



MERDEKA CORPORATE FINANCE LIMITED

领智企业融资有限公司

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31 May 2024

*To: The Independent Board Committee and the Independent Shareholders of
Green Leader Holdings Group Limited*

Dear Sirs/Madams,

**CONNECTED TRANSACTIONS
IN RELATION TO PROPOSED EXTENSION OF
MATURITY DATE OF CONVERTIBLE NOTES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the CN Extensions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of Green Leader Holdings Group Limited (the “**Company**”) to the Shareholders dated 31 May 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 otherwise requires.

Reference is made to the Announcement, on 24 April 2024 (after trading hours of the Stock Exchange), the Company, China OEPC and Ms. Hao entered into the Amendment Deeds, pursuant to which the Company, China OEPC and Ms. Hao conditionally agreed to extend the maturity date of the Convertible Notes from 20 October 2022 to the CN Extended Maturity Date (i.e. the date falling on the second (2nd) anniversary of the date of Completion) with all other terms and conditions of the Convertible Notes unchanged.

As at the Latest Practicable Date, China OEPC is a substantial Shareholder holding 94,292,961 Shares, represents approximately 17.92% of the issued share capital of the Company, which in turn is indirectly wholly-owned by Mr. Zhang, an executive Director, and Ms. Hao is the spouse of Mr. Zhang and therefore an associate of Mr. Zhang. As such, each of China OEPC and Ms. Hao is a connected person of the Company. Accordingly, the Amendment Deeds constitute connected transactions of the Company under the Listing Rules and are subject to announcement, reporting 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. The Company will make an application for the approval of the proposed CN Extensions.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Ho Kin Cheong Kelvin, Mr. Shen Weidong and Mr. Tian Hong, has been established to advise the Independent Shareholders as to whether the terms of the Amendment Deeds and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to whether or not (i) the CN Extensions were entered into in the ordinary and usual course of business of the Group and on normal commercial terms, (ii) the terms of the CN Extensions are fair and reasonable and in the interests of the Company the Shareholders as a whole, and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the CN Extensions and the transactions contemplated thereunder at the SGM.

OUR INDEPENDENCE

We, Merdeka, are not connected with the Directors, chief executive, or substantial Shareholders of the Company or any of their respective associates, and therefore are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interests between the Company and us nor any other parties that could reasonably be regarded as a hindrance to our independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. In the last two years, we were not engaged by the Company for the provision of other services that would affect our independence. Apart from normal professional fees payable to us in connection with this appointment of us as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the proposed CN Extensions and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary. These procedures and steps include, among other things, review of relevant agreements, documents as well as information provided by the Company and verifying them, to an extent, with the relevant public information, statistics and market data, industry guidelines and rules, and regulations as well as information, facts, and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group (the “**Management**”). The documents reviewed include but are not limited to, (i) the Amendment Deeds; (ii) the annual report of the Company for the year ended 31 December 2023 (the “**Annual Report 2023**”); (iii) other relevant information as set out in the Circular; and (iv) other relevant public information. We have assumed that all statements of belief, opinion, expectation, and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, the Management and/or the Directors, which have been provided to us.

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, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of an in-depth investigation into the business and affairs or the future prospects of the Group.

This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of CN Extensions and the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent. Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS TAKEN INTO CONSIDERATION

In arriving at our opinion and recommendation regarding the CN Extensions and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

1. Background information of the parties involved

1.1. the Group

Background information of the Group

The Group is principally engaged in (i) the development of cassava cultivation and deep processing business for the related ecological cycle industry chain; (ii) coal exploration and development, sales of coking coal and other coal products and the provision of coal related services; and (iii) the sales of information technology products and provision of system integration services, technology services, software development and solution services.

Historical financial performance of the Group

The following table summarises the consolidated financial results of the Group for the year ended 31 December 2023 (“FY2023”) and 2022 (“FY2022”), which are extracted from the 2023 Annual Report.

Table 1: Consolidated financial result of the Group

| | For the year ended 31 December | |
|---|--------------------------------|-----------|
| | 2023 | 2022 |
| | HK'000 | HK'000 |
| | (audited) | (audited) |
| Revenue | 1,463,280 | 2,305,799 |
| Gross profit | 21,968 | 767,973 |
| (Loss)/profit before taxation | (3,976,091) | 575,714 |
| (Loss)/profit for the year | (3,339,315) | 347,694 |
| (Loss)/profit for the year attributable to: | (3,339,315) | 347,694 |
| – Owners of the Company | (1,803,269) | (229,533) |
| – Non-controlling interests | (1,536,046) | 577,227 |

FY2023 and FY2022

For FY2023, the Group's revenue, which was generated from the mining operation and mainly came from Fuchang Mine and Liaoyuan Mine, amounted to approximately HK\$1.46 billion (FY2022: approximately HK\$2.31 billion), representing a decrease of approximately 36.5%. The decrease in revenue is mainly due to the decrease in the selling price and production units of mining products throughout FY2023.

For FY2023, the Group recorded a gross profit of approximately HK\$21.97 million with a gross profit ratio of 1.5% (FY2022: approximately HK\$767.97 million with a gross profit ratio of 33.3%). The decrease in gross profit and gross profit ratio is mainly due to the decrease in the selling price of mining products and the increase in production costs per production unit during the year.

For FY2023, the loss attributable to owners of the Company was approximately HK\$1.80 billion (FY2022: approximately HK\$229.53 million), mainly due to decrease in revenue and gross profit generated from mining operations and the change from reversal of impairment loss on mining rights and property, plant and equipment (“PPE”) of approximately HK\$1.13 billion for FY2022 to impairment loss on mining rights and PPE of approximately HK\$2.86 billion for FY2023.

Table 2: Consolidated financial position of the Group

| | As at 31 December 2023 (HK\$'000) (audited) | As at 31 December 2022 (HK\$'000) (audited) |
|-----------------------------|--|--|
| TOTAL ASSETS | 5,222,570 | 8,969,435 |
| Non-current assets | 4,519,499 | 8,261,323 |
| Current assets | 703,071 | 708,112 |
| – Cash and cash equivalents | 101,430 | 161,675 |
| TOTAL LIABILITIES | 8,936,183 | 9,435,125 |
| Non-current liabilities | 1,061,475 | 1,628,426 |
| Current liabilities | 7,874,708 | 7,806,699 |
| NET LIABILITIES | (3,713,613) | (465,690) |

As illustrated above, the total assets of the Group amounted to approximately HK\$5.22 billion as at 31 December 2023, representing a decrease of approximately 41.77% as compared to approximately HK\$8.97 billion as at 31 December 2022. As advised by the Management, such decrease was primarily attributed to the decrease in coal prices, which notably impacted the valuation of the Group’s intangible assets and PPE relating to the Group’s coal mining operations. The lower coal prices led to a decrease in the value in use of the Group’s intangible assets, such as mining rights as well as PPE, reflecting a decrease in their recoverable amounts. The Group’s cash and cash equivalents as at 31 December 2023 were approximately HK\$101.43 million (as at 31 December 2022: approximately HK\$161.68 million).

Meanwhile, the Group's total liabilities reduced by approximately 5.29% to approximately HK\$8.94 billion as at 31 December 2023 from approximately HK\$9.44 billion as at 31 December 2022. As at 31 December 2023, the Group's total borrowings (including amount due to a director, amounts due to non-controlling interests, other borrowings, amounts due to related companies, and lease liabilities) amounted to approximately HK\$6.51 billion, representing a decrease of approximately 1.06% as compared to the total borrowings of the Group amounting to HK\$6.58 billion as at 31 December 2022. As advised by the Management, the non-current liabilities increased due to the acquisition of construction machinery and materials for Bolong Mine. Anticipating the forthcoming completion of the trial run in the first half of 2024, the Group proactively invested in additional machinery to facilitate the site's operational readiness. Consequently, certain amounts were allocated toward the procurement and installation of machinery. However, this increase in liabilities was more than offset by a significant decrease in deferred tax liabilities resulting from the impairment losses recognised in respect of PPE and intangible assets. As a result, the total liabilities amount decreased.

The Group recorded net liabilities position as at 31 December 2022 and 2023, respectively. As at 31 December 2023, the net liabilities of the Group amounted to approximately HK\$3.71 billion, representing a substantial increase of approximately 697.44% as compared to the net liabilities of approximately HK\$465.69 million as at 31 December 2022 due to the combined effects as mentioned above.

1.2. China OEPC

China OEPC, being one of the Noteholders, is indirectly wholly-owned by Mr. Zhang. China OEPC is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holdings.

As at the Latest Practicable Date, China OEPC is a substantial Shareholder holding 94,262,961 Shares, representing approximately 17.92% of the issued share capital of the Company. China OEPC also holds the Convertible Notes in the outstanding principal amount of HK\$380,000,000 which have fallen due on 20 October 2022. Accordingly, China OEPC is a connected person of the Company.

1.3. Ms. Hao

Ms. Hao, being one of the Noteholders, is the spouse of Mr. Zhang. Accordingly, Ms. Hao is a connected person of the Company.

2. Reasons for and benefits of Amendment Deeds

As set out in the Board Letter, the Convertible Notes reached the maturity date on 20 October 2022 pursuant to the existing terms and conditions of the Convertible Notes and remains outstanding in full as at the Latest Practicable Date. As disclosed in the 2023 Annual Report, the Company has cash and cash equivalents of approximately HK\$101.43 million, among which approximately HK\$98.37 million was held by Shanxi Coal Transportation and Marketing Group Energy Investment Development Company Limited* (山西煤炭運銷集團能源投資開發有限公司) and its subsidiaries (“**Shanxi Coal Group**”) and approximately HK\$3.06 million was held by the Group other than Shanxi Coal Group. As disclosed in the announcements of the Company dated 19 January 2024 and 7 February 2024, the Group no longer has control over the board of directors of Shanxi Coal Group since 19 January 2024. As such, the cash and cash equivalents held by Shanxi Coal Group is not controlled by the Group and the Company does not have sufficient internal resources to redeem all the Convertible Notes. Further, the Group has approached a number of financial institutions and/or other investor(s) as to the external facilities and/or fund raising opportunities but no agreement can be reached with such financial institutions and/or other investor(s). Having considered (i) the prevailing interest rate in Hong Kong with the Hong Kong Dollars Best Lending Rate quoted by The Hong Kong and Shanghai Banking Corporation Limited of 5.875% and the Convertible Notes is interest free, such that if the settlement of the Convertible Notes is financed by the interest bearing debt financing, substantial interest expenses will be incurred by the Group; and (ii) the aggregate outstanding principal amount of the Convertible Notes in the amount of HK\$395.0 million and the market capitalisation of the Company which is approximately HK\$36.8 million as at the Latest Practicable Date, such that a very large scale equity fundraising activity would be required to generate fund to settle the Convertible Notes with serious implication on the feasibility as well as the costs and time required, the Company considers that equity financing and debt financing would not be an attractive option for the settlement of the Convertible Notes. Taking into account the aforesaid, the financial position of the Group and given the size of the Convertible Notes, the Directors consider it impracticable to secure third party financing on terms favourable to the Company to settle the Convertible Notes.

As such, the CN Extensions will enable the Group to postpone a substantial cash outflow which would otherwise strain its financial resources, and allow the Group to have reasonable time to improve its business performance and financial position. The CN Extensions will also allow the Company to have more financial flexibility. The Company considers that it is in the interests of the Company and its Independent Shareholders as a whole to utilise its resources for business development and other business opportunities in order to maximise returns to its Shareholders. As such, the CN Extensions will allow the Group to have additional time to develop its business instead of repaying the Convertible Notes.

As set out in the Board Letter, in the event that the Amendment Deeds are not approved by the Independent Shareholders at the SGM, the Company will continue to negotiate with China OEPC and Ms. Hao on the settlement, amendment and extension of the Convertible Notes.

Having considered that (i) all the terms of the Convertible Notes shall remain unchanged save as revised by the CN Extensions; (ii) the entering into the Amendment Deeds will not incur any interest burden for the Group for the next two years from the date of Completion; (iii) the Group has experienced loss and has recorded net liabilities position in the recent few years, hence the repayment of the Convertible Notes would result in an immediate outflow of cash, reducing the Group's working capital and cash resources and hampering its business development; (iv) the Group lacks adequate internal resources to fully repay all the outstanding Convertible Notes with a principal amount of HK\$395.0 million as the Group's cash and cash equivalents only amounted to approximately HK\$101.43 million as at 31 December 2023 and the Group loses its control over cash and cash equivalents of approximately HK\$98.37 million held by Shanxi Coal Group after losing its control over the board of directors of Shanxi Coal Group in January 2024; (v) facing with the expired maturity date of the Convertible Notes on 20 October 2022 and the urgent need to redeem the Convertible Notes, the Company diligently pursued other external facilities and/or fund raising opportunities by approaching financial institutions and/or other investor(s) but no agreement has been reached, and (vi) the terms of the CN Extensions contemplated under the Amendment Deeds are fair and reasonable as discussed below, we concur with the Directors' view that the Amendment Deeds are entered into upon normal commercial terms following arm's length negotiations between the Company and the Noteholders and that the terms and conditions of the Amendment Deeds are fair and reasonable so far as the Independent Shareholders are concerned and the extension of the maturity date of the Convertible Notes are in the interests of the Company and the Shareholders as a whole.

3. The Amendment Deeds

3.1 Principle terms of the Amendment Deeds

On 24 April 2024 (after trading hours of the Stock Exchange), the Company, China OEPC and Ms. Hao entered into the Amendment Deeds, pursuant to which the Company, China OEPC and Ms. Hao conditionally agreed to extend the maturity date of the Convertible Notes from 20 October 2022 to the CN Extended Maturity Date (i.e. the date falling on the second (2nd) anniversary of the date of Completion) with all other terms and conditions of the Convertible Notes unchanged. The terms of the Amendment Deeds (including the CN Extended Maturity Date) were determined after arm's length negotiation among the Company, China OEPC and Ms. Hao, having considered the aggregate outstanding principal amount of the Convertible Notes of HK\$395.0 million, the financial position of the Company with limited cash and cash equivalents available, and the Convertible Notes is interest free. In particular, the CN Extended Maturity Date was reached with a view to allow time for the Group to generate sufficient fund for the settlement of the Convertible Notes while at the same time having due regard to the Noteholders' rights in recovering the amount due under the Convertible Notes.

The amendments as set out in the Amendment Deeds shall be conditional upon and subject to:

- (a) the Stock Exchange having approved the CN Extensions as contemplated by the Amendment Deeds;
- (b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the CN Conversion Shares to be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes as amended and supplemented by the Amendment Deeds;
- (c) the passing by the Independent Shareholders of relevant resolution(s) at the SGM in compliance with the requirements of the Listing Rules approving the Amendment Deeds and the transactions contemplated thereunder and the Specific Mandate;
- (d) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Amendment Deeds and the transactions contemplated thereunder having been obtained; and
- (e) all necessary consents and approvals required to be obtained on the part of the Noteholders in respect of the Amendment Deeds and the transactions contemplated thereunder having been obtained.

The conditions precedent set out above are incapable of being waived. If any of the above conditions are not fulfilled on or before the Long Stop Date, then the Amendment Deeds will automatically cease and terminate and the parties thereto shall be released from all obligations and liabilities thereunder, if any, save for the liabilities for any antecedent breaches.

As at the Latest Practicable Date, none of the conditions precedent set out above are fulfilled.

Completion of the Amendment Deed entered into with China OEPC and completion of the Amendment Deed entered into with Ms. Hao is not inter-conditional with each other.

3.2 Principle terms of the Convertible Notes immediately after the CN Extensions

As mentioned in the Board Letter, all the terms of the Convertible Notes shall remain unchanged save as revised by the CN Extensions. The principal terms of the Convertible Notes as disclosed in the announcement of the Company dated 22 July 2020 and the circular of the Company dated 30 September 2020 are summarized below (with only the initial maturity date of the Convertible Notes (i.e. 20 October 2022) revised to the CN Extended Maturity Date), details of which are set out as follows:

| | | |
|------------------|---|---|
| Issuer | : | the Company |
| Principal amount | : | HK\$395,000,000 in aggregate of which |
| | | (i) HK\$380,000,000 held by China OEPC; and |
| | | (ii) HK\$15,000,000 held by Ms. Hao. |

| | | |
|-----------------|---|--|
| Maturity Date | : | The Convertible Notes shall mature on the second anniversary of the date of Completion. |
| Redemption | : | <p>The Company may at any time before the maturity date redeem the Convertible Notes (in whole or in part) at 100% to the principal amount of the respective part of the Convertible Notes to be redeemed.</p> <p>Any amount of the Convertible Notes which remains outstanding on the maturity date shall be redeemed at 100% of its then outstanding principal amount.</p> <p>Any amount of the Convertible Notes which is redeemed by the Company will be forthwith cancelled.</p> |
| Interest | : | The Convertible Notes shall not bear any interest. |
| Transferability | : | <p>The Convertible Notes may be assigned or transferred to any transferee subject to prior notification to the Company. The Convertible Notes may not be assigned or transferred to any connected person of the Company (as defined under the Listing Rules) without prior written consent of the Company.</p> <p>Any written consent may be given by the Company will be subject to compliance with all necessary requirements under the Listing Rules, in particular, Chapter 14A of the Listing Rules.</p> |
| Conversion | : | <p>Provided that (i) any conversion of the Convertible Notes does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Noteholder which exercised the conversion rights; and (ii) 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 the Listing Rules and the right of the Company to redeem, the holder of the Convertible Notes shall have the right at any time from the date of issue of the Convertible Notes up to five (5) business days prior to the maturity date to convert the whole or part of the outstanding principal amount of the Convertible Notes registered in its name into Shares.</p> |

Conversion Price

The Convertible Notes shall be converted at the Conversion Price.

Upon issue of the Convertible Notes, the initial Conversion Price will be HK\$0.22 per Conversion Share (subject to adjustments).

The Conversion Price shall be adjusted as provided in the Convertible Notes instrument in each of the following cases:

- (i) an alteration of the number of the Shares by reason of any consolidation or subdivision, the Conversion Price in force immediately prior thereto shall be adjusted by the following fraction:

$$\frac{X}{Y}$$

Where:

X = the number of Shares in issue immediately before such consolidation or subdivision; and

Y = the number of Shares in issue immediately after such consolidation or subdivision;

- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{A+B}$$

where:

A = the aggregate number of the Shares in issue immediately before such issue; and

B = the aggregate number of the Shares to be issued in connection with and as a result of such capitalisation;

(iii) a capital distribution (as defined in the Convertible Notes instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of the Shares in their capacity as such, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{C-D}{D}$$

where:

C = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date next preceding the date of the capital distribution or, as the case may be, of the grant; and

D = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by an approved merchant bank) or the auditors of the Company for the time being, of the portion of the capital distribution or of such rights which is attributable to one Share;

- (iv) an offer or grant being made by the Company to holders of Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 80% of the market price, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the aggregate number of Shares offered for subscription or comprised in the options or warrants (such adjustment to become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant);

- (v) an issue wholly for cash or for reduction of liabilities being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share (as defined in the Convertible Notes instrument) initially receivable (or in the case of reduction in liabilities, the amount of liabilities to be reduced) for such securities is less than 80% of the market price, or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per Share initially receivable for such securities is less than 80% of the market price the Conversion Price shall be adjusted in similar manner as in (iv) above;

- (vi) an issue being made by the Company wholly for cash or for reduction of liabilities of Shares at a price per Share less than 80% of the market price the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue or for reduction of liabilities would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued;
- (vii) an issue being made by the Company of Shares for the acquisition of asset at a total effective consideration per Share (as defined in the Convertible Notes instrument) less than 80% of the market price the Conversion Price shall be adjusted by multiplying it by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the total effective consideration would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued; and
- (viii) an issue wholly made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares for the acquisition of asset, if in any case the total effective consideration per Share (as defined in the Convertible Notes instrument) initially receivable for such securities is less than 80% of the market price the Conversion Price shall be adjusted in similar manner as in (vii) above.

Provided that in any circumstances where the directors of the Company or the Noteholder(s) shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with a different time from that provided for under the provisions, the Company or the Noteholder(s) may appoint an approved merchant bank or the auditors of the Company for the time being to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank or auditors of the Company for the time being (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner as shall be certified by such approved merchant bank or auditors of the Company for the time being to be in its opinion appropriate.

Voting Rights : The Noteholder(s) will not be entitled to attend or vote at any general meetings of the Company by reason only of it being the holder of the Convertible Notes.

Ranking : The payment obligations of the Company under the Convertible Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

The Conversion Shares issued upon conversion of the Convertible Notes will in all respects rank pari passu with the Shares in issue on the date of allotment and issue of such Conversion Shares and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant conversion date.

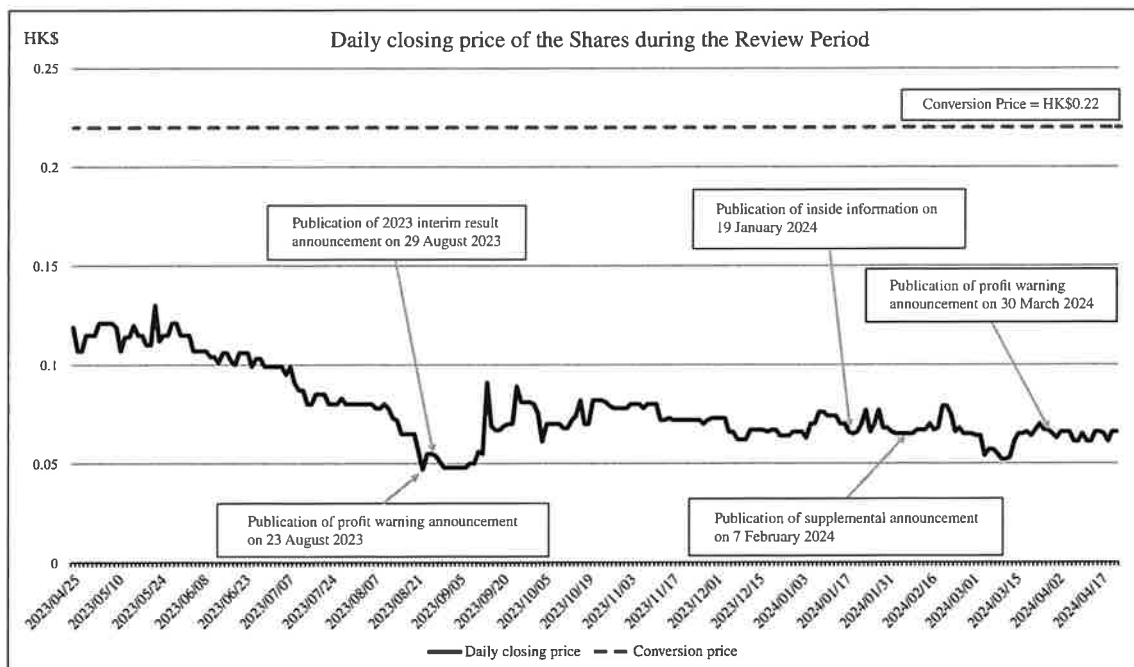
Listing : The Convertible Notes will not be listed on the Stock Exchange or any other stock exchange. Application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

4. Evaluation of the Conversion Price

4.1 Review on Share price performance

The initial Conversion Price of HK\$0.22 per Conversion Share would represent: (i) a premium of approximately 233.33% over the closing price of HK\$0.066 per Share as quoted on the Stock Exchange on 24 April 2024, being the date of the Amendment Deeds; (ii) a premium of approximately 239.51% over the average of the closing prices of the Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately prior to 24 April 2024 of HK\$0.0648 per Share; and (iii) a premium of approximately 214.29% over the closing price of HK\$0.07 per Share as quoted on the Stock Exchange on 28 May 2024, being the Latest Practicable Date.

In order to assess the fairness and reasonableness of the Conversion Price, we have reviewed the daily prices of the Shares on the Stock Exchange for the period from 25 April 2023 (being the 12-month period immediately prior to the date of the Amendment Deeds), up to and including the date of Amendment Deeds (i.e. 24 April 2024) (the “Review Period”).



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

As shown in the chart above, the closing prices of the Shares during the Review Period ranged from HK\$0.047 per Share to HK\$0.13 per Share with an average closing price of approximately HK\$0.078 per Share. The Conversion Price of HK\$0.22 per Conversion Share is above the range of daily prices of the Shares during the entire Review Period and represents (i) a premium of approximately 368.09% over the lowest closing price of the Shares; (ii) a premium of approximately 69.23% over the highest closing price of the Shares; and (iii) a premium of approximately 182.71% over the average closing price of the Shares during the Review Period.

As indicated in the above chart, the daily prices showed a consistent downward trend from April 2023 to mid-August 2023, reaching the lowest point on 23 August 2023. Following that, the daily prices bounced back to HK\$0.091 on 15 September 2023. However, the daily prices exhibited a fluctuating trend afterward and until mid-October 2023, and subsequently displayed a steady and general downward trend till the date of the Announcement. As confirmed by the Management, the Company is not aware of any reasons for the aforementioned Share price fluctuations.

4.2 Trading liquidity of the Shares

We have also reviewed the historical liquidity of the Shares. The following table sets out the average daily trading volume per month/period of the Shares during the Review Period:

| | Average daily trading volume of Shares during the period/month <i>(Shares)</i> <i>(Note 1)</i> | Percentage of average daily trading volume of Shares to the total number of issued Shares as at the end of the relevant period/month <i>(%)</i> <i>(Note 2)</i> |
|---|---|--|
| 2023 | | |
| April (from 25 April to 30 April) | 190,191 | 0.0361% |
| May | 183,587 | 0.0349% |
| June | 574,470 | 0.1092% |
| July | 155,030 | 0.0295% |
| August | 276,426 | 0.0525% |
| September | 1,020,367 | 0.1939% |
| October | 144,640 | 0.0275% |
| November | 99,673 | 0.0189% |
| December | 93,003 | 0.0177% |
| 2024 | | |
| January | 193,043 | 0.0367% |
| February | 129,514 | 0.0246% |
| March | 860,418 | 0.1635% |
| April (up to the date of the Amendment Deeds) | 220,124 | 0.0418% |
| Maximum | 1,020,367 | 0.1939% |
| Minimum | 93,003 | 0.0177% |
| Average | 318,499 | 0.0605% |

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

Notes:

1. Computed by dividing the total daily trading volume of the Shares by the number of trading days of the respective corresponding months/periods.
2. Computed by dividing the average daily trading volume of the Shares by the total number of issued Shares at the end of the relevant period/period.

We noted that the average trading volume of the Shares ranged from approximately 93,003 Shares to approximately 1,020,367 Shares during the Review Period, representing approximately 0.0177% to 0.1939% of the total issued Shares of the Company as at the end of the relevant period/month, which indicates relatively thin trading liquidity of the Shares in general during the Review Period.

We also note that, upon exercise of the conversion rights under the Convertible Notes in full, a maximum number of 1,795,454,545 Conversion Shares will be allotted and issued to the Noteholders, representing (i) approximately 341.17% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 77.33% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Notes in full.

Due to the generally low liquidity of the Shares, we consider that it might not be possible for the Noteholders to realise their shareholdings in the market after the full conversion of the Convertible Notes. In addition, given the trading volume of the Shares is insufficient, disposing of a large number of Shares within a short period in the market might generate substantial downward pressure on the market price of the Shares, which in turn might have a negative impact on the financing ability of the Group.

4.3 Comparison with other issuance of convertible bonds/notes exercises

As part of our analysis, we have further reviewed the relevant issues of convertible bonds/notes exercise by companies listed on the Main Board of the Stock Exchange (the “Comparable Transactions”) as announced during the last three months prior to and including 24 April 2024, being the date of the Amendment Deeds (the “Comparable Period”) and identified an exhaustive list of 5 Comparable Transactions. We consider that the abovementioned period adopted is appropriate to capture the recent market practice because the Comparable Transactions are considered for the purpose of taking a general reference for the recent market practice about the issue of convertible bonds/notes for fundraising purposes (and excluding any acquisition involving the issuance of convertible bonds/notes as fully or partial settlement of consideration) under recent market condition and sentiment. In addition, in view of the similarity of the nature of convertible bonds/notes exercises, we consider that the Comparable Transactions are fair and representative samples. Independent Shareholders should, however, note that the businesses, operations and prospects of the Group are not the same as the Comparable Transactions, and accordingly the Comparable Transactions are only used to provide a general reference for the common market practice in recent issuance of convertible bonds/notes by the companies listed on the Stock Exchange. Set out below is the summary of the Comparable Transactions:

| No. | Company name | Stock code | Date of relevant announcement | Conversion price over/(discount to) the closing price on the respective last trading day <i>(Approximately)</i> | Conversion price premium over/ (discount to) for the average closing price for the last five consecutive trading days up to and including the respective last trading day <i>(Approximately)</i> | Interest rate <i>(p.a.)</i> | Term to maturity <i>(approximate number of years)</i> |
|-----|---|------------|-------------------------------|--|---|--------------------------------|--|
| 1 | MicroPort Scientific Corporation | 853 | 5-Apr-2024 | 10.19% | 18.53% | 5.75% | 5 years |
| 2 | Huayi Tencent Entertainment Company Limited | 419 | 7-Mar-2024 | 0.40% | equal | 10.0% | 2 years |
| 3 | Grand Field Group Holdings Limited | 115 | 6-Mar-2024 | 5.70% | 3.30% | 6.0% | 3 years |
| 4 | Value Convergence Holdings Limited | 821 | 22-Feb-2024 | 1.69% | 2.21% | 0.0% | 3 years |

| No. | Company name | Stock code | Date of relevant announcement | Conversion price over/(discount to) the closing price on the respective last trading day <i>(Approximately)</i> | Conversion price premium over/ (discount to) for the average closing price for the last five consecutive trading days up to and including the respective last trading day <i>(Approximately)</i> | Interest rate <i>(p.a.)</i> | Term to maturity <i>(approximate number of years)</i> |
|-----|------------------------------|------------|-------------------------------|--|---|--------------------------------|--|
| 5 | China Sandi Holdings Limited | 910 | 30-Jan-2024 | 4.65% | (0.22%) | 2.0% | 5 years |
| | | | Maximum | 10.19% | 18.53% | 10.0% | 5 years |
| | | | Minimum | 0.40% | (0.22%) | 0.0% | 2 years |
| | | | Average | 4.53% | 5.96% | 4.75% | 3.6 years |
| | | | Median | 4.65% | 2.76% | 5.75% | 3 years |
| | CN Extensions | | | 233.33% | 239.51% | 0.0% | 2 years |

Source: The announcements of relevant companies published on the website of the Stock Exchange

Among the Comparable Transactions, we noted that the range of conversion price in comparison to the respective closing price as quoted on the last trading day of the Comparable Transactions ranged from a premium of approximately 0.40% to a premium of approximately 10.19% with an average of approximately 4.53% and a median of approximately 4.65%, where the Conversion Price represents a premium of approximately 233.33% to the closing price of the Shares on the date of the Amendment Deeds. And the range of conversion price in comparison to the average closing price for last five consecutive trading days up to and including the respective last trading day of the Comparable Transactions ranged from a discount of 0.22% to a premium of 18.53% with an average premium of approximately 5.96% and a median of approximately 2.76%, where the Conversion Price represents a premium of approximately 239.51% to the average closing price for last five (5) consecutive trading days immediately prior to the date of the Amendment Deeds (the "Average 5 LTD Price"). Therefore, the premium rates of the Conversion Price in comparison to (i) the closing price of the Shares on the date of the Amendment Deeds and (ii) the Average 5 LTD Price are both above the higher bound of that of the Comparable Transactions.

In addition, the interest rates of the Comparable Transactions ranged from nil to 10.0% per annum with an average of approximately 4.75% per annum and a median of approximately 5.75% per annum. The Convertible Notes shall not bear any interest and thereby are equivalent to the lowest of the interest rates of the Comparable Transactions.

Furthermore, according to the above table, the duration of the Comparable Transactions ranged from 2 years to 5 years with average and median duration of 3.6 years and 3 years respectively, the duration of the CN Extended Maturity Date of 2 years (the “**Extended Duration**”) falls within the range and is below the average and the median of the Comparable Transactions, respectively.

As such, we are of the view that the principal terms of the Amendment Deeds including the Conversion Price, the interest rate, the CN Extended Maturity Date and the Extended Duration are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

5. Financial effects of the proposed CN Extensions

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

5.1. Effect on shareholders’ net liabilities

According to the 2023 Annual Report, the audited consolidated net liabilities of the Company were approximately HK\$3.71 billion or approximately HK\$7.06 per Share as at 31 December 2023 based on the total issued number of the Shares as at the Latest Practicable Date of 526,260,404 Shares.

It is expected that the proposed CN Extensions would not lead to any material and immediate change to the shareholder’s equity of the Company. However, for illustrative purpose only, if the Convertible Notes are fully converted into 1,795,454,545 Shares at or before maturity and assuming no other changes in the issued share capital and shareholders’ equity, the net liabilities of the Company is expected to be improved and the non-current liabilities is expected to be decreased by approximately HK\$395.0 million. However, as there are restrictions under the terms of the Convertible Notes that prohibit any conversion which will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code or will cause the public float of the Shares to be less than 25% (or any given percentage under the Listing Rules), it is expected that partial Convertible Notes will be converted into 90,747,799 Shares at or before maturity under scenario (iii) as demonstrated in the following section headed “6. Potential dilution to the Independent Shareholders’ interests”, under such circumstance and for illustrative purpose only, the net liabilities of the Company is expected to be improved and the net-current liabilities is expected to decrease by approximately HK\$19.96 million.

5.2. *Effect on working capital*

As confirmed by the Directors, it is expected that there will not be any material impact to working capital of the Group after the CN Extensions.

5.3. *Effect on gearing ratio*

As set out in the 2023 Annual Report, the Group's gearing ratio as computed as the Group's total debts which included amounts due to related companies, amounts due to non-controlling interests, other borrowings and lease liabilities divided by capital deficiencies attributable to owners of the Company.

As confirmed by the Directors, it is expected that the proposed CN Extensions will not have an immediate material impact on the net asset value and gearing of the Group.

6. Potential dilution to the Independent Shareholders' interests

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date and prior to conversion); and (iii) immediately after the allotment and issue of the Conversion Shares upon conversion of the Convertible Notes at the initial Conversion Price to the extent that China OEPC and Ms. Hao will hold 29.99% of the enlarged issued share capital of the Company (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date and prior to conversion and for illustrative purpose only).

| Shareholders | (i) as at the Latest Practicable Date | | (ii) immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date and prior to conversion) | | (iii) immediately after the allotment and issue of the Conversion Shares upon conversion of the Convertible Notes at the initial Conversion Price to the extent that China OEPC and Ms. Hao will hold 29.99% of the enlarged issued share capital of the Company (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date and prior to conversion) | |
|-----------------------------|---------------------------------------|------------------------|--|------------------------|---|------------------------|
| | Number of Shares | Approximate percentage | Number of Shares | Approximate percentage | Number of Shares | Approximate percentage |
| | China OEPC ^(Note 1) | 94,292,961 | 17.92% | 1,821,565,688 | 78.46% | 185,040,760 |
| Ms. Hao ^(Note 2) | – | – | 68,181,818 | 2.94% | – | – |
| Other Shareholders | 431,967,443 | 82.08% | 431,967,443 | 18.60% | 431,967,443 | 70.01% |
| | <u>526,260,404</u> | <u>100%</u> | <u>2,321,714,949</u> | <u>100%</u> | <u>617,008,203</u> | <u>100%</u> |

Notes:

- China OEPC beneficially owns 94,262,961 Shares and the Convertible Notes in the principal amount of HK\$380,000,000. China OEPC is beneficially owned by Best Growth Enterprises Limited. Best Growth Enterprises Limited is beneficially owned by Mr. Zhang. By virtue of the SFO, Mr. Zhang and Best Growth Enterprises Limited are deemed to be interested in those Shares and derivative interest held by China OEPC.
- Ms. Hao is the spouse of Mr. Zhang, holding the Convertible Notes in the principal amount of HK\$15,000,000. By virtue of the SFO, Ms. Hao is also deemed to be interested in the Shares and derivative interest held by China OEPC.

3. This is for illustrative purpose only as there are restrictions under the terms of the Convertible Notes that prohibit any conversion which will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code or will cause the public float of the Shares to be less than 25% (or any given percentage under the Listing Rules).
4. Convertible bonds in the outstanding principal amount of US\$40 million issued by the Company to China Huarong Macau (HK) Investment Holdings Limited, an independent third party and not connected persons of the Company, has become due on 9 July 2020, which was convertible into Shares during the conversion period. The conversion period ended on the maturity date of the convertible bonds and the convertible bonds is no longer convertible into Shares. As at the Latest Practicable Date, the Company is in the course of negotiations for potential settlement, amendment and extension of the convertible bonds.

Upon full conversion of the Convertible Notes, 1,795,454,545 Conversion Shares will be allotted and issued by the Company to Noteholders (i.e. China OPEC and Ms. Hao), representing: (a) approximately 341.17% of the existing issued share capital of the Company; and (b) approximately 77.33% of the enlarged share capital of the Company as enlarged by the issue of the 1,795,454,545 Conversion Shares. Accordingly, upon the full conversion of the Convertible Bonds but assuming no other changes in the issued share capital between now and the full conversion of the Convertible Bonds, the shareholding of China OPEC will increase from approximately 17.92% to approximately 78.46% and the shareholding of Ms. Hao will increase from nil to approximately 2.94%. In addition, upon full conversion of the Convertible Notes, the net liabilities of the Company is expected to be improved and the non-current liabilities is expected to be decreased by approximately HK\$395.0 million and the aforesaid full conversion circumstance is for illustrative purpose only.

It is worth noting that under the terms of the Convertible Notes, there are restrictions under the terms of the Convertible Notes that prohibit any conversion which will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code or will cause the public float of the Shares to be less than 25% (or any given percentage under the Listing Rules) (collectively as the “**Conversion Restrictions**”). Therefore, given that public float requirement or a mandatory offer obligation may be triggered upon full conversion of the Convertible Notes as illustrated above, the Noteholders are not able to exercise in full the conversion rights attaching to the Convertible Notes due to the Conversion Restrictions attaching thereof.

We noted that the potential conversion of the Convertible Notes would bring dilution effect to the current shareholding interests of the Shareholders. However, having considered that (i) the Convertible Notes reached the maturity date on 20 October 2022 and no agreement has been formed between the Group and other financial institutions and/or other investor(s) to finance the funds for setting off the Convertible Notes; (ii) the Company does not have sufficient internal resources to redeem all the Convertible Notes; (iii) any redemption of the Convertible Notes would result an immediate outflow of the Group’s cash, further hampering the Group’s financial position and business development; (iv) the terms of the Amendment Deeds and the Convertible Notes are fair and reasonable so far as the Independent Shareholders are concerned; and (v) the fact that the conversion of the Convertible Notes is subject to the Conversion Restrictions, we are of the view that the potential dilution impact and the aforementioned level of dilution to the shareholding interests of the existing public Shareholders are acceptable.

RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that although the entering into of the Amendment Deeds is not in the ordinary and usual course of business of the Group yet, the Amendment Deeds, terms of the CN Extensions and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the CN Extensions is in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Amendment Deeds together with the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Merdeka Corporate Finance Limited



Wallace So
Managing Director

Mr. Wallace So is a Responsible Officer of Merdeka Corporate Finance Limited under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 10 years of experience in corporate finance.