



*To: The Independent Board Committees and
the Independent Shareholders of
CNC Holdings Limited*

Dear Sirs or Madams,

- (I) CONNECTED TRANSACTIONS INVOLVING**
(1) SUBSCRIPTION OF NEW SHARES UNDER SHARE SPECIFIC MANDATE;
(2) FIFTH AMENDMENT OF THE TERMS AND CONDITIONS OF THE EXISTING CONVERTIBLE BONDS;
(3) THE ISSUE OF CONVERTIBLE BONDS A UNDER CB SPECIFIC MANDATE A; AND
(4) THE ISSUE OF CONVERTIBLE BONDS B UNDER CB SPECIFIC MANDATE B;
AND
(II) SPECIAL DEALS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committees and the Independent Shareholders in respect of Relevant Transactions, including (i) the Share Subscription Agreement and the transactions contemplated thereunder (including the Share Specific Mandate to issue the Subscription Shares); (ii) the Fifth Supplemental Deed and the transactions contemplated thereunder (including the Existing CB Specific Mandate to issue the Conversion Shares upon the exercise of the conversion rights attaching to the Existing Convertible Bonds and the New Existing CB Interest Shares); (iii) the CB Subscription Agreement A and the transactions contemplated thereunder (including the CB Specific Mandate A to issue the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds A and the CB Interest Shares A); (iv) the CB Subscription Agreement B and the transactions contemplated thereunder (including the CB Specific Mandate B to issue the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds B and the CB Interest Shares B); and (v) the Special Deals, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular of the Company dated 15 March 2024 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

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References are made to the joint announcements issued by the Offeror and the Company dated 15 January 2024 and 5 February 2024. On 5 September 2023, Mr. Kan, the Vendor and the Company entered into the legally-binding Term Sheet stipulating, among other things, (i) the principal terms and conditions of the Sale and Purchase Agreement and the Share Subscription Agreement; (ii) the proposed amendments to the terms of the Existing Convertible Bonds; and (iii) the terms of the Convertible Bonds A and Convertible Bonds B. On 22 December 2023, Mr. Kan, the Vendor and the Company entered into the Supplemental Term Sheet, pursuant to which the parties thereto agreed to amend and supplement certain terms of the Term Sheet in relation to, among others things, the Sale and Purchase Agreement, the Share Subscription Agreement and the terms of the Convertible Bonds.

On 5 February 2024, the Vendor, as a vendor, and Mr. Kan, as a purchaser, entered into the Sale and Purchase Agreement, pursuant to which Mr. Kan has conditionally agreed to purchase and the Vendor has conditionally agreed to sell a total of 1,188,621,377 Sale Shares, representing approximately 29.3% of the total issued share capital of the Company as at the date of the Sale and Purchase Agreement, at a total consideration of HK\$16,640,699. On the same day, the Company and Mr. Kan entered into the Share Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Kan has conditionally agreed to subscribe for, an aggregate of 1,666,666,667 new Shares at the Subscription Price of HK\$0.012 per Subscription Share for a total consideration of approximately HK\$20,000,000. The Acquisition Completion took place on 29 February 2024. The Acquisition and the Share Subscription are not inter-conditional.

Furthermore, on 5 February 2024, the Company and the Vendor entered into the Fifth Supplemental Deed to amend the terms of the Existing Convertible Bonds. Apart from the Fifth Amendment of Terms, all other terms of the Existing Convertible Bonds will remain unchanged. On the same day, the Company and the Vendor entered into the CB Subscription Agreement A, pursuant to which the Company conditionally agrees to issue and the Vendor conditionally agrees to subscribe for the Convertible Bonds A in the principal amount of HK\$64,127,855 and the Subscriber will pay the subscription price by way of set-off against the Overdue Existing CB Interest. The Company and the Vendor also entered into the CB Subscription Agreement B, pursuant to which the Company conditionally agrees to issue and the Vendor conditionally agrees to subscribe for the Convertible Bonds B in the principal amount of HK\$16,240,000 and the Subscriber will pay the subscription price by way of set-off against the remaining outstanding broadcasting fee owed to the Vendor in the amount of HK\$16,240,000. The Share Subscription, Fifth Amendment of Terms, subscription of Convertible Bonds A and subscription of Convertible Bonds B are inter-conditional.

Mr. Kan is an executive Director, and is therefore a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Share Subscription constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Company intends to apply part of the net proceeds from the Share Subscription of approximately HK\$10.4 million to repay (i) the outstanding amount due to Xinhua News Agency Audio News Desk[#] (新華音像中心), which is a wholly-owned subsidiary of Xinhua News Agency (新華社) and a fellow subsidiary of the Vendor; and (ii) part of the outstanding broadcasting fee owed to the Vendor as a service provider to the Group. The Company also (i) entered into the Fifth Supplemental Deed with the Vendor to amend certain terms of the Existing Convertible Bonds; (ii) entered into the CB Subscription Agreement A to issue the Convertible Bonds A to the Vendor to set off the Overdue Existing CB Interest; and (iii) entered into the CB Subscription Agreement B to issue the Convertible Bonds B to set off the outstanding broadcasting fee owed to the Vendor as a service provider to the Group which will remain unsettled by the proceeds from the Share Subscription. As at the date of the Sale and Purchase Agreement, the Fifth Supplemental Deed, the CB Subscription Agreement A and the CB Subscription Agreement B, and immediately prior to the Acquisition Completion which took place on 29 February 2024, the Vendor was a substantial Shareholder interested in 1,188,621,377 Shares, representing approximately 29.3% of the total issued share capital of the Company. As at the Latest Practicable Date, the Vendor is the holder of the Existing Convertible Bonds.

As (i) the repayment of amount due to the Vendor and its fellow subsidiary; (ii) the entering into of the Fifth Supplemental Deed with the Vendor; and (iii) the issue of Convertible Bonds A and Convertible Bonds B to the Vendor, are not extended to all the other Shareholders, these arrangements shall constitute Special Deals under Rule 25 of the Takeovers Code and will be conditional upon obtaining the consent of the Executive under Note 5 to Rule 25 of the Takeovers Code. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly stating in its opinion that the respective terms of the Special Deals are fair and reasonable; and (ii) the approval of the Special Deals by the Independent Shareholders at the EGM. An application will be made by the Company to the Executive for its consent to the Special Deals pursuant to Note 5 to Rule 25 of the Takeovers Code.

Pursuant to Rule 34.05 of the GEM 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. The Company has applied to the Stock Exchange for its approval of the Fifth Amendment of Terms contemplated under the Fifth Supplemental Deed pursuant to Rule 34.05 of the GEM Listing Rules.

As at the date of the Fifth Supplemental Deed, the CB Subscription Agreement A and the CB Subscription Agreement B and immediately prior to the Acquisition Completion which took place on 29 February 2024, the Vendor was a substantial Shareholder and therefore a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, (i) the entering into of Fifth Supplemental Deed with the Vendor; and (ii) the issue of the Convertible Bonds A and Convertible Bonds B to the Vendor, constitute connected transactions on the part of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Immediately after the Acquisition Completion and as at the Latest Practicable Date, Mr. Kan and parties acting in concert with him are interested in 1,257,621,377 Shares, representing approximately 31.0% of the issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, Mr. Kan is required to make the Share Offer. The Offeror, being a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Kan, has made a mandatory conditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror, Mr. Kan and/or parties acting in concert with any of them). The Composite Document was despatched on 29 February 2024.

Subject to the fulfilment or waiver (as the case may be) of all of the Share Subscription Conditions, upon the Share Subscription Completion, the Offeror and parties acting in concert with it will be interested in 2,924,288,044 Shares, representing approximately 51.1% of the issued share capital as enlarged by the allotment and issue of 1,666,666,667 Subscription Shares. At such time, the Share Offer shall become unconditional as to acceptances.

Shareholders and potential investors of the Company should be aware that the Acquisition and the Share Subscription are not inter-conditional. The Share Offer has been made in accordance with the terms as set out in the Composite Document following the Acquisition Completion which took place on 29 February 2024.

INDEPENDENT BOARD COMMITTEES

In accordance with the GEM Listing Rules, the Company has established the Listing Rules Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Wu Guo Ming, Mr. Wan Chi Keung, Aaron, *BBS, JP*, Mr. Kwok Man To Paul and Mr. Chin Chi Ho Stanley to advise the Independent Shareholders in respect of the terms of the Share Subscription Agreement, the Fifth Supplemental Deed, the CB Subscription Agreement A and the CB Subscription Agreement B and the transactions contemplated thereunder (together as the "Connected Transactions") are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, taking into account our recommendation.

In accordance with Rule 2.1 of the Takeovers Code, the Company has established the Takeovers Code Independent Board Committee comprising all non-executive Directors with no direct or indirect interest in the Special Deals, to make recommendation to the Independent Shareholders in respect of the Special Deals. As a result, the Takeovers Code Independent Board Committee comprising the non-executive Directors, namely Mr. Law Cheuk Hung, Mr. Wu Guo Ming, Mr. Wan Chi Keung, Aaron, *BBS, JP*, Mr. Kwok Man To Paul and Mr. Chin Chi Ho Stanley has been established to advise the Independent Shareholders in respect of the terms of the Special Deals and as to whether the Special Deals are fair and reasonable, and so far as the Independent Shareholders are concerned and as to voting, taking into account our recommendation.

Ms. Tang Li, being a non-executive Director as well as an existing director of the Vendor, is considered to have conflict of interest in advising on the terms of the Relevant Transactions, and therefore has not been appointed as a member of the Independent Board Committees.

OUR INDEPENDENCE

We, INCU Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Listing Rules Independent Board Committee and the Independent Shareholders in respect of the Connected Transactions and as to whether the Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and as to voting after taking into account our recommendation. Our appointment as the Independent Financial Adviser has been approved by the Listing Rules Independent Board Committees in accordance with the GEM Listing Rules.

We have also been appointed as the Independent Financial Adviser to advise the Takeovers Code Independent Board Committee and the Independent Shareholders in respect of the Special Deals and as to whether the Special Deals are fair and reasonable so far as the Independent Shareholders are concerned and as to voting after taking into account our recommendation. Our appointment as the Independent Financial Adviser has been approved by the Takeovers Code Independent Board Committees in accordance with Rule 2.1 of the Takeovers Code.

During the past two years, other than being appointed as the independent financial adviser of the Company in relation to the Share Offer, which the circular has been despatched on 29 February 2024, we did not act as financial adviser or independent financial adviser and has not provided any other services to the Company, Mr. Kan, the Offeror, the Vendor and any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. We are independent from, and are not associated with the Company, Mr. Kan, the Offeror, the Vendor and any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. Accordingly, we are considered eligible to give independent advice in respect of the Relevant Transactions to the Independent Board Committees and the Independent Shareholders in accordance with the GEM Listing Rules and Rule 2.1 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the statements, information, opinions and representations relating to the operations, financial condition and prospects of the Group contained or referred to in this Circular and/or provided to us by the Directors, Mr. Kan and the Offeror (where applicable). We have reviewed the information of the Company, including but not limited to, the announcements of the Company, the annual report for the year ended 31 March 2023 (the “**Annual Report 2022/23**”) and the interim report for the six months ended 30 September 2023 (the “**Interim Report 2023/24**”), the information contained in the Circular and certain published information from the public domain. We have assumed that all statements, information and representations provided by the Directors, Mr. Kan and the Offeror (where applicable) are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such statements, information, representations and/or our opinion contained in this letter as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors, Mr. Kan and the Offeror (where applicable) in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Directors, Mr. Kan and the Offeror (where applicable), which have been provided to us.

Your attention is drawn to the responsibility statements as set out in the paragraph headed “1. Responsibility statement” in Appendix II to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Shareholders as a result of the Relevant Transactions.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context. Shareholders will be notified of any material changes to such statements, information, opinions and/or representation as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there arises any material changes of information previously provided to us by the Company or of our opinion in which event this letter shall be amended and updated.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committees and the Independent Shareholders in respect of the Relevant Transactions, we have taken into account the following principal factors and reasons:

1. Background and financial information of the Group

General information of the Group

The Company is a company incorporated in the Cayman Islands with limited liability on 15 March 2010, the Shares of which have been listed on GEM of the Stock Exchange since 30 August 2010. The principal activity of the Company is investment holding. The Group is principally engaged in the provision of civil engineering services for the public sector in Hong Kong (the “**Civil Engineering Services**”). Also, the Group conducted media and advertising business (the “**Advertising Business**”) comprising television broadcasting business in the Asia-Pacific region (excluding the People’s Republic of China (the “**PRC**”) and digital marketing business on overseas market (i.e. regions outside the PRC) in return for advertising and related revenue.

Trading in the Shares on the Stock Exchange has been suspended since 15 August 2022 at the request of the Company due to the delay in publication of despatch of annual report for the year ended 31 March 2022. References are made to the announcements of the Company dated 11 November 2022, 12 January 2023 and 5 September 2023. The Stock Exchange has imposed on the Company the following resumption guidance (the “Resumption Guidance”):

- (a) publish all outstanding financial results required under the GEM Listing Rules and address any audit modifications;
- (b) demonstrate its compliance with Rules 17.26 of the GEM Listing Rules;
- (c) re-complying with the Rules 5.05, 5.05A, 5.28 and 5.36A of the GEM Listing Rules;
- (d) informing the market of all material information for the Shareholders and investors of the Company to appraise the Company’s position;
- (e) having the winding-up petition (or order, if made) against the Company withdrawn or dismissed and the appointment of any liquidators (provisional or not) discharged.

As at the Latest Practicable Date, the Company has fulfilled all the Resumption Guidance. The trading of the Shares has been resumed on 1 March 2024.

Financial information of the Group

Set out below is a summary of the financial performance of the Group for the financial years ended 31 March 2022 (“FY2022”) and 31 March 2023 (“FY2023”) respectively as extracted from the Annual Report 2022/23 and for the six months ended 30 September 2022 (“HY2022/23”) and 30 September 2023 (“HY2023/24”) respectively as extracted from the Interim Report 2023/24:

| | FY2022 (HK\$'000) <i>audited</i> | FY2023 (HK\$'000) <i>audited</i> | HY2022/23 (HK\$'000) <i>unaudited</i> | HY2023/24 (HK\$'000) <i>unaudited</i> |
|---|--|--|---|---|
| Revenue | | | | |
| <i>Civil Engineering Services</i> | 408,175 | 496,457 | 222,540 | 225,723 |
| <i>Advertising Business</i> | - | - | - | - |
| Total revenue | 408,175 | 496,457 | 222,540 | 225,723 |
| Operating profit/(loss) | (21,486) | 277 | 5,273 | 3,558 |
| Loss for the year/period attributable to owners of the Company | (41,729) | (9,440) | (1,082) | (2,722) |

FY2022 vs FY2023

As shown in the above table, the Group's revenue for FY2023 was approximately HK\$496.46 million, representing an increase of approximately HK\$88.28 million or 21.6%, compared to the revenue of approximately HK\$408.18 million for FY2022. The increase in revenue was due to the increase in works for civil engineering services leading to the increase in revenue of Civil Engineering Services for FY2023. According to the Annual Report 2022/23, following the expiry of the exclusive television broadcasting right granted by the Vendor to the Group on 31 August 2021, the Group has yet to successfully identify suitable broadcasting rights and licenses to resume the television broadcasting business since then. During FY2023, the Group has also attempted to tap into the digital marketing business in overseas market through different online media platforms, such as YouTube. However, due to the outbreak of the COVID-19 pandemic and ever-changing users' habit, the Group has not been able to identify suitable business opportunities and strategic partners. The management of the Group will continue to develop and improve its business strategies for the Advertising Business. As a result, there was no revenue from Advertising Business for FY2022 and FY2023.

The Group recorded operating loss of approximately HK\$21.49 million for FY2022 and operating profit of approximately HK\$0.28 million for FY2023. As discussed with the management of the Company, the turnaround from operating loss to operating profit was mainly due to (i) the increase in revenue as discussed above; (ii) the turnaround from gross loss for FY2022 to gross profit for FY2023 as a result of implementation of operation plans to control construction costs; (iii) the increase in other gain on modification of promissory note resulted from extension of the maturity date and reduction in interest rate leading to the change in discounted present value of the remaining cash flows of the such financial liability in accordance with the accounting policy of the Company; and (iv) the decrease in administrative and operating expenses. Due to the finance costs of approximately HK\$20.57 million and HK\$13.18 million for FY2022 and FY2023 respectively, which mainly consisted of interest expenses for the promissory note and convertible notes, the Group recorded net loss attributable to owners of the Company for FY2022 and FY2023. However, the loss attributable to the owners of the Company decreased from approximately HK\$41.73 million for FY2022 to approximately HK\$9.44 million for FY2023. Such decrease was mainly due to the turnaround of operating loss to operating profit as mentioned above and the reduction of the finance costs.

HY2022/23 vs HY2023/24

As shown in the above table, the Group's revenue for HY2023/24 was approximately HK\$225.72 million, representing an increase of approximately HK\$3.18 million or 1.4%, compared to the revenue of approximately HK\$222.54 million for HY2022/23. Due to the expiry of the exclusive television broadcasting right as mentioned above, all of the Group's revenue were derived from Civil Engineering Services. According to the Interim Report 2023/24, the increase in revenue was mainly due to increase in work from newly awarded civil engineering projects for HY2023/24.

The operating profit of the Group decreased from approximately HK\$5.27 million for HY2022/23 to approximately HK\$3.56 million for HY2023/24. As discussed with the management of the Company, the decrease in operating profit of the Group was mainly due to (i) the reduction of the COVID-19 related government subsidies provided by Hong Kong Government leading to the decrease in other income; and (ii) the absence of one-off recognition of gain on modification of promissory note for HY2022/23 resulted from extension of the maturity date and reduction in interest rate leading to the change in discounted present value of the remaining cash flows of the such financial liability in accordance with the accounting policy of the Company. Despite the operating profit of the Group, due to the finance costs of approximately HK\$7.13 million and HK\$6.04 million for HY2022/23 and HY2023/24 respectively, which mainly consisted of interest expenses for the promissory note and convertible notes, the Group recorded net loss attributable to owners of the Company for HY2022/23 and HY2023/24. The loss attributable to owners of the Company increased from approximately HK\$1.08 million for HY2022/23 to approximately HK\$2.72 million for HY2023/24. Such increase was mainly due to decrease in operating profit as mentioned above, partially offset by the slight decrease in finance costs.

Set out below is a summary of the financial position of the Group as at 31 March 2023 and 30 September 2023 respectively as extracted from the Interim Report 2023/24:

| | As at 31 March 2023 (HK\$'000) <i>audited</i> | As at 30 September 2023 (HK\$'000) <i>unaudited</i> |
|-------------------------------|--|---|
| Non-current assets | | |
| Property, plant and equipment | 16,635 | 16,424 |
| Right-of-use assets | <u>11,465</u> | <u>8,729</u> |
| | 28,100 | 25,153 |
| Current assets | | |
| Trade and other receivables | 124,647 | 115,644 |
| Contract assets | 41,177 | 39,111 |
| Cash and cash equivalents | <u>51,619</u> | <u>52,131</u> |
| | 217,443 | 206,886 |
| Total assets | 245,543 | 232,039 |
| Current liabilities | | |
| Trade and other payable | 229,928 | 217,247 |
| Contract liabilities | 88,790 | 97,685 |
| Lease liabilities | 5,558 | 5,238 |
| Promissory note | – | 42,276 |
| Convertible notes | 257,030 | 257,030 |
| Employee benefits | 6,514 | 6,514 |
| Tax payable | <u>133</u> | <u>247</u> |
| | 587,953 | 626,237 |

| | As at 31 March 2023 (HK\$'000) <i>audited</i> | As at 30 September 2023 (HK\$'000) <i>unaudited</i> |
|--------------------------------|--|---|
| Non-current liabilities | | |
| Interest payables | 6,777 | – |
| Lease liabilities | 2,907 | 948 |
| Promissory note | 40,429 | – |
| Deferred tax liabilities | <u>2,283</u> | <u>2,253</u> |
| | 52,396 | 3,201 |
| Total liabilities | 640,349 | 629,438 |
| Net current liabilities | (370,510) | (419,351) |
| Net liabilities | (394,806) | (397,399) |
| Gearing ratio | 160.8% | 173.8% |

As shown in the above table, the non-current assets and current assets remained stable. The non-current assets of the Group were approximately HK\$28.10 million and HK\$25.15 million as at 31 March 2023 and 30 September 2023 respectively. The current assets of the Group were approximately HK\$217.44 million and HK\$206.89 million as at 31 March 2023 and 30 September 2023 respectively.

The current liabilities of the Group were approximately HK\$587.95 million and HK\$626.24 million as at 31 March 2023 and 30 September 2023 respectively. The increase in current liabilities was mainly due to the reclassification of the promissory note from non-current liabilities to current liabilities as the promissory note will be due on 30 June 2024. The non-current liabilities of the Group were approximately HK\$52.40 million and HK\$3.20 million as at 31 March 2023 and 30 September 2023 respectively. The decrease in non-current liabilities of the Group was mainly due to the reclassification of the promissory note as mentioned above.

The gearing ratio of the Group is calculated on the basis of total amount of promissory note, convertible notes, lease liabilities and contract liabilities divided by total assets. The gearing ratio was approximately 160.8% and 173.8% as at 31 March 2023 and 30 September 2023 respectively. The increase in gearing ratio was mainly due to the decrease in total assets.

Going concern uncertainty

We note that the auditor of the Company had a issued disclaimer opinion for FY2022 and FY2023 due to material uncertainty relating to the ability of the Group to continue as a going concern in the annual report of the Company for FY2022 and the Annual Report 2022/23. As stated in the Annual Report 2022/23, the Group has incurred a net loss of approximately HK\$9.46 million for FY2023 and the Group had net current liabilities and net liabilities of approximately HK\$370.51 million and approximately HK\$394.81 million respectively as at 31 March 2023. The auditor of the Company considered that the Group's financial conditions indicated the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. However, the Group is taking the measures to address the going concern issue, including (i) the Company has entered into Share Subscription Agreement with Mr. Kan for the allotment and issuance of a total of 1,666,666,667 Subscription Shares at the Subscription Price of HK\$0.012 per Subscription Share for a total consideration of approximately HK\$20,000,000; (ii) the Company has entered into the Fifth Supplemental Deed for the amendments of certain terms of the Existing Convertible Bonds in relation to, among others, the amendment of interest rate from 3% to 0.8% per annum and the extension of the maturity date of the Existing Convertible Bonds to 9 December 2025; (iii) the Company has entered into the CB Subscription Agreement A to issue Convertible Bonds A in the principal amount of HK\$64,127,855 to set off the Overdue Existing CB Interest; (iv) the Company has entered into CB Subscription Agreement B to issue Convertible Bonds B in the principal amount of HK\$16,240,000 to set off part of the outstanding broadcasting fee owed to the Vendor; (v) the Company is negotiating with its promissory note holder to extend the repayment dates of principal and the interest amounts accrued on the promissory note; and (vi) Mr. Kan has confirmed to provide financial support to the Group in a reasonable manner under relevant laws and regulatory requirements and also granted a loan facility of up to HK\$60,000,000 to the Group to maintain the going concern of the Company. Having considered the corporate actions taken by the Group, including the above measures (i) to (iv) that are related to the Relevant Transactions, we are of the view that the financial position of the Group will be improved.

As the Share Subscription Agreement, Fifth Supplemental Deed, the CB Subscription Agreement A and the CB Subscription Agreement B are inter-conditional and the Share Subscription Completion is conditional upon the fulfilment or waiver (as the case may be) of the Share Subscription Conditions, which have not been satisfied in full as at the Latest Practicable Date, in the event that the Share Subscription Completion does not take place, the corporate actions and measures (i) to (iv) as discussed above will not take place. The ability of the Group to continue as a going concern will remain uncertain.

2. Prospect and outlook of the Group

As discussed above, all revenue of the Group was generated from Civil Engineering Services in Hong Kong for FY2022, FY2023 and HY2023/24 and no revenue was generated from the Advertising Business due to the expiry of the exclusive television broadcasting right. As stated in the Interim Report 2023/24, during HY2023/24, the Group has been undertaking eight contracts. Among the eight contracts, one of these are related to provision of waterworks engineering services and the remaining contracts are related to provision of drainage services and site formation.

In order to get better grasp of civil engineering industry and advertising industry in Hong Kong, we have conducted the following researches for our analysis.

According to the Civil Engineering and Development Department of the Government of HKSAR, the Civil Engineering Works Tender Price Index, which is compiled from tender pricing data of major types of civil engineering works undertaken by various government works departments in Hong Kong and the value in the first quarter of 2010 is taken to be the base index value of 100, shows an increasing trend since 2018 to 157 in the first quarter of 2023, and slightly decreases to 156 in the second quarter of 2023.

However, according to the statistics of gross value of construction works performed by main contractors at construction sites issued by Census and Statistics Department of the Government of HKSAR on 11 December 2023 (<https://www.censtatd.gov.hk/en/wbr.html?ecode=B10900022023QQ03&scode=330>), it shows that the gross value of civil engineering construction has been decreased from approximately HK\$14.22 billion in the first quarter of 2023 to approximately HK\$10.94 billion in the second quarter of 2023. Based on the provisional figure, the gross value of civil engineering construction would reach HK\$11.86 billion in the third quarter of 2023. Although the gross value of civil engineering construction in the third quarter of 2023 increased as compared with that in the second quarter of 2023, it represented a decrease of approximately 6.2% as compared with the gross value of civil engineering construction in the third quarter of 2022.

According to list of public works contractors maintained by the Development Bureau of the Government of HKSAR, as at the Latest Practicable Date, there are 329 contractors that are approved for carrying out public building and civil engineering works. Tsun Yip Civil and Tsun Yip Waterworks, the indirect non-wholly owned subsidiaries of the Company, are on the list of public works contractors as at the Latest Practicable Date.

Looking forward, civil engineering market in Hong Kong will be driven mainly by the ongoing and planned major infrastructure projects proposed by the Government of HKSAR, such as the development in Kai Tak and northern part of the New Territories and the extension of the Tung Chung New Town. According to the Government Budget 2023-24, approximately HK\$88.7 billion is expected to spend on infrastructure in Hong Kong. Although the expenditure on infrastructure of Government of HKSAR is expected to recover after the COVID-19 pandemic, the pandemic has imposed negative impacts on the construction industry, including supply chain disruptions, workforce shortages due to the work stoppages during the outbreak of the COVID-19 pandemic. The recovery of the industry and the economy will take time and thus the Group may encounter severe competition from other civil engineering works contractors.

Furthermore, in respect of the advertising industry in Hong Kong, according to the research by Euromonitor International Limited (being one of the world's leading independent providers of strategic market research for both consumer and industrial markets with an extensive network of in-country analysts in over 100 countries) as stated in the prospectus of New Media Lab Limited (stock code: 1284) dated 30 June 2023, the outbreak of the COVID-19 pandemic in Hong Kong negatively impacted both Hong Kong's economy and the advertising industry. The demand for advertising spending dropped as companies in Hong Kong reduced unnecessary spending to cope with the adverse impact caused by the worsening economic and business environment. Although there was ongoing recovery from the pandemic, the advertising industry is still far from its pre-pandemic size and recorded a negative compound annual growth rate of 4.2% over the historical period of 2018 to 2022. The research also highlighted that, along with the rapid transformation in the digital landscape, Hong Kong's media and advertising industry have been restructured over the historical period by altering ways to deliver marketing contents and messages to target customers. More industry players have expanded their capability in delivering online advertising services and solutions to advertisers who are seeking more customised and interactive content to better target their customer groups. With less geographic and time restriction, online media platforms became a popular choice for companies to place and plan for their advertising campaign over the pandemic, making online advertising resilient to the adverse impact brought by the pandemic.

After considering that (i) the Group has been loss-making in the last two financial years; (ii) the going concern issue of the Group; (iii) the Share Subscription is subject to the Share Subscription Conditions and may or may not complete; (iv) the severe competition in the industry of the Civil Engineering Services; (v) no concrete business plan of the Company for the Advertising Business being formulated following the expiry of the exclusive television broadcasting rights granted by the Vendor to the Group and (vi) the Group has not been able to identify suitable business opportunities and strategic partners for its digital marketing business in overseas market through different online media platforms as stated in the Annual Report 2022/23 and Interim Report 2023/24, we consider that the Group's business prospects and outlook will remain uncertain.

3. Information of Mr. Kan and the Vendor

Mr. Kan

Mr. Kan, aged 56 and being an executive Director and a Shareholder, formed Tsun Yip Waterworks, being an indirect non-wholly owned subsidiary of the Company principally engaged in the provision of civil engineering services, and Tsun Yip Civil, being an indirect non-wholly owned subsidiary of the Company principally engaged in the provision of civil engineering services, in 1996 and 2000 respectively and has been the director of both companies since their incorporation. Mr. Kan has over 28 years of experience in handling civil engineering projects of various types.

We also note that, after the Acquisition Completion, Mr. Kan and parties acting in concert with him, are interested in 1,257,621,377 Shares, representing approximately 31.0% of the issued share capital of the Company and has become the controlling shareholder of the Company. Given that Mr. Kan is the executive Director and has extensive experience in Civil Engineering Services, we consider Mr. Kan to continue to oversee the operation of the Group is beneficial to the Group.

The Vendor

The Vendor, being the holder of the Existing Convertible Bonds and the subscriber of the Convertible Bonds A and Convertible Bonds B, is a company incorporated in Hong Kong with limited liability and wholly-owned by Xinhua News Agency (新華社). As at the Latest Practicable Date, the principal activity of the Vendor is investment holding. The Vendor is a company which has been granted the rights to develop the television broadcasting network by PRC government and Xinhua News Agency.

Xinhua News Agency, headquartered in Beijing, the PRC, is a state-owned news agency of the PRC and a modern and worldwide news agency. It has been the major news and information collection and distribution centre in the PRC since 1931. Xinhua News Agency has branches located in over 30 provinces, autonomous regions and centrally administered municipalities in the PRC as well as Hong Kong and Macau and has branches in more than 100 countries and regions. In addition, Xinhua News Agency has seven regional offices that can release news directly.

As at the date of the Sale and Purchase Agreement, the Fifth Supplemental Deed, the CB Subscription Agreement A and the CB Subscription Agreement B, and immediately prior to the Acquisition Completion which took place on 29 February 2024, the Vendor was a substantial Shareholder interested in 1,188,621,377 Shares, representing approximately 29.3% of the total issued share capital of the Company. As at the Latest Practicable Date, the Vendor is the holder of the Existing Convertible Bonds.

4. Reasons for and benefits of the Share Subscription, the Fifth Amendment of Terms and issue of Convertible Bonds A and Convertible Bonds B and use of proceeds

According to the Letter from the Board, the Company has been proactively working with its legal adviser and financial adviser to assess the current financial and operational conditions with a view to formulating a solution that respects the rights of all stakeholders and unlocks the inherent value of the Company's business and assets. As at the Latest Practicable Date, the Group is indebted to (i) Xinhua News Agency Audio News Desk[#] (新華音像中心), which is a wholly-owned subsidiary of Xinhua News Agency (新華社) and is a fellow subsidiary of the Vendor, in the amount of HK\$2,008,844; (ii) the Vendor in the amount of HK\$24,586,856, being the outstanding broadcasting fee owed to the Vendor as a service provider to the Group; and (iii) other independent third parties in the amount of approximately HK\$30.8 million. The Company plans to settle part of the outstanding indebtedness by (i) utilising the fresh money provided by the Share Subscription; and (ii) issuing the Convertible Bonds A and Convertible Bonds B. The Directors believe that fresh money provided by the Offeror will resolve the liquidity issue of the Company and the Share Subscription is in the interests and long term benefits of all stakeholders.

Having considered that (i) the prolonged suspension of trading in the Shares during the Suspension Period and the restrictions of the alternative fund raising methods, which will be further discussed below; (ii) only Mr. Kan expressed his willingness to subscribe for the Subscription Shares at the Subscription Price which represents the closing price as quoted on the Stock Exchange as at the Last Trading Day; and (iii) the Share Subscription enables the Company to raise a meaningful size of proceeds which matches its capital needs and helps resolve the Company's liquidity issue, the Board (excluding Mr. Kan who is an executive Director and Ms. Tang Li, being a non-executive Director and a director of the Vendor, each of whom has an interest in and has abstained from voting on the Share Subscription) considers that the Share Subscription is the most expedient and feasible way to raise sufficient fund to satisfy the Group's funding needs.

According to the Letter from the Board, the gross proceeds from the Share Subscription amount to HK\$20,000,000, while the net proceeds from the Share Subscription, after deducting the related expenses, are estimated to be approximately HK\$19,900,000. The Company intends to apply the net proceeds from the Share Subscription (a) as to HK\$10,355,700 for the repayment of the outstanding indebtedness of the Group, which includes (i) an amount due to Xinhua News Agency Audio News Desk[#] (新華音像中心), which is a wholly-owned subsidiary of Xinhua News Agency (新華社) and a fellow subsidiary of the Vendor, of HK\$2,008,844; and (ii) part of outstanding broadcasting fee owed to the Vendor as a service provider to the Group amounting to HK\$8,346,856; and (b) the remaining amount of approximately HK\$9,500,000 for the general working capital of the Group.

Furthermore, the Existing Convertible Bonds had matured on 9 December 2021 and therefore the outstanding principal and the accrued Overdue Existing CB Interest shall be repayable by the Group. Given the current difficult financial position of the Group, the Board was of the view that it would not be in the interest of the Company and the Shareholders as a whole if the Vendor demands for redemption of the Existing Convertible Bonds and repayment of Overdue Existing CB Interest. As such, the Board considers it to be fair and reasonable for the terms of the Existing Convertible Bonds to be re-open for negotiation with the Vendor. The Board considers that (i) extension of the maturity date of the Existing Convertible Bonds; (ii) reduction of the interest rate from 3% per annum to 0.8% per annum; and (iii) mandatory conversion of the Convertible Bonds at maturity, can alleviate the financial burden of the Group and is in the interest of the Company and the Shareholders as a whole. As at 9 December 2021, being the existing maturity date of the Existing Convertible Bonds, the total amount of interest payable by the Company to the Vendor amounted to HK\$64,127,855 pursuant to the terms and conditions of the Existing Convertible Bonds. As part of the debt restructuring proposal, the Company is required to issue the Convertible Bonds A in the principal amount of HK\$64,127,855 to the Vendor to set off the Overdue Existing CB Interest. As at the Latest Practicable Date, the outstanding broadcasting fee owed to the Vendor amounting to HK\$24,586,856 of which HK\$8,346,856 will be partly settled by net proceeds from the Share Subscription as discussed above. The remaining balance will be set off by the issue of the Convertible Bonds B in the principal amount of HK\$16,240,000.

From our review of the financial statements of the Group as discussed above, the gearing ratio of the Group was approximately 160.8% and 173.8% as at 31 March 2023 and 30 September 2023 respectively. As at 30 September 2023, the Group had cash and cash equivalents of approximately HK\$52.13 million, which was not sufficient to repay the Group's outstanding indebtedness, including the amount due to Xinhua News Agency Audio News Desk[#] (新華音像中心), the Existing Convertible Bonds and the outstanding broadcasting fee and the other debts to independent third parties. The auditor of the Company had issued a disclaimer opinion for FY2022 and FY2023 due to material uncertainty relating to the ability of the Group to continue as a going concern. The Existing Convertible Bonds with an outstanding principal amount of HK\$257,030,210 are already overdue given that the existing maturity date of the Existing Convertible Bonds is 9 December 2021. Therefore, we consider the Group has financial difficulties and funding needs to refinance its indebtedness. As discussed in the section headed "1. Background and financial information of the Group" above, we note that the Group is taking the measures to address the going concern issue including entering into the Relevant Transactions. The Share Subscription will provide the necessary funds to settle part of the liabilities owed to the Vendor, including the amount due to Xinhua News Agency Audio News Desk[#] (新華音像中心) and part of the outstanding broadcasting fee. Upon the Share Subscription Completion and the repayment of outstanding indebtedness by the net proceeds of the Share Subscription, it is estimated that the net liabilities of the Group will be reduced by approximately HK\$19.9 million. Also, although the Group had recorded operating profit for FY2023 and HY2023/24, the Group still recorded net loss attributable to owners of the Company due to the finance costs, which mainly consisted of interest expenses for the promissory note and convertible notes. By entering

into the Fifth Supplemental Deed, the original interest rate of the Existing Convertible Bonds 3% per annum, which amounted to approximately HK\$7,710,906 per year, will be reduced to 0.8% per annum, retrospectively which will be settled by the issue of the New Existing CB Interest Shares on the Fifth Extended Maturity Date. The issue of the Convertible Bonds A and the Convertible Bonds B will allow the Group to refinance the Overdue Existing CB Interest and the remaining outstanding broadcasting fee respectively. After reviewing the financial position of the Group and the auditor's opinion on the material uncertainty relating to the going concern basis of the Group, which has been discussed in the section headed "1. Background and financial information of the Group" above, and discussing with the management of the Company, we consider the Share Subscription, the entering into the Fifth Supplemental Deed to extend the Existing Convertible Bonds and the issue of the Convertible Bonds A and Convertible Bonds B can improve the financial position of the Group and reduce the finance costs and insolvency risk of the Group and therefore are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5. Fund raising alternatives available to the Group

According to the Letter from the Board, the Board has considered various fund raising methods including long term bank borrowings, placement of Shares to independent third parties, rights issue, open offer.

As discussed with the management of the Company, given the financial position of net current liabilities of the Group as at 30 September 2023, there were very limited fund raising alternatives available to the Group. In particular, the Group could not obtain favorable bank facilities or borrowings and could not propose attractive terms and offers to carry out any equity fund-raising activities such as rights issue or open offer under the existing financial position. According to the Letter from the Board, the Company has approached several securities brokerage firms regarding the possibility and feasibility of acting as placing agent or underwriter of the Company, and was given to understand that the securities brokerage firms generally requested a placing/underwriting commission ranging from 3% to 8% based on the fund raising size, and a significant discount on the placing/subscription price so as to increase the attractiveness of the equity fund raising exercise.

We are advised by the Company that although both open offer and rights issue would allow the Shareholders to participate in the subscription of new Shares and maintain their respective pro-rata shareholdings in the Company, after considering that (i) it would take a relatively longer timeframe of more than three months from the despatch of the circular to commencement of dealing in the offer shares or rights shares (as the case may be) when compared to the Share Subscription and the issue of the Convertible Bonds A and Convertible Bonds B of normally approximately one month from the despatch of the Circular pertaining to an allotment and issue of the Subscription Shares and the Convertible Bonds A and Convertible Bonds B; and (ii) it will incur additional administrative costs such as placing commission as compared to the Share Subscription, the Company considered that it is not beneficial to the Company and the Shareholders as a whole to conduct the open offer or rights issue.

Having taken into account that (i) the Group had limited fund raising alternative under the existing financial position of the Group; (ii) the Existing Convertible Bonds with an outstanding principal amount of HK\$257,030,210 and the Overdue Existing CB Interest of HK\$64,127,855 are already overdue; (iii) the trading of the Shares was in prolonged suspension when the Relevant Transactions were entered into; and (iv) the Share Subscription would raise funds, and together with the issue of the Convertible Bonds A and the Convertible Bonds B, would discharge the debts of the Company, we are of the view that the Share Subscription and the issue of the Convertible Bonds A and the Convertible Bonds B are fair and reasonable fund raising methods and are in the interests of the Company and the Independent Shareholders as a whole.

6. Principal terms of the Share Subscription

On 5 February 2024, the Company and Mr. Kan entered into the Share Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Kan has conditionally agreed to subscribe for a total of 1,666,666,667 Subscription Shares at the Share Subscription Price of HK\$0.012 per Subscription Share at a total consideration of approximately HK\$20,000,000.

The principal terms of the Share Subscription Agreement are summarised as follows:

Date

5 February 2024

Parties

- (i) The Company (as issuer); and
- (ii) Mr. Kan (as subscriber)

Mr. Kan is an executive Director, and is therefore a connected person of the Company.

Subscription Shares

As at the Latest Practicable Date, there are 4,055,349,947 Shares in issue. Assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Share Subscription Completion, the 1,666,666,667 Subscription Shares represent (i) approximately 41.1% of the entire issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 29.1% of the issued share capital of the Company as enlarged by the allotment and issue of 1,666,666,667 Subscription Shares.

Subscription Price

The Subscription Price of HK\$0.012 per Subscription Share represents:

- a discount of approximately 14.3% to the closing price of HK\$0.014 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- the closing price of HK\$0.012 per Share as quoted on the Stock Exchange on the Last Trading Day;
- the average closing price of approximately HK\$0.012 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days immediately prior to and including the Last Trading Day;
- a discount of approximately 14.3% to the average closing price of approximately HK\$0.014 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Day;
- a discount of approximately 7.7% to the average closing price of approximately HK\$0.013 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Day;
- the average closing price of approximately HK\$0.012 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Day;
- the average closing price of approximately HK\$0.012 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days immediately prior to and including the Last Trading Day;
- the average closing price of approximately HK\$0.012 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days immediately prior to and including the Last Trading Day; and
- as the Company recorded consolidated net liabilities as at 30 September 2023 as shown in the Interim Report 2023/24, the comparison of the Subscription Price with the net asset value of the Company is not applicable.

According to the Letter from the Board, the Subscription Price was determined after arm's length negotiations between the Company and Mr. Kan with reference to (i) the Company's historical share price performance traded on the Stock Exchange during the period from 14 February 2022 to 12 August 2022, being the six-month period immediately before the suspension of trading in the Shares (the average closing price of which amounted to approximately HK\$0.012); and (ii) the historical financial performance of the Group. Despite the prolonged suspension of trading in the Shares from 15 August 2022 up to and including 29 February 2024 (the "Suspension Period"), there is no material change in the operational and/or financial status of the Company during the Suspension Period, in particular (i) the composition of principal business activities of the Group, being the provision of civil engineering services and media and advertising businesses; and (ii) the capital structure of the Group. Further, as the Group has recorded net liabilities for the last five consecutive financial years since 2018, the Board was unable to determine the Subscription Price with reference to the net asset value per Share. By reasons of the above, the Board is of the view that the historical trading price of the Shares is an appropriate reference and meaningful benchmark in determining the Subscription Price.

Ranking of the Subscription Shares

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all the Shares in issue as at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Conditions precedent of the Share Subscription Agreement

The Share Subscription Completion is subject to the fulfilment or waiver (as the case may be) of the following conditions:

- (i) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in the Subscription Shares;
- (ii) the Company having obtained all necessary consents and approvals which include (a) consent of the Executive in relation to the repayment of indebtedness, that constitute Special Deals under Rule 25 of the Takeovers Code; and (b) compliance of any other requirements imposed by the Stock Exchange and/or the SFC regarding the Share Subscription Agreement and transactions contemplated thereunder, whether under the GEM Listing Rules, the Takeovers Code or otherwise;
- (iii) the passing of necessary resolution(s) by the Independent Shareholders at the EGM to approve the Share Subscription Agreement and the transactions contemplated thereunder;

- (iv) the Shares remaining listed and traded on the Stock Exchange at the Share Subscription Completion and there being no notification or indication being received from the Stock Exchange or the SFC that the listing of the Shares on the Stock Exchange will be, for whatever reasons, revoked prior to the Share Subscription Completion;
- (v) the GEM Listing Review Committee of the Stock Exchange having overturned the Delisting Decision;
- (vi) the representations and warranties given by the Company under the Share Subscription Agreement remaining true, accurate and complete and not misleading in all material respects;
- (vii) the Fifth Supplemental Deed having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the Share Subscription Agreement to become unconditional);
- (viii) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the New Existing CB Interest Shares;
- (ix) the CB Subscription Agreement A having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the Share Subscription Agreement to become unconditional);
- (x) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares to be converted under the Convertible Bonds A;
- (xi) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the CB Interest Shares A;
- (xii) the CB Subscription Agreement B having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the Share Subscription Agreement to become unconditional);
- (xiii) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares to be converted under the Convertible Bonds B; and
- (xiv) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the CB Interest Shares B.

For the avoidance of doubt, except for condition (vi) above which can be waived by Mr. Kan, all other conditions are incapable of being waived. As at Latest Practicable Date, save for condition (v) above, none of the Share Subscription Conditions have been fulfilled.

If any of the Share Subscription Conditions are not fulfilled or waived (as the case may be) within 180 days after the date of the Share Subscription Agreement (i.e. 27 July 2024) (or such other time and date as may be agreed between the parties thereto), all obligations and liabilities of the parties to the Share Subscription Agreement shall cease and terminate and neither of the parties thereto shall have any claim against the other, save for any antecedent breach.

Share Subscription Completion

The Share Subscription Completion shall take place within fifteen (15) business days after the fulfillment or waiver (as the case may be) of all the conditions precedent to the Share Subscription Agreement. (or such later date as may be agreed between Mr. Kan and the Company) at the principal place of business of the Company or such other place as may be agreed between Mr. Kan and the Company.

The Share Subscription, Fifth Amendment of Terms, subscription of Convertible Bonds A and subscription of Convertible Bonds B are inter-conditional and the completion of which shall take place simultaneously.

For the avoidance of doubt, the Acquisition and the Share Subscription are not inter-conditional, and the Share Offer has been made after the Acquisition Completion, which took place on 29 February 2024. The Composite Document has been despatched to the Independent Shareholders and the Share Offer has been opened for acceptance on 29 February 2024.

Subject to completion of the Relevant Transactions, it is expected that the gross proceeds and the net proceeds, after deduction of relevant expenses (including but not limited to the professional fees and disbursements), from the Share Subscription will be approximately HK\$20,000,000 and approximately HK\$19,900,000, respectively. On such basis, the net price raised per Subscription Share upon the Share Subscription Completion will be approximately HK\$0.012.

The net proceeds from the Share Subscription are intended to be used (a) as to HK\$10,355,700 for the repayment of its outstanding indebtedness of the Group which includes (i) an amount due to Xinhua News Agency Audio News Desk[#] (新華音像中心), which is a wholly-owned subsidiary of Xinhua News Agency (新華社) and a fellow subsidiary of the Vendor, of HK\$2,008,844; and (ii) part of outstanding broadcasting fee owed to the Vendor as a service provider to the Group amounting to HK\$8,346,856; and (b) the remaining amount of approximately HK\$9,500,000 for the general working capital of the Group.

Share Specific Mandate

The Subscription Shares will be allotted and issued under the Share Specific Mandate to be sought from the Independent Shareholders at the EGM. An application will be made by the Company to the GEM Listing Committee of the Stock Exchange or the listing of, and permission to deal in, the Subscription Shares.

7. Principal terms of the Fifth Supplemental Deed and issue of the Convertible Bonds A and Convertible Bonds B

As conditions precedent to the Share Subscription Completion, the Company is required to (i) enter into the Fifth Supplemental Deed with the Vendor to amend certain terms of Existing Convertible Bonds; (ii) issue the Convertible Bonds A in the principal amount of HK\$64,127,855 to set off the outstanding interests payable by the Company to the Vendor as a holder of the Existing Convertible Bonds; and (iii) issue the Convertible Bonds B in the principal amount of HK\$16,240,000 to set off part of the outstanding broadcasting fee owed to the Vendor as a service provider to the Group.

The Fifth Supplemental Deed

On 5 February 2024, the Company and the Vendor entered into the Fifth Supplemental Deed to amend the terms of the Existing Convertible Bonds. Apart from the Fifth Amendment of Terms, all other terms of the Existing Convertible Bonds will remain unchanged.

As at the Latest Practicable Date, the Vendor is the holder of the Existing Convertible Bonds.

The Fifth Amendment of Terms is subject to the following conditions:

- (i) the Stock Exchange having approved the Fifth Amendment of Terms;
- (ii) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in the New Existing CB Interest Shares;
- (iii) the Company having obtained all necessary consents and approvals which include (a) consent of the Executive in relation to the repayment of indebtedness, that constitute Special Deals under Rule 25 of the Takeovers Code; and (b) compliance of any other requirements imposed by the Stock Exchange and/or the SFC regarding the Fifth Supplemental Deed and transactions contemplated thereunder, whether under the GEM Listing Rules, the Takeovers Code or otherwise;

- (iv) the passing of necessary resolution(s) by the Independent Shareholders at the EGM to approve the Fifth Supplemental Deed and the transactions contemplated thereunder;
- (v) the Shares remaining listed and traded on the Stock Exchange at Completion and there being no notification or indication being received from the Stock Exchange or the SFC that the listing of the Shares on the Stock Exchange will be, for whatever reasons, revoked prior to the Completion;
- (vi) the GEM Listing Review Committee of the Stock Exchange having overturned the Delisting Decision;
- (vii) the representations and warranties given by the Company under the Fifth Supplemental Deed remaining true, accurate and complete and not misleading in all material respects;
- (viii) the Share Subscription Agreement having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the Fifth Supplemental Deed to become unconditional);
- (ix) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Subscription Shares;
- (x) the CB Subscription Agreement A having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the Fifth Supplemental Deed to become unconditional);
- (xi) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares to be converted under the Convertible Bonds A;
- (xii) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the CB Interest Shares A;
- (xiii) the CB Subscription Agreement B having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the Fifth Supplemental Deed to become unconditional);

(xiv) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares to be converted under the Convertible Bonds B; and

(xv) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the CB Interest Shares B.

For the avoidance of doubt, none of the above conditions is capable of being waived. As at the Latest Practicable Date, save for condition (vi) above, none of the conditions have been fulfilled.

The principal terms of the Existing Convertible Bonds to be amended pursuant to the Fifth Supplemental Deed are summarised as follows:

Outstanding principal amount HK\$257,030,210

Maturity The maturity date of the Existing Convertible Bonds shall be extended to the Fifth Extended Maturity Date, being 9 December 2025.

Interest rate With effect from 10 December 2021 (being the day after the existing maturity date of the Existing Convertible Bonds), the interest rate of the Existing Convertible Bonds shall be retrospectively reduced from 3% to 0.8% per annum.

Subject to the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares herein provided, the interest accrued from 10 December 2021 shall be settled by the Company on the Fifth Extended Maturity Date by way of allotting and issuing to the holder of the Existing Convertible Bonds such number of new Shares (the “**New Existing CB Interest Share(s)**”) of value equivalent to the total amount of interests accrued from 10 December 2021 to 9 December 2025 (both days inclusive) at the issue price of HK\$0.196 per New Existing CB Interest Share, which represents the Conversion Price of HK\$0.196 per Conversion Share to be converted under the Existing Convertible Bonds.

| | |
|----------------------|---|
| Conversion period | Holder of the Existing Convertible Bonds shall not convert all or part of the Existing Convertible Bonds into Conversion Shares prior to the Fifth Extended Maturity Date. |
| Redemption | Holder of the Existing Convertible Bonds shall not wind up the Company or request the Existing Convertible Bonds be redeemed by the Company prior to the Fifth Extended Maturity Date. |
| Transferability | Subject to the GEM Listing Rules (and the rules of any other stock exchange on which the Shares may be listed at the relevant time) and all applicable rules and regulations, the holder of the Existing Convertible Bonds is entitled to transfer the Existing Convertible Bonds to any other person. |
| Mandatory conversion | Subject to the conversion restriction as set out in the terms and conditions of the Existing Convertible Bonds, the holder of the Existing Convertible Bonds (or its successor or transferee) shall on the Fifth Extended Maturity Date, mandatorily convert all of the outstanding principal amount of the Existing Convertible Bonds into the Conversion Shares at the Conversion Price of HK\$0.196 per Conversion Share. Such conversion shall be completed within three (3) months after the Fifth Extended Maturity Date and the Company shall comply with all necessary regulations and procedures to ensure effective conversion and that the holder of the Existing Convertible Bonds or its nominee shall become the legal beneficial owner of the Conversion Shares. |

Assuming that (i) there will be no change in the issued share capital of the Company from the Latest Practicable Date and up to the maturity date of the Existing Convertible Bonds as extended by the Fifth Supplemental Deed; (ii) the Existing Convertible Bonds are mandatorily converted in full at the Conversion Price of HK\$0.196; and (iii) the interest accrued and to be accrued from 10 December 2021 to 9 December 2025 (both days inclusive) of approximately HK\$8,224,967 are settled by the issue of the New Existing CB Interest Shares at the issue price of HK\$0.196 per New Existing CB Interest Share, a total number of 1,353,342,738 new Shares, comprising of 1,311,378,622 Conversion Shares and 41,964,116 New Existing CB Interest Shares, will be allotted and issued, representing approximately 33.4% of the issued share capital of the Company as at the Latest Practicable Date and approximately 25.0% of the issued share capital of the Company as enlarged by the allotment and issue of the 1,353,342,738 new Shares.

The Fifth Supplemental Deed shall become effective within fifteen (15) business days after the fulfilment of all the conditions precedent as set out therein.

The Share Subscription, Fifth Amendment of Terms, subscription of Convertible Bonds A and subscription of Convertible Bonds B are inter-conditional and the completion of which shall take place simultaneously.

The Conversion Shares to be converted under the Existing Convertible Bonds and the New Existing CB Interest Shares will be allotted and issued under the Existing CB Specific Mandate to be sought from the Independent Shareholders at the EGM.

Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the New Existing CB Interest Shares. No application will be made for listing of, or permission to deal in, the Existing Convertible Bonds on the Stock Exchange or any other stock exchange.

Convertible Bonds A

As at 9 December 2021, being the existing maturity date of the Existing Convertible Bonds, the total amount of interest payable by the Company to the Vendor amounted to HK\$64,127,855 pursuant to the terms and conditions of the Existing Convertible Bonds. As part of the debt restructuring proposal, the Company is required to issue the Convertible Bonds A in the principal amount of HK\$64,127,855 to the Vendor to set off the Overdue Existing CB Interest.

On 5 February 2024, the Company and the Vendor entered into the CB Subscription Agreement A, pursuant to which the Company conditionally agrees to issue and the Vendor conditionally agrees to subscribe for the Convertible Bonds B in the principal amount of HK\$64,127,855 and the Subscriber will pay the subscription price by way of set-off against the Overdue Existing CB Interest.

On 13 March 2024, the Company and the Vendor entered into the CB Extension Letter A to extend the latest date for the fulfilment or waiver (as the case may be) of certain conditions precedent as set out in the CB Subscription Agreement A to 31 May 2024 (or such other time and date as may be agreed between the parties thereto).

Set out below are the principal terms of the CB Subscription Agreement A:

| | |
|-------------------------------------|---|
| Date | 5 February 2024 |
| Parties | (i) The Company (as issuer); and (ii) the Vendor (as subscriber). |
| Subscription of Convertible Bonds A | The Vendor has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the Convertible Bond A in the principal amount of HK\$64,127,855 due on 9 December 2025 at the initial Conversion Price of HK\$0.196 per Conversion Share (subject to adjustments upon the consolidation or sub-division of Shares). |
| Conditions precedent | Completion is conditional upon the fulfilment or waiver (as the case may be) of the following conditions: (i) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares to be converted under the Convertible Bonds A; |

- (ii) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the CB Interest Shares A;
- (iii) the Company having obtained all necessary consents and approvals which include (a) consent of the Executive in relation to the repayment of indebtedness, that constitute Special Deals under Rule 25 of the Takeovers Code; and (b) compliance of any other requirements imposed by the Stock Exchange and/or the SFC regarding the CB Subscription Agreement A and transactions contemplated thereunder, whether under the GEM Listing Rules, the Takeovers Code or otherwise;
- (iv) the GEM Listing Review Committee of the Stock Exchange having overturned the Delisting Decision;
- (v) the Shares remaining listed and traded on the Stock Exchange at Completion and there being no notification or indication being received from the Stock Exchange or the SFC that the listing of the Shares on the Stock Exchange will be, for whatever reasons, revoked prior to the Completion;
- (vi) the representations and warranties given by the Company and the Vendor under the CB Subscription Agreement A remaining true, accurate and complete and not misleading in all material respects;
- (vii) the passing of necessary resolution(s) by the Independent Shareholders at the EGM to approve the CB Subscription Agreement A and the transactions contemplated thereunder, including the CB Specific Mandate A for the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds A and the CB Interest Shares A;

- (viii) the Share Subscription Agreement having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the CB Subscription Agreement A to become unconditional);
- (ix) the Fifth Supplemental Deed having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the CB Subscription Agreement A to become unconditional); and
- (x) the CB Subscription Agreement B having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the CB Subscription Agreement A to become unconditional).

For the avoidance of doubt, except for condition (vi) above which can be waived by the Vendor, all other conditions are incapable of being waived. As at the Latest Practicable Date, save for condition (iv) above, none of the conditions have been fulfilled.

If any of the above conditions are not fulfilled or waived (as the case may be) on or before 31 May 2024 (or such other time and date as may be agreed between the parties thereto in writing), the CB Subscription Agreement A shall cease to have any effect and the parties thereto shall bear no obligations and responsibilities, save for any antecedent breach.

Completion

Completion of the subscription of Convertible Bonds A shall take place within fifteen (15) business days after the fulfilment or waiver (as the case may be) of all the conditions precedent to the CB Subscription Agreement A (or such later date as may be agreed between the Company and the Vendor) at the principal place of business of the Company or such other place as may be agreed between the Company and the Vendor.

The Share Subscription, Fifth Amendment of Terms, subscription of Convertible Bonds A and subscription of Convertible Bonds B are inter-conditional and the completion of which shall take place simultaneously.

The principal terms of the Convertible Bonds A are summarised as follows:

| | |
|-------------------|-----------------|
| Principal amount | HK\$64,127,855 |
| Maturity Date (A) | 9 December 2025 |
| Interest rate | 0.8% per annum |

Subject to the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares herein provided, the interest payable under the Convertible Bonds A shall be settled by the Company on the Maturity Date (A) by way of allotting and issuing to the holder of the Convertible Bonds A such number of new Shares (the “CB Interest Share(s) A”) of value equivalent to the total outstanding amount of interests at the issue price of HK\$0.196 per CB Interest Share A, which represents the Conversion Price of HK\$0.196 per Conversion Share to be converted under the Convertible Bonds A, or such other methods as may be agreed between the Company and the holder of the Convertible Bonds A.

| | |
|-------------------|---|
| Conversion Price | HK\$0.196 per Conversion Share |
| Conversion period | Holder of the Convertible Bonds A shall not convert all or part of the Convertible Bonds A into Conversion Shares prior to the Maturity Date (A). |
| Redemption | Holder of the Convertible Bonds A shall not wind up the Company or request the Convertible Bonds A be redeemed by the Company prior to the Maturity Date (A). |

Transferability Subject to the GEM Listing Rules (and the rules of any other stock exchange on which the Shares may be listed at the relevant time) and all applicable rules and regulations, the holder of the Convertible Bonds A is entitled to transfer the Convertible Bonds A to any other person.

Mandatory conversion Subject to the conversion restriction as set out in the terms and conditions of the Convertible Bonds A, the Vendor (or its successor or transferee) shall on the Maturity Date (A), mandatorily convert all of the outstanding principal amount of the Convertible Bonds A into the Conversion Shares at the Conversion Price of HK\$0.196 per Conversion Share. Such conversion shall be completed within three (3) months after the Maturity Date (A) (including updating the register of members of the Company) and the Company shall comply with all necessary regulations and procedures to ensure effective conversion and that the holder of the Convertible Bonds A or its nominee shall become the legal beneficial owner of the Conversion Shares.

Assuming that (i) there will be no change in the issued share capital of the Company from the Latest Practicable Date and up to the Maturity Date (A); (ii) the Convertible Bonds A are mandatorily converted in full at the Conversion Price of HK\$0.196; and (iii) the Convertible Bonds A has been issued and the interest accrued and to be accrued from 10 December 2023 to 9 December 2025 (both days inclusive) of approximately HK\$1,026,046 are settled by the issue of the CB Interest Shares A at the issue price of HK\$0.196 per CB Interest Share A, a total number of 332,417,860 new Shares, comprising of 327,182,933 Conversion Shares and 5,234,927 CB Interest Shares A, will be allotted and issued, representing approximately 8.2% of the issued share capital of the Company as at the Latest Practicable Date and approximately 7.6% of the issued share capital of the Company as enlarged by the allotment and issue of the 332,417,860 new Shares.

The Conversion Shares to be converted under the Convertible Bonds A and the CB Interest Shares A will be allotted and issued under the CB Specific Mandate A to be sought from the Independent Shareholders at the EGM. Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the CB Interest Shares A. No application will be made for listing of, or permission to deal in, the Convertible Bonds A on the Stock Exchange or any other stock exchange.

Convertible Bonds B

As at the Latest Practicable Date, the outstanding broadcasting fee owed to the Vendor amounting to HK\$24,586,856 of which HK\$8,346,856 will be partly settled by net proceeds from the Share Subscription as discussed above. The remaining balance will be set off by the issue of the Convertible Bonds B in the principal amount of HK\$16,240,000.

On 5 February 2024, the Company and the Vendor entered into the CB Subscription Agreement B, pursuant to which the Company conditionally agrees to issue and the Vendor conditionally agrees to subscribe for the Convertible Bonds A in the principal amount of HK\$16,240,000 and the Subscriber will pay the subscription price by way of set-off against the remaining outstanding broadcasting fee owed to the Vendor in the amount of HK\$16,240,000.

On 13 March 2024, the Company and the Vendor entered into the CB Extension Letter B to extend the latest date for the fulfilment or waiver (as the case may be) of certain conditions precedent as set out in the CB Subscription Agreement B to 31 May 2024 (or such other time and date as may be agreed between the parties thereto).

Set out below are the principal terms of the CB Subscription Agreement B:

| | |
|-------------------------------------|---|
| Date | 5 February 2024 |
| Parties | (i) The Company (as issuer); and (ii) the Vendor (as subscriber). |
| Subscription of Convertible Bonds B | The Vendor has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, the Convertible Bond B in the principal amount of HK\$16,240,000 due on 9 December 2025 at the initial Conversion Price of HK\$0.196 per Conversion Share (subject to adjustments upon the consolidation or sub-division of Shares). |

Conditions precedent

Completion is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (i) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the Conversion Shares to be converted under the Convertible Bonds B;
- (ii) the GEM Listing Committee of the Stock Exchange granting the listing of, and the permission to deal in, the CB Interest Shares B;
- (iii) the Company having obtained all necessary consents and approvals which include (a) consent of the Executive in relation to the repayment of indebtedness, that constitute Special Deals under Rule 25 of the Takeovers Code; and (b) compliance of any other requirements imposed by the Stock Exchange and/or the SFC regarding the CB Subscription Agreement B and transactions contemplated thereunder, whether under the GEM Listing Rules, the Takeovers Code or otherwise;
- (iv) the GEM Listing Review Committee of the Stock Exchange having overturned the Delisting Decision;
- (v) the Shares remaining listed and traded on the Stock Exchange at Completion and there being no notification or indication being received from the Stock Exchange or the SFC that the listing of the Shares on the Stock Exchange will be, for whatever reasons, revoked prior to the Completion;
- (vi) the representations and warranties given by the Company and the Vendor under the CB Subscription Agreement B remaining true, accurate and complete and not misleading in all material respects;

- (vii) the passing of necessary resolution(s) by the Independent Shareholders at the EGM to approve the CB Subscription Agreement B and the transactions contemplated thereunder, including the CB Specific Mandate B for the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds B and the CB Interest Shares B;
- (viii) the Share Subscription Agreement having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the CB Subscription Agreement B to become unconditional);
- (ix) the Fifth Supplemental Deed having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the CB Subscription Agreement B to become unconditional); and
- (x) the CB Subscription Agreement A having become unconditional in all respects in accordance with the terms and conditions set out therein (save for the condition for the CB Subscription Agreement B to become unconditional).

For the avoidance of doubt, except for condition (vi) above which can be waived by the Vendor, all other conditions are incapable of being waived. As at the Latest Practicable Date, save for condition (iv) above, none of the conditions have been fulfilled.

If any of the above conditions are not fulfilled or waived (as the case may be) on or before 31 May 2024 (or such other time and date as may be agreed between the parties thereto in writing), the CB Subscription Agreement B shall cease to have any effect and the parties thereto shall bear no obligations and responsibilities, save for any antecedent breach.

Completion Completion of the subscription of Convertible Bonds B shall take place within fifteen (15) business days after the fulfilment or waiver (as the case may be) of all the conditions precedent to the CB Subscription Agreement B (or such later date as may be agreed between the Company and the Vendor) at the principal place of business of the Company or such other place as may be agreed between the Company and the Vendor.

The Share Subscription, Fifth Amendment of Terms, subscription of Convertible Bonds A and subscription of Convertible Bonds B are inter-conditional and the completion of which shall take place simultaneously.

The principal terms of the Convertible Bonds B are summarized as follows:

| | |
|-------------------|-----------------|
| Principal amount | HK\$16,240,000 |
| Maturity Date (B) | 9 December 2025 |
| Interest rate | 0.8% per annum |

Subject to the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the new Shares herein provided, the interest payable under the Convertible Bonds B shall be settled by the Company on the Maturity Date (B) by way of allotting and issuing to the holder of the Convertible Bonds B such number of new Shares (the “**CB Interest Share(s) B**”) of value equivalent to the total outstanding amount of interests at the issue price of HK\$0.196 per CB Interest Share B, which represents the Conversion Price of HK\$0.196 per Conversion Share.

| | |
|------------------|--------------------------------|
| Conversion Price | HK\$0.196 per Conversion Share |
|------------------|--------------------------------|

| | |
|-------------------|---|
| Conversion period | Holder of the Convertible Bonds B shall not convert all or part of the Convertible Bonds B into Conversion Shares prior to the Maturity Date (B). |
|-------------------|---|

| | |
|----------------------|--|
| Redemption | Holders of the Convertible Bonds B shall not wind up the Company or request the Convertible Bonds B be redeemed by the Company prior to the Maturity Date (B). |
| Transferability | Subject to the GEM Listing Rules (and the rules of any other stock exchange on which the Shares may be listed at the relevant time) and all applicable rules and regulations, the holder of the Convertible Bonds B is entitled to transfer the Convertible Bonds B to any other person. |
| Mandatory conversion | Subject to the conversion restriction as set out in the terms and conditions of the Convertible Bonds B, the Vendor (or its successor or transferee) shall on the Maturity Date (B), mandatorily convert all of the outstanding principal amount of the Convertible Bonds B into the Conversion Shares at the Conversion Price of HK\$0.196 per Conversion Share. Such conversion shall be completed within three (3) months after the Maturity Date (B) (including updating the register of members of the Company) and the Company shall comply with all necessary regulations and procedures to ensure effective conversion and that the holder of the Convertible Bonds B or its nominee shall become the legal beneficial owner of the Conversion Shares. |

Assuming that (i) there will be no change in the issued share capital of the Company from the Latest Practicable Date and up to the Maturity Date (B); (ii) the Convertible Bonds B are mandatorily converted in full at the Conversion Price of HK\$0.196; and (iii) the Convertible Bonds B has been issued and the interest accrued and to be accrued from 10 December 2023 to 9 December 2025 (both days inclusive) of approximately HK\$259,840 are settled by the issue of the CB Interest Shares B at the issue price of HK\$0.196 per CB Interest Share B, a total number of 84,182,856 new Shares, comprising of 82,857,142 Conversion Shares and 1,325,714 CB Interest Shares B, will be allotted and issued, representing approximately 2.1% of the issued share capital of the Company as at the Latest Practicable Date and approximately 2.0% of the issued share capital of the Company as enlarged by the allotment and issue of the 84,182,856 new Shares.

The Conversion Shares to be converted under the Convertible Bonds B and the CB Interest Shares B will be allotted and issued under the CB Specific Mandate B to be sought from the Independent Shareholders at the EGM. Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the CB Interest Shares B. No application will be made for listing of, or permission to deal in, the Convertible Bonds B on the Stock Exchange or any other stock exchange.

Conversion Price

The Conversion Price of HK\$0.196 per Conversion Share represents:

- a premium of approximately 1,300% over the closing price of HK\$0.014 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a premium of approximately 1,533.3% over the closing price of HK\$0.012 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- a premium of approximately 1,533.3% over the average closing price of approximately HK\$0.012 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days immediately prior to and including the Last Trading Day.

The Conversion Price was arrived at after arm's length negotiations between the Company and the Vendor, is the same as the existing conversion price of HK\$0.196 per Conversion Share of the Existing Convertible Bonds and with a view to relieve the financial burden of the Company. The Directors (excluding (i) Mr. Kan, being an executive Director who is interested in and has abstained from voting on the Relevant Transactions at the relevant board meeting; (ii) Ms. Tang Li, being a non-executive Director and a director of the Vendor who is interested in and has abstained from voting on the Relevant Transactions at the relevant board meeting) consider that the Conversion Price and the terms and conditions of the Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

8. Evaluation on the basis of the Subscription Price, the Conversion Price and the issue price of the New Existing CB Interest Shares, CB Interest Shares A and CB Interest Shares B and the terms of the Fifth Supplemental Deed and the Convertible Bonds

In assessing the fairness and reasonableness of the basis of the Subscription Price, the Conversion Price and the issue price of the New Existing CB Interest Shares, CB Interest Shares A and CB Interest Shares B (the "Issue Price"), we have primarily taken into account (i) the financial position of the Group and the material uncertainty relating to the going concern basis of the Group as raised by the auditor of the Company as set out in the section headed "1. Background and financial information of the Group" above; and (ii) the historical Share price performance. We have also attempted to carry out the market comparable analysis in respect of recent issue of new shares under specific mandate and recent issuance of convertible bonds/notes but are unable to identify any market comparable as further elaborated below. Details of our analysis and results are as follows:

Review on the historical price of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, the Conversion Price and the Issue Price, we have reviewed the chart illustrates the historical daily closing price of the Shares as quoted on the Stock Exchange (i) during the period commencing from 13 August 2021 up to and including the Last Trading Day (the “**Pre-suspension Period**”), being approximately one year prior to the Last Trading Day; and (ii) the period commencing on 1 March 2024 (i.e., the date of the Resumption) to the Latest Practicable Date (the “**Post-suspension Period**”) (collectively, the “**Review Period**”). We consider that the Review Period is adequate as it represents a reasonable period to reflect a general overview of the historical price movement of the Shares. Although the trading of the Shares has resumed on 1 March 2024, we consider that the closing price of the Shares during Pre-suspension Period still provide a general overview of the historical price movement of the Shares after considering that (i) the Post-suspension Period, which consists of only 9 trading days, may not provide sufficient closing price references and would be less meaningful for analysis; (ii) the historical price movement of the Shares before the suspension of the trading of the Shares on 15 August 2022 was the latest available market information of the value of the Company for reference prior to the entering into the Relevant Transactions and, as stated in the Letter from the Board, there is no material change in the operational and/or financial status of the Company during the Suspension Period; and (iii) the loss-making and net liabilities position of the Group limited the available references for determining the Subscription Price, the Issue Price and the Conversion Price.

The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

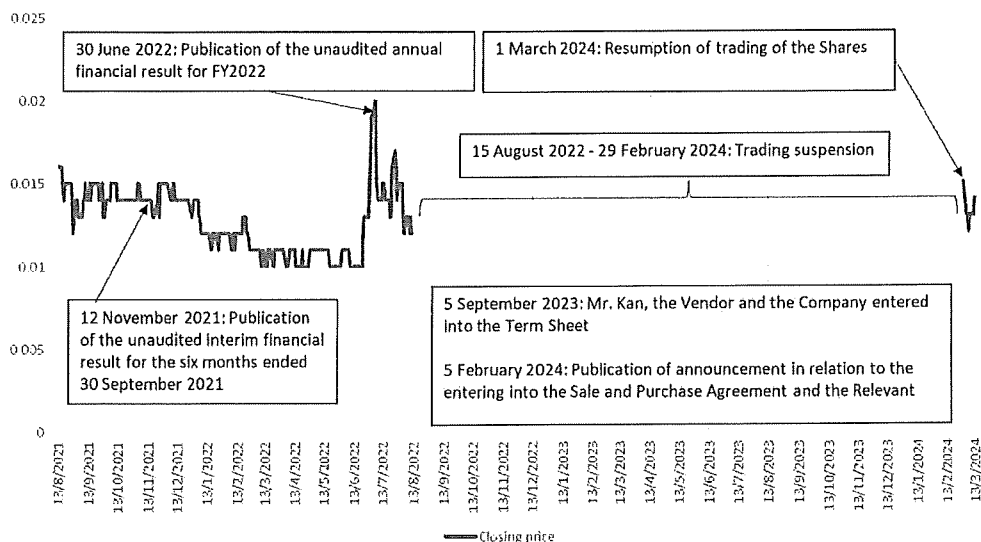


Chart 1: Historical Share price performance of the Company during the Review Period
Source: website of the Stock Exchange (www.hkex.com.hk)

As shown in the above chart 1, during the Pre-suspension Period, the daily closing prices of the Shares was relatively stable and was ranged from the lowest of HK\$0.010 per Share to the highest of HK\$0.020 per Share, with an average closing price of HK\$0.013 per Share. We note that (i) the Subscription Price of HK\$0.012 per Subscription Share is within the range of the closing price of Share during the Pre-suspension Period; and (ii) the Conversion Price and the Issue Price of HK\$0.196 per Conversion Share represent a premium of approximately 880% over the highest closing price of Share during the Pre-suspension Period.

During the Pre-suspension Period, we note that the Company has published (i) the interim results announcement for the six months ended 30 September 2021 dated 12 November 2021; and (ii) the annual results announcement for FY2022 dated 30 June 2022. As discussed with the management of the Company, the Company is not aware of any reasons for the fluctuation in price of the Shares during the Pre-suspension Period.

During the Post-suspension Period, the daily closing prices of the Shares was ranged from the lowest of HK\$0.012 per Share to the highest of HK\$0.015 per Share, with an average closing price of HK\$0.013 per Share. We note that (i) the Subscription Price represents a slight discount to the average closing price during the Post-suspension Period but is within the range of the closing price of the Shares during the Post-suspension Period; and (ii) the Conversion Price and the Issue Price both represent a premium of approximately 1,206% over the highest closing price of Share during the Post-suspension Period.

After considering that (i) the Subscription Price represents no discount to the closing price of the Shares on the Last Trading Day as stated in the Letter from Board and is within the range of the closing price of the Shares during both Pre-suspension Period and Post-suspension Period; (ii) the conversion price of the Convertible Bonds A and the Convertible Bonds B and the Issue Price are same as the existing conversion price of the Existing Convertible Bonds, which represents a high premium over the highest closing price of the Shares during both Pre-suspension Period and Post-suspension Period; and (iii) the ability of the Group to continue as a going concern will remain uncertain if the Relevant Transactions do not take place, in particular (a) the Company will need to restart the entire process for the negotiation of restructuring of the outstanding indebtedness of the Group with the holder of the Existing Convertible Bonds and other independent third parties for fund raising, which might be time consuming and the outcome is uncertain; (b) the Existing Convertible Bonds are already overdue, which includes the principal amount of approximately HK\$257.03 million and Overdue Existing CB Interest of approximately HK\$64.13 million, and the Vendor has the right to request the Group to repay the Existing Convertible Bonds and the Overdue Existing CB Interest upon the termination of the Relevant Transactions; and (c) even though the trading of the Shares has resumed, obtaining other fund raising alternatives to fulfil the required funds still remain difficult under the current financial position of the Group and may incur additional financial costs to the Group, we consider that the Subscription Price, Conversion Price and the Issue Price are fair and reasonable.

Market comparables in respect of recent issue of new shares under specific mandate

For the purpose of providing the Independent Shareholders with further reference for companies listed on the Stock Exchange issuing new shares under specific mandate, we have attempted to carry out market comparable analysis to compare the issue of new shares under specific mandate, which (i) the shares of the issuers were in prolonged suspension on the date of the announcement; (ii) the issuers are engaged in similar business as the Group; and (iii) the issue of new shares under specific mandate are for fund raising (excluding the issue of shares as part of consideration in acquisition or under share award plan or restricted share unit scheme, or issue and subscription of A shares and domestic shares that are not trading on the Stock Exchange), during one year prior to 5 September 2023, being the date of the Term Sheet (the “Comparable Period”). As the trading of the Shares was under suspension when the Subscription Agreement was negotiated and entered into, we consider that the above criteria are adequate and appropriate for the comparison of the terms of the

Subscription with those offered to the subscribers, which the shares were also under prolonged suspension and the issuers conducted similar business to the Group. We also consider that the Comparable Period is adequate and appropriate (i) to reflect the prevailing market conditions and sentiment in the Hong Kong stock market; and (ii) to provide a general reference of the recent share subscription being conducted under similar market conditions. However, based on the public information available on the Stock Exchange's website, we are not able to identify any market comparable that meets all of the above criteria, which we considered adequate and appropriate as discussed above.

Market comparables in respect of recent issues of convertible bonds/notes

For the purpose of assessing the fairness and reasonableness of the terms of the Fifth Supplemental Deed and the Convertible Bonds and providing the Independent Shareholders with further reference for companies listed on the Stock Exchange issuing convertible bonds/notes, we have attempted to carry out market comparable analysis to compare the terms of the convertible bonds/notes, which (i) the shares of the issuers were in prolonged suspension on the date of the announcement; (ii) the issuers are engaged in similar business as the Group; (iii) the issue of convertible bonds/notes are to raise funds (excluding the issue of convertible bonds/notes as part of consideration in acquisition); and (iv) the duration of the convertible bonds/notes is not perpetual, during the Comparable Period. We consider that the Comparable Period is adequate and appropriate (i) to reflect the prevailing market conditions and sentiment in the Hong Kong stock market; and (ii) to provide a general reference of the recent convertible securities transactions being conducted under similar market conditions. As the trading of the Shares was under suspension when the Fifth Supplemental Deed, the CB Subscription Agreement A and the CB Subscription Agreement B were negotiated and entered into, we consider that the above criteria are adequate and appropriate for the comparison of the terms of the Fifth Supplemental Deed and the Convertible Bonds with those offered to the bondholders, which the shares were also under prolonged suspension and the issuers conducted similar business to the Group. We have excluded perpetual convertible bonds/notes in our analysis as they are considered not comparable to the Convertible Bonds, in terms of the credit risk and interest rate risk incurred from the maturity of the convertible bonds/notes. However, based on the public information available on the Stock Exchange's website, we are not able to identify any market comparable that meets all of the above criteria, which we considered adequate and appropriate as discussed above.

Conclusion

Although we could not identify any direct comparable from the above market comparable analysis of issue of new shares under specific mandate and issue of convertible bonds/notes for the Subscription Price, the Issue Price and the Conversion Price, we have considered other factors including:

- (i) the Subscription Price represents no discount to the closing price of the Shares on the Last Trading Day and is within the range of the closing price of the Shares during the Pre-suspension Period and the Post-suspension Period;
- (ii) the Share Subscription, together with the Fifth Amendment of Terms and the issue of the Convertible Bonds A and the Convertible Bonds B, will settle the indebtedness and improve the financial position of the Group;
- (iii) the Existing Convertible Bonds are already overdue before entering into the Fifth Supplemental Deed and would be extended to Fifth Extended Maturity Date with a reduction in interest rate retrospectively by entering into the Fifth Supplemental Deed;
- (iv) the conversion price of the Convertible Bonds A and the Convertible Bonds B and the Issue Price are the same as the existing conversion price of the Existing Convertible Bonds, which represents a high premium over the highest closing price of the Shares during the Pre-suspension Period and the Post-suspension Period;
- (v) all of the Convertible Bonds are mandatorily converted at the Conversion Price on their maturity date, which will reduce the liabilities of the Group without any cash outflow; and
- (vi) the Relevant Transactions forms part of the debt restructuring proposal and the Group may not able to continue to operate as a going concern if the Relevant Transactions do not take place.

Therefore, we are of the view that the terms of the Share Subscription Agreement (including the Subscription Price), the Fifth Supplemental Deed and the Convertible Bonds (including the Conversion Price and the Issue Price) are fair and reasonable.

9. Special Deals

According to the Letter from the Board, the Company intends to apply part of the net proceeds from the Share Subscription of approximately HK\$10.4 million to repay (i) the outstanding amount due to Xinhua News Agency Audio News Desk[#] (新華音像中心), which is a wholly-owned subsidiary of Xinhua News Agency (新華社) and a fellow subsidiary of the Vendor; and (ii) part of the outstanding broadcasting fee owed to the Vendor as a service provider to the Group. The Company also (i) entered into the Fifth Supplemental Deed with the Vendor to amend certain terms of the Existing Convertible Bonds; (ii) entered into the CB Subscription Agreement A to issue the Convertible Bonds A to the Vendor to set off the Overdue Existing CB Interest; and (iii) entered into the CB Subscription Agreement B to issue the Convertible Bonds B to set off the outstanding broadcasting fee owed to the Vendor as a service provider to the Group which will remain unsettled by the proceeds from the Share Subscription. Prior to the Acquisition Completion, the Vendor was a substantial Shareholder interested in 1,188,621,377 Shares, representing approximately 29.3% of the total issued share capital of the Company. As at the Latest Practicable Date, the Vendor is the holder of the Existing Convertible Bonds.

As (i) the repayment of amount due to the Vendor and its fellow subsidiary; (ii) the entering into of the Fifth Supplemental Deed with the Vendor; and (iii) the issue of Convertible Bonds A and Convertible Bonds B to the Vendor, are not extended to all the other Shareholders, these arrangements shall constitute Special Deals under Rule 25 of the Takeovers Code and will be conditional upon obtaining the consent of the Executive under Note 5 to Rule 25 of the Takeovers Code.

Taking into account that (i) the Group has financial difficulties to refinance its indebtedness and the auditor of the Company has raised the material uncertainty relating to the going concern basis of the Group set out in the section headed “1. Background and financial information of the Group” above; (ii) the repayment of the outstanding amount due to the Vendor and its fellow subsidiary under the Special Deals could reduce the liabilities of the Group and the Fifth Amendment of Terms will improve the Group’s financial position; (iii) the Group does not have sufficient cash and cash equivalents to repay the Existing Convertible Bonds, which have already been overdue, and by entering into the Fifth Supplemental Deed with the Vendor, the maturity date can be extended to 9 December 2025; (iv) the interest rate of the Existing Convertible Bonds is reduced retrospectively under the Fifth Supplemental Deed; (v) the issue of the Convertible Bonds A and the Convertible Bonds B to the Vendor can settle the overdue Existing CB Interest and the outstanding broadcasting fee and, together with the Existing Convertible Bonds, will be mandatorily converted into Conversion Shares on the maturity date, which will reduce the liabilities of the Group without any cash outflow; (vi) the terms of the Fifth Supplemental Deed and the Convertible Bonds are fair and reasonable as discussed above; and (vii) the Special Deals form part of the debt restructuring proposal as discussed above and the Group may not able to continue to operate as a going concern if the Relevant Transactions do not take place, we are of the view that the terms of the Special Deals are fair and reasonable.

10. Change in shareholding structure of the Company

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Subscription Completion; and (iii) immediately after (a) the Share Subscription Completion; (b) full conversion of the Convertible Bonds; and (c) allotment and issue of the New Existing CB Interest Shares, CB Interest Shares A and CB Interest Shares B:

| Shareholders | (i) As at Latest Practicable Date | | (ii) Immediately after the Share Subscription Completion | | (iii) Immediately after (a) the Share Subscription Completion; (b) full conversion of the Convertible Bonds; and (c) allotment and issue of the New Existing CB Interest Shares, CB Interest Shares A and CB Interest Shares B | |
|--|-----------------------------------|---------------------|--|---------------------|--|---------------------|
| | Number of Shares | Approximate % | Number of Shares | Approximate % | Number of Shares | Approximate % |
| The Offeror and parties acting in concert with it | | | | | | |
| The Offeror | 1,188,621,377 | 29.3 | 2,855,288,044 | 49.9 | 2,855,288,044 | 38.2 |
| Mr. Kan | 69,000,000 | 1.7 | 69,000,000 (Note 1) | 1.2 | 69,000,000 (Note 1) | 0.9 |
| | <u>1,257,621,377</u> | <u>31.0</u> | <u>2,924,288,044</u> | <u>51.1</u> | <u>2,924,288,044</u> | <u>39.1</u> |
| The Vendor (Note 2 & 3) | - | - | - | - | 1,769,943,454 (Note 4) | 23.6 |
| Public Shareholders | <u>2,797,728,570</u> | <u>69.0</u> | <u>2,797,728,570</u> | <u>48.9</u> | <u>2,797,728,570</u> | <u>37.3</u> |
| Total | <u>4,055,349,947</u> | <u>100.0</u> | <u>5,722,016,614</u> | <u>100.0</u> | <u>7,491,960,068</u> | <u>100.0</u> |

Notes:

- Subject to the completion of the subscription of 1,666,666,667 Shares in the Share Subscription, Mr. Kan, together with parties acting in concert with him, will be beneficially interested in 2,924,288,044 Shares, representing approximately 51.1% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.
- As at the Latest Practicable Date, the Vendor is the holder of the Existing Convertible Bonds in the outstanding principal amount of HK\$257,030,210.
- Upon the issue of the Convertible Bonds A and Convertible Bonds B, the Vendor will be the holder of (i) the Existing Convertible Bonds in the outstanding principal amount of HK\$257,030,210; (ii) the Convertible Bond A in the principal amount of HK\$64,127,855; and (iii) the Convertible Bond B in the principal amount of HK\$16,240,000. Pursuant to the terms and conditions of the Convertible Bonds, the Vendor is not entitled to exercise the relevant conversion right prior to the respective maturity dates.

- (4) For illustrative purpose, upon (i) the mandatory conversion of the Convertible Bonds in accordance with the terms and conditions of the respective agreements; and (ii) the allotment and issue of the New Existing CB Interest Shares, CB Interest Shares A and CB Interest Shares B, the Vendor will be beneficially interested in 1,769,943,454 Shares, comprising of (i) 1,311,378,622 Conversion Shares to be converted under the Existing Convertible Bonds; (ii) 327,182,933 Conversion Shares to be converted under the Convertible Bonds A; (iii) 82,857,142 Conversion Shares to be converted under the Convertible Bonds B; (iv) 41,964,116 New Existing CB Interest Shares; (v) 5,234,927 CB Interest Shares A; and (vi) 1,325,714 CB Interest Shares B.
- (5) Certain percentage figures included in the above table have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

We note that the shareholding of the public Shareholders will be reduced from approximately 69.0% to 48.9% of the issued share capital of the Company immediately after the Share Subscription Completion and will be further reduced to 37.3% after the Share Subscription Completion, the full conversion of the Convertible Bonds and allotment and issue of the New Existing CB Interest Shares, the CB Interest Shares A and the CB Interest Shares B. However, as discussed in the section headed “4. Reasons for and benefits of the Share Subscription, the Fifth Amendment of Terms and issue of Convertible Bonds A and Convertible Bonds B and use of proceeds” in this letter above, the Group has financial difficulties and funding needs to refinance its indebtedness. Despite the possible dilution effect from the Share Subscription and the conversion of the Convertible Bonds after their issuance, after considering (i) the Subscription Price is the same as the closing price of the Shares on the Last Trading Day and is fair and reasonable as discussed above; (ii) the issue of the Convertible Bonds will allow the Group to refinance part of its indebtedness without any cash outflow; and (iii) the terms of the Convertible Bonds are fair and reasonable, in particular, the Conversion Price and the Issue Price of HK\$0.196 per Conversion Share represent a high premium over the highest closing price of the Shares during the Pre-suspension Period and all of the Convertible Bonds are mandatorily converted at the Conversion Price on their maturity date, we consider the dilution to the public Shareholders is acceptable and the Share Subscription and issue of the Convertible Bonds A and Convertible Bonds B are in the interests of the Company and the Independent Shareholders as a whole.

11. Financial effects of the Share Subscription

As disclosed in the Interim Report 2023/24, the cash and cash equivalents balance and net current liabilities of the Group amounted to approximately HK\$52.1 million and approximately HK\$419.4 million, respectively, as at 30 September 2023. Immediately following the Share Subscription Completion and the repayment of outstanding indebtedness by the net proceeds of the Share Subscription, the cash and cash equivalents of the Group will be increased by approximately HK\$9.5 million (being the remaining balance of net proceeds of the Share Subscription of approximately HK\$19.9 million after repayment of outstanding indebtedness amounting to approximately HK\$10.4 million) and it is expected that the Group’s net current liabilities position will be improved.

According to the Interim Report 2023/24, the unaudited condensed consolidated net liabilities attributable to the Shareholders amounted to approximately HK\$397.4 million as at 30 September 2023. Immediately following the Share Subscription Completion and the repayment of outstanding indebtedness by the net proceeds of the Share Subscription, it is expected that the net liabilities attributable to the Shareholders will be decreased by the net proceeds of the Share Subscription of approximately HK\$19.9 million. Accordingly, the Share Subscription is expected to have a positive impact on the financial position of the Group.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, in particular, that:

- (i) the prolonged suspension of the trading in the Shares on the Stock Exchange when the Relevant Transactions were entered;
- (ii) the financial position of the Group and material uncertainty relating to the going concern basis of the Group as raised by the auditor of the Company for FY2022 and FY2023 and in the event that the Relevant Transactions do not take place;
- (iii) the difficulties of obtaining more favourable financing terms from other fund raising alternatives under the current financial position of the Group;
- (iv) the Share Subscription, which forms part of the debt restructuring proposal, will reduce the Group's liabilities and the terms of the Share Subscription are fair and reasonable;
- (v) the overdue Existing Convertible Bonds will be extended and the interest rate of the Existing Convertible Bonds will be reduced retrospectively under the Fifth Supplemental Deed;
- (vi) the issue of the Convertible Bonds A and the Convertible Bonds B will refinance part of the Group's indebtedness and, together with the Existing Convertible Bonds, will be mandatory converted on their maturity dates without any cash outflow and the terms of the Convertible Bonds are fair and reasonable; and
- (vii) the Special Deals are solely for the purpose of repayment of indebtedness due to the Vendor, who was the Shareholder prior to the Acquisition Completion, to improve the financial position of the Group and form part of the debt restructuring proposal,

we are of the view that although the Relevant Transactions are not in the ordinary and usual course of business of the Group, the terms of (i) the Share Subscription Agreement and the transactions contemplated thereunder (including the Share Specific Mandate to issue the Subscription Shares); (ii) the Fifth Supplemental Deed and the transactions contemplated thereunder (including the Existing CB Specific Mandate to issue the Conversion Shares upon the exercise of the conversion rights attaching to the Existing Convertible Bonds and the New Existing CB Interest Shares); (iii) the CB Subscription Agreement A and the transactions contemplated thereunder (including the CB Specific Mandate A to issue the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds A and the CB Interest Shares A); (iv) the CB Subscription Agreement B and the transactions contemplated thereunder (including the CB Specific Mandate B to issue the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds B and the CB Interest Shares B); and (v) the Special Deals, are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise the Independent Board Committees to recommend the Independent Shareholders to vote in favour of the resolution(s) to approve the Relevant Transactions at the EGM.

Yours faithfully,

For and on behalf of

INCU CORPORATE FINANCE LIMITED



Gina Leung
Managing Director

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