

28 March 2025

*To: The Independent Board Committee and
the Independent Shareholders of
Wai Chun Bio-Technology Limited*

Dear Sirs and Madams,

**CONNECTED TRANSACTION FOR
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 of Terms 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 28 March 2025 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement, the Supplemental Announcement, the Second Supplemental Announcement and the Third Supplemental Announcement, on 27 December 2024 (after trading hours), the Company and Existing Bondholders have entered into the Alteration Consent Letters and conditionally agreed to amend the terms of the Existing Convertible Bonds.

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

- (i) the issued share capital of the Company will be reduced by cancelling the paid-up capital to the extent of HK\$0.25 on each of the then issued Existing Ordinary Shares such that the par value of each issued Existing Ordinary Share will be reduced from HK\$0.25 to HK\$0.01; and

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- (ii) immediately following the Capital Reduction, (a) each of the authorised but unissued Existing Ordinary Shares of par value of HK\$0.25 each (including the authorized but unissued ordinary shares of the Company arising from the Capital Reduction) be sub-divided into twenty-five (25) New Ordinary Shares of par value of HK\$0.01 each; and (b) each of the authorised but unissued preference shares of the Company of par value of HK\$0.25 each be sub-divided into twenty-five (25) New Preference Shares of par value of HK\$0.01 each.

The Alternation of Terms is conditional upon the Capital Reorganisation having become effective.

As at the Latest Practicable Date, Existing Bondholder 2 is a controlling Shareholder interested in an aggregate of 91,550,243 Existing Ordinary Shares, representing in aggregate approximately 51.30% of the total number of issued Existing Ordinary Shares. Existing Bondholder 2 is indirectly wholly-owned by Existing Bondholder 1, who is interested in 72,400 Existing Ordinary Shares personally, representing in aggregate approximately 0.04% of the total number of issued Existing Ordinary Shares. Therefore, Existing Bondholder 2 and its associates (including Existing Bondholder 1) are connected persons of the Company and were taken to be interested in total 91,622,643 Shares representing approximately 51.34% of the issued share capital of the Company as at the Latest Practicable Date. The Alteration of Terms constitutes connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The executive Director of the Company, Mr. Lam Ka Chun, is the son of Existing Bondholder 1.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries: (i) Existing Bondholder 2 and its associates (including Existing Bondholder 1) 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 EGM; (ii) save for Existing Bondholder 2 and its associates (including Existing Bondholder 1), no other Shareholder has a material interest in the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate) and is required to abstain from voting on the relevant resolutions at the EGM; and (iii) no Shareholder has a material interest in the Capital Reorganisation and the transactions contemplated thereunder, and accordingly, no Shareholder is required to abstain from voting on the relevant resolutions at the EGM.

INDEPENDENT BOARD COMMITTEE

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

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

Except for being appointed as independent financial adviser to the Company regarding the issue of the Existing Convertible Bonds 3 and the alteration of terms of the Existing Convertible Bonds 1 and Existing Convertible Bonds 2, which the circular has been despatched on 23 February 2023, we have not acted as an independent financial adviser and have 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 Alteration Consent Letters and the transactions contemplated thereunder (including the grant of the Specific Mandate). Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

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

Our review and analyses were based upon, among others, (i) the information provided by the Group including the Circular, the Alteration Consent Letters and certain published information from the public domain, including but not limited to, the annual report of the Company for the year ended 30 June 2024 (the “**Annual Report 2023/24**”) and interim results announcement of the Company for the six months ended 31 December 2024 (the “**Interim Results 2024/25**”); 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, the businesses and future outlook of the Group. 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

On 27 December 2024 (after trading hours), the Company and Existing Bondholders have entered into the Alteration Consent Letters and conditionally agreed to amend the terms of the Existing Convertible Bonds as follows:

- (i) the Conversion Price be changed from HK\$0.25 per Conversion Share to HK\$0.06 per Conversion Share;
- (ii) the maturity date of the Existing Convertible Bonds 1 and the Existing Convertible Bonds 2 be extended from 18 January 2025 to 31 December 2027 and the maturity date of the Existing Convertible Bonds 3 be extended from 14 March 2026 to 31 December 2027; and
- (iii) the Existing Convertible Bonds 3 be redeemed at 95% of principal amount at maturity.

Save for the above Alteration of Terms, all the other terms and conditions of the Existing Convertible Bonds shall remain unchanged and in full force and effect. For details of the terms of the Alteration Consent Letters, please refer to the section headed “PROPOSED ALTERATION TO THE TERMS OF THE EXISTING CONVERTIBLE BONDS” in the Letter from the Board and the section headed “(IV) Major terms of the Alteration Consent Letters” in this letter below.

(II) Background and financial performance of the Group

(i) Background of the Group

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

The Group is principally engaged in the manufacturing and sales of modified starch and other co-related bio-chemical products and general trading of electronic parts and components and electrical appliances.

(ii) *Financial performance of the Group*

Set out below is the financial information of the Group for each of the financial years ended 30 June 2023 and 30 June 2024 (“FY2023” and “FY2024”, respectively) as extracted from the Annual Report 2023/24 and the six months ended 31 December 2023 and 31 December 2024 (“HY2023/24” and “HY2024/25”, respectively) as extracted from the Interim Results 2024/25:

Consolidated financial performance of the Group

	FY2023	FY2024	HY2023/24	HY2024/25
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue from				
manufacturing and				
sale of modified				
starch and other				
biochemical products	773,654	370,069	190,330	161,056
Loss for the year/period	(10,062)	(65,707)	(4,030)	(13,054)
Loss for the year/period				
attributable to the				
owners of the				
Company	(15,433)	(44,212)	(6,734)	(13,661)

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

FY2023 vs FY2024

As set out in above Table 1, all revenue of the Group was derived from manufacturing and sale of modified starch and other biochemical products. The revenue of the Group for FY2024 was approximately HK\$370.07 million, representing a decrease of approximately HK\$403.58 million or 52.17% as compared with that of approximately HK\$773.65 million for FY2023. According to the Annual Report 2023/24, the decrease in revenue was mainly due to the reduced consumption for the modified starch and other biochemical products resulted from economic slowdown in the PRC. Therefore, the Group has ceased certain low-performing product lines as part of its strategic restructuring to enhance overall operational efficiency, leading to the decrease in revenue.

Due to the decrease in revenue of the Group and the impairment loss on property, plant and equipment for FY2024, the Group recorded loss attributable to the owners of the Company of approximately HK\$44.21 million for FY2024, representing an increase of approximately HK\$28.78 million or 186.52% as compared with that of approximately HK\$15.43 million for FY2023.

HY2023/24 vs HY2024/25

The revenue of the Group for HY2024/25 was approximately HK\$161.06 million, representing a decrease of approximately HK\$29.27 million or 15.38% as compared with that of approximately HK\$190.33 million for HY2023/24. According to the Interim Results 2024/25, the decrease in revenue was mainly due to the continued reduction in consumption for the modified starch and other biochemical products resulted from economic slowdown in the PRC.

The loss attributable to the owners of the Company was approximately HK\$13.66 million for HY2024/25, representing an increase of approximately HK\$6.93 million or 102.97% as compared with that of approximately HK\$6.73 million for HY2023/24. Such increase was mainly due to (i) the decrease in revenue as discussed above; (ii) the impairment loss on trade and other receivable made in HY2024/25; and (iii) the increase in finance costs.

Consolidated financial position of the Group

	As at 30 June 2024 <i>HK\$'000</i> (Audited)	As at 31 December 2024 <i>HK\$'000</i> (Unaudited)
Non-current assets		
Property, plant and equipment	54,272	48,106
Right-of-use assets	26,425	25,101
Deferred tax assets	14,403	14,261
	<u>95,100</u>	<u>87,468</u>
Current assets		
Inventories	33,711	29,865
Trade receivables	29,160	23,111
Deposits, prepayment and other receivables	49,366	38,110
Bank balances and cash	2,161	1,784
	<u>114,398</u>	<u>92,870</u>
Total assets	<u>209,498</u>	<u>180,338</u>

	As at 30 June 2024 HK\$'000 (Audited)	As at 31 December 2024 HK\$'000 (Unaudited)
Current liabilities		
Trade payables	99,054	67,987
Accruals and other payables	26,413	30,484
Contract liabilities	2,323	2,747
Borrowings	47,379	48,453
Tax payable	1,046	1,045
Lease liabilities	1,134	279
Convertible bonds	73,985	81,977
Loans from ultimate holding company	2,513	4,438
	<u>253,847</u>	<u>237,410</u>
Non-current liabilities		
Convertible bonds	<u>10,891</u>	<u>11,732</u>
Total liabilities	<u>264,738</u>	<u>249,142</u>
Net current liabilities	<u>(139,449)</u>	<u>(144,540)</u>
Net liabilities	<u>(55,240)</u>	<u>(68,804)</u>

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

(iii) Non-current assets and current assets

As set out in the above Table 2, the non-current assets of the Group decreased from approximately HK\$95.10 million as at 30 June 2024 to approximately HK\$87.47 million as at 31 December 2024, representing a slight decrease of approximately HK\$7.63 million or 8.02%. Such decrease was mainly due to the depreciation of the property, plant and equipment.

The current assets of the Group decreased from approximately HK\$114.40 million as at 30 June 2024 to approximately HK\$92.87 million as at 31 December 2024, representing a decrease of approximately HK\$21.53 million or 18.82%. The decrease in current assets of the Group was mainly due to the decrease in trade receivables and the decrease in deposits, prepayment and other receivables. Such decrease was in line with the decrease in revenue as discussed above.

(iv) Non-current liabilities and current liabilities

As set out in the above Table 2, the current liabilities of the Group decreased from approximately HK\$253.85 million as at 30 June 2024 to approximately HK\$237.41 million as at 31 December 2024, representing a slight decrease of approximately HK\$16.44 million or 6.48%. The convertible bonds in the current liabilities of the Group represents Existing Convertible Bonds 1 and Existing Convertible Bonds 2, which have been matured on 18 January 2025. The non-current liabilities of the Group, which represents the Convertible Bonds 3 to be matured on 14 March 2026, remained stable.

(v) Debt position and going concern issue

The Group had total debts of approximately HK\$135.90 million and approximately HK\$146.88 million (including loans from ultimate holding company, borrowings, convertible bonds and lease liabilities) as at 30 June 2024 and 31 December 2024 respectively. The net debts (net of cash and cash equivalents) to total assets ratio of the Group is approximately 80.46% as at 31 December 2024, representing an increase of approximately 16.62% as compared with approximately 63.84% as at 30 June 2024.

According to the existing terms of the Existing Convertible Bonds, as at the Latest Practicable Date, Existing Convertible Bonds 1 in the aggregate principal amount of HK\$67,000,000 and Existing Convertible Bonds 2 in the aggregate outstanding amount of HK\$20,150,000 have been due on 18 January 2025 and Existing Convertible Bonds 3 in the aggregate outstanding amount of HK\$12,250,000 will mature on 14 March 2026.

According to the Annual Report 2023/24, as the Group incurred a loss attributable to owners of the Company of approximately HK\$44.21 million for FY2024 and, as at 30 June 2024, the Group had net current liabilities and net liabilities of approximately HK\$139.45 million and HK\$55.24 million respectively, the auditors of the Company have expressed material uncertainty relating to the going concern issue of the Company, which may cast significant doubt on the Group's ability to continue as a going concern. According to the Interim Results 2024/25, the Group incurred a loss attributable to owners of the Company of approximately HK\$13.66 million for HY2024/25 and as at 31 December 2024, the Group had net current liabilities of approximately HK\$144.54 million and net liabilities of approximately HK\$68.80 million respectively. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have prepared the consolidated financial statements on a going concern basis based on the assumptions and measures that:

- (a) as at 31 December 2024, the Company has drawn down loan of approximately HK\$4.44 million and undrawn loan facilities of approximately HK\$65.56 million granted by Wai Chun Investment Fund ("**Wai Chun IF**"), its ultimate holding company;

- (b) in addition to the loan facilities granted by Wai Chun IF as stated above, Mr. Lam Ching Kui, being Existing Bondholder 1, has also undertaken to provide adequate funds to enable the Group to meet its liabilities and to settle financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving consolidated financial statements for HY2024/25;
- (c) the Company has planned and is in negotiation with potential investors to raise sufficient funds through fund-raising arrangement; and
- (d) the Directors will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

We note that (i) the Group reported a decrease in revenue and a net loss attributable to owners of the Company for both FY2024 and HY2024/25; (ii) the Group had a low cash level of only approximately HK\$1.78 million as at 31 December 2024, which is insufficient to repay the Existing Convertible Bonds; (iii) the Group had high net current liabilities of approximately HK\$144.54 million as at 31 December 2024; (iv) the Group was in a net liabilities position as at 31 December 2024; (v) the Group had high net debts (net of cash and cash equivalents) to total assets ratio of approximately 80.46% as at 31 December 2024; (vi) the auditors of the Company have expressed material uncertainty relating to the going concern issue of the Company in the Annual Report 2023/24; and (vii) Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been due on 18 January 2025. Having considered that (a) the Group may not be able to generate sufficient funding from operating activities to repay the Existing Convertible Bonds under the financial performance and the financial position of the Group as discussed above; and (b) Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been overdue, we consider that the Alteration of Terms can provide more time for the Group to implement measures to improve the working capital and cash flows of the Group and to seek for and arrange financial resources to repay the Existing Convertible Bonds.

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

(i) Reasons for and benefits of entering into the Alteration Consent Letters

As stated in the Letter from the Board, according to the existing terms of the Existing Convertible Bonds, Existing Convertible Bonds 1 in the aggregate principal amount of HK\$67,000,000 and Existing Convertible Bonds 2 in the aggregate outstanding amount of HK\$20,150,000 have been due on 18 January 2025 and Existing Convertible Bonds 3 in the aggregate outstanding amount of HK\$12,250,000 will mature on 14 March 2026. There is around one year left until the Existing Convertible Bonds 3 matured and the Board considered that debt financing may not be available given the Group's net current liabilities and net liabilities position as at 30 June 2024 and 31 December 2024, with the extension of the maturity dates of the Existing Convertible Bonds to 31 December 2027, the financial pressure on the Company for redemption of the Existing Convertible Bonds at the maturity dates would be lessened. Since the existing conversion price of the Existing Convertible Bonds is much higher than the prevailing market price of the Existing Ordinary Shares, the amended Conversion Price will serve as an incentive for Existing Bondholders to exercise the Conversion Rights to convert the Existing Convertible Bonds into the Existing Ordinary Shares, thereby alleviating the financial pressure on the Company to repay the Existing Convertible Bonds on maturity and could facilitate the Company in obtaining alternative source of finance to improve the financial position of Company.

We have reviewed the Alteration Consent Letters, the Annual Report 2023/24 and the Interim Results 2024/25. As the Existing Convertible Bonds 1 and Existing Convertible Bonds 2 were due on 18 January 2025, based on our analysis of the Group's financial statement as discussed in section headed "(II) Background and financial performance of the Group" above in this letter, the Group has financial difficulties to repay the Existing Convertible Bonds 1 and Existing Convertible Bonds 2 given that the bank balances and cash of the Group as at 31 December 2024 was approximately HK\$1.78 million only and Existing Bondholders can demand the Company for repayment at any time if such convertible bonds are not extended. As discussed with the management of the Company, Existing Bondholders only agreed to extend the maturity dates of the Existing Convertible Bonds unless the Company accepted their proposal in respect of the Alteration of Terms for all the Existing Convertible Bonds as a whole. By entering into the Alteration Consent Letters, all the Existing Convertible Bonds would be extended to 31 December 2027, which will improve the net current liabilities of the Group, relief the financial pressure of the Group and provide more time for the Group to source the necessary funds for the repayment. In addition to the extension of the Existing Convertible Bonds, the Alteration of Terms would reduce the amount to be redeemed of the Existing Convertible Bonds 3 at 95% of its principal amount at maturity, which will lessen the financial pressure of the Group if the Group decides to redeem the Existing Convertible Bonds 3 upon the maturity. Furthermore, as the existing conversion price of the Existing Convertible Bonds is much higher than the prevailing market price of the Existing Ordinary Shares, which will be further discussed in the section headed "(V) Our assessment on the Alteration of Terms and the Conversion Price" below in this letter, the Alteration of Terms will reduce the conversion price of the Existing Convertible Bonds that will serve as an incentive for Existing Bondholders to convert the Existing Convertible Bonds and provide the opportunity to improve the Group's financial position. After considering the reasons for and benefits of the Alteration of Terms as discussed above, we consider that entering into the Alteration Consent Letters is in the interests of the Company and the Shareholder as a whole.

(ii) Fund raising activities of the Company in the past 12 months

As stated in the Letter from the Board, the Company has not raised fund on any issue of equity securities in the past 12 months immediately before the Latest Practicable Date.

(iii) Other financing alternatives

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

(a) Debt financing

The Directors have considered that (i) further debt financing may not be available given the Group's net current liabilities and net liabilities position; (ii) the cost of debt financing may increase together with additional requirements with asset pledging or guarantees to be provided by the Group; and (iii) further debt financing will increase the financial costs of the Group and using debt financing to replace the Existing Convertible Bonds may further weaken the cashflow and financial position of the Group as the interest rate of the Existing Convertible Bonds is nil under the existing terms. Based on our analysis on the financial position of the Group as discussed in the section headed "(II) Background and financial performance of the Group" above, after considering that the Group's was at net current liabilities and net liabilities position as at 31 December 2024 and the interest rate of the Existing Convertible Bonds was nil, we concur with the Directors' view that the debt financing from financial institutions is of limited accessibility and will create the financial burden to the Group. Therefore, such funding method is not in the interests of the Company and its Shareholders as a whole.

(b) Placing of new shares

The Directors have considered that given the Group's net current liabilities and net liabilities position and the number of Conversion Shares of the Existing Convertible Bonds, the placing agent may face difficulties and take time to seek for potential investor(s) and the potential investor(s) may require a substantial placing discount to the trading price of the Existing Ordinary Shares, and such discount may be more than 20%, to fulfill the capital requirement for the Existing Convertible Bonds. The Directors also consider that it is higher cost to arrange a placing of new shares, as the placing agent would charge commission with reference to certain percentages of the amount of the fund raising as compared with no additional cost from the Alteration of Terms, and the placing of new shares will cause an immediate dilution to the shareholding of existing Shareholders as compared with that the conversion of the Existing Convertible Bonds is restricted as further discussed in section headed "(VI) Shareholding structure and the possible dilution effect of the Existing Convertible Bonds" below in this letter. Therefore, rather than conducting placing of new shares to repay the Existing Convertible Bonds, we agree with the Directors' view that entering into the Alteration Consent Letters is in the interests of the Company and the Shareholders as a whole.

(c) Rights issue or open offer

With regard to the viability of a rights issue or an open offer, the Directors have considered that given the Group's net current liabilities and net liabilities position, the result of fund raising from a rights issue or an open offer may not be desirable. We agree with the Directors' view that, as compared with the Alteration of Terms, (i) more documentation is typically required for the rights issue or an open offer, such as the prospectus; (ii) 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; and (iii) it generally takes longer time to arrange rights issue or open offer while the Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been due on 18 January 2025 and Existing Bondholders can demand the Company for repayment at any time if such convertible bonds are not extended. Furthermore, the Alteration of Terms provides a higher degree of certainty as the outcome of a rights issue or open offer would be subject to the uncertainty of the subscription level.

Given that (i) the Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been overdue and Existing Bondholders can demand the Company for repayment at any time if such convertible bonds are not extended; and (ii) the Group was in net current liabilities and net liabilities position as discussed in the section headed "(II) Background and financial performance of the Group" above in this letter, we consider that it is difficult for the Company to obtain external financing without lengthy negotiations with banks and potential investors. Even if such financing and borrowings are available, the outcome of such financing methods are highly uncertain as compared with the Alteration of Terms. 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

Reference are made to the announcements of the Company dated 22 December 2022 and 10 January 2023; and the circular of the Company dated 23 February 2023 in relation to, among other things, (i) the alteration to the terms of Existing Convertible Bonds 1 in the aggregate principal amount of HK\$67,000,000 and Existing Convertible Bonds 2 in the aggregate principal amount of HK\$21,000,000; and (ii) the issue of Existing Convertible Bonds 3 in aggregate principal amount of HK\$14,000,000.

According to the Letter from the Board, Existing Bondholder 2 had fulfilled the First Undertaking to convert Existing Convertible Bonds 2 in principal amount of HK\$850,000, and the Company had issued 3,400,000 Existing Ordinary Shares to Existing Bondholder 2 on 31 March 2023. Existing Bondholders did not execute the Second Undertaking after one year when the First Undertaking was completed due to the condition of the conversion restriction as the conversion under the Second Undertaking will trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code. The Company and Existing Bondholders have been discussing the solution and amendment to the Second Undertaking. As Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been due on 18 January 2025, the conversion period of Existing Convertible Bonds 1 and Existing Convertible Bonds 2 has been lapsed on 18 January 2025. As a result, on 13 March 2025 (after trading hours), the Company entered into the amendment agreement with Existing Bondholders to amend the Second Undertaking (“**Amendment Agreement**”). Pursuant to the Amendment Agreement, Existing Bondholder 2 would provide an undertaking to convert Existing Convertible Bonds 3 in principal amount of HK\$1,750,000 into 7,000,000 Conversion Shares to be allotted and issued upon conversion representing 1.99% of the total number of issued Existing Ordinary Shares as enlarged by the allotment and issue of the 7,000,000 Conversion Shares. Such conversion has been completed on 20 March 2025 and the outstanding principal amount of the Existing Convertible Bonds 3 was reduced from HK\$14,000,000 to HK\$12,250,000. As the conversion restriction under the Second Undertaking will trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code and the management of the Company has used its best endeavors to negotiate with Existing Bondholders and seek for alternative solution, we consider that conversion of Existing Convertible Bonds 3 based on the existing conversion price of HK\$0.25 per Conversion Share under the Amendment Agreement, which represents a premium of approximately 138.10% to the closing price of HK\$0.105 per Existing Ordinary Share as quoted on the Stock Exchange as at the Latest Practicable Date, would reduce the liabilities of the Company and is in the interest of the Company.

As at the Latest Practicable Date, save for aforesaid, none of the conversion rights attached to the Existing Convertible Bonds has been exercised by Existing Bondholders and no Conversion Shares were issued by the Company to Existing Bondholders. According to the existing terms of the Existing Convertible Bonds, Existing Convertible Bonds 1 in the aggregate principal amount of HK\$67,000,000 and Existing Convertible Bonds 2 in the aggregate outstanding amount of HK\$20,150,000 have been due on 18 January 2025 and the Existing Convertible Bonds 3 in the aggregate outstanding amount of HK\$12,250,000 will mature on 14 March 2026. Existing Bondholders shall have the right to convert the Existing Convertible Bonds into Conversion 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.

On 27 December 2024 (after trading hours), the Company and Existing Bondholders have entered into the Alteration Consent Letters and conditionally agreed to amend the terms of the Existing Convertible Bonds as follows:

- (i) the Conversion Price be changed from HK\$0.25 per Conversion Share to HK\$0.06 per Conversion Share;

- (ii) the maturity date of the Existing Convertible Bonds 1 and the Existing Convertible Bonds 2 be extended from 18 January 2025 to 31 December 2027 and the maturity date of the Existing Convertible Bonds 3 be extended from 14 March 2026 to 31 December 2027; and
- (iii) the Existing Convertible Bonds 3 be redeemed at 95% of principal amount at maturity.

Apart from the Alteration of Terms above, all other terms and conditions of the Existing Convertible Bonds shall remain unchanged and in full force and effect. For details of the salient terms of the Existing Convertible Bonds after Alteration of Terms, please refer to the section headed “PROPOSED ALTERATION TO THE TERMS OF THE EXISTING CONVERTIBLE BONDS” in the Letter from the Board.

Existing Bondholder 1 is an investor who has made investments in listed securities and has been engaged in industrial and residential property development in the PRC and commercial property investment in Hong Kong for over 30 years. Existing Bondholder 2 is a company incorporated in the British Virgin Islands with limited liability, which is principally engaged in investment holding and indirectly wholly-owned by Existing Bondholder 1.

Existing Bondholder 1 is also the sole director of Existing Bondholder 2 and is the controlling shareholder of the Company. To the best information, knowledge and belief of the Directors, Existing Bondholder 2 and its associates, including Existing Bondholder 1, are connected persons of the Company.

The Alteration of Terms is conditional upon 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 EGM approving the Alteration of Terms and the transactions contemplated thereunder (including the grant of the Specific Mandate);
- (c) the Capital Reorganisation having become effective; and
- (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares to be issued upon exercise of the Conversion Rights.

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

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

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

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

(i) Review on the historical price of the Existing Ordinary Shares

We have reviewed the chart illustrates the historical daily closing price of the Existing Ordinary Shares as quoted on the Stock Exchange during the period commencing from 28 December 2023 (being the approximately one year prior to the date of Alteration Consent Letters) up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is adequate as it represents a reasonable period to reflect a general overview of the recent price movement of the Existing Ordinary Shares. The following chart sets out the daily closing prices of the Existing Ordinary Shares on the Stock Exchange during the Review Period:

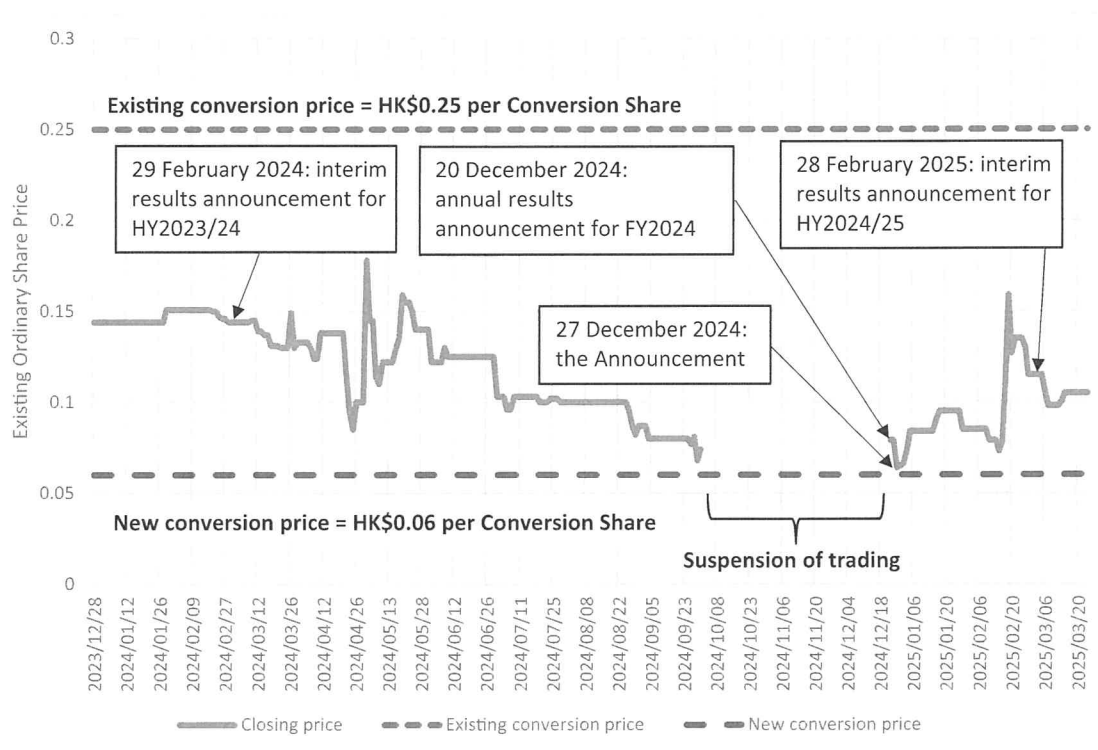


Chart 1: Historical Share price performance of the Company during the Review Period

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

As stated in the Letter from the Board, the Conversion Price was determined after arm's length negotiations between the Company and the Bondholders with reference to (i) the prevailing market price of the Existing Ordinary Shares in the past one year before entering into the Alteration Consent Letters; (ii) the prevailing market conditions and weak market sentiment of the capital market in Hong Kong; (iii) the financial position of the Group, in particular, the loss attributable to owners of the Company for FY2024 of approximately HK\$44.21 million; (iv) the net current liabilities of the Group as at 31 December 2024 of approximately HK\$144.54 million; (v) the cash and bank balances of the Group as at 31 December 2024 of only approximately HK\$1.78 million; and (vi) the reasons for and benefits of the Alteration of Terms. Existing Convertible Bonds 1 and Existing Convertible Bonds 2 which are amounting to HK\$87,150,000 aggregately have been due on 18 January 2025 and Existing Bondholders have the right to request the Company for repayment if such convertible bonds are not extended. After the negotiation between the Company and Existing Bondholders, Existing Bondholders did not agree to extend the maturity dates to 31 December 2027 unless the Company accepted their proposal to amend the existing conversion price to HK\$0.06. The existing conversion price of the Existing Convertible Bonds is much higher than the prevailing market price of the Existing Ordinary Shares, the amended Conversion Price will serve as an incentive for the Existing Bondholders to extend the maturity dates of the Existing Convertible Bonds since there was not sufficient cash and bank balances to repay Existing Convertible Bonds 1 and Existing Convertible Bonds 2. The Directors have also considered that further debt financing may not be available given the Group's net current liabilities and net liabilities position as at 30 June 2024 and 31 December 2024.

The Conversion Price represents:

- (i) a discount of approximately 42.86% to the closing price of HK\$0.105 per Existing Ordinary Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 6.25% to the closing price of HK\$0.064 per Existing Ordinary Share as quoted on the Stock Exchange on 27 December 2024, being the date of the Alteration Consent Letters;
- (iii) a discount of approximately 21.05% over the average closing price of HK\$0.076 per Existing Ordinary Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Alteration Consent Letters; and

- (iv) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 19.11%, represented by the theoretical diluted price (as defined under Rule 7.27B of the Listing Rules) of approximately HK\$0.061 per Existing Ordinary Share, to the benchmarked price of HK\$0.076 per Existing Ordinary Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (a) the closing price of HK\$0.064 per Existing Ordinary Share on the date of the Alteration Consent Letters and (b) the average closing price of HK\$0.076 per Existing Ordinary Share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of the Alteration Consent Letters).

As shown in the above Chart 1, during the Review Period, the daily closing prices of the Existing Ordinary Shares ranged from the lowest of HK\$0.064 per Existing Ordinary Share, to the highest of HK\$0.178 per Existing Ordinary Share with an average closing price of HK\$0.116 per Existing Ordinary Share. Although the Conversion Price of HK\$0.06 per Conversion Share is below the closing price of the Existing Ordinary Share and represents a discount to the average closing price of the Existing Ordinary Share during the Review Period, the closing price of the Existing Ordinary Shares has been experiencing a substantial downward pressure from HK\$0.144 per Existing Ordinary Share on 28 December 2023 to HK\$0.074 per Existing Ordinary Share on 30 September 2024 before the suspension of trading of the Existing Ordinary Shares. Trading of the Existing Ordinary Shares was suspended on 2 October 2024 due to the delay in publication of the annual results announcement of the Company for FY2024 and was resumed on 23 December 2024. After the resumption of the trading of the Existing Ordinary Shares, the closing price of the Existing Ordinary Shares dropped and reached the lowest of HK\$0.064 per Existing Ordinary Share on 27 December 2024 (i.e., the date of the Alteration Consent Letters), which resulted in a decrease of approximately 55.6% in one year prior to the date of the Alteration Consent Letters from the closing price of HK\$0.144 per Existing Ordinary Share on 28 December 2023, being the first trading day of the Review Period. Although the closing price of the Existing Ordinary Shares rebounded afterwards to HK\$0.159 per Existing Ordinary Share on 19 February 2025, it subsequently decreased to HK\$0.105 per Existing Ordinary Share as at the Latest Practicable Date, indicating that there is no guarantee that the recent rebound of the price level of the Existing Ordinary Shares will sustain. As advised by the Directors, they are not aware of any specific reason for the aforesaid price fluctuation of the closing prices of the Shares during the Review Period.

Despite the Conversion Price being out of the range of the closing price during the Review Period and the fluctuation of the closing price of the Existing Ordinary Shares after the date of the Alteration Consent Letters, after considering that (i) the financial position of the Group as discussed in the section headed “(II) Background and financial performance of the Group” above in this letter; (ii) it would be difficult to determine the outcome and the pricing of alternative equity financing methods, such as placing, rights issue or open offer; (iii) a similar or higher discount to the closing price, as compared with that of the Conversion Price, may be required to attract potential investors or existing Shareholders to subscribe for the Existing Ordinary Shares; (iv) alternative equity financing methods may be relatively time-consuming as the Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been overdue as at the Latest Practicable Date and the Existing Bondholders can demand the Company for repayment at any time if such convertible bonds are not extended; and (v) the Conversion Price is within the range in the comparable analysis as discussed in the sub-section headed “Comparison with recent issuance of convertible bonds/notes” below, the Alteration of Terms is preferred.

Furthermore, during the Review Period, the closing price of the Existing Ordinary Share was below the existing conversion price of HK\$0.25 per Conversion Share. Therefore, the existing conversion price of the Existing Convertible Bonds do not provide any incentive to Existing Bondholders to convert the Existing Convertible Bonds. As the Group has financial difficulties to repay the Existing Convertible Bonds given its low cash level as compared with the aggregate outstanding amount of the Existing Convertible Bonds as discussed in section headed “(III) Reasons for and benefits of the Alteration of Terms” in this letter above, the reduction of the Conversion Price of the Existing Convertible Bonds will provide the opportunity to improve the Group’s financial position if Existing Bondholders exercise the conversion rights attached to the Existing Convertible Bonds.

(ii) Comparison with recent issuance of convertible bonds/notes

To further assess the fairness and reasonableness of the Alteration of Terms and the Conversion Price, we have attempted to conduct the research on the website of the Stock Exchange in respect of issue, placing and subscription of convertible bonds/notes exercises (excluding A-share convertible bonds) with the following criteria: (i) the issuers are listed on the Stock Exchange, of which the shares were not in prolonged suspension at the date of the announcement; (ii) the market capitalisation of the issuers on the respective last trading day is not more than HK\$300 million; (iii) the issuers announced to issue or appoint a placing agent to place the convertible bonds/notes or the issuers announced to alter the conversion price and extend the maturity date of the convertible bonds/notes during the last three-month immediately preceding the date of the Alteration Consent Letters (the “**Comparable Period**”), excluding those for the acquisition transactions, corporate restructuring and takeover of the listed company; (iv) the duration of the convertible bonds/notes is not perpetual; and (v) the proposed issue of the convertible bonds/notes has not been terminated or lapsed as at the Latest Practicable Date. We have excluded perpetual convertible bonds/notes in our analysis as they are considered not comparable to the Alteration of Terms in terms of the credit risk and interest rate risk incurred from the maturity of the convertible bonds/notes. Based on the above criteria, we identified an exhaustive list of 8 convertible securities (the “**Comparable Transactions**”). We consider that the Comparable Transactions were determined under similar market conditions and sentiment, and hence represent fair and

representative samples and provide a general reference of this type of transaction in the market. We also 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. Set out below is the Comparable Transactions analysis:

Date of announcement	Stock code	Name of company	Market capitalisation on the respective last trading day (HK\$ million)	Net assets position on the date of the announcement (Yes/No)	Connected transaction (Yes/No)	Duration (years)	Interest rate per annum	Premium/ (discount) of conversion price over/(to) the closing price on the respective date of relevant agreement	Premium/ (discount) of conversion price over/(to) the average closing price for the last five consecutive trading days immediately preceding the date of the relevant agreement	Completed as at the Latest Practicable Date (Yes/No)
27 December 2024	515	China Silver Technology Holdings Limited	48.73	Yes	No	3.0	8.00%	132.56% (Note 1)	140.38% (Note 1)	Yes
23 December 2024	764	Eternity Investment Limited	282.65	Yes	No	2.0	5.00%	4.59%	3.75%	Yes
20 December 2024	8360	Basic House New Life Group Limited	216.16	No	No	2.0 (Note 2)	6.00%	0.00%	4.20%	Yes
3 December 2024	6918	Kidztech Holdings Limited	95.56	Yes	No	2.0	12.00%	4.58%	4.58%	Yes
2 December 2024	1142	E&P Global Holdings Limited	46.41	No	No	5.0	nil	(21.88)%	(24.92)%	Yes
6 November 2024	1013	Wai Chun Group Holdings Limited	36.90	No	Yes	2.0	nil	(27.54)%	(26.47)%	Yes
15 October 2024	8613	Oriental Payment Group Holdings Limited	227.77	Yes	No	1.0	7.00%	16.67%	27.97%	Yes

Date of announcement	Stock code	Name of company	Market capitalisation on the respective last trading day (HK\$ million)	Net assets position on the date of the announcement (Yes/No)	Connected transaction (Yes/No)	Duration (years)	Interest rate per annum	Premium/ (discount) of conversion price over/(to) the average closing price for the last five consecutive trading days on the immediately preceding date of the relevant agreement		Completed as at the Latest Practicable Date (Yes/No)
								relevant agreement	the relevant agreement	
2 October 2024	274	Renaissance Asia Silk Road Group Limited	102.52	Yes	No	2.0	6.00%	25.00%	3.29%	Yes
					Maximum:	5.0	12.00%	25.00%	27.97%	
					Minimum:	1.0	nil	(27.54)%	(26.47)%	
					Average:	2.4	5.50%	0.20%	(1.09)%	
27 December 2024	660	The Company	11.42	No	Yes	To be extended to 31 December 2027 (approximately three years from the Latest Practicable Date)	nil	(6.25)%	(21.05)%	No (for the Alteration of Terms)

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

Notes:

1. As the premium of the conversion price of the convertible bonds/notes of China Silver Technology Holdings Limited is extremely higher than the other Comparable Transactions, we have excluded China Silver Technology Holdings Limited from our analysis of the conversion price as outlier.
2. The maturity of the convertible bonds/notes of Basic House New Life Group Limited could be extended by the parties in writing. Since such convertible bonds/notes have not been extended as at the Latest Practicable Date, the duration in the above table is based on the original maturity date in our analysis.

(a) *Conversion price*

We note that (i) the premium/(discount) of the conversion price over/to the closing price on the respective date of relevant agreement of the Comparable Transactions (after excluding the outlier) ranged from a discount of approximately 27.54% to a premium of approximately 25.00%, with the average being premium of approximately 0.20%; and (ii) the premium/(discount) of the conversion price over/to the average closing price for the last five consecutive trading days immediately preceding the date of relevant agreement of the Comparable Transactions (after excluding the outlier) ranged from a discount of approximately 26.47% to a premium of approximately 27.97%, with the average being discount of approximately 1.09%. The discount of the Conversion Price is within the range of the Comparable Transactions.

Among the Comparable Transactions, E&P Global Holdings Limited (“**E&P Global**”), Basic House New Life Group Limited (“**Basic House New Life**”) and Wai Chun Group Holdings Limited (“**Wai Chun**”) were in net liabilities position on the date of the relevant announcement of the issue of the convertible notes/bonds.

We note that, out of the Comparable Transactions, the conversion price of the convertible notes/bonds of E&P Global and Wai Chun represented a discount to the closing price on the date of the relevant agreement and the average closing price for the last five consecutive trading days immediately preceding the date of the relevant agreement. We consider that the inclusion of the convertible notes/bonds of E&P Global and Wai Chun in our analysis is fair and reasonable as E&P Global and Wai Chun were in a similar situation as the Company after reviewing the announcement of E&P Global dated 2 December 2024 and Wai Chun dated 6 November 2024, which included that (i) E&P Global and Wai Chun were in net liabilities and net current liabilities position as at 30 September 2024; (ii) the auditors of E&P Global and Wai Chun highlighted the material uncertainty related to the going concern of E&P Global and Wai Chun; (iii) the cash position of E&P Global and Wai Chun, which were approximately HK\$5.76 million and HK\$0.14 million as at 30 September 2024 respectively, were as low as the Group; and (iv) in terms of the liquidity and financial resource, E&P Global and Wai Chun had high reliance on shareholders, directors and related parties and had limited ability to procure external funding. Although the interest rate of the convertible notes/bonds of E&P Global and Wai Chun and Existing Convertible Bonds are nil, the discount of the conversion price of the convertible notes/bonds of E&P Global and Wai Chun are much higher than that of the Conversion Price and the convertible notes/bonds of E&P Global would be redeemed at 115% of the principal amount at maturity, in contrast to 95% redemption of all Existing Convertible Bonds after the Alteration of Terms.

For the convertible bonds of Basic House New Life, which was also in net liabilities position, while the conversion price represents a nil discount to the closing price on the respective date of relevant agreement, the interest rate of such convertible bonds was 6% per annum, which is higher than the nil interest rate of the Existing Convertible Bonds. In addition, the convertible bonds of Basic House New Life would be redeemed at 100% of the principal amount at maturity while all of the Existing Convertible Bonds could be redeemed at 95% of principal amount at maturity after the Alteration of Terms.

Although the discount of the Conversion Price is below the average of the Comparable Transactions, after carefully considering that (i) the Group was at net current liabilities position and net liabilities position as at 31 December 2024; (ii) the Group would not have sufficient cash and financial resources to repay the Existing Convertible Bonds upon their maturity dates, of which Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been overdue as at the Latest Practicable Date; (iii) the Group has difficulty to obtain external financing to settle the Existing Convertible Bonds and, even if such financing is available, a similar or higher discount to the closing price may be required and the outcome is uncertain given that the trading of the Existing Ordinary Shares has been suspended from 2 October 2024 to 20 December 2024; (iv) the Existing Convertible Bonds would be extended to 31 December 2027 which could provide extra time for the Group to raise funds and strengthen its financial position; (v) the interest rate of the Existing Convertible Bonds is nil and no additional financial cost would be incurred in the Alteration of Terms; (vi) the reduction of Conversion Price will provide the opportunity to Existing Bondholders to exercise the conversion rights attached to the Existing Convertible Bonds, which will in turn result in the reduction of the financial burden of the Group given the limited financial resources of the Group; (vii) the terms of the Existing Convertible Bonds, including the interest rate, the Conversion Price and the redemption, are more favourable than the major terms of the convertible notes/bonds of E&P Global, Basic House New Life and Wai Chun, which were in net liabilities position, as discussed above; and (viii) the conversion of the Existing Convertible Bonds is subject to the public float requirement and no mandatory general offer being triggered under Rule 26 of the Takeovers Code on Existing Bondholders, which will be further discussed in the section headed “(VI) Shareholding structure and the possible dilution effect of the Existing Convertible Bonds” below in this letter, we consider that the potential advantages of the Alteration of Terms outweigh the costs associated with offering the abovementioned discount of the Conversion Price.

(b) Duration

As shown in the table above, the duration of the Comparable Transactions ranged from 1 year to 5 years with an average duration of 2.4 years. The extension of the maturity date of the Existing Convertible Bonds in the Alteration Consent Letters is within the range of the Convertible Transactions.

(c) Interest rate

As shown in the table above, the interest rates of the Comparable Transactions ranged from nil to 12.00% per annum, with an average of approximately 5.50% per annum. As the Existing Convertible Bonds have no interest charge, which is more favourable than the Comparable Transactions, entering into the Alteration Consent Letters to extend the Existing Convertible Bonds is in the interest of the Company and Shareholders as a whole.

Shareholders should note that the financial position, business, operations, and prospects of listed companies of the Comparable Transactions may not be identical to those of the Group and we have not conducted any in-depth investigation into the respective businesses and operations of the companies of each Comparable Transactions. In particular, as discussed above, the Group would not have sufficient cash and financial resources to settle the Existing Convertible Bonds, of which the Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been due on 18 January 2025. In the event the Alteration of Terms does not take place, the ability of the Company to repay the Existing Convertible Bonds and to continue as a going concern will remain uncertain upon their maturities. Therefore, we consider that the Comparable Transactions provide the Independent Shareholders a general reference as to the common market practice in respect of the terms of convertible bonds/notes issued by companies listed in Hong Kong as compared with the Alteration of Terms. It would not be appropriate to conclude the Alteration of Terms solely based on the result of Comparable Transactions analysis. Therefore, we advise the Independent Shareholders taking a holistic approach to consider various factors as discussed in this letter to justify the fairness and reasonableness of the Alteration of Terms.

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

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after full exercise of the Existing Convertible Bonds 1 only (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares); (iii) immediately after full exercise of the Existing Convertible Bonds 2 only (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares); (iv) immediately after full exercise of the Existing Convertible Bonds 3 only (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares); and (v) immediately after full exercise of all of the outstanding Existing Convertible Bonds (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares):

Name of Shareholder	(i) as at the Latest Practicable Date		(ii) immediately after the full exercise of the Existing Convertible Bonds 1 only		(iii) immediately after full exercise of the Existing Convertible Bonds 2 only		(iv) immediately after full exercise of the Existing Convertible Bonds 3 only		(v) immediately after full exercise of all of the outstanding Existing Convertible Bonds	
	Number of Existing Ordinary Shares		Number of Existing Ordinary Shares		Number of Existing Ordinary Shares		Number of Existing Ordinary Shares		Number of Existing Ordinary Shares	
	Approximate %		Approximate %		Approximate %		Approximate %		Approximate %	
Existing Bondholder 2 (Note 1)	91,550,243	51.30	91,550,243	7.07	427,383,576	83.10	295,716,909	77.28	631,550,243	34.41
Existing Bondholder 1 (Note 2)	72,400	0.04	1,116,739,066	86.23	72,400	0.01	72,400	0.02	1,116,739,066	60.85
	91,622,643	51.34	1,208,289,309	93.30	427,455,976	83.11	295,789,309	77.30	1,748,289,309	95.26
Other public Shareholders	86,853,810	48.66	86,853,810	6.70	86,853,810	16.89	86,853,810	22.70	86,853,810	4.74
Total	178,476,453	100.00	1,295,143,119	100.00	514,309,786	100.00	382,643,119	100.00	1,835,143,119	100.00

Notes:

- Existing Bondholder 2, Chinese Success, is a company owned as to 100% by Wai Chun Investment Fund, which is wholly-owned by Existing Bondholder 1, Mr. Lam Ching Kui, and holds 91,550,243 Existing Ordinary Shares.
- Existing Bondholder 1 directly holds 72,400 Existing Ordinary Shares.
- 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. *According to the existing terms of the Existing Convertible Bonds, a bondholder shall have the right to convert the Existing Convertible Bonds into Existing Ordinary Shares provided that the public float of the Existing Ordinary Share 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 Existing Bondholder 2 and any parties acting in concert with it (including Existing Bondholder 1) ceasing to be the controlling shareholder of the Company within the meaning of the Listing Rules.*

As stated in the Letter from the Board, assuming all the outstanding Existing Convertible Bonds are fully converted at the Conversion Price of HK\$0.06 per Conversion Share, a maximum of 1,656,666,666 Conversion Shares will be allotted and issued upon exercise of the Conversion Rights in full, which represents:

- (i) approximately 928.23% of the issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 90.27% of the issued share capital of the Company as to be enlarged by the issue of the 1,656,666,666 Conversion Shares (assuming there being no other issue or repurchase of Existing Ordinary Shares or New Ordinary Shares).

For indicative purposes only, based on the existing conversion price of HK\$0.25 per Conversion Share before the Alteration of Terms, assuming all the outstanding Existing Convertible Bonds are fully converted, a maximum of 397,600,000 Conversion Shares can be converted into Conversion Shares in full. Assuming there is no change in the number of issued shares of the Company from the Latest Practicable Date up to the date when the conversion rights attaching to Existing Convertible Bonds are exercised in full with the existing conversion price, the existing shareholding of the Independent Shareholders will be diluted from approximately 48.66% before full conversion of the Existing Convertible Bonds to approximately 15.08% immediately after full conversion of the Existing Convertible Bonds.

Based on the new Conversion Price of HK\$0.06 per Conversion Share before the Alteration of Terms, assuming all the outstanding Existing Convertible Bonds are fully converted, a maximum of 1,656,666,666 Conversion Shares can be converted into Conversion Shares in full. Assuming there is no change in the number of issued shares of the Company from the Latest Practicable Date up to the date when the conversion rights attaching to Existing Convertible Bonds are exercised in full with the new Conversion Price under the Alteration Consent Letters, the existing shareholding of the Independent Shareholders will be diluted from approximately 48.66% before full conversion of the Existing Convertible Bonds to approximately 4.74% immediately after full conversion of the Existing Convertible Bonds. Based on the above illustration, the increase in dilution effect to the existing shareholding of the Independent Shareholders from Alteration of Terms would be approximately 10.34%.

According to the terms of the Existing Convertible Bonds and the Alteration Consent Letters, Existing Bondholders may only convert such number of Existing Convertible Bonds as would not cause the Company not to comply with the minimum public float requirement under the Listing Rules following the conversion of the Existing Convertible Bonds and the conversion rights attached to the Existing Convertible Bonds shall only be exercised on the condition that any conversion of Existing Convertible Bonds does not: (a) trigger a mandatory general offer obligation on Existing Bondholders under Rule 26 of the Takeovers Code; and (b) result in Mr. Lam Ching Kui, being Existing Bondholder 1, and any parties acting in concert with him (including Chinese Success, being Existing Bondholder 2) ceasing to be the controlling Shareholder of the Company within the meaning of the Listing Rules.

We have discussed with the management of the Company and the management of the Company has confirmed that Existing Bondholders may not be able to convert the Existing Convertible Bonds in full in view of the restriction on conversion if the Company encounters insufficient public float or Existing Bondholders triggering a mandatory general offer obligation under the Takeovers Code. For indicative purposes only, as the shareholding of Existing Bondholders is approximately 51.34% of the issued share capital of the Company as at the Latest Practicable Date and after the completion of the conversion of Existing Convertible Bonds 3 under the Amendment Agreement on 20 March 2025, either Existing Bondholder 1 or Existing Bondholder 2 may theoretically convert up to approximately 169,000,000 Conversion Shares (equivalent to the principal amount of the Existing Convertible Bonds of approximately HK\$10.14 million based on the Conversion Price of HK\$0.06 per Conversion Share) to comply with the minimum public float requirement under the Listing Rules, which will dilute the shareholding of the Independent Shareholders from approximately 48.66% to approximately 25.00%, only after one year from the conversion of the Existing Convertible Bonds 3 under the Amendment Agreement by not triggering a mandatory general offer obligation under the Takeovers Code. The above illustration is subject to the assumption that there is no change in the shareholding of the Existing Bondholders during the 12-month period from the date of the conversion of the Existing Convertible Bonds 3. Therefore, the immediate dilution effect to the shareholding of the Independent Shareholders is limited and restricted.

In view of (i) the reasons for and benefits of the Alteration of Terms as set out in the section headed “(III) Reasons for and benefits of the Alteration of Terms” in this letter above; and (ii) the restriction to the conversion of the Existing Convertible Bonds as discussed above, we consider that the level of dilution (subject to the restriction in respect of the mandatory general offer obligation under the Takeovers Code and the minimum public float requirement of the Listing Rules) to the shareholding interests of the Independent Shareholders is acceptable.

(VII) Financial effects as a result of the Alteration of Terms

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

(i) Net assets value and gearing

It is expected that the Alteration of Terms will not have an immediate material impact on the net asset value and gearing of the Group. After extension of the Existing Convertible Bonds, the entire amount of the convertible bonds in the current liabilities will be reclassified as non-current liabilities. The net current liabilities will be reduced from approximately HK\$144.54 million as at 31 December 2024 to approximately HK\$62.56 million.

(ii) Earnings

As there is no change to the interest rate of the Existing Convertible Bonds, it is expected that the Alteration of Terms will not have any material impact on earnings of the Group.

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

RECOMMENDATION

We note that the Conversion Price is below the closing price of the Existing Ordinary Shares during the Review Period and below the average of the Comparable Transactions. Nevertheless, having taken into account the principal factors and reasons as discussed above, in particular:

- (i) the financial position of the Group, including the material uncertainty relating to going concern of the Group raised by the auditors of the Company as stated in the Annual Report 2023/24;
- (ii) the Group does not have sufficient cash to repay the Existing Convertible Bonds;
- (iii) extension of the Existing Convertible Bonds will improve the net current liabilities position of the Group and provide extra time for the Group to raise funds to repay the Existing Convertible Bonds and strengthen its financial position;
- (iv) there are limited debt and equity financing alternatives available to the Group and the outcome is highly uncertain;
- (v) the Existing Convertible Bonds have nil interest rate, which is more favourable than the Comparable Transactions;
- (vi) the Existing Convertible Bonds 1 and Existing Convertible Bonds 2 have been overdue as at the Latest Practicable Date and the Existing Bondholders can demand the Company for repayment at any time if such convertible bonds are not extended;
- (vii) the Alteration of Terms for the Existing Convertible Bonds are proposed as a whole;
- (viii) the Conversion Price is barely within the range of the Comparable Transactions; and

- (ix) the dilution to the Independent Shareholders is limited due to the restriction in respect of the mandatory general offer obligation under the Takeovers Code and the minimum public float requirement of the Listing Rules,

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

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

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



Gina Leung
Managing Director



Psyche So

Associate 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.

Ms. Psyche So 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 eight years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.