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6 June 2025

To the Independent Board Committee and the Independent Shareholders
Zhonghua Gas Holding Limited
23/F Chinachem Century Tower
178 Gloucester Road
Wan Chai
Hong Kong

Dear Sir/Madam,

CONNECTED TRANSACTION
LOAN CAPITALISATION INVOLVING
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder. Details of which are set out in the "Letter from the Board of Directors" contained in the circular dated 6 June 2025 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

On 16 April 2025 (after the Stock Exchange trading hours), the Company (as issuer) and Mr. Hu (as Subscriber) entered into the Loan Capitalisation Agreement, pursuant to which the parties conditionally agreed that the Subscriber shall subscribe for, and the Company shall allot and issue, a total of 230,000,000 Capitalisation Shares at the Capitalisation Price of HK$0.119 per Capitalisation Share. The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by capitalising and setting off against the Partial Loan upon Completion.

GEM LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Subscriber is the chairman of the Board and an executive Director who beneficially owns 3,664,000 Shares and holds 547,184,000 Shares via his controlled corporations Smart Lane Global Limited and Front Riches Investments Limited, representing in aggregate approximately 13.66% of the issued share capital of the Company. Therefore, the Subscriber is a substantial Shareholder (as defined under the GEM Listing Rules) and a connected person of the Company. Accordingly, the Loan Capitalisation Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Capitalisation Shares to be allotted and issued to the Subscriber will be allotted and issued under the Specific Mandate to be obtained at the EGM. The Subscriber and his associates shall abstain from voting in respect of the resolution approving the Loan Capitalisation Agreement and the transactions contemplated thereunder at the EGM.

(i) The Subscriber, being the chairman of the Board and an executive Director; and (ii) Ms. Lin, being the spouse of the Subscriber and an executive Director, have abstained from voting on the Board resolution approving the Loan Capitalisation Agreement and the transactions contemplated thereunder. Save as disclosed above, no other Director has a material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder and is required to abstain from voting on the Board resolution in relation to the aforesaid matters.

Further, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than the Subscriber and Ms. Lin (being the spouse of the Subscriber) and their respective associates who will abstain from voting at the EGM in respect of the resolution approving the aforesaid matters, no other Shareholder has any material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee consisting of Ms. Ma Lee, Mr. Lau Kwok Kee and Mr. Wang Weijie, being all the independent non-executive Directors, has been established to advise the Independent Shareholders on (i) whether the terms of the Loan Capitalisation Agreement (including the Capitalisation Price) are on normal commercial terms and are fair and reasonable; (ii) whether the Loan Capitalisation Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of 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 be proposed at the EGM, taking into account the recommendation of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Loan Capitalisation Agreement (including the Capitalisation Price) are on normal commercial terms and are fair and reasonable; (ii) whether the Loan Capitalisation Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of 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 be proposed at the EGM.

We have not acted as the independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 17.96 of the GEM Listing Rules, and given that remuneration for our engagement to opine on the Loan Capitalisation Agreement and the transactions contemplated thereunder are at market level and not conditional upon successful passing of the resolution to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of the Company or close associate or core connected person of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, among other things, (i) the Loan Capitalisation Agreement; (ii) the second interim report of the Company for the 12 months ended 31 December 2024 (the "**2024 Second Interim Report**"); (iii) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"); and (iv) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the "**Management**"). We have assumed that all the 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 will continue to be so up to the date of EGM. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regards to the Group. 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 facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

1.1 Principal businesses of the Group

The principal activities of the Group are provision of diverse integrated energy services including technological development, construction related and consultancy services in relation to heat supply and coal-to-natural gas conversion, supply of LNG, coupled with sales of LNG and leasing of investment properties.

1.2 Financial information of the Group

Set out below is a table summarising certain key financial information of the Group for the years ended 31 December 2022 and 2023 and the 12 months ended 31 December 2024 as extracted from the 2023 Annual Report and 2024 Second Interim Report respectively.

Extract of consolidated statement of profit or loss and other comprehensive income

	For the 12 months ended 31 December	For the year ended 31 December	
	2024	**2023**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(audited)	(audited)
Revenue	89,193	186,652	200,529
Gross profit/(loss)	3,536	(6,793)	(7,949)
(Loss) for the period/year attributable to owners of the Company	(49,099)	(6,656)	(5,254)

Extract of consolidated statement of financial position

	As at 31 December		
	2024	**2023**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(audited)	(audited)
Current assets	**393,856**	**338,606**	**295,733**
— Trade receivables and contract assets	43,301	104,901	103,583
— Prepayments, deposits and other receivables	281,456	37,622	153,398
— Cash and cash equivalents	69,099	196,083	38,752
Non-current assets	**12,172**	**11,064**	**50,996**
Total assets	**406,028**	**349,670**	**346,729**
Current liabilities	**231,817**	**209,984**	**202,686**
— Trade and other payables and accruals	115,869	113,905	114,403
— Contract liabilities	63,259	—	—
— Shareholder's loan	49,536	—	—
— Bank borrowing	—	8,000	—
— Other loan	—	86,082	—
— Convertible bonds	—	—	85,096
— Lease liabilities	1,782	646	1,815
Non-current liabilities	**1,647**	**444**	**1,090**
Total liabilities	**233,464**	**210,428**	**203,776**
Equity attributable to owners of the Company	**136,711**	**104,763**	**109,789**
Financial ratio			
Gearing ratio *(Note)*	30.7%	68.4%	61.6%

Note: Gearing ratio is calculated based on shareholder's loan, other loan, convertible bonds, lease liabilities and bank borrowing (where applicable) divided by total equity as at the relevant year/period end.

*Twelve months ended 31 December 2024 ("**12M 2024**") vs year ended 31 December 2023 ("**FY2023**")*

According to the 2024 Second Interim Report, revenue of the Group amounted to approximately RMB89.2 million for the 12M 2024, representing a decrease of approximately 52.2% from approximately RMB186.7 million for FY2023. The decrease in revenue was mainly due to the suspension of operation at one of the Group's major LNG stations in Tianjin since October 2023 as a result of the customer's heat supply station being on the route of the nationwide natural gas network conversion project.

The Group recorded gross profit amounted to approximately RMB3.5 million, reflecting a gross profit margin of approximately 4.0% for 12M 2024, as compared to a gross loss margin of approximately 3.6% in FY2023. Such improvement in gross margin was mainly due to no depreciation was recorded as the property, plant and equipment was impaired during 12M 2024. For FY2023, the intense price competition and price fluctuation of LNG resulted in a thin margin which could not cover the fixed direct cost, leading to the recorded gross loss margin.

Loss attributable to owners of the Company increased from approximately RMB6.7 million in FY2023 to approximately RMB49.1 million in 12M 2024. The significant increase in net loss for 12M 2024 was mainly attributable to (i) a decrease in reversal of allowance on trade receivables and contract assets from approximately RMB66.7 million in FY2023 to approximately RMB10.7 million in 12M 2024; (ii) an increase in administrative expenses from approximately RMB30.0 million in FY2023 to approximately RMB52.4 million in 12M 2024, which was mainly due to the equity-settled share-based expenses of approximately RMB26.9 million recorded in 12M 2024 (FY2023: approximately RMB1.6 million) related to the share option granted in December 2023; and (iii) an increase in finance costs from approximately RMB1.8 million in FY2023 to approximately RMB8.5 million in 12M 2024, which was mainly due to the interest incurred from the other loan and late payment with suppliers.

As at 31 December 2024 vs as at 31 December 2023

The Group's total assets increased by approximately 16.1% from approximately RMB349.7 million as at 31 December 2023 to approximately RMB406.0 million as at 31 December 2024, mainly due to an increase in prepayments, deposits and other receivables; while partially offset by the decrease in trade receivables and contract assets and cash and cash equivalents.

Prepayments, deposits and other receivables increased by approximately 648.1% from approximately RMB37.6 million as at 31 December 2023 to approximately RMB281.5 million as at 31 December 2024. Such increase was mainly due to the increase in prepayments to suppliers.

Trade receivables and contract assets decreased by approximately 58.7% from approximately RMB104.9 million as at 31 December 2023 to approximately RMB43.3 million as at 31 December 2024. Such decrease was mainly resulted from the collection of trade receivables and contract assets.

Cash and cash equivalents decreased by approximately 64.8% from approximately RMB196.1 million as at 31 December 2023 to approximately RMB69.1 million as at 31 December 2024. The significant decrease in cash and cash equivalents was primarily due to net cash outflow from operating activities of approximately RMB129.7 million for 12M 2024, compared to net cash inflow from operating activities of approximately RMB163.2 million for FY2023.

Total liabilities of the Group increased by approximately 10.9% from approximately RMB210.4 million as at 31 December 2023 to approximately RMB233.5 million as at 31 December 2024. Such increase was mainly due to the recognition of contract liabilities and a shareholder's loan of approximately RMB63.3 million and RMB49.5 million as at 31 December 2024 respectively (compared to nil and nil as at 31 December 2023), as well as an increase in trade and other payables and accruals; while offset by the settlement of bank borrowing and other loan during 12M 2024.

Trade and other payables and accruals increased by approximately 1.7% from approximately RMB113.9 million as at 31 December 2023 to approximately RMB115.9 million as at 31 December 2024, mainly due to the increase in accrued interest expense for late payment with suppliers.

As at 31 December 2024, the Group recorded a shareholder's loan of approximately RMB49.5 million with no bank borrowing and other loan as compared to RMB8.0 million bank borrowing and approximately RMB86.1 million other loan recorded as at 31 December 2023. The shareholder's loan is unsecured and non-interest-bearing. According to the 2024 Second Interim Report, (i) the bank borrowing, which carried an interest rate at 5% per annum and denominated in RMB, has been fully repaid on 25 May 2024; and (ii) the other loan, which carried an interest rate at 8% per annum, and the accrued interest, were fully paid on 19 December 2024.

We also note that on 19 December 2024, an aggregate of 366,688,000 Shares were issued and allotted pursuant to the exercise of share options with exercise price of HK$0.16.

As a result of the above, the Group's equity attributable to owners of the Company increased by approximately 30.5% from approximately RMB104.8 million as at 31 December 2023 to approximately RMB136.7 million as at 31 December 2024. The Group's gearing ratio decreased from approximately 68.4% as at 31 December 2023 to approximately 30.7% as at 31 December 2024.

We also note from the 2024 Second Interim Report that the Group recorded interest regarding late payment arising from claims from suppliers of the Group in the PRC in relation to construction works completed in 2018 and 2019. During the period from 1 April 2023 to 18 October 2023, eight out of ten cases were concluded, with the Group being liable to repay the claimed amounts along with related interest. The remaining two cases are still ongoing.

*FY2023 vs year end 31 December 2022 ("**FY2022**")*

According to the 2023 Annual Report, the Group's total revenue amounted to approximately RMB186.7 million for FY2023, representing a decrease of approximately 6.9% from approximately RMB200.5 million for FY2022. The decline in revenue was mainly due to the suspension of operation at one of the Group's major LNG stations in Tianjin since October 2023 as mentioned above.

Gross loss margin decreased from approximately 4.0% for FY2022 to approximately 3.6% for FY2023, as intense price competition and LNG price fluctuation led to a thin margin which could not cover the fixed direct cost for both years.

Loss attributable to owners of the Company increased from approximately RMB5.3 million in FY2022 to approximately RMB6.7 million in FY2023. The increase in net loss for FY2023 was mainly attributable to (i) an increase in the fair value losses of convertible bonds from approximately RMB5.6 million in FY2022 to approximately RMB9.5 million in FY2023; (ii) an impairment loss on property, plant and equipment of approximately RMB25.9 million was recognised in FY2023 as compared to nil in FY2022, which was due to suspension of one of the Group's major LNG stations in Tianjin since October 2023 as mentioned above; and (iii) an increase in finance costs from approximately RMB0.2 million in FY2022 to approximately RMB1.8 million in FY2023, which was mainly due to increase in interest expenses on bank borrowing, other loan and late payments with suppliers.

As at 31 December 2023 vs as at 31 December 2022

The Group's total assets remained relatively stable at approximately RMB346.7 million and RMB349.7 million as at 31 December 2022 and 2023 respectively.

As at 31 December 2023, cash and cash equivalents maintained by the Group amounted to approximately RMB196.1 million, representing an increase of approximately 406.0% from approximately RMB38.8 million as at 31 December 2022, mainly due to funds from collection of trade receivables in FY2023.

Trade and other receivables decreased by approximately 44.5% from approximately RMB257.0 million as at 31 December 2022 to approximately RMB142.5 million as at 31 December 2023, mainly due to the combined effects of collection of trade receivables as mentioned above and reversal of allowance of impairment on trade receivables.

Total liabilities of the Group remained relatively stable at approximately RMB203.8 million and RMB210.4 million as at 31 December 2022 and 2023 respectively.

As at 31 December 2022, the Group had convertible bonds of approximately RMB85.1 million. We note from the 2023 Annual Report that as the Group did not pay the principal amount of the convertible bonds on the maturity date (subsequent to the subscriber opted for redemption at 100% of the principal amount on the maturity date), the Management has reclassified the amount due to "Other loan". For details, please refer to note 31 to the consolidated financial statements as set out in the 2023 Annual Report. As a result, the Group had other loan of approximately RMB86.1 million as at 31 December 2023. In addition, the Group also had bank borrowing of RMB8.0 million as at 31 December 2023, as compared to nil as at 31 December 2022.

As a result of the above, the Group's equity attributable to owners of the Company remained relatively stable at approximately RMB109.8 million and RMB104.8 million as at 31 December 2022 and 2023 respectively. The Group's gearing ratio increased slightly from approximately 61.6% as at 31 December 2022 to approximately 68.4% as at 31 December 2023.

1.3 Outlook of the Group

As noted in the 2024 Second Interim Report, given the persistent intense competition in the LNG supply industry and the saturation of coal-to-natural gas conversion initiatives in Tianjin, the Management expected that the number of new opportunities in the industry to continue to decrease in future.

According to the Management, the Group's current focus is on recovery, development and expansion of its energy business, as well as expansion of its emerging network and geographical footprint. While focusing on the LNG business, the Group will develop the pipeline gas market in northern China. It will leverage its solid relationships with upstream and downstream natural gas suppliers to provide safer, greener and more efficient natural gas resources to terminal customers. Additionally, the Group will seek opportunities to enter other overseas markets to expand its market presence. The Group will pursue further growth through the formation of new joint ventures and mergers and acquisitions. This will include the provision of stable LNG supply and LNG supply station management services.

In terms of financial position, we note from the 2023 Annual Report that the Company's external auditor had expressed a "disclaimer of opinion" concerning the Group's liquidity position, in particular, whether the Group would be able to implement its plans and measures to settle the outstanding debts. As subsequently disclosed in the Company's announcement dated 19 December 2024 (the "**December 2024 Announcement**"), the Company had repaid all the principal amount and applicable interest to the convertible bond holder in accordance with the terms of the settlement agreement on 19 December 2024, and the Management expected that the disclaimer opinion would be removed in the next audited financial statements. For further details, please refer to the December 2024 Announcement.

2. Information of the Subscriber

As at the Latest Practicable Date, the Subscriber is the chairman of the Board, an executive Director and substantial Shareholder (as defined under the GEM Listing Rules) of the Company, beneficially owns 3,664,000 Shares and holds 547,184,000 Shares via his controlled corporations Smart Lane Global Limited and Front Riches Investments Limited, representing in aggregate approximately 13.66% of the issued share capital of the Company.

3. Reasons for and benefits of the Loan Capitalisation

As discussed in the paragraph headed "1.2 Financial information of the Group" above, the Group recorded, among other things, (i) net cash outflow from operating activities of approximately RMB129.7 million for 12M 2024; and (ii) net loss for three consecutive years. In view of the deteriorating financial performance and position, the Group obtained the shareholder's loan in 12M 2024 to finance its operation and to repay its outstanding external debt.

In assessing the reasons for and benefits of the Loan Capitalisation, we have considered the Group's historical financial performance and position, and the following table summarises the amount of the Group's cash and cash equivalents as at 31 December 2022, 2023 and 2024 respectively, as extracted from the 2024 Second Interim Report and 2023 Annual Report.

	As at 31 December		
	2024	**2023**	**2022**
	(Unaudited)	(Audited)	(Audited)
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	69,099	196,083	38,752

The above table shows that the Group's cash and cash equivalents balance as at 31 December 2024 remained within the historical range observed during the past three years. However, if the cash and cash equivalents were to be used to settle the outstanding shareholder's loan, the cash and cash equivalents position would be significantly reduced to approximately RMB19.6 million, falling below the aforementioned historical range, and could potentially impede the Group's ability to sustain its business operations.

We have further considered that (i) the Group incurred continuous losses over the past three years, with net losses attributable to owners of the Company amounted to approximately RMB5.3 million in FY2022 and RMB6.7 million in FY2023, which widened significantly to approximately RMB49.1 million in 12M2024; (ii) as a result of the aforementioned deteriorating financial performance, the Group experienced a substantial operating cash outflow of approximately RMB129.7 million in 12M2024, compared to an operating cash inflow in FY2023; and (iii) despite the Group's cash and cash equivalents balance as at 31 December 2024 falling within the historical range as observed above, it was close to the low end.

Having taken into account the above factors and as discussed with the Management, we understand that the Group needs to utilise its existing cash and cash equivalents to finance and sustain its operations. As such, the Group is unable to repay the amount due to the Subscriber without significantly compromising its liquidity position required for its normal business operations. The Loan Capitalisation enables the Group to settle its existing liabilities due to the Subscriber without utilising the existing financial resources and can avoid cash outflows.

We note from the paragraph headed "4. Reasons for and benefits of the Loan Capitalisation" in the "Letter from the Board of Directors" of the Circular that the Directors have considered other alternative means for raising funds to settle the Partial Loan, such as bank borrowings, share placement or rights issue:

(i) debt financing and bank borrowings will inevitably increase the Group's debt burden and gearing ratio and lenders generally require pledge of assets from the borrower

In this regard, we understand from the Management that (a) obtaining bank borrowings generally involves extensive due diligence, risk assessments and prolonged negotiation with banks, and would result in incurring higher finance costs of the Group; and (b) the likelihood of success in obtaining additional bank borrowing with favourable terms is relatively low given the Group's historical loss-making performance, its overdue repayment record of the convertible bonds, late payment with suppliers, as well as the disclaimer opinion expressed by the Company's external auditor in the 2023 Annual Report. Having considered the above, in particular the Group's historical financial performance and position, we concur with the Management's view that debt financing could be uncertain, time-consuming, and the terms may not be favourable or acceptable to the Group; and

(ii) other equity financing such as placing of new shares and rights issue usually require attractive discount to the prevailing market price of the Shares and is relatively more time consuming and less cost effective as compared to the Loan Capitalisation

In this regard, we understand from the Management that (a) the Group's recent financial performance and limited liquidity of the Shares (as further discussed in the paragraph headed "5.2 Trading liquidity of the Shares" below) make it challenging to raise funds through equity financing, necessitating a discount to the prevailing market price of the Shares to attract potential investors; and (b) equity financing typically associated with extended negotiations with potential commercial underwriters and substantial professional fees. We also note that the Company had not conducted any equity fundraising activities in the past twelve months immediately preceding the date of the Circular. Having considered the above, we concur with the Management's view that equity financing could be time-consuming and may require a discount to the prevailing market price of the Shares to attract potential investors.

Additionally, we have considered that the Loan Capitalisation will reduce the Group's indebtedness and gearing without requiring any cash outflow and can enlarge its capital base; meanwhile can also demonstrate the support and confidence extended by the Subscriber, being the chairman of the Board and an existing Director, to the Group. These in turn, are beneficial to the Group.

Although the allotment and issue of the Capitalisation Shares will have a dilution effect to the existing Independent Shareholders, having considered the above, we concur with the Management's view that such dilution effect arising from the allotment and issue of the Capitalisation Shares is justifiable, as further discussed in the paragraph headed "6. Effect of the Loan Capitalisation on shareholding structure of the Company" below.

In view of the above, on balance, we are of the view that although the Loan Capitalisation Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Loan Capitalisation Agreement

On 16 April 2025 (after the Stock Exchange trading hours), the Company (as issuer) and Mr. Hu (as Subscriber) entered into the Loan Capitalisation Agreement, pursuant to which the parties conditionally agreed that the Subscriber shall subscribe for, and the Company shall allot and issue, a total of 230,000,000 Capitalisation Shares at the Capitalisation Price of HK$0.119 per Capitalisation Share.

The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by capitalising and setting off against the Partial Loan upon Completion.

4.1 Capitalisation Price

The Capitalisation Price of HK$0.119 per Capitalisation Share represents the higher of:

(i) the closing price of HK$0.119 per Share as quoted on the Stock Exchange on 16 April 2025, being the date of the Loan Capitalisation Agreement;

(ii) the average closing price per Share of HK$0.119, HK$0.119, HK$0.116, and HK$0.111, as quoted on the Stock Exchange for the last five, ten, twenty and thirty consecutive trading days respectively, immediately preceding the date of the Loan Capitalisation Agreement; and

(iii) the unaudited consolidated net asset value per Share of HK$0.046 as at 31 December 2024.

The Capitalisation Price represents a discount of 0.833% to the closing price of HK$0.12 as at the Latest Practicable Date.

As mentioned in the "Letter from the Board of Directors" of the Circular, the Capitalisation Price was arrived at on an arm's length basis between the Company and the Subscriber after taking into account the recent trading performance of the Shares, the recent market conditions, the current financial position and the business prospects of the Group.

4.2 Capitalisation Shares

According to the "Letter from the Board of Directors" of the Circular, the Capitalisation Shares represent (i) approximately 5.70% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 5.39% of the total number of issued Shares as enlarged by the allotment and issue of the Capitalisation Shares, assuming that there will be no changes in the total number of issued Shares between the Latest Practicable Date and the allotment and issue of the Capitalisation Shares.

The Capitalisation Shares when allotted and issued, shall rank *pari passu* in all respects among themselves free from all liens, charges, guarantee, adverse interests and adverse claims, and with the Shares in issue on the date of allotment and issue of the Capitalisation Shares including all dividends declared or payable or distribution made or proposed on or after the date of completion of the Loan Capitalisation.

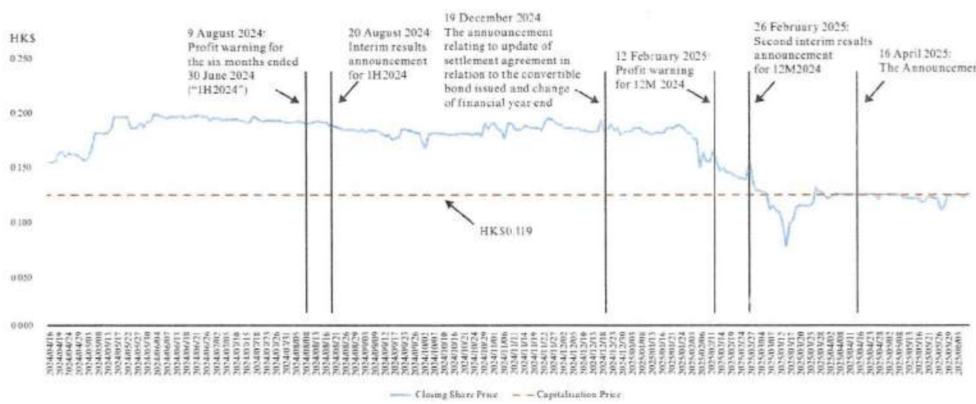
For further details of the Capitalisation Shares, please refer to the paragraph headed "2. The Loan Capitalisation Agreement" in the "Letter from the Board of Directors" of the Circular.

5. Evaluation of the Capitalisation Price

5.1 Historical Share price performance

In order to assess the fairness and reasonableness of the Capitalisation Price, we have performed a review on the daily closing prices of the Shares from 16 April 2024 (which is 12 months prior to the date of the Loan Capitalisation Agreement) to the date of the Loan Capitalisation Agreement (**"Pre-Announcement Period"**), and subsequently up to and including the Latest Practicable Date (**"Post-Announcement Period"**) (collectively, the "**Review Period**"). We consider the Review Period which covers approximately one year is adequate and representative to illustrate the recent price movements of the Shares which reflect (i) market and investors' reaction towards the latest developments of the Group, including its financial performance and position, outlook and prospects; and (ii) prevailing market sentiment. We are of the view that this allows us to conduct a meaningful comparison between these closing prices of the Shares and the Capitalisation Price.

Set out below is a chart illustrating the historical closing prices of the Shares quoted on the Stock Exchange during the Review Period:



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

During the Review Period, the daily closing prices of the Shares ranged from HK$0.072 per Share (the "**Lowest Closing Price**") recorded on 13 March 2025 to HK$0.192 per Share (the "**Highest Closing Price**") recorded on 3, 4 and 24 June 2024 respectively. The average daily closing price of the Shares during the Review Period was approximately HK$0.162 per Share (the "**Average Closing Price**").

As illustrated in the graph above, since commencement of the Review Period, the Share closing price increased from HK$0.149 per Share on 16 April 2024 to HK$0.190 per Share on 16 May 2024. Thereafter and up to 4 February 2025, the closing prices of the Shares hovered between HK$0.162 per Share and HK$0.192 per Share. During the aforementioned period, the Company published (i) profit warning for the six months ended 30 June 2024 ("**1H2024**") on 9 August 2024; (ii) interim results announcement for 1H2024 on 20 August 2024; and (iii) the December 2024 Announcement on 19 December 2024 in relation to the settlement of the convertible bonds as discussed in the paragraph headed "1.3 Outlook of the Group" above. The Share closing price then declined drastically and reached its lowest of HK$0.072 per Share on 13 March 2025, following the Company's publication of profit warning for 12M 2024 on 12 February 2025 and the second interim results announcement for 12M 2024 on 26 February 2025. The Share closing price then rebounded, reaching the Capitalisation Price level of HK$0.119 per Share on 7 April 2025, which was maintained until the date of the Loan Capitalisation Agreement.

During the Post-Announcement Period, the Share closing price remained stable and traded between HK$0.105 per Share and HK$0.120 per Share. As at the Latest Practicable Date, the Share price closed at HK$0.120 per Share.

We note that the Capitalisation Price of HK$0.119 per Capitalisation Share represents the Share closing price of HK$0.119 per Share as at the date of the Loan Capitalisation Agreement. Despite it represents (i) a discount of approximately 38.0% to the Highest Closing Price of HK$0.192 per Share; and (ii) a discount of approximately 26.5% to the Average Closing Price of approximately HK$0.162 per Share, we have also taken into account that the Capitalisation Price (i) falls within the range of closing prices of the Shares during the Review Period; (ii) represents a premium of approximately 65.3% to the Lowest Closing Price of approximately HK$0.072 per Share; and (iii) approximates the Share closing price as at the Latest Practicable Date of HK$0.120 per Share.

Having considered the above, we are of the view that the Capitalisation Price is fair and reasonable from the point of view of the historical trading price of the Shares.

5.2 Trading liquidity of the Shares

The following table sets out (i) the average daily trading volume of the Shares; and (ii) the percentage of the average daily trading volume of the Shares to total number of issued Shares as at the end of the month/period during the Review Period:

Month/Period	Number of trading days	Total trading volume of the Shares for the month/ period *(number of shares)*	Average daily trading volume of the Shares *(number of shares)*	Approximate % of the average daily trading volume over total number of issued Shares as at the end of the relevant month/period
Pre-Announcement Period				
2024				
April (from 16 April 2024)	11	2,784,000	253,091	0.0069%
May	21	3,048,000	145,143	0.0040%
June	19	4,512,000	237,474	0.0065%
July	22	5,984,000	272,000	0.0074%
August	22	4,992,000	226,909	0.0062%
September	19	5,744,000	302,316	0.0082%
October	21	5,976,000	284,571	0.0078%
November	21	3,200,000	152,381	0.0042%
December	20	5,824,000	291,200	0.0072%

Month/Period	Number of trading days	Total trading volume of the Shares for the month/period *(number of shares)*	Average daily trading volume of the Shares *(number of shares)*	Approximate % of the average daily trading volume over total number of issued Shares as at the end of the relevant month/period
2025				
January	19	8,128,000	427,789	0.0106%
February	20	21,904,000	1,095,200	0.0272%
March	21	31,792,000	1,513,905	0.0375%
April (up to the date of the Loan Capitalisation Agreement)	11	1,800,000	163,636	0.0041%
Post-Announcement Period				
2025				
April (after the date of the Loan Capitalisation Agreement)	8	1,296,000	162,000	0.0040%
May	20	5,440,000	272,000	0.0067%
June (up to the Latest Practicable Date)	4	568,000	142,000	0.0035%
Review Period				
Maximum			1,513,905	0.0375%
Minimum			142,000	0.0035%
Average			404,989	0.0100%

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

As illustrated in the table above, the average daily trading volume of the Shares ranged from 142,000 Shares to 1,513,905 Shares during the Review Period, representing approximately 0.0035% to approximately 0.0375% of the total number of Shares in issue as at the end of the relevant month/period. We note that the percentage of average daily trading volume to the total number of issued Shares ranged from approximately 0.0040% to approximately 0.0375% during the Pre-Announcement Period, and it ranged from approximately 0.0035% to approximately 0.0067% during the Post-Announcement Period.

Overall, the trading volume of the Shares was relatively thin during the Review Period. This may hinder independent placing agent(s) or underwriter(s) to participate when the Company attempts to conduct an equity fund raising exercise and even if there is such equity fund raising exercise, it is inevitable that considerable discount to the market price of Shares will be required to encourage participation of potential investors. Therefore, the relatively low trading volume suggests that it would be difficult for the Company to pursue sizeable equity financing alternative in stock market without providing considerable discount.

5.3 Market comparable analysis

To further assess the fairness and reasonableness of the Capitalisation Price, we have identified, to the best of our knowledge, effort and endeavor, an exhaustive list of four comparable transactions (the "**Comparables**") based on the following criteria:

(i) companies listed on the Stock Exchange; and

(ii) companies that had published announcements in relation to connected transactions involving loan capitalisation through issuance of new shares (excluding transactions involving (a) issue of new shares for capital restructuring purpose; and (b) whitewash waiver applications or general offer obligations under the Hong Kong Code on Takeovers and Mergers) under specific mandate since the beginning of 2025 and up to the Latest Practicable Date.

We also note that the relevant terms of the Comparables may vary due to differences in financial positions, business performance and prospects of the respective companies. Nevertheless, we consider that the Comparables reflect recent trend of similar transactions to the Loan Capitalisation in the prevailing market condition and serve as a general reference.

Our relevant findings are summarised in the following table:

Date of initial announcement	Company name and stock code	Premium/(Discount) of the capitalisation price over/to the closing price per share on/prior to the date of agreement	Premium/(Discount) of the capitalisation price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement	Premium/(Discount) of the capitalisation price over/to the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement	Premium/(Discount) of the capitalisation price over/to the average closing price per share for the last twenty consecutive trading days prior to/up to and including the date of agreement	Premium/(Discount) of the capitalisation price over/to the average closing price per share for the last thirty consecutive trading days prior to/up to and including the date of agreement	Premium/(Discount) of the capitalisation price over/to the net asset value attributable to owners of the company per share *(Note)*
29 April 2025	GoFintech Quantum Innovation Limited (290)	4.9%	2.6%	1.7%	(0.9%)	(1.4%)	848.1%
17 April 2025	China HK Power Smart Energy Group Limited (931)	0.0%	(0.5%)	(4.4%)	(16.7%)	(24.7%)	344.2%
7 April 2025	Regent Pacific Group Limited (575)	0.0%	15.8%	12.5%	10.7%	11.5%	Net liability
17 January 2025	CHK Oil Limited (632)	5.1%	(5.0%)	(15.7%)	(16.3%)	(5.9%)	47.2%
	Maximum	**5.1%**	**15.8%**	**12.5%**	**10.7%**	**11.5%**	**848.1%**
	Minimum	**0.0%**	**(0.5%)**	**(15.7%)**	**(16.7%)**	**(24.7%)**	**47.2%**
	Average	**2.5%**	**3.2%**	**(1.4%)**	**(5.8%)**	**(5.1%)**	**413.2%**
	Median	**2.5%**	**1.0%**	**(1.3%)**	**(8.6%)**	**(3.6%)**	**344.2%**
16 April 2025	The Company	0.0%	0.0%	0.0%	2.6%	7.2%	158.7%

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

Note: The calculation of net asset value per share is based on (i) the total net asset value attributable to the owners of the company according to the latest annual report, annual result announcement or interim report prior the date of announcement, and (ii) the number of shares outstanding as at the date of announcement. The net asset value attributable to owners of the company per share are converted from RMB to HK$, where applicable, at the exchange rate of RMB1 = HK$1.0753, being the exchange rate published by the People's Bank of China on 16 April 2025.

As illustrated in the table above, we note that the capitalisation price of the Comparables ranged from (i) nil discount/premium to a premium of approximately 5.1% over the respective closing prices of the shares on/prior to the date of the relevant agreement (the "**Range**"), with a median premium of approximately 2.5% and an average premium of approximately 2.5%; (ii) a discount of approximately 0.5% to a premium of approximately 15.8% to/over the respective average closing prices of the shares on the last five consecutive trading days prior to/up to and including the date of the relevant agreement (the "**Five Days Range**"), with a median premium of approximately 1.0% and an average premium of approximately 3.2%; (iii) a discount of approximately 15.7% to a premium of approximately 12.5% to/over the respective average closing prices of the shares on the last ten consecutive trading days prior to/up to and including the date of the relevant agreement (the "**Ten Days Range**"), with a median discount of approximately 1.3% and an average discount of approximately 1.4%; (iv) a discount of approximately 16.7% to a premium of approximately 10.7% to/over the respective average closing prices of the shares on the last twenty consecutive trading days prior to/up to and including the date of the relevant agreement (the "**Twenty Days Range**"), with a median discount of approximately 8.6% and an average discount of approximately 5.8%; (v) a discount of approximately 24.7% to a premium of approximately 11.5% to/over the respective average closing prices of the shares on the last thirty consecutive trading days prior to/up to and including the date of the relevant agreement (the "**Thirty Days Range**"), with a median discount of approximately 3.6% and an average discount of approximately 5.1%; and (vi) a premium of approximately 47.2% to a premium of approximately 848.1% over their respective net asset value attributable to owners of the company per share (the "**NAV Range**"), with a median premium of approximately 344.2% and an average premium of approximately 413.2%.

We observed that the Capitalisation Price represents (i) the Share closing price on the date of the Loan Capitalisation Agreement; (ii) the average Share closing price for the last five consecutive trading day immediately prior to the date of the Loan Capitalisation Agreement; (iii) the average Share closing price for the last ten consecutive trading day immediately prior to the date of the Loan Capitalisation Agreement; (iv) a premium of approximately 2.6% over the average Share closing price for the last twenty consecutive trading day immediately prior to the date of the Loan Capitalisation Agreement; (v) a premium of approximately 7.2% over the average Share closing price for the last thirty consecutive trading day immediately prior to the date of the Loan Capitalisation Agreement; and (vi) a premium of approximately 158.7% over the net asset value attributable to owners of the Company per Share, which fall within the Range, Five Days Range, Ten Days Range, Twenty Days Range, Thirty Days Range and NAV Range respectively.

5.4 Section summary

Having considered the above, in particular, (i) the Capitalisation Price falls within the range of Share closing price during the Review Period; (ii) the respective premium/discount of the Capitalisation Price over/to the Share closing price on the date of the Loan Capitalisation Agreement, five/ten/twenty/thirty days average prior to the date of the Loan Capitalisation Agreement, and the net asset value attributable to owners of the Company per Share, falls within the Range, Five Days Range, Ten Days Range, Twenty Days Range, Thirty Days Range and NAV Range respectively pursuant to the market comparable analysis; and (iii) the relatively thin liquidity of the Shares during the Review Period suggests that it would be difficult for the Company to pursue sizeable equity financing without providing considerable discount, we are of the view that the Capitalisation Price is fair and reasonable and on normal commercial terms.

6. Effect of the Loan Capitalisation on shareholding structure of the Company

As set out in the paragraph headed "8. Effect of the Loan Capitalisation on shareholding structure" in the "Letter from the Board of Directors" of the Circular, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the allotment and issue of the Capitalisation Shares as contemplated under the Loan Capitalisation.

Name of Shareholder	**As at the Latest Practicable Date**		**Immediately after the allotment and issue of the Capitalisation Shares**	
	No. of Shares	*Approximate % shareholding*	*No. of Shares*	*Approximate % shareholding*
Mr. Hu	550,848,000	13.66%	780,848,000	18.31%
Ms. Lin	497,120,000	12.32%	497,120,000	11.66%
Mr. Chan Wing Yuen, Hubert	26,064,000	0.65%	26,064,000	0.61%
Ms. Kwong Wai Man, Karina	26,064,000	0.65%	26,064,000	0.61%
Ms. Ma Lee	2,240,000	0.05%	2,240,000	0.05%
Public Shareholders	2,931,288,000	72.67%	2,931,288,000	68.76%
Total	**4,033,624,000**	**100%**	**4,263,624,000**	**100%**

Assuming there are no other changes to the issued share capital of the Company between the Latest Practicable Date and the Completion Date save for the allotment and issue of the Capitalisation Shares, the interests of public Shareholders in the Company's total number of issued Shares will be diluted from approximately 72.67% to approximately 68.76%.

Taking into account (i) the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole; and (ii) the Capitalisation Price is fair and reasonable and on normal commercial terms, we consider that such potential dilution effect on the shareholding interest of the public Shareholders to be acceptable and justifiable.

7. Potential financial effects of the Loan Capitalisation

7.1 Earnings

As the Partial Loan does not carry any interest, the Loan Capitalisation will not have any impact to the earnings of the Group.

7.2 Gearing and liquidity

Upon Completion, the Partial Loan (representing HK$27,370,000 of the Loan) would be set off and the remaining part of the Loan (representing HK$31,493,786 of the Loan) shall remain to be due and payable by the Company to the Subscriber. As a result, indebtedness and liquidity position of the Group will be improved and gearing ratio will be reduced.

Overall, we note that the financial position of the Group would be improved as a result of the Loan Capitalisation.

RECOMMENDATION

In view of the above principal factors and reasons, we are of the view that (i) although the Loan Capitalisation Agreement and the transactions contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Loan Capitalisation Agreement (including the Capitalisation Price) are on normal commercial terms and are fair and reasonable.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolution to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Responsible Officer

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*