

20 October 2023

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

Dear Sirs and Madams,

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

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Alteration Consent Letters (as amended by Supplementary Letters) and the transactions contemplated thereunder (including the grant of the Specific Mandate), particulars of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 20 October 2023 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcements of the Company dated 29 August 2023 and 13 October 2023. On 29 August 2023 (after trading hours), the Company and the Existing Bondholder A have agreed to amend the terms of the Existing First Convertible Bonds and the Existing Second Convertible Bonds. On 13 October 2023, the Company and the Existing Bondholder A entered into the Supplementary Letters pursuant to which the parties agreed to extend the long stop date to 30 November 2023 (or such other date as may be agreed by the Company and the Existing Bondholder A). Save for the above changes, all other terms and the conditions of the Alteration Consent Letters shall remain unchanged and in full force and effect.

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Furthermore, on 10 October 2023, the Board proposed to implement the Share Consolidation on the basis that (i) every eight (8) issued and unissued Existing Ordinary Shares of HK\$0.1 each in the share capital of the Company be consolidated into one (1) Consolidated Ordinary Share of HK\$0.8; and (ii) every eight (8) unissued Existing Preference Shares of HK\$0.1 each in the share capital of the Company be consolidated into one (1) Consolidated Preference Share of HK\$0.8. The Board also proposed to change the board lot size for trading from 20,000 Existing Ordinary Shares to 10,000 Consolidated Ordinary Shares upon Share Consolidation becoming effective. Therefore, the Conversion Price of the Existing Convertible Bonds and the number of Conversion Shares to be issued upon exercise of the Conversion Rights will be adjusted from HK\$0.048 per Conversion Share to HK\$0.384 per Conversion Share and from 4,545,416,665 Conversion Shares to 568,177,082 Conversion Shares respectively upon Share Consolidation becoming effective.

As at the Latest Practicable Date, Ka Chun is a controlling Shareholder interested in an aggregate of 1,554,338,600 Shares, representing in aggregate approximately 72.66% of the total number of issued Shares. Ka Chun is indirectly wholly-owned by Mr. Lam Ching Kui, being the Existing Bondholder A, who is interested in 38,481,000 Shares personally, representing in aggregate approximately 1.80% of the total number of issued Shares. Therefore, the Existing Bondholder A and its associates, including Ka Chun, are connected persons of the Company, and the Alteration of Terms constitutes connected transactions of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

The Existing Bondholder A and its associates (including the Existing Bondholder B) are required to abstain from voting on the resolutions in respect of the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate) at the SGM. To the best of the information, belief and knowledge of the Directors, save for Existing Bondholder A and its associates (including the Existing Bondholder B), no other Shareholder has any material interest in the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate). Save for the Existing Bondholder A, who is the executive director and also sole shareholder of Existing Bondholder B and had abstained from voting, none of the Directors had a material interest in the Alteration of Terms and was required to abstain from voting on the resolutions passed by the Board to approve the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate) respectively.

Except for being appointed as independent financial adviser by the Company in relation to issuance of the Existing Third Convertible Bonds, which the circular was issued to the Shareholders on 9 December 2021, we have not acted as an independent financial adviser and has not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Alteration of Terms. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Alteration of Terms, and accordingly, are eligible to give independent advice and recommendations on the terms of Alteration Consent Letters (as amended by Supplementary Letters) and the transactions contemplated thereunder (including the grant of the Specific Mandate). Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Alteration Consent Letters (as amended by Supplementary Letters) and the transactions contemplated thereunder (including the grant of the Specific Mandate).

#### **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Wang Wei and Mr. Wan Bo, has been formed to advise the Independent Shareholders on the reasonableness and fairness in respect of the entering into of the Alteration Consent Letters (as amended by Supplementary Letters) and the transactions contemplated thereunder (including the grant of the Specific Mandate).

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purpose of the Listings Rules, our role is to give an independent opinion as to whether the terms of the Alteration Consent Letters (as amended by Supplementary Letters) and the transactions contemplated thereunder (including the grant of the Specific Mandate) are in the interests of the Company and the Shareholders as a whole, being fair and reasonable so far as the Shareholders are concerned.

#### **BASIS OF OUR OPINION**

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

Our review and analyses were based upon, among others, (i) the information provided by the Group including the Circular, the Alteration Consent Letters (as amended by Supplementary Letters) and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 31 March 2023 (the “**Annual Report 2023**”); and (ii) our discussion with the Directors and the management of the Group with respect to the terms of and the reasons for entering into of the Alteration Consent Letters (as amended by Supplementary Letters). We have not, however, for the purpose of this exercise, conducted any in-depth independent investigation into the businesses or affairs and future prospects of the Group and the subscriber nor have we carried out any independent verification of the information supplied.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinions and recommendations in respect of the Alteration of Terms, we have taken into consideration of the following principal factors and reasons:

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

#### *The Alteration of Terms*

On 29 August 2023 (after trading hours), the Company and the Existing Bondholder A have agreed to amend the terms of the Existing First Convertible Bonds and the Existing Second Convertible Bonds as follows:

- (i) the Interest Rates be amended from 2% per annum to 1% per annum; and
- (ii) the maturity date of the Existing First Convertible Bonds be extended from 31 August 2023 to 31 August 2025 and the maturity date of the Existing Second Convertible Bonds be extended from 30 November 2023 to 31 August 2025.

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

#### *Background of the Group*

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

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

### *Financial performance of the Group*

Set out below is the financial information of the Group for each of the financial years ended 31 March 2022 and 31 March 2023 (“**FY2022**” and “**FY2023**”, respectively) as extracted from the Annual Report 2023:

#### *Consolidated financial performance of the Group*

	<b>FY2022</b> <i>HK\$'000</i> <i>(Audited)</i>	<b>FY2023</b> <i>HK\$'000</i> <i>(Audited)</i>
<b>Revenue</b>		
– Sales and Integration Services Business	72,193	6,384
– General Trading Business	161,733	170,419
	<hr/>	<hr/>
<b>Total revenue</b>	233,926	176,803
	<hr/>	<hr/>
<b>Loss for the year</b>	(127,427)	(51,752)

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

As set out in Table 1 above, the revenue of the Group for FY2023 decreased by approximately HK\$57.1 million or 24.4% to approximately HK\$176.8 million, as compared with approximately HK\$233.9 million for FY2022. According to the Annual Report 2023, such decrease in revenue was mainly attributable to the substantial decrease in revenue of the Sales and Integration Services Business due to the lockdown in Shanghai in the first quarter of FY2023 and the customers in such segment was located in Shanghai and needed time and resources to resume the operation gradually after the lockdown. After the unblock in Shanghai, the local government continued to implement the Zero-COVID policy till December 2022 which severely impacted the economic activities in Shanghai. As discussed with the management of the Company and the Company confirmed that following the relaxation of the anti-pandemic measures of COVID-19 in the PRC from the fourth quarter of 2022, the Group has been building up its project pipelines of the Sales and Integration Services Business.

As set out in Table 1 above, the Group recorded a consolidated net loss of approximately HK\$51.8 million for FY2023, representing a decrease of approximately HK\$75.6 million or 59.3% as compared with approximately HK\$127.4 million for FY2022. With reference to the Annual Report 2023, the decrease in net loss was mainly due to the combined effects of (a) the decrease in revenue as mentioned above; (b) absence of loss on modification of convertible bonds terms of approximately HK\$50.3 million; (c) absence of loss on issuance of convertible bonds of approximately HK\$12.6 million; and (d) the decrease in administrative expenses of approximately HK\$12.6 million.

*Consolidated financial position of the Group*

	<b>As at 31 March 2022</b>	<b>As at 31 March 2023</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
<b>Non-current assets</b>		
Property, plant and equipment	1,027	141
Right-of-use assets	2,625	3,380
	<u>3,652</u>	<u>3,521</u>
<b>Current assets</b>		
Inventories	804	–
Trade and other receivables, prepayments and deposits	119,847	68,365
Pledged bank deposit	300	300
Bank balances and cash	13,890	9,156
	<u>134,841</u>	<u>77,821</u>
<b>Total assets</b>	<b><u>138,493</u></b>	<b><u>81,342</u></b>
<b>Current liabilities</b>		
Trade and other payables	116,959	74,322
Contract liabilities	14,595	3,699
Lease liabilities	2,447	1,695
Convertible bonds	–	166,558
	<u>134,001</u>	<u>246,274</u>
<b>Non-current liabilities</b>		
Trade and other payables	3,730	4,989
Loans from ultimate holding company	1,313	12,900
Amount due to a director	1,029	10,735
Lease liabilities	217	1,668
Convertible bonds	182,303	35,572
	<u>188,592</u>	<u>65,864</u>
<b>Total liabilities</b>	<b><u>322,593</u></b>	<b><u>312,138</u></b>
<b>Net current assets/(liabilities)</b>	<b><u>840</u></b>	<b><u>(168,453)</u></b>
<b>Net liabilities</b>	<b><u>(184,100)</u></b>	<b><u>(230,796)</u></b>

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

(i) Non-current assets and current assets

As set out in Table 2, the non-current assets of the Group remained stable. The current assets of the Group decreased from approximately HK\$134.8 million as at 31 March 2022 to approximately HK\$77.8 million as at 31 March 2023, representing a decrease of approximately HK\$57.0 million or 42.3%. According to the Annual Report 2023, the decrease in current assets of the Group was mainly due to (a) the decrease of trade and other receivables, prepayments and deposits of approximately HK\$51.4 million; and (b) decrease of bank balances and cash of approximately HK\$4.7 million mainly due to the decrease in revenue of the Group for FY2023.

(ii) Non-current liabilities and current liabilities

As set out in Table 2, the non-current liabilities of Group decreased from approximately HK\$188.6 million as at 31 March 2022 to approximately HK\$65.9 million as at 31 March 2023, representing a decrease of approximately HK\$122.7 million or 65.1%. The current liabilities of the Group increased from approximately HK\$134.0 million as at 31 March 2022 to approximately HK\$246.3 million as at 31 March 2023, representing an increase of approximately HK\$112.3 million or 83.8%. The decrease in non-current liabilities of the Group and increase in current liabilities of the Group was mainly due to part of the Existing First Convertible Bonds and the Existing Second Convertible Bonds being reclassified as current liabilities during FY2023.

(iii) Debt position

The Group had total debts of approximately HK\$187.3 million and approximately HK\$229.1 million (including loans from ultimate holding company, amount due to a director, convertible bonds and lease liabilities) as at 31 March 2022 and 31 March 2023 respectively. All of these debts are interest bearing or carried an interest rate implicit in the lease liabilities. The increase in total debts was mainly due to the increase in loans from ultimate holding company and amount due to a director to support the daily operation and the payment of the expenses of the Group for FY2023.

We note that 88.2% of the total debts of the Group as at 31 March 2023 was the convertible bonds of the Company, which consists of the Existing First Convertible Bonds, the Existing Second Convertible Bonds and the Existing Third Convertible Bonds. According to the Annual Report 2023, the Existing First Convertible Bonds were issued on 31 August 2020 with an aggregate principal amount of HK\$152,000,000, which are convertible at HK\$0.048 per Conversion Share to a maximum of 3,166,666,666 Shares. The coupon rate and maturity date of the Existing First Convertible Bonds are 2% per annum and 31 August 2023 respectively before the Alteration of Terms. The Existing Second Convertible Bonds were issued on 30 November 2020 with an aggregate principal amount of HK\$23,480,000, which are convertible at HK\$0.048 per Conversion Share to a maximum of 489,166,666 Shares. The coupon rate and maturity date of the Existing Second Convertible Bonds are 2% per annum and 30 November 2023 respectively before the Alteration of Terms. Both the Existing First Convertible Bonds and the Existing Second Convertible Bonds will be redeemed at 98% of its principal amount at maturity. The Existing Third Convertible Bonds were issued on 18 January 2022 with an aggregate principal amount of HK\$42,700,000, which are convertible at HK\$0.048 per Conversion Share to a maximum of 889,583,333 Shares. The coupon rate and maturity date of the Existing Third Convertible Bonds are 2% per annum and 18 January 2025 respectively. The Existing Third Convertible Bonds will be redeemed at 100% of its principal amount at maturity.

According to the Annual Report 2023, for FY2023, the Group recorded net cash outflow from operating activities and investment activities of approximately HK\$8.8 million and HK\$6.1 million respectively. As informed by the Company, as at 30 September 2023, the Group has bank balances and cash of approximately HK\$32.5 million, which is considered not sufficient to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds upon their maturity dates. After considering (i) the net liabilities position of the Group as at 31 March 2023; (ii) the maturity dates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds; (iii) the net cash outflow from the operating activities and investing activities of the Group for FY2023; and (iv) the latest bank balances and cash of the Group, we consider the Alteration of Terms can prevent the Company from default of repayment of the Existing First Convertible Bonds and the Existing Second Convertible Bonds and provide more time for the Group to seek for and arrange the resources to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds. Therefore, the Alteration of Terms is in the interests of the Company and the Shareholders as a whole.



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

As stated in the Letter from the Board, according to the existing terms of the Existing First Convertible Bonds and the Existing Second Convertible Bonds, the Existing First Convertible Bonds in the aggregate principal amount of HK\$152,000,000 have matured on 31 August 2023 and the Existing Second Convertible Bonds in the aggregate principal amount of HK\$23,480,000 will mature on 30 November 2023. With the extension of the maturity dates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds, the financial pressure on the Company for redemption of the Existing First Convertible Bonds and the Existing Second Convertible Bonds at the maturity dates would be lessened as it can provide more time for the Group to seek for and arrange the resources for repayment since there was not sufficient cash and bank balances to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds. The net current liabilities of the Group also will be improved as the Existing First Convertible Bonds and the Existing Second Convertible Bonds will be reclassified from current liabilities to non-current liabilities after the Alteration of Terms becomes effective. Furthermore, the reduction of Interest Rates would alleviate the interest burden of the Company by providing interest savings of approximately HK\$1,754,800 per year (without taking into the account any tax adjustment). Therefore, the Board (excluding the Existing Bondholder A who had abstained from voting) considers that the Alteration of Terms is fair and reasonable and the Alteration of Terms is in the interests of the Company and the Shareholders as a whole.

We have reviewed the Alteration Consent Letters (as amended by Supplementary Letters) and the Annual Report 2023. Based on our analysis of the financial position of the Group as discussed under the section headed “(II) Background and financial performance of the Group” above, we consider that the Group would not have sufficient bank balances and cash to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds upon their maturity on 31 August 2023 and 30 November 2023 respectively. By entering into the Alteration Consent Letters (as amended by Supplementary Letters), it will provide more time for the Group to source the necessary funds for the repayment of the Existing First Convertible Bonds and Existing Second Convertible Bonds. Furthermore, by extending the maturity dates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds to 31 August 2025, subject to the market condition and the public float requirement, if the Existing First Convertible Bonds and the Existing Second Convertible Bonds are converted, the gearing of the Group will be improved.

We also note that the Alteration of Terms will reduce the Interest Rates from 2% per annum to 1% per annum. The estimated interest saving from the Alteration of Terms will be approximately HK\$1,754,800 per year. As a result, the Alteration of Terms will improve the Group’s profitability by reducing its interest expenses.

After considering the reasons for and benefits of the Alteration of Terms as discussed above, we consider that entering into the Alteration Consent Letters (as amended by Supplementary Letters) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### ***(i) Fund raising activities of the Company in the past 12 months***

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

*(ii) Other financing alternatives*

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

*(a) Debt financing*

The Directors have considered that (1) further debt financing may not be available given that the Group's net liabilities position; and (2) the cost of debt financing may increase together with additional requirements with asset pledging or guarantees to be provided by the Group as compared with the Interest Rates. Therefore, the Directors are of the view that the debt financing from financial institutions are of limited accessibility and undesirable effects and such funding method is not in the interests of the Company and the Shareholders as a whole.

*(b) Placing of new Shares*

The Directors have considered that given that the Group's net liabilities position, the placing agent may face difficulties and take time to seek for potential investor(s) and the potential investor(s) may require a substantial placing discount to the trading price of the Shares, and such discount may be more than 20%. The Directors also consider it is higher cost to arrange a placing of new Shares, as the placing agent would charge commission with reference to certain percentages of the amount of the fund raising, as compared with no additional cost from the Alteration of Terms, and the placing of new Shares will cause immediately dilution to the shareholding of existing Shareholders. Therefore, rather than conducting placing of new shares to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds, the Directors consider entering into the Alteration Consent Letters (as amended by Supplementary Letters) are in the interests of the Company and the Shareholders as a whole.

*(c) Rights issue or open offer*

With regard to the viability of a rights issue or an open offer, the Directors have considered that given that the Group's net liabilities position, fund raising from a rights issue or an open offer may not be desirable. Furthermore, a rights issue or open offer will require (1) more documentation is typically required for the rights issue or an open offer; (2) it generally takes longer time to arrange rights issue or open offer than the Alteration of Terms; and (3) it is more costly to arrange a rights issue or open offer than the Alteration of Terms as it is expected that the Company would incur higher cost to arrange a rights issue or an open offer as more professional parties would need to be engaged in an open offer or a rights issue.

### *Conclusion*

Given the net liabilities position of the Group as at 31 March 2023, we consider that it is difficult for the Company to obtain external financing to settle the Existing First Convertible Bonds and the Existing Second Convertible Bonds under the current market condition. Furthermore, the Alteration of Terms will provide more time for the Group to seek for financial resources and to conduct suitable fund raising when the Group's financial performance and market condition improves in the future. Therefore, we concur with the Directors' view that the Alteration of Terms is more preferable than the above financing alternatives.

#### **(IV) Major terms of the Alteration Consent Letters (as amended by Supplementary Letters)**

On 29 August 2023 (after trading hours), the Company and the Existing Bondholder A have entered into the Alteration Consent Letters and conditionally agreed to amend the terms of the Existing First Convertible Bonds and the Existing Second Convertible Bonds as follows:

- (i) the Interest Rates be amended from 2% per annum to 1% per annum; and
- (ii) the maturity date of Existing First Convertible Bonds be extended from 31 August 2023 to 31 August 2025 and the maturity date of the Existing Second Convertible Bonds be extended from 30 November 2023 to 31 August 2025.

Apart from the Alteration of Terms above, all other terms and conditions of the Existing First Convertible Bonds and the Existing Second Convertible Bonds shall remain unchanged and in full force and effect. For details of the salient terms of the Existing First Convertible Bonds and the Existing Second Convertible Bonds after Alteration of Terms, please refer to the section headed "PROPOSED ALTERATION TO THE TERMS OF THE EXISTING FIRST CONVERTIBLE BONDS AND THE EXISTING SECOND CONVERTIBLE BONDS" in the Letter from the Board. The financial effect of the Alteration of the Terms will be further discussed under the section headed "(VI) Financial effects as a result of the Alteration of Terms" below in this letter.

The Alteration of Terms are conditional upon the fulfilment of the following conditions:

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

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

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

On 13 October 2023, the Company and the Existing Bondholder A entered into the Supplementary Letters pursuant to which the parties agreed to extend the long stop date to 30 November 2023 (or such other date as may be agreed by the Company and the Existing Bondholder A). Save for the above changes, all other terms and the conditions of the Alteration Consent Letters shall remain unchanged and in full force and effect.

Pursuant to the 2021 Specific Mandate, the Company is entitled to allot and issue 3,166,666,666 Shares or 395,833,333 Consolidated Ordinary Shares (subject to the Share Consolidation becoming effective) and 489,166,666 Shares or 61,145,833 Consolidated Ordinary Shares (subject to the Share Consolidation becoming effective) which may be issued by the Company upon full exercise of the conversion rights attached to the Existing First Convertible Bonds and the Existing Second Convertible Bonds respectively. As at the Latest Practicable Date, none of the 2021 Specific Mandate has been utilised.

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

To assess the fairness and reasonable of the key terms of the Alteration Consent Letters (as amended by Supplementary Letters), we have identified a list of issue, placing and subscription of convertible bonds/notes exercises as announced by companies listed on the Stock Exchange during last three-month immediately preceding 29 August 2023, the date of the Alteration Consent Letters (the “**Comparable Period**”). We consider that the Comparable Period is appropriate (i) to reflect the prevailing market conditions and sentiments in the Hong Kong stock market; (ii) to provide a general reference of the recent convertible securities transactions being conducted under similar market conditions; and (iii) to generate a reasonable and meaningful number of samples for the purpose of our analysis. In our assessment, we have searched for companies which (i) are listed on the Stock Exchange; (ii) the transaction involved an issue of convertible securities to raise funds; and (iii) the duration of the convertible bonds/notes is not perpetual. We have excluded perpetual convertible bonds/notes in our analysis as they are considered not comparable to the Alteration of Terms in terms of the credit risk and interest rate risk incurred from the maturity of the convertible bonds/notes. Based on these criteria and the public information available on the Stock Exchange’s website, to the best of our endeavours, we have identified an exhaustive list of a total of 19 convertible securities (the “**Comparable Transactions**”). Set out below is the Comparable Transactions analysis:

Date of announcement	Stock code	Name of company	Subscriber(s) are connected person	Duration (years)	Interest rate per annum
16 August 2023	511	Television Broadcasts Limited	No	5	3.5%
8 August 2023	8103	hmvod Limited	No	1	3.0%
28 July 2023	138	CCT Fortis Holdings Limited	No	1	4.5%

<b>Date of announcement</b>	<b>Stock code</b>	<b>Name of company</b>	<b>Subscriber(s) are connected person</b>	<b>Duration (years)</b>	<b>Interest rate per annum</b>
27 July 2023	399	Innovative Pharmaceutical Biotech Limited	Yes	10	0.0%
25 July 2023	126	Carrianna Group Holdings Company Limited	No	1	6%
18 July 2023	274	Renaissance Asia Silk Road Group Limited	No	3	2.5%
14 July 2023	8163	Noiz Group Limited	Yes	2	0.0%
11 July 2023	1119	iDreamSky Technology Holdings Limited	No	5	5.0%
3 July 2023	1991	Ta Yang Group Holdings Limited	No	3	10.0%
28 June 2023	2186	Luye Pharma Group Limited	No	5	6.3%
23 June 2023	8003	Great World Company Holdings Limited	No	3	0.0%
23 June 2023	508	Dingyi Group Investment Limited	Yes	3	5.5%
19 June 2023	8368	Creative China Holdings Limited	Yes	2	2.0%
13 June 2023	1918	Sunac China Holdings Limited	Yes	9	1.0%
12 June 2023	343	Culturecom Holdings Limited	No	2	8.0%
11 June 2023	1873	Viva Biotech Holdings	No	0.5	2.0%
9 June 2023	1539	Unity Group Holdings International Limited	No	2	8.0%

Date of announcement	Stock code	Name of company	Subscriber(s) are connected person	Duration (years)	Interest rate per annum
6 June 2023	63	China Asia Valley Group Limited	Yes	5	3.6%
2 June 2023	8445	Noble Engineering Group Holdings Limited	No	2	8.0%
			<b>Maximum:</b>	<b>10</b>	<b>10.0%</b>
			<b>Minimum:</b>	<b>0.5</b>	<b>0.0%</b>
			<b>Average:</b>	<b>3.4</b>	<b>4.2%</b>
29 August 2023	1013	The Company	Yes	Extension of approximately 2 years for Existing First Convertible Bonds and approximately 1.75 years for the Existing Second Convertible Bonds	To be reduced from 2.0% to 1.0%

As shown in the table above, we note that the duration of the Comparable Transactions ranged from half year to 10 years with an average duration of 3.4 years, which the proposed extension of the Existing First Convertible Bonds and the Existing Second Convertible Bonds under the Alteration Consent Letters (as amended by Supplementary Letters) is within the range and less than the average. We also note that the interest rates of the Comparable Transactions ranged from nil to 10.00% per annum, with an average of approximately 4.2% per annum, which the proposed interest rates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds under the Alteration Consent Letters (as amended by Supplementary Letters) are within the range and less than the average. Therefore, the Alteration of Terms is conducted on a normal commercial term.

Shareholders should note that the financial position, business, operations, and prospects of listed companies of the Comparable Transactions may not be identical to those of the Group and we have not conducted any in-depth investigation into the respective businesses and operations of the companies of each Comparable Transactions. In particular, as discussed above, the Group does not have sufficient cash and cash equivalents to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds upon their maturity dates, which may result in potential default in repayment. However, we consider that the Comparable Transactions could still provide a general reference as to the common market practice in respect of the terms of convertible bonds/notes issued by companies listed in Hong Kong as compared with the Alteration of Terms.

**(V) Shareholding structure and the possible dilution effect of the Existing Convertible Bonds**

**A. Assuming there is no change in the issued share capital of the Company and Share Consolidation not becoming effective**

For illustration purposes only, assuming that the Share Consolidation not becoming effective, the below table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the full conversion of the outstanding Existing First Convertible Bonds and the Existing Second Convertible Bonds at the Conversion Price (assuming there being no other issue or repurchase of Shares); and (iii) immediately after full exercise of all the outstanding Existing Convertible Bonds at the Conversion Price (assuming there being no other issue or repurchase of Shares):

Name of Shareholder	(i) As at the Latest Practicable Date		(ii) Immediately after full exercise of the Existing First Convertible Bonds and the Existing Second Convertible Bonds (Note 3)		(iii) Immediately after full exercise of all the Existing Convertible Bonds (Note 3)	
	Number of Shares		Number of Shares		Number of Shares	
	Approximate %	Approximate %	Approximate %	Approximate %	Approximate %	Approximate %
Existing Bondholder B (Note 1)	1,554,338,600	72.66	1,554,338,600	26.82	2,443,921,933	36.56
Existing Bondholder A (Note 2)	38,481,000	1.80	3,694,314,332	63.75	3,694,314,332	55.27
	<u>1,592,819,600</u>	<u>74.46</u>	<u>5,248,652,932</u>	<u>90.57</u>	<u>6,138,236,265</u>	<u>91.83</u>
Other Public Shareholders (Note 4)	546,296,648	25.54	546,296,648	9.43	546,296,648	8.17
<b>Total</b>	<u><u>2,139,116,248</u></u>	<u><u>100.00</u></u>	<u><u>5,794,949,580</u></u>	<u><u>100.00</u></u>	<u><u>6,684,532,913</u></u>	<u><u>100.00</u></u>

*Notes:*

- (1) The Existing Bondholder B, Ka Chun, a company owned as to 100% by Wai Chun Investment Fund, which is wholly-owned by the Existing Bondholder A, Mr. Lam Ching Kui, and holds 1,554,338,600 Shares.
- (2) The Existing Bondholder A is the ultimate controlling shareholder of the Company and directly holds 38,481,000 Shares.
- (3) Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
- (4) Pursuant to the terms and conditions of the Existing Convertible Bonds, the bondholders shall not exercise the Conversion Rights if, as a result of such exercise, it will cause the public float of the Company to fall below the percentage prescribed under the Listing Rules.

**B. Assuming Share Consolidation becoming effective**

For illustration purposes only, assuming that the Share Consolidation becoming effective, the below table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Consolidation becoming effective; (iii) immediately after the Share Consolidation becoming effective and the full conversion of the Existing First Convertible Bonds and the Existing Second Convertible Bonds at the Conversion Price (assuming there being no other issue or repurchase of Shares); and (iv) immediately after the Share Consolidation becoming effective and full exercise of all the outstanding Existing Convertible Bonds at the Conversion Price (assuming there being no other issue or repurchase of Shares):

Name of Shareholder	(i) As at the Latest Practicable Date		(ii) Immediately after the Share Consolidation becoming effective		(iii) Immediately after the Share Consolidation becoming effective and full exercise of the Existing First Convertible Bonds and the Existing Second Convertible Bonds (Note 3)		(iv) Immediately after the Share Consolidation becoming effective and full exercise of all the Existing Convertible Bonds (Note 3)	
	Number of		Number of		Number of		Number of	
	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %	Shares	Approximate %
Existing Bondholder B (Note 1)	1,554,338,600	72.66	194,292,325	72.66	194,292,325	26.82	305,490,241	36.56
Existing Bondholder A (Note 2)	38,481,000	1.80	4,810,125	1.80	461,789,291	63.75	461,789,291	55.27
	<u>1,592,819,600</u>	<u>74.46</u>	<u>199,102,450</u>	<u>74.46</u>	<u>656,081,616</u>	<u>90.57</u>	<u>767,279,532</u>	<u>91.83</u>
Other Public Shareholders (Note 4)	546,296,648	25.54	68,287,081	25.54	68,287,081	9.43	68,287,081	8.17
<b>Total</b>	<u>2,139,116,248</u>	<u>100.00</u>	<u>267,389,531</u>	<u>100.00</u>	<u>724,368,697</u>	<u>100.00</u>	<u>835,566,613</u>	<u>100.00</u>

*Notes:*

- (1) The Existing Bondholder B, Ka Chun, a company owned as to 100% by Wai Chun Investment Fund, which is wholly-owned by the Existing Bondholder A, Mr. Lam Ching Kui, and holds 1,554,338,600 Shares or 194,292,325 Consolidated Ordinary Shares (subject to the Share Consolidation becoming effective).
- (2) The Existing Bondholder A is the ultimate controlling shareholder of the Company and directly holds 38,481,000 Shares or 4,810,125 Consolidated Ordinary Shares (subject to the Share Consolidation becoming effective).
- (3) Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
- (4) Pursuant to the terms and conditions of the Existing Convertible Bonds, the bondholders shall not exercise the Conversion Rights if, as a result of such exercise, it will cause the public float of the Company to fall below the percentage prescribed under the Listing Rules.



As stated in the Letter from the Board, if the Existing First Convertible Bonds and the Existing Second Convertible Bonds are fully converted at the Conversion Price of HK\$0.048 per Conversion Share or HK\$0.384 per Conversion Share upon Share Consolidation becoming effective, a maximum of 3,655,833,332 Conversion Shares or 456,979,166 Conversion Share upon Share Consolidation becoming effective, will be allotted and issued upon exercise of the Conversion Rights in full, which represents:

- (i) approximately 170.9% of the issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 63.1% of the issued share capital of the Company as to be enlarged by the issue of the 3,655,833,332 Conversion Shares or 456,979,166 Conversion Shares upon Share Consolidation becoming effective (assuming there being no other issue or repurchase of Shares).

If all the outstanding Existing Convertible Bonds are fully converted at the Conversion Price of HK\$0.048 per Conversion Share or HK\$0.384 per Conversion Share upon Share Consolidation becoming effective, a maximum of 4,545,416,665 Conversion Shares or 568,177,082 Conversion Shares upon Share Consolidation becoming effective will be allotted and issued upon exercise of the Conversion Rights attached to all the outstanding Existing Convertible Bonds in full, which represents:

- (iii) approximately 212.5% of the issued share capital of the Company as at the Latest Practicable Date; and
- (iv) approximately 68.0% of the issued share capital of the Company as to be enlarged by the issue of the 4,545,416,665 Conversion Shares or 568,177,082 Conversion Shares upon Share Consolidation becoming effective (assuming there being no other issue or repurchase of Shares).

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

We have discussed with the Company and the Company has confirmed that the Existing Bondholder A may not be able to convert the Existing First Convertible Bonds and the Existing Second Convertible Bonds in full in view of the restriction on conversion if the Company encounters insufficient public float. For indicative purposes only, due to the public float requirement under the Listing Rules, the Existing Bondholder A may convert up to approximately 46,070,344 Conversion Shares or 5,758,793 Conversion Shares upon Share Consolidation becoming effective (equivalent to the principal amount of the Existing First Convertible Bonds and the Existing Second Convertible Bonds of approximately HK\$2.2 million) as at the Latest Practicable Date. Therefore, the dilution to the shareholding of the Independent Shareholders is limited assuming the Existing First Convertible Bonds and/or the Existing Second Convertible Bonds are converted as at the Latest Practicable Date. However, it also limits the availability of conversion of the Existing First Convertible Bonds and the Existing Second Convertible Bonds to reduce the repayment amount upon their maturity dates. Furthermore, given that the existing Conversion Price of HK\$0.048 per Conversion Share is higher than the closing price of HK\$0.034 and HK\$0.027 per Existing Ordinary Share as at the date of the Alteration Consent Letters, i.e. 29 August 2023, and the Latest Practicable Date, respectively, which both are out-of-money situation, it is unlikely that the Existing Bondholder A will agree to convert the Existing First Convertible Bonds and/or the Existing Second Convertible Bonds before the maturity dates. Even though the closing price of the Existing Ordinary Shares has reached above the existing Conversion Price of HK\$0.048 per Conversion Share for 11 trading days over the period of 161 trading days from 3 January 2023 to the date of the Alteration Consent Letters (both dates inclusive), there is no trading day that the closing price has reached above the existing Conversion Price in August 2023 and the conversion of the Existing First Convertible Bonds and the Existing Second Convertible Bonds is at the sole discretion of the Existing Bondholder A and is also restricted by the public float as discussed above. Given the original maturity dates of the Existing First Convertible Bonds and the Existing Second Convertible Bonds, the Alteration of Terms would allow the Group to have more time to seek for and arrange the resources to repay the Existing First Convertible Bonds and the Existing Second Convertible Bonds.

In view of the reasons for and benefits of entering into the Alteration Consent Letters (as amended by Supplementary Letters) as set out above, the restriction of the minimum public float requirement under the terms of the Existing First Convertible Bonds and the Existing Second Convertible Bonds and the out-of-money situation, we consider the Alteration of Terms is fair and reasonable.

#### **(VI) Financial effects as a result of the Alteration of Terms**

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

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

It is expected that the Alteration of Terms will not have an immediate material impact on the net asset value and gearing of the Group. However, after extension of the Existing First Convertible Bonds and the Existing Second Convertible Bonds, the entire amount of the convertible bonds in the current liabilities will be reclassified as non-current liabilities. The net current liabilities will be reduced from approximately HK\$168.5 million as at 31 March 2023 to approximately HK\$1.9 million.

*(ii) Earnings*

As the Interest Rates are reduced from 2% per annum to 1% per annum under the Alteration Consent Letters (as amended by Supplementary Letters), the earnings of the Group will be improved by the interest saving of approximately HK\$1,754,800 per year (without taking into the account of any tax adjustment resulted from the interest saving).

After considering the benefits of interest saving and extension of the Existing First Convertible Bonds and the Existing Second Convertible Bonds as illustrated above, we consider the Alteration of Terms is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**RECOMMENDATION**

Having taken into account the principal factors and reasons as discussed above, in particular, (i) the financial position of the Group; (ii) the reasons for and benefits of the Alteration of Terms; and (iii) terms of the Alteration Consent Letters (as amended by Supplementary Letters) and the financial effects of the Alteration of Terms, we are of the view that although the Alteration Consent Letters (as amended by Supplementary Letters) and the transactions contemplated thereunder (including the grant of the Specific Mandate) are not in the ordinary and usual course of business of the Group, the terms are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

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.*