group as at 31 March 2024 and 30 September 2024; (ii) the going concern issued as raised by the auditors of the Company in the Annual Report 2024; (iii) the maturity dates of the Existing Convertible Bonds; and (iv) the latest bank balances and cash of the Group, we consider that the Alteration of Terms can prevent the Company from default of repayment of the Existing Convertible Bonds and provide more time for the Group to seek for and arrange the resources to repay the Existing Convertible Bonds.

### **(III) Reasons for and benefits of the Alteration of Terms**

As stated in the Letter from the Board, the Existing First Convertible Bonds in the aggregate principal amount of HK\$152,000,000 and the Existing Second Convertible Bonds in the aggregate principal amount of HK\$23,480,000 will mature on 31 August 2025 and the Existing Third Convertible Bonds in the aggregate principal amount of HK\$42,700,000 will mature on 17 January 2025. With the extension of the maturity dates of the Existing Convertible Bonds, the financial pressure on the Company for redemption of the Existing Convertible Bonds at the maturity dates would be lessened as it can provide more time for the Group to seek for and arrange the resources for repayment since there was not sufficient cash and bank balances to repay the Existing Convertible Bonds. The Group recorded net liabilities of approximately HK\$257.3 million and HK\$240.3 million as at 30 September 2024 and 31 March 2024 respectively and loss attributable to owners of the Company of approximately HK\$16.8 million and HK\$36.5 million for HY2024 and FY2024 respectively. The net current liabilities of the Group also will be improved as the Existing Convertible Bonds will be reclassified from current liabilities to non-current liabilities after the Alteration of Terms becomes effective. Furthermore, the reduction of the Interest Rates would alleviate the interest burden of the Company by providing interest savings of approximately HK\$2.61 million per year (without taking into the account any tax adjustment) and the total interest saving of approximately HK\$7.93 million (without taking into the account any tax adjustment) if the Existing Convertible Bonds are extended to 31 December 2027.

We have reviewed the Alteration Consent Letters and the Annual Report 2024. Based on our analysis of the financial position of the Group as discussed under the section headed “(II) Background and financial performance of the Group” above, we consider that the Group would not have sufficient bank balances and cash to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds upon their maturity on 31 August 2025 and the Existing Third Convertible Bonds upon its maturity on 17 January 2025. By entering into the Alteration Consent Letters, the Group will have more time to seek for and source the necessary funds for the repayment of the Existing Convertible Bonds. Furthermore, by extending the maturity dates of the Existing Convertible Bonds to 31 December 2027, subject to the market condition and the public float requirement, in the event that the Existing Convertible Bonds are converted, the gearing of the Group could be improved without any cash outflow for the repayment of the Existing Convertible Bonds.

We also note that the Alteration of Terms will reduce the Interest Rates to nil. The estimated annual interest saving from the Alteration of Terms will be approximately HK\$2.61 million per year and the total interest saving will be approximately HK\$7.93 million if the Existing Convertible Bonds are extended to 31 December 2027. (without taking into the account any tax adjustment). As a result, the Alteration of Terms will reduce its interest expenses.

After considering the reasons for and benefits of the Alteration of Terms as discussed above, we consider that entering into the Alteration Consent Letters to extend the Existing Convertible Bonds and reduce the Interest Rates to nil would reduce the Group’s financial burden and prevent the Group from default of repayment upon the maturity of the Existing Convertible Bonds.

*(i) Equity fund raising activities of the Company in the past 12 months*

As stated in the Letter from the Board, the Company did not conduct any equity fund-raising activities in the past 12 months immediately preceding the Latest Practicable Date.

*(ii) Other financing alternatives*

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

*(a) Debt financing*

The Directors have considered that (1) further debt financing may not be available given that the Group’s net liabilities position; and (2) the Group had no suitable assets available to be pledged as collateral; (3) the further debt financing may further weaken the cashflow and financial position of the Group as compared with the reduction in Interest Rates to nil in the Alteration Consent Letters. 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, after considering that the Group’s was at net liabilities position as at 31 March 2024 and 30 September 2024, we concur with the Directors’ view that the debt financing from financial institutions are of limited accessibility and undesirable effects and such funding method is not in the interests of the Company and the Shareholders as a whole.

(b) Placing of new Shares

The Directors have considered that given the Group's net liabilities position and the number of Conversion Shares of the Existing Convertible Bonds, the placing agent may face difficulties and take time to seek for potential investor(s) and the potential investor(s) may require a substantial placing discount to the trading price of the Shares, and such discount may be more than 20%, to fulfill the capital requirement for the Existing Convertible Bonds. The Directors also consider it is higher cost to arrange a placing of new Shares, as the placing agent would charge commission with reference to certain percentages of the amount of the fund raising, as compared with no additional cost from the Alteration of Terms, and the placing of new Shares will cause an immediate dilution to the shareholding of existing Shareholders. Therefore, rather than conducting placing of new shares to repay the Existing Convertible Bonds, we agree with the Directors' view that entering into the Alteration Consent Letters 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 that the Group's net liabilities position, fund raising from a rights issue or an open offer may not be desirable. Furthermore, a rights issue or open offer will require (i) more documentation is typically required for the rights issue or an open offer; (ii) it generally takes longer time to arrange rights issue or open offer than the Alteration of Terms; and (iii) it is more costly to arrange a rights issue or open offer than the Alteration of Terms 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.

Given the net liabilities position of the Group as discussed in the section headed "(II) Background and financial performance of the Group" above in this letter, we consider that it is difficult for the Company to obtain external financing to settle the Existing Convertible Bonds which may be relatively costly and time-consuming, particularly with the imminent maturity of the Existing Third Convertible Bonds within two months from the Latest Practicable Date. Furthermore, the Alteration of Terms will provide more time for the Group to seek for financial resources and to conduct suitable fund raising when the Group's financial performance and market condition improves in the future. Therefore, we concur with the Directors' view that the Alteration of Terms is more preferable than the above financing alternatives.

**(IV) Major terms of the Alteration Consent Letters**

On 6 November 2024 (after trading hours), the Company and the Existing Bondholders have entered into the Alteration Consent Letters and conditionally agreed to amend the terms of the Existing Convertible Bonds as follows:

- (i) the Interest Rates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds be reduced from 1% to 0% per annum and the interest rate of the Existing Third Convertible Bonds be reduced from 2% to 0% per annum;

- (ii) the Conversion Price be changed from HK\$0.384 per Conversion Shares to HK\$0.100 per Conversion Shares;
- (iii) the maturity date of the Existing First Convertible Bonds and the Existing Second Convertible Bonds be extended from 31 August 2025 to 31 December 2027 and the maturity date of the Existing Third Convertible Bonds be extended from 17 January 2025 to 31 December 2027; and
- (iv) the Existing Third Convertible Bonds be redeemed at 98% of principal amount at maturity.

Apart from the Alteration of Terms above, all other terms and conditions of the Existing Convertible Bonds shall remain unchanged and in full force and effect.

For details of the salient terms of the Existing Convertible Bonds after Alteration of Terms, please refer to the section headed “PROPOSED ALTERATION TO THE TERMS OF THE EXISTING CONVERTIBLE BONDS” in the Letter from the Board. The financial effect of the Alteration of the Terms will be further discussed under the section headed “(VII) Financial effects as a result of the Alteration of Terms” below in this letter.

The Alteration of Terms are conditional upon the following conditions:

- (a) the Stock Exchange granting its approval for the Alteration of Terms;
- (b) the passing by the Shareholders or the Independent Shareholders (as the case may be) of relevant resolutions at the SGM approving the Share Reorganisation, the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate);
- (c) the Capital Reorganisation having become effective; and
- (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares to be issued upon exercise of the Conversion Rights.

None of the above conditions can be waived. If any of the conditions above are not fulfilled by the Long Stop Date, the parties to the Alteration Consent Letters will not proceed with the Alteration of Terms.

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

The Conversion Shares to be allotted and issued by the Company upon the exercise of the Conversion Rights will be issued under the Specific Mandate to be sought at the SGM.

## (V) Our assessment on the Alteration of Terms and the Conversion Price

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

### (i) Historical Share price performance

We have reviewed the chart illustrates the historical daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 1 November 2023 (being the approximately one year prior to the date of Alteration Consent Letters) up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is adequate as it represents a reasonable period to reflect a general overview of the recent price movement of the Shares. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

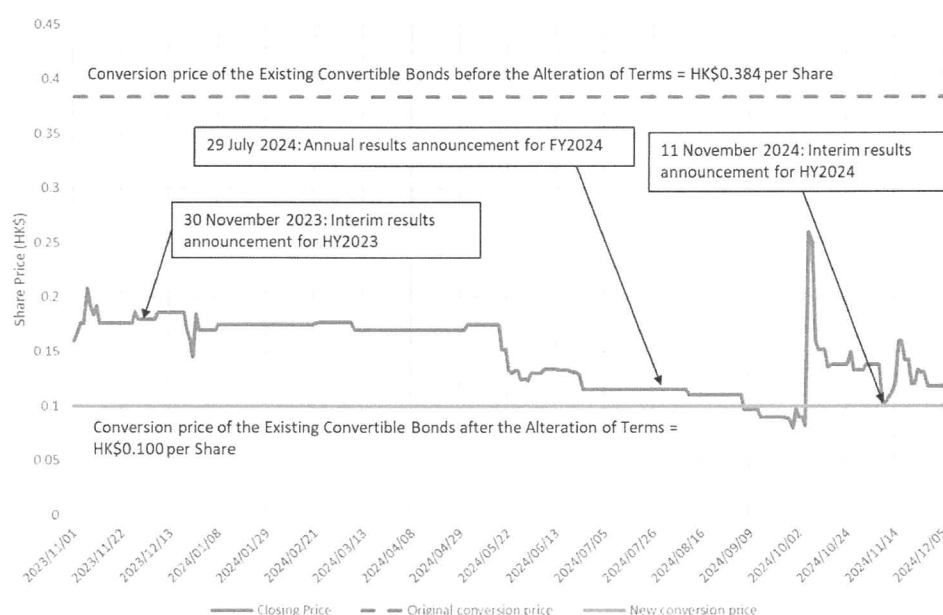


Chart 1: Historical Share price performance of the Company during the Review Period

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

As stated in the Letter from the Board, the Conversion Price was determined after arm's length negotiations between the Company and the Bondholders with reference to (i) the prevailing market price of the Shares; (ii) the prevailing market conditions and weak market sentiment of the capital market in Hong Kong; (iii) the financial position of the Group, in particular, the loss for the year ended 31 March 2024 attributable to owners of the Company of approximately HK\$36.5 million, (iv) the high gearing of the Group as at 30 September 2024 of approximately HK\$223.1 million; and (v) the reasons for and benefits of the Alteration of Terms. The Conversion Price represents:

- (i) a discount of approximately 15.25% to the closing price of HK\$0.118 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 27.54% to the closing price of HK\$0.138 per Share as quoted on the Stock Exchange on 6 November 2024, being the date of the Alteration Consent Letters;
- (iii) a discount of approximately 26.47% to the average closing price of HK\$0.136 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Alteration Consent Letters;
- (iv) a discount of approximately 14.8% over the average daily closing price of HK\$0.117 per Share as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to the date of the Alteration Consent Letters; and
- (v) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 24.6%, represented by the theoretical diluted price (as defined under Rule 7.27B of the Listing Rules) of approximately HK\$0.104 per Share, to the benchmarked price of HK\$0.138 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of HK\$0.138 per Share on the date of the Alteration Consent Letters and (ii) the average closing price of HK\$0.136 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of the Alteration Consent Letters).

As noted in the above chart 1, during the Review Period, the daily closing prices of the Shares ranged from the lowest of HK\$0.080 per Share on 27 September 2024, to the highest of HK\$0.260 per Share on 7 October 2024 with an average closing price of HK\$0.147 per Share. We note that the closing price of the Shares was in a decreasing trend and reached the lowest of HK\$0.080 per Share on 27 September 2024 before the fluctuation of the closing price of the Shares in October 2024. As advised by the Directors, they are not aware of any specific reasons for the aforesaid closing price fluctuation of the Shares during October 2024. Although there was a temporary increase in the closing price of the Shares up to HK\$0.260 per Share on 7 October 2024, the closing price of the Shares was decreasing in general during the Review Period from HK\$0.160 per Share on 1 November 2023 to HK\$0.118 per Share as at the Latest Practicable Date. The Conversion Price of HK\$0.100 per Share is within the range of the closing price of the Share but is below the average closing price of the Shares during the Review Period. As at the Latest Practicable Date, the Conversion Price represents a discount of approximately 15.25% to the closing price of the Shares.

Based on the decreasing trend of the closing price of the Shares during the Review Period and the financial position of the Group, we consider that (i) it would be difficult to determine the outcome and the pricing of alternative equity financing methods, such as placing, rights issue or open offer; and (ii) a similar or higher discount to the closing price, as compared with that of the Conversion Price, may be required to attract potential investors or existing Shareholders to subscribe for the Shares. Therefore, comparing with other equity financing methods, which would cause high uncertainty to the Group's ability to meet the repayment obligations associated with the Existing Convertible Bonds, the Alteration of Terms is preferred.

*(ii) The market comparables in respect of recent issuance of convertible bonds/notes*

To assess the fairness and reasonableness of the key terms of the Alteration Consent Letters, 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 issuers announced to issue or appoint a placing agent to place the convertible bonds/notes with principal amount from HK\$20 million to HK\$400 million to raise funds during the last three-month immediately preceding the date of the Alteration Consent Letters, excluding those for the acquisition transactions, corporate restructuring and takeover of the listed company; (iii) the duration of the convertible bonds/notes is not perpetual; and (iv) 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 Alteration of Terms 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 four transactions, which one of the transactions is excluded as outlier. Accordingly, we have extended our research to the period of 18-month immediately preceding the date of the Alteration Consent Letters (the “**Comparable Period**”). Based on these criteria and the public information available on the Stock Exchange's website, to the best of our endeavours, we have identified an exhaustive list of a total of 33 convertible securities (the “**Comparable Transactions**”). We consider that the Comparable Period is fair and representative (i) to reflect the market conditions and sentiments in the Hong Kong stock market; (ii) to provide a general reference of the recent convertible securities transactions being conducted under similar market conditions; and (iii) to generate a sufficient and meaningful number of samples of 33 representative Comparable Transactions for the purpose of our analysis. Set out below is the Comparable Transactions analysis:

Date of announcement	Stock code	Name of company	Percentage of conversion			Connected transaction (Yes/No)	Net assets position as at date of the announcement (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
			Principal amount (HK\$ million)	shares issued to total shares						respective date of relevant agreement	respective date of relevant agreement
4 November 2024	1640	Ruicheng (China) Media Group Limited	300.00	20.60%	No	Yes	1.0	5.00%	1.56%	0.70%	
29 September 2024	3738	Vobile Group Limited	78.00	1.76%	No	Yes	3.0	Nil	5.98%	16.49%	
26 September 2024	1586	China Leon Inspection Holding Limited	30.00	3.30%	No	Yes	5.0	5.00%	0.00%	0.00%	
14 August 2024	164	China Baoli Technologies Holdings Limited	139.00	11.90%	No	No	5.0	4.00%	2,025.43% (Note 1)	1,807.44% (Note 1)	
22 May 2024	1115	Tibet Water Resources Ltd.	90.00	6.55%	No	Yes	0.3	10.00%	9.09%	2.39%	
14 May 2024	3738	Vobile Group Limited	160.00	3.77%	No	Yes	2.0	3.00%	15.00%	14.00%	
30 April 2024	1168	Sinolink Worldwide Holdings Limited	200.00	36.91%	Yes	Yes	3.0	Nil	0.00%	10.10%	
26 April 2024	76	Elate Holdings Limited	21.00	19.29%	No	Yes	6.0	Nil	50.00%	57.89%	
7 March 2024	419	Hony Media Group (formerly known as “Huayi Tencent Entertainment Company Limited”)	120.00	8.71%	No	Yes	2.0	10.00%	0.40%	0.00%	

Date of announcement	Stock code	Name of company	Principal amount (HK\$ million)	Percentage of conversion		Connected transaction (Yes/No)	Net assets position as at date of the announcement (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
				shares issued	to total shares					relevant date of agreement	the relevant agreement
6 March 2024	115	Grand Field Group Holdings Limited	101.91	320.00%	Yes	Yes	3.0	6.00%	5.70%	3.30%	
22 February 2024	821	Value Convergence Holdings Limited	84.00	28.30%	No	Yes	3.0	Nil	1.69%	2.21%	
26 January 2024	1039	Changyou Alliance Group Limited	126.00	16.57%	Yes	No	3.0	8.00%	342.00% (Note 1)	308.00% (Note 1)	
23 January 2024	7	Wisdom Wealth Resources Investment Holding Group Limited	39.00	12.34%	No	Yes	1.0	5.88%	117.40%	59.20%	
16 November 2023	254	National United Resources Holdings Limited	80.50	18.98%	No	Yes	2.0	6.00%	33.72%	26.93%	
8 November 2023	1380	China Kingstone Mining Holdings Limited	200.00	68.92%	No	Yes	1.0	2.00%	(12.80)%	(10.74)%	
5 November 2023	6616	Global New Material International Holdings Limited	390.00	6.58%	No	Yes	2.0	9.00%	99.48%	100.32%	

Date of announcement	Stock code	Name of company	Principal amount (HK\$ million)	Percentage of conversion		Connected transaction (Yes/No)	Net assets position as at date of the announcement (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
				shares issued	shares to total					relevant date of agreement	the relevant agreement
16 October 2023	959	Century Entertainment International Holdings Limited	32.00	97.47%	Yes	No	3.0	Nil	13.27%	8.47%	
12 September 2023	1736	China Parenting Network Holdings Limited	28.29	129.47%	No	Yes	0.5	8.00%	0.00%	2.15%	
29 August 2023	381	Kiu Hung International Holdings Limited	45.00	155.03%	No	Yes	5.0	4.00%	32.74%	31.58%	
16 August 2023	511	Television Broadcasts Limited	156.00	8.00%	No	Yes	5.0	3.50%	13.23%	1.00%	

Date of announcement	Stock code	Name of company	Principal amount (HK\$ million)	Percentage of conversion		Connected transaction (Yes/No)	Net assets position as at date of the announcement (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
				shares issued	to total shares					on the respective date of relevant agreement	on the respective date of relevant agreement
28 July 2023	138	CCT Fortis Holdings Limited	57.90	18.70%	No	Yes	1.0	4.50%	0.00%	4.89%	
27 July 2023	399	Innovative Pharmaceutical Biotech Limited	55.50	17.96%	Yes	Yes	10.0	Nil	0.00%	4.66%	
25 July 2023	126	Carrianna Group Holdings Company Limited	75.43	8.00%	No	Yes	1.0	6.00%	51.90%	53.45%	
11 July 2023	1119	iDreamSky Technology Holdings Limited	386.00	7.50%	No	Yes	5.0	5.00%	7.70%	2.20%	
3 July 2023	1991	Ta Yang Group Holdings Limited	40.00	11.91%	No	Yes	3.0	10.00%	2.80%	0.00%	
23 June 2023	8003	Great World Company Holdings Limited	31.95	9.67%	No	Yes	3.0	Nil	203.00% (Note 1)	175.50% (Note 1)	
9 June 2023	1539	Unity Group Holdings International Limited	117	14.86%	No	Yes	2.0	8.00%	(19.50)%	(17.90)%	
6 June 2023	63	China Asia Valley Group Limited	353.36	125.30%	No	Yes	5.0	3.60%	(33.30)%	(31.50)%	

Date of announcement	Stock code	Name of company	Principal amount (HK\$ million)	Percentage of conversion		Connected transaction (Yes/No)	Net assets position as at date of the announcement (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
				shares issued to total	conversion					relevant date of agreement	relevant date of agreement
31 May 2023	989	Hua Yin International Holdings Limited	150	4.68%	No	Yes	3.0	6.00%	1.14%	0.00%	
29 May 2023	1188	Hybrid Kinetic Group Limited	100	4.91%	No	No	2.0	5.00%	244.80% (Note 1)	233.30% (Note 1)	
22 May 2023	2399	China Anchu Energy Storage Group Limited	26.21	1.79%	No	Yes	2.0	8.00%	26.92%	27.41%	
16 May 2023	279	Arta TechFin Corporation Limited	40	1.55%	No	Yes	2.0	8.00%	24.80%	25.00%	
11 May 2023	95	LVGEM (China) Real Estate Investment Company Limited	156	1.54%	No	Yes	2.0	6.00%	23.46%	21.21%	
							Maximum:	10.00	10.00%	117.40%	100.32%
							Minimum:	0.3	Nil	(33.30)%	(31.50)%
							Average:	2.9	4.83%	16.29%	14.32%

Date of announcement	Stock code	Name of company	Principal amount (HK\$ million)	Percentage of conversion shares to total issued shares	Connected transaction (Yes/No)	Net assets position as at date of the announcement (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
									relevant date of agreement	relevant date of agreement
6 November 2024	1013	The Company	218.18	816.96%	Yes	No	To be extended to 31 December 2027 (approximately 2 years from the Latest Practicable Date)	To be reduced to nil	(27.54)%	(26.47)%

*Note:*

- As the premium of the conversion price of China Baoli Technologies Holdings Limited, Changyou Alliance Group Limited, Hybrid Kinetic Group Limited and Great World Company Holdings Limited are extremely higher than the other Comparable Transactions, we have excluded China Baoli Technologies Holdings Limited, Changyou Alliance Group Limited, Hybrid Kinetic Group Limited and Great World Company Holdings Limited from our analysis of the conversion price as outliers.

As shown in the table above, the premium/discount of the conversion price of the Comparable Transactions (after excluding the outliers) over/to the closing price on the respective date of relevant agreement ranged from a discount of approximately 33.30% to a premium of 117.40%, with an average of premium of approximately 16.29%. The premium/discount of the conversion price of the Comparable Transactions (after excluding the outliers) over/to the average closing price for the last five consecutive trading days immediately preceding the respective date of relevant agreement ranged from a discount of approximately 31.50% to a premium of 100.32%, with an average of premium of approximately 14.32%. The discount of the Conversion Price is within the range of the Comparable Transactions.

We note that the duration of the Comparable Transactions ranged from 0.3 year to 10 years with an average duration of 2.9 years, which the proposed extension of the Existing Convertible Bonds under the Alteration Consent Letters is within the range and less than the average.

We also note that the interest rates of the Comparable Transactions ranged from nil to 10.00% per annum, with an average of approximately 4.83% per annum, which the proposed nil Interest Rate of the Existing Convertible Bonds under the Alteration Consent Letters is within the range and less than the average. Four out of 33 companies involved in the Comparable Transactions were in net liabilities position on the respective date of relevant agreement, except one of the Comparable Transactions with nil interest rate, three of the Comparable Transactions had the interest rate ranged from 4.00% to 8.00% per annum. Considering that the Company is in net liabilities position and proposed Interest Rates will be reduced to nil under the Alteration Consent Letters and are less than the average of the Comparable Transactions, the Interest Rates after the Alteration of Terms are more favourable than the Comparable Transactions, particularly for those Comparable Transactions with net liabilities position.

From our review of the closing price of the Shares during the Review Period and the analysis of Comparable Transactions as discussed above, the Conversion Price represents a discount of 32.0% to the average closing price of the Shares during the Review Period and the discount of the Conversion Price is below the average of the Comparable Transactions. The discount of the Conversion Price might be less favourable solely based on the above result, however, after carefully considering that (i) the Group was at net liabilities position as at 31 March 2024 and 30 September 2024; (ii) the Group would not have sufficient cash and financial resources to repay the Existing Convertible Bonds upon their maturity dates, in particular the Existing Third Convertible Bonds will mature within two months from the Latest Practicable Date, and may encounter default of repayment of the Existing Convertible Bonds if the Existing Convertible Bonds are not extended; (iii) the Group has difficulty to obtain external financing to settle the Existing Convertible Bonds 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 Existing Convertible Bonds would be extended to 31 December 2027 which could provide extra time for the Group to raise funds and strengthen its financial position; (v) the Interest Rates would be reduced to nil after the Alteration of Terms, which are more favourable than the Comparable Transactions, including those offered by the companies in net liabilities position; (vi) the Conversion Price is within the range of the Comparable Transactions; and (vii) the conversion of the Existing Convertible Bonds is subject to the public float requirement, which will be further discussed in the section headed “(VI) Shareholding structure and the possible dilution effect of the Existing Convertible Bonds” below in this letter, we consider that the potential advantages of the Alteration of Terms outweigh the costs associated with offering the abovementioned discount of the Conversion Price. Accordingly, we are of the view that the Alteration of Terms as a whole is acceptable and reasonable.

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. In particular, as discussed above, the Group would not have sufficient cash and financial resources to settle the Existing Convertible Bonds. In the event the Alteration of Terms does not take place, the ability of the Company to repay the Existing Convertible Bonds and to continue as a going concern will remain uncertain upon their maturities. 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 the Alteration of Terms. It would not be appropriate to conclude the Alteration of Terms 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 Alteration of Terms.

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

The below table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the full conversion of all Existing Convertible Bonds at the Conversion Price (assuming there being no other issue or repurchase of Shares):

Name of Shareholder	(i) As at the Latest Practicable Date		(ii) Immediately after full exercise of all the Existing Convertible Bonds	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Existing Bondholder B ( <i>Note 1</i> )	194,292,325	72.66	621,292,325	25.37
Existing Bondholder A ( <i>Note 2</i> )	4,810,125	1.80	1,759,610,125	71.84
	199,102,450	74.46	2,380,902,450	97.21
Other Public Shareholders ( <i>Note 4</i> )	68,287,081	25.54	68,287,081	2.79
Total	267,389,531	100.00	2,449,189,531	100.00

*Notes:*

- (1) The Existing Bondholder B, Ka Chun, a company owned as to 100% by Wai Chun Investment Fund, which is wholly-owned by the Existing Bondholder A, Mr. Lam Ching Kui, and holds 194,292,325 Shares.
- (2) The Existing Bondholder A is the ultimate controlling shareholder of the Company and directly holds 4,810,125 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, the bondholders shall not exercise the Conversion Rights 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.

As stated in the Letter from the Board, assuming all the outstanding Existing Convertible Bonds are fully converted at the Conversion Price, a maximum of 2,181,800,000 Conversion Shares will be allotted and issued upon exercise of the Conversion Rights in full, which represents:

- (i) approximately 816.96% of the issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 89.08% of the issued share capital of the Company as to be enlarged by the issue of the 2,181,800,000 Conversion Shares (assuming there being no other issue or repurchase of Shares).

For indicative purposes only, before the Alteration of Terms, a maximum of 568,177,082 Conversion Shares can be converted under the original conversion price of the Existing Convertible Bonds. Assuming there is no change in the number of issued Shares from the Latest Practicable Date up to the date when the conversion rights attaching to Existing Convertible Bonds are exercised in full with the original conversion price, the existing shareholding of the Independent Shareholders will be diluted from approximately 25.54% before full conversion of the Existing Convertible Bonds to approximately 8.17% immediately after full conversion of the Existing Convertible Bonds. After the Alteration of Terms, a maximum of 2,181,800,000 Conversion Shares can be converted under the Conversion Price. Assuming there is no change in the number of issued Shares from the Latest Practicable Date up to the date when the conversion rights attaching to Existing Convertible Bonds are exercised in full with the Conversion Price, the existing shareholding of the Independent Shareholders will be diluted from approximately 25.54% before full conversion of the Existing Convertible Bonds to approximately 2.79% immediately after full conversion of the Existing Convertible Bonds. Based on the above illustration, the increase in dilution effect to the existing shareholding of the Independent Shareholders from Alteration of Terms would be approximately 5.38%.

According to the terms of the Existing Convertible Bonds and after Alteration of Terms, a bondholder shall have the right to convert the Existing Convertible Bonds into Shares provided that the public float of the Shares shall not be less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares at any one time in compliance with Listing Rules. According to the terms of the Existing Convertible Bonds, any conversion shall also be subject to no mandatory general offer being triggered under Rule 26 of the Takeovers Code on the bondholder; and not resulting in Mr. Lam Ching Kui and any parties acting in concert with him ceasing to be the controlling shareholder of the Company within the meaning of the Listing Rules.

We have discussed with the Company and the Company has confirmed that the Existing Bondholders may not be able to convert the Existing Convertible Bonds in full in view of the restriction on conversion if the Company encounters insufficient public float. For indicative purposes only, due to the public float requirement under the Listing Rules, either the Existing Bondholder A or the Existing Bondholder B may convert up to approximately 5,758,793 Conversion Shares (equivalent to the principal amount of the Existing Convertible Bonds of approximately HK\$0.58 million) as at the Latest Practicable Date. Therefore, the dilution to the shareholding of the Independent Shareholders is limited assuming the Existing Convertible Bonds are converted as at the Latest Practicable Date. However, it also limits the availability of conversion of the Existing Convertible Bonds to reduce the repayment amount upon their maturity dates.

In view of (i) the reasons for and benefits of entering into the Alteration Consent Letters as set out in the section headed “(III) Reasons for and benefits of the Alteration of Terms” above; and (ii) the restriction of the minimum public float requirement under the terms of the Existing Convertible Bonds, we consider that the level of dilution (subject to 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 Alteration of Terms**

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

### **(i) *Net assets value and gearing***

It is expected that the Alteration of Terms will not have an immediate material impact on the net asset value and gearing of the Group. After extension of the Existing Convertible Bonds, the entire amount of the convertible bonds in the current liabilities will be reclassified as non-current liabilities. The net current liabilities will be reduced from approximately HK\$221.05 million as at 30 September 2024 to approximately HK\$21.50 million.

### **(ii) *Earnings***

As the Interest Rates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds be reduced from 1% to 0% per annum and the interest rate of the Existing Third Convertible Bonds be reduced from 2% to 0% per annum under the Alteration Consent Letters, the earnings of the Group will be improved by the interest saving of approximately HK\$2.61 million per year (without taking into the account of any tax adjustment resulted from the interest saving).

Based on the above, we consider that interest saving and extension of the Existing Convertible Bonds as illustrated above under the Alteration of Terms is in the interests of the Company and the Shareholders as a whole.

## **RECOMMENDATION**

We note that the Conversion Price is below the average closing price of the Shares during the Review Period and below the average 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 going concern issue as stated in the Annual Report 2024;
- (ii) the Group does not have sufficient cash to repay the Existing Convertible Bonds;
- (iii) the interest rate of all Existing Convertible Bonds will be reduced to nil, providing interest savings for the Group;
- (iv) extension of the Existing Convertible Bonds will improve the net current liabilities position of the Group and provide extra time for the Group to raise funds to repay the Existing Convertible Bonds and strengthen its financial position;

- (v) limited financing alternatives available to the Group in view of time and costs as all of the Existing Convertible Bonds will mature within approximately eight months from the Latest Practicable Date;
- (vi) the Conversion Price is within the range of the Comparable Transactions; and
- (vii) the dilution to the Independent Shareholders will be restricted by the minimum public float requirement.

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

Accordingly, we would recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM for approving the terms of the Alteration Consent Letters and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**INCUCorporate Finance Limited**



**Gina Leung**                      **Psyche So**  
Managing Director      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.*