

22 May 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

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

I. INTRODUCTION

We, Optima Capital Limited (“Optima Capital”), have been appointed by the Company as the independent financial adviser in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the “Board Letter”) in the circular of the Company dated 22 May 2025 (the “Circular”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As at the date of the Loan Capitalisation Agreement, the Company was indebted to the Subscriber the Shareholder’s Loans in an aggregate amount of approximately HK\$456.67 million, which comprised aggregate outstanding principal amount of approximately HK\$432.72 million and accrued interest of approximately HK\$23.95 million. The Shareholder’s Loans were provided to the Group by the Subscriber for the purpose of financing its general working capital requirement and business development needs from time to time.

On 17 April 2025, the Company and the Subscriber entered into the Loan Capitalisation Agreement, pursuant to which, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 717,948,718 Capitalisation Shares at the Capitalisation Price of HK\$0.195 per Capitalisation Share. As set out in the Board Letter, the aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by capitalising and setting off against the Repayment Amount of HK\$140 million upon Completion.

The Capitalisation Shares represent (i) approximately 10.76% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 9.71% of the total number of issued Shares as enlarged by the allotment and issue of the Capitalisation Shares, assuming that there will be no change in the total number of issued Shares between the Latest Practicable Date and the Completion Date.

As at the Latest Practicable Date, the Subscriber was the chairman of the Board, an executive Director and the controlling Shareholder who beneficially owned 4,054,682,628 Shares, representing approximately 60.75% of the issued share capital of the Company, and hence a connected person of the Company pursuant to the Listing Rules. Accordingly, the Loan Capitalisation constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Li Siu Yui, Mr. Chow Ching Ning and Mr. Lam Lum Lee, has been established to advise and make recommendations to the Independent Shareholders on whether (i) the Loan Capitalisation Agreement is entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Loan Capitalisation Agreement are on normal commercial terms or better, and fair and reasonable; and (iii) the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole. We, Optima Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the two years prior to the Latest Practicable Date, Optima Capital was engaged as an independent financial adviser in relation to the loan capitalisation agreement entered into between the Company and the Subscriber on 7 March 2024, details of which were set out in the Company's circular dated 27 March 2024. Nevertheless, having considered that (i) the aforesaid past engagement was limited to providing independent financial advisory services to the Company pursuant to the Listing Rules for which Optima Capital received normal professional fees, which would not affect our independence; and (ii) none of the circumstances set out in Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date, we are of the view that we are eligible to give independent financial advice in respect of the Loan Capitalisation Agreement.

II. BASIS OF OUR OPINION

In formulating our advice and recommendations, we have relied on the information and facts supplied and the opinions expressed by the Directors and management of the Company (collectively, the **"Management"**) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date.

We have reviewed, among other things, (i) the Loan Capitalisation Agreement; (ii) the Announcement and the announcement of the Company dated 30 April 2025; (iii) the annual reports for the two years ended 31 March 2023 and 2024 (the **"FY2024 Annual Report"**) and the interim report for the six months ended 30 September 2024 (the **"1H2025 Interim Report"**) published by the Company; (iv) the information contained in the Circular; and (v) other information obtained from the public domain.

We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs and taxation implications of the Loan Capitalisation to the Group and/or the Subscriber, nor have we carried out any independent verification of the information supplied.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

1.1 Principal businesses of the Group

The Group is principally engaged in sales and distribution of natural gas (the “NG Business”), new energy (the “New Energy Business”) and financial services business.

The NG Business includes (i) natural gas energy centre; (ii) natural gas point-to-point supply services; (iii) natural gas truck filling stations; (iv) natural gas transportation fleet logistics; (v) local government and gas company natural gas peak shaving storage; (vi) national natural gas pipeline network gas transmission; (vii) natural gas trading; (viii) pipeline natural gas direct supply services; and (ix) pipeline natural gas trading, and is categorised into five key focuses, namely (a) point-to-point supply of natural gas (the “Retail Business”); (b) wholesale of natural gas (the “Wholesale Business”); (c) distribution of natural gas (logistics) (the “Logistics Business”); (d) natural gas pipeline network connection; and (e) infrastructure projects, in the PRC.

The newly developed New Energy Business includes (i) development of new energy integrated solutions like household thermal balance, efficient energy storage, and various other solutions; and (ii) sales and distribution of new energy products like (a) encompasses comprehensive smart energy supply for industrial parks; (b) smart cooling for building complexes; (c) smart heating for building complexes; (d) smart heating for northern residential communities; (e) smart management of building energy efficiency; (f) energy storage; (g) industrial power; (h) electricity operation; and (i) carbon trading, in the PRC.

The financial services business of the Group includes provision of (i) finance lease services in the PRC; (ii) investment management and fund management services in Hong Kong; and (iii) money lending in Hong Kong.

1.2 Financial performance of the Group

Set out below is the summary of the financial performance of the Group for the two years ended 31 March 2023 (“FY2023”) and 2024 (“FY2024”) and the six months ended 30 September 2023 (“1H2024”) and 2024 (“1H2025”), extracted from the FY2024 Annual Report and the 1H2025 Interim Report.

	FY2023 HK\$'000 (Audited)	FY2024 HK\$'000 (Audited)	1H2024 HK\$'000 (Unaudited)	1H2025 HK\$'000 (Unaudited)
Revenue	211,850	454,491	128,622	252,777
– NG Business	211,793	368,779	127,973	219,418
– New Energy Business	–	83,564	–	32,337
– Financial services business	57	2,148	649	1,022
Gross (loss)/profit	(16,101)	63,647	(1,292)	40,789
Finance costs	(34,859)	(34,695)	(15,701)	(14,334)
Loss before income tax	(182,844)	(142,805)	(58,463)	(55,568)
Loss for the year/period attributable to owners of the Company	(167,194)	(139,297)	(47,216)	(52,895)

1.2.1 1H2025 vs 1H2024

The Group’s revenue for 1H2025 increased by approximately 96.5%, or HK\$124.2 million, compared to 1H2024. This growth was mainly due to (i) a significant increase in revenue from the NG Business by approximately 71.5%, or HK\$91.4 million, driven by (a) a notable surge in revenue from the Wholesale Business by approximately 139.2%, or HK\$68.1 million, primarily attributable to a rebound in domestic natural gas consumption and the expansion of distribution channels; and (b) an increase in revenue from the Retail Business by approximately 45.1% or HK\$24.1 million, primarily driven by the increase in customer base; and (ii) the revenue contribution from the newly developed New Energy Business of approximately HK\$32.3 million.

The Group achieved a turnaround from a gross loss of approximately HK\$1.3 million for 1H2024 to a gross profit of approximately HK\$40.8 million for 1H2025. This improvement was mainly attributable to (i) an increase in gross profit from the natural gas supply business, supported by a supply collaboration with China National Offshore Oil Corporation (“CNOOC”), the largest producer of offshore crude oil and natural gas in the PRC, which provided favourable purchases prices for natural gas; (ii) cost-saving measures implemented in the Logistics Business resulting from the restructuring of loss-making business units which minimised the impact of direct costs; (iii) a decline in national natural gas prices, lowering natural gas consumption costs in the Logistics Business; and (iv) strong gross profit contributions from the New Energy Business. The gross profit margin improved to 16.1% in 1H2025 from a gross loss position in 1H2024, reflecting both operational efficiency gains and the contribution from the New Energy Business.

The Group’s finance costs mainly comprised interest expense on (i) loans from the Subscriber; and (ii) bank loans and other borrowings, which accounted for approximately 72.9% and 23.7% of total finance costs of the Group for 1H2025, respectively. The finance costs for 1H2025 decreased by approximately 8.7%, or HK\$1.4 million, compared to 1H2024. The reduction was primarily due to interest savings following the capitalisation of HK\$300 million in shareholder loans in May 2024.

Despite improvements in a gross profit and lower finance costs, the loss attributable to owners of the Company for 1H2025 increased by approximately 12.0%, or HK\$5.7 million, compared to 1H2024. This was primarily due to a rise in (i) selling and distribution expenses, which increased by approximately 186.4% or HK\$8.2 million; and (ii) administrative expenses, which rose by approximately 79.0% or HK\$29.6 million, both driven by the expansion and operational costs of the New Energy Business.

1.2.2 FY2024 vs FY2023

The Group’s revenue for FY2024 increased by approximately 114.5%, or HK\$242.6 million, compared to FY2023. This growth was mainly attributable to (i) a significant increase in revenue from the NG Business of approximately 74.1%, or HK\$157.0 million, as a result of (a) a significant rise in revenue from the Wholesale Business of approximately 561.3%, or HK\$147.9 million, primarily driven by a rebound in domestic natural gas demand and the expanded distribution channels; and (b) an increase in revenue from the Retail Business by approximately 22.6%, or HK\$25.6 million, mainly due to growth in the number of retail customers, while partially offset by a decline in revenue from the Logistics Business by 23.0%, or HK\$16.7 million, due to intensified competition and reduced demand; and (ii) the contribution from the New Energy Business, which commenced in the second half of FY2024, generating revenue of approximately HK\$83.6 million.

The Group reversed from a gross loss of approximately HK\$16.1 million in FY2023 to a gross profit of approximately HK\$63.6 million in FY2024. This turnaround was driven by (i) increased gross profit from NG Business due to favourable pricing from CNOOC; (ii) cost-saving initiatives in the Logistics Business through restructuring of underperforming business units; (iii) a decline in national natural gas consumption costs amid falling natural gas prices in the Logistics Business; and (iv) meaningful gross profit contributions from the New Energy Business. The gross profit margin improved to 14.0% in FY2024 from a gross loss position in FY2023, reflecting enhanced cost control and diversification into higher-margin business segments.

The finance costs of the Group for FY2024 remained broadly stable compared to FY2023.

The loss attributable to the owners of the Company improved by approximately 16.7%, or HK\$27.9 million, for FY2024. While the return to profitability in gross profit was a key contributor to this improvement, it was partially offset by (i) a provision for penalty charges on legal proceedings of approximately HK\$39.2 million for FY2024, regarding the unpaid balance claimed by an independent creditor of the NG Business; and (ii) a loss on the disposal of property, plant and equipment of approximately HK\$14.9 million.

1.3 Financial position of the Group

Set out below is the summary of the financial position of the Group as at 30 September 2024 as extracted from the 1H2025 Interim Report.

	As at 30 September 2024 HK\$'000 (Unaudited)
Non-current assets	
Property, plant and equipment	430,238
Other intangible assets	4,095
Right-of-use assets	99,868
Goodwill	82,308
Interests in joint ventures	78,114
Deposits for acquisition of plant and equipment	145,948
Deposits for acquisition of land use rights	31,854
Other assets	287,819
Statutory deposits	93
	1,160,337

As at
30 September 2024
HK\$'000
(Unaudited)

Current assets

Inventories	46,878
Finance lease receivables	8,843
Loan and reimbursement receivables	112,787
Accounts and other receivables, prepayments and deposits	245,731
Financial assets at fair value through profit or loss	1
Cash and cash equivalents	76,317

490,557

Current liabilities

Accounts payables	160,482
Other payables and accruals	533,848
Interest-bearing bank borrowings	159,207
Lease liabilities	2,104
Tax payable	5,900

861,541

Non-current liabilities

Loans from the Subscriber	428,777
Interest-bearing bank borrowings	30,936
Lease liabilities	4,073
Deferred tax liabilities	5,648

469,434

Equity

Equity attributable to owners of the Company	293,078
Non-controlling interests	26,841

319,919

1.3.1 Total assets

As at 30 September 2024, the Group's total assets mainly comprised (i) property, plant and equipment; (ii) other assets, representing the right to acquire liquefied natural gas tank containers pursuant to a sale and purchase agreement dated 29 June 2018; (iii) accounts and other receivables, prepayments and deposits; (iv) deposits for acquisition of plant and equipment; (v) loan and reimbursement receivables, representing the loans advanced by the money-lending subsidiary of the Company to a former non-controlling shareholder of Key Fit Group Limited, a 60.42%-owned subsidiary of the Company, with interest rates ranging from 12% to 15% per annum at the time of granting and respective extension pursuant to the loan agreements; and (vi) rights-of-use assets in respect of land use rights and properties, accounting for approximately 26.1%, 17.4%, 14.9%, 8.8%, 6.8% and 6.0% of the total assets of the Group, respectively.

1.3.2 Total liabilities

The total liabilities of the Group mainly comprised (i) other payables and accruals, representing (a) payable for the right to acquire property, plant and equipment of approximately HK\$287.82 million; (b) accruals and other payables of approximately HK\$173.59 million; (c) contract liabilities of approximately HK\$40.44 million; (d) loans from third party of approximately HK\$20.25 million; and (e) interest payable accrued on the Shareholder's Loans of approximately HK\$11.75 million; (ii) the outstanding principal amount of the Shareholder's Loans; (iii) interest-bearing bank borrowings; and (iv) accounts payable in respect of the NG Business and the New Energy Business, accounting for approximately 40.1%, 32.2%, 14.3% and 12.1% of the total liabilities of the Group as at 30 September 2024, respectively.

1.3.3 Shareholder's Loans

As at 30 September 2024, the Shareholder's Loans amounted to approximately HK\$440.5 million, comprising (i) an aggregate outstanding principal amount of approximately HK\$428.78 million; and (ii) an aggregate accrued interest of approximately HK\$11.75 million.

As set out in the Board Letter, as at the date of the Loan Capitalisation Agreement, the Shareholder's Loans amounted to approximately HK\$456.67 million, comprising (i) an aggregate outstanding principal amount of approximately HK\$432.72 million; and (ii) an aggregate accrued interest of approximately HK\$23.95 million. This represents an increase of approximately HK\$3.94 million and HK\$12.20 million in principal and accrued interest, respectively, as compared to the position as at 30 September 2024. As advised by the Management, the increase in the principal was due to new Shareholder's Loans granted to the Group while the increase in the accrued interest reflects interest accrued on both the existing and new Shareholder's Loans during the period from 1 October 2024 to the date of the Loan Capitalisation Agreement.

The Shareholder's Loans have been provided by the Subscriber to the Group from time to time since January 2018 for the purpose of financing its general working capital requirement and business development needs. While the Shareholder's Loans are currently repayable on demand, the Subscriber has agreed not to demand repayment until 30 June 2025. All of the Shareholder's Loans are unsecured and currently bear an interest rate of 5% per annum.

1.3.4 Gearing ratio

As at 30 September 2024, the total interest-bearing debts of the Group amounted to approximately HK\$618.92 million, comprising (i) the Shareholder's Loans with an aggregate outstanding principal amount of approximately HK\$428.78 million; and (ii) bank loans with an outstanding principal amount of approximately HK\$190.14 million. As at 30 September 2024, the gearing ratio of the Group amounted to approximately 193.5%, calculated by dividing the total interest-bearing debts of HK\$618.92 million by the total equity of HK\$319.92 million.

Given such high level of gearing, the Group's finance costs for 1H2025 amounted to approximately HK\$14.33 million, representing approximately 5.7% of its revenue of approximately HK\$252.78 million for the period.

1.3.5 Cash and cash equivalents

As at 30 September 2024, the cash and cash equivalents of the Group amounted to approximately HK\$76.32 million. This amount was insufficient to cover the outstanding Shareholder's Loans of approximately HK\$456.67 million as at the date of the Loan Capitalisation Agreement, let alone the outstanding loan principal and interest payable on the bank loans of the Group.

2. Information of the Subscriber

As at the Latest Practicable Date, the Subscriber was the chairman of the Board, an executive Director and the controlling Shareholder who beneficially owned 4,054,682,628 Shares, representing approximately 60.75% of the issued share capital of the Company. Therefore, the Subscriber is a connected person of the Company pursuant to the Listing Rules.

3. Principal terms of the Loan Capitalisation Agreement

The details of the Loan Capitalisation Agreement are set out in the Board Letter. Set out below is a summary of the principal terms of the Loan Capitalisation Agreement.

3.1 Number of Capitalisation Shares

Pursuant to the Loan Capitalisation Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, a total of 717,948,718 Capitalisation Shares. The aggregate nominal value of the Capitalisation Shares (with a nominal value of HK\$0.02 each) is HK\$14,358,974.

The Capitalisation Shares to be allotted and issued to the Subscriber will be allotted and issued under the Specific Mandate to be obtained at the EGM.

3.2 Capitalisation Price

The Capitalisation Price of HK\$0.195 per Capitalisation Share represents:

- (i) the closing price of HK\$0.195 per Share as quoted on the Stock Exchange on 17 April 2025, being the date of the Loan Capitalisation Agreement;
- (ii) a discount of approximately 0.51% to the average closing price per Share of HK\$0.196 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement;
- (iii) a discount of approximately 4.41% to the average closing price per Share of HK\$0.204 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement;
- (iv) a discount of approximately 29.60% to the average closing price per Share of HK\$0.277 as quoted on the Stock Exchange for the last twenty consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement;
- (v) a discount of approximately 32.76% to the average closing price per Share of HK\$0.290 as quoted on the Stock Exchange for the last thirty consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement;
- (vi) a discount of approximately 33.90% to the closing price per Share of HK\$0.295 as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vii) a premium of approximately 344.19% over the Company's unaudited consolidated net asset value per Share (the "NAV per Share") as at 30 September 2024 of approximately HK\$0.0439 (calculated by equity attributable to the Shareholders of approximately HK\$293,078,000 as at 30 September 2024 and 6,674,029,649 Shares in issue as at the date of the Latest Practicable Date).

The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by way of capitalising and setting off against the Repayment Amount of HK\$140 million upon Completion. The Repayment Amount to be set off shall consist of the principal amount of certain Shareholder's Loans which are currently repayable on demand in an aggregate amount of HK\$140 million.

The Group will use its internal resources to settle the professional fees and all related expenses which may be borne by the Company in connection with the Loan Capitalisation.

4. Reasons for and benefits of the Loan Capitalisation

As set out in the Board Letter, the Subscriber has expressed to the Company his intention to capitalise the Repayment Amount and increase his equity investment in the Company given his confidence in the Group's future business performance. The Management is of the view that (i) the existing financial resources of the Group is insufficient to repay the amount due to the Subscriber; (ii) by capitalising the Repayment Amount, the Group would be able to settle part of its existing liabilities without utilising its existing financial resources and can avoid cash outflows; and (iii) the capitalisation of the Repayment Amount would reduce the Company's indebtedness level and broaden its capital base.

As at 30 September 2024, the Group was significantly over-leveraged, having total interest-bearing debts of approximately HK\$618.92 million (which included the outstanding principal amount of the Shareholder's Loans of approximately HK\$428.78 million) and recording a gearing ratio of 193.5%, as discussed in the section headed "1. Information of the Group" above. The outstanding principal amount of the Shareholder's Loans was further increased to approximately HK\$432.72 million as at the date of the Loan Capitalisation Agreement. Furthermore, as at 30 September 2024, the Group only had approximately HK\$76.32 million cash and cash equivalents which were insufficient to cover even the current portion of its bank borrowings of HK\$159.21 million. As at the Latest Practicable Date, the Group's interest-bearing debts and gearing ratio further increased to approximately HK\$646.12 million (which included the outstanding principal amount of the Shareholder's Loans of approximately HK\$432.72 million) and 269.3%, respectively, while it only had approximately HK\$40.77 million cash and cash equivalents. Having considered the above, it is conceivable that the Group would have difficulty in satisfying its short-term liabilities with its limited existing financial resources. The Loan Capitalisation would enable the Group to settle the Repayment Amount without obtaining additional bank borrowings, incurring additional finance costs, or utilising its existing financial resources and can avoid cash outflows of the Group. The gearing level of the Group would be improved, thereby strengthening its financial position; and, as set out in the section headed "7. Possible financial effects of the Loan Capitalisation" below, the Group would also save interest expenses of HK\$7 million per annum going forward.

We have discussed with the Management and understand that the Company had considered alternative means to raise funds for settlement of the Shareholder's Loans, including bank borrowings, share placement, rights issue or open offer.

In assessing the option of bank borrowings or other debt financing, the Management advised that the Company had considered that: (i) such financing would not improve the Group's gearing ratio and would result in additional interest expenses, unlike the Loan Capitalisation, which enhances the gearing position without incurring further financing costs; (ii) securing new bank facilities would likely be difficult, uncertain, and time-consuming, given the Group's current financial position; and (iii) bank loans generally require asset pledges and/or securities, which could limit the Group's operational flexibility. Based on FY2024 Annual Report, as at 31 March 2024, all the Group's bank loans were secured. Some carried fixed interest rates ranging from of 3.05% to 6% per annum, while others were subject to floating rates between loan prime rate ("LPR") and LPR plus 2.15% per annum. We have also discussed with the Management and understand that the existing bank loans with comparatively lower interest rate were primarily used for general working purpose. While the Group has considered obtaining additional debt financing as a means of settling the Shareholder's Loans, the Management considers that given the prevailing market conditions, it is difficult for the Group to secure new bank loans for this purpose, particularly at interest rates lower than those applicable to the Shareholders' Loans. Furthermore, in view of the Group's loss-making performance in recent years, the high proportion of finance costs which represents 54.5% of the gross profit, the elevated gearing ratio and its net current liabilities position, as stated in the section headed "1. Information of the Group" above, we are of the view that (i) it would be challenging for the Group to obtain new borrowings at more favourable terms; and (ii) any debt financing at higher interest rates would increase finance costs and could further deteriorate the Group's financial position. Given these factors, the Management is of the view, and we concur, that additional debt financing or bank borrowings are not suitable or desirable financing alternatives for the Group.

With respect to other equity financing methods such as placing of new shares, rights issue and open offer, we understand that (i) pre-emptive fundraising methods such as rights issues or open offers typically require at least five to six weeks to complete, and may involve lengthy discussions with potential underwriters; (ii) such fundraising exercises usually entail significant additional costs, including placing fees, underwriting commission and other professional fees; and (iii) in light of (a) the Group's recent net losses and net current liabilities, and (b) the prevailing market prices and low liquidity of the Shares as discussed in the section headed "5. Analysis of the Capitalisation Price" below in this letter, it would be difficult for the Company to conduct a share placement, rights issue or open offer of size comparable to the Repayment Amount without offering a deep discount to attract subscribers.

On the other hand, the Loan Capitalisation (i) will reduce the Group's debts and improve its gearing ratio, capital base and net asset position; (ii) can be executed more efficiently with fewer external negotiations; (iii) will not incur any additional fundraising costs; (iv) is priced at prevailing market level, being equivalent to the closing price per Share on, and close to the five-day average closing price per Share preceding the date of the Loan Capitalisation Agreement; and (v) involves minimal completion risk, given the Subscriber's stated intention to capitalise the Repayment Amount. In light of the above, we concur with the view of the Management that equity financing is not a desirable financing alternative for the Group in the present circumstances.

In view of the foregoing, in particular the costs, timing, execution risk, and financial impact of the various funding alternatives, we are of the view that the Loan Capitalisation represents a more appropriate and beneficial means of settling part of the Shareholder's Loans.

Having considered the above, although the Loan Capitalisation is not in the ordinary and usual course of business of the Group, we are of the view that it is in the interests of the Company and the Shareholders as a whole.

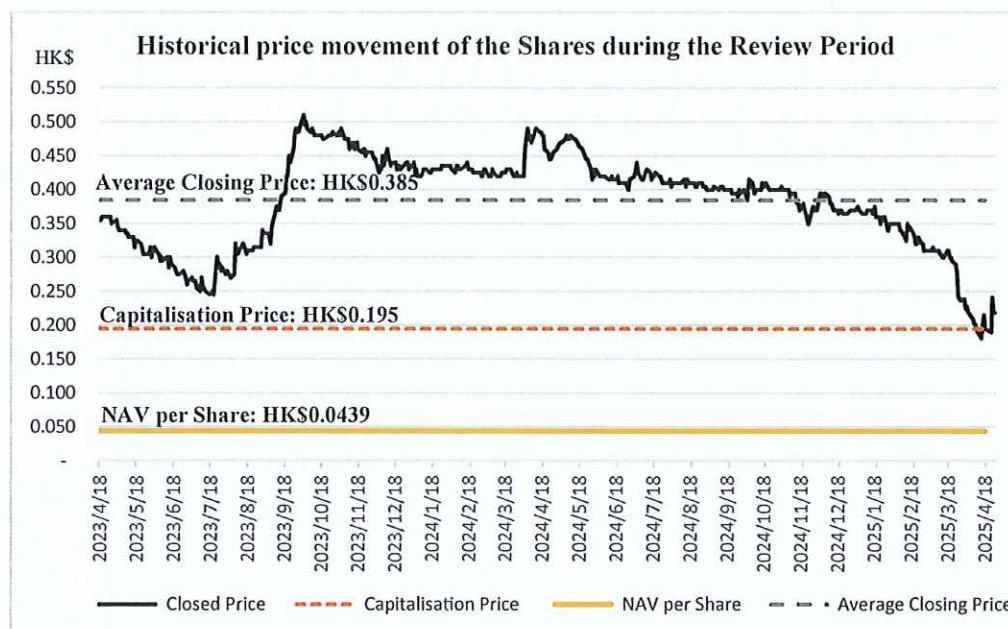
5. Analysis of the Capitalisation Price

As set out in the Board Letter, the Capitalisation Price of HK\$0.195 per Capitalisation Share was arrived at on an arm's length basis between the Company and the Subscriber after taking into account (i) the recent trading performance of the Shares; (ii) the recent market conditions; (iii) the current financial position of the Group; and (iv) the business prospects of the Group.

In order to assess the fairness and reasonableness of the Capitalisation Price at HK\$0.195, we have reviewed the daily closing prices and trading volume of the Shares from 18 April 2023 to 17 April 2025 (being the period of 2 years prior to and including the date of the Loan Capitalisation Agreement, the "**Review Period**"). We consider the Review Period is adequate, fair and representative to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the daily closing prices of the Shares, which can reflect the correlation between the recent business performance of the Group and the latest market reaction in the Share price.

5.1 Analysis of historical Share price performance

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



Source: the Stock Exchange

During the Review Period, the closing prices of the Shares ranged from a low of HK\$0.181 (the "Lowest Closing Price") and a high of HK\$0.510 (the "Highest Closing Price"), with an average closing price of the Shares of HK\$0.385 (the "Average Closing Price").

As illustrated in the chart above, between 18 April 2023 and 17 August 2023, the closing price of Shares fluctuated between HK\$0.245 and HK\$0.360, and closed at HK\$0.305 on 17 August 2023. Based on our discussion with the Management, such fluctuations may be attributable to (a) the Company's publication of an inside information announcement regarding a statutory demand (the "Statutory Demand") for the settlement of a debt of approximately HK\$60.3 million to a creditor (the "Creditor"); (b) the announcement of the Company's annual result for the year ended 31 March 2023 on 30 June 2023; and (c) an announcement on 14 August 2023 of the withdrawal of the Statutory Demand following the settlement with the Creditor.

Subsequently, the Share prices increased, following the publication of (a) a voluntary announcement on 18 September 2023 regarding the Group's latest business developments; and (b) an announcement on 20 September 2023 in relation to a subscription of new Shares under general mandate to raise up HK\$39 million from an independent professional equity investor. The Share price reached its peak at the Highest Closing Price of HK\$0.510 on 3 October 2023.

From mid-October 2023 to mid-April 2024, the Share price declined, reaching HK\$0.420 on 2 April 2024. A short-lived rebound followed, with the price reaching HK\$0.490 on 12 April 2024. Thereafter, the Share price resumed its downward trend, and eventually declined to the Lowest Closing Price of HK\$0.181 on 14 April 2025. We are not aware of any announcements by the Company that may explain this price movement. Based on our enquiries, the Management indicated that the recent sharp decline may have been influenced by escalating international trade disputes, particularly tariff actions by the United States, the PRC and other countries, which have introduced uncertainties that adversely affected both the Chinese and global economies.

Aside from the aforementioned events, the Management advised that they were not aware of any other specific developments that would have contributed to the fluctuations in the Share price during the Review Period.

It is also worth noting that on 7 March 2024, the Company proposed to issue 697,674,419 Shares at the price of HK\$0.430 per Share (the "Previous Capitalisation Price"), with an aggregate amount of HK\$300 million to the Subscriber, which was completed on 3 May 2024. The consideration was satisfied by offsetting certain principal and accrued interest amount owed to the Subscriber under outstanding loan arrangements. Although the current Capitalisation Price of HK\$0.195 represents a discount of approximately 54.7% to the Previous Capitalisation Price, both prices are equivalent to the respective closing prices of the Shares on the dates of the relevant loan capitalisation agreements.

The Capitalisation Price of HK\$0.195 per Capitalisation Share represents (i) a premium of approximately 7.7% over the Lowest Closing Price of HK\$0.181; (ii) a discount of approximately 61.8% to the Highest Closing Price of HK\$0.510; and (iii) a discount of approximately 49.4% to the Average Closing Price of approximately HK\$0.385.

While the Capitalisation Price is below most of the closing prices of the Shares during the Review Period, it remains within the historical price range. In assessing the fairness and reasonableness of the Capitalisation Price, we have taken into the followings: (i) the Capitalisation Price falls within the aforesaid historical closing price range during the Review Period; (ii) it is higher than the Lowest Closing Price during the Review Period; (iii) it is equivalent to the closing price on date of Loan Capitalisation Agreement, consistent with the Previous Capitalisation Price; (iv) it represents a significant premium of approximately 344.19% over the NAV per Share; (v) the Share price exhibited a downward trend over the Review Period; (vi) the extremely thin liquidity of the Shares as discussed in the paragraphs headed “5.2 Analysis of trading liquidity of the Shares” below; (vii) the current financial position of the Group, including a low cash position as at 30 September 2024, which is insufficient to settle amounts due to the Subscriber as analysed in the section headed “4. Reasons for and benefits of the Loan Capitalisation” above; and (viii) the Subscriber is the Chairman, an executive Director and the controlling Shareholder of the Company whose continued financial support demonstrates his confidence in the Company’s future prospects and commitment to its business development.

Based on the above factors, we are of the view that the Capitalisation Price is fair and reasonable from the perspective of the historical trading performance of the Shares.

5.2 Analysis of trading liquidity of the Shares

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

			Average daily trading volume of the Shares for the month/ period	Total number of issued Shares as at month/period end	Percentage of average daily trading volume of Shares to the total issued Shares Approx. %
	Number of trading days	Total trading volume of the Shares for the month/period <i>Number of Shares</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	
2023					
April (commencing from 18 April 2023)	9	3,037,500	337,500	5,643,797,090	0.006
May	21	7,309,625	348,077	5,643,797,090	0.006
June	21	4,688,920	223,282	5,643,797,090	0.004
July	20	17,043,063	852,153	5,643,797,090	0.015
August	23	19,699,040	856,480	5,643,797,090	0.015
September	19	81,787,581	4,304,610	5,743,797,090	0.075
October	20	46,608,698	2,330,435	5,743,797,090	0.041
November	22	106,084,603	4,822,027	5,743,797,090	0.084
December	19	60,846,089	3,202,426	5,743,797,090	0.056

			Average daily trading volume of the Shares for the month/ period <i>Number of Shares</i>	Total number of issued Shares as at month/period end <i>Number of Shares</i>	Percentage of average daily trading volume of Shares to the total issued Shares <i>Approx. %</i>
	Number of trading days <i>Days</i>	Total trading volume of the Shares for the month/period <i>Number of Shares</i>			
2024					
January	22	30,858,673	1,402,667	5,743,797,090	0.024
February	19	21,031,000	1,106,895	5,976,355,230	0.019
March	20	12,302,930	615,147	5,976,355,230	0.010
April	20	59,994,715	2,999,736	5,976,355,230	0.050
May	21	28,577,783	1,360,847	6,674,029,649	0.020
June	19	10,132,773	533,304	6,674,029,649	0.008
July	22	12,113,399	550,609	6,674,029,649	0.008
August	22	45,403,697	2,063,804	6,674,029,649	0.031
September	19	11,032,630	580,665	6,674,029,649	0.009
October	21	35,113,103	1,672,053	6,674,029,649	0.025
November	21	24,207,197	1,152,724	6,674,029,649	0.017
December	20	22,165,296	1,108,265	6,674,029,649	0.017
2025					
January	19	14,765,500	777,132	6,674,029,649	0.012
February	20	27,146,411	1,357,321	6,674,029,649	0.020
March	21	52,153,374	2,483,494	6,674,029,649	0.037
April (up to and including 17 April 2025)	12	39,147,486	3,262,291	6,674,029,649	0.049

Source: the Stock Exchange

As illustrated in the table above, the average daily trading volume of the Shares was low, ranging from 223,282 Shares to 4,822,027 Shares during the Review Period, representing approximately 0.004% to 0.084% of the total issued Shares as at the end of relevant month/period.

It is noted that the average daily trading liquidity of the Shares were very thin during the Review Period, being less than 0.1% of the then total issued Shares as at the end of each month/period for all months/periods during the Review Period. The Management's view, and we concur, is that issuance of new Shares to potential investors as an alternative to raise funds for settling the Shareholder's Loans will likely require a considerable discount to the prevailing market price of the Shares as an incentive and would be difficult for the Group to raise equivalent funds as the Repayment Amount given the low prevailing Share prices.

5.3 *Market comparables analysis*

To further assess the fairness and reasonableness of the Capitalisation Price, we have selected and identified, to the best of our knowledge, effort and endeavor, an exhaustive list of 15 comparable transactions (the “**Comparables**”) based on the following criteria: (i) companies listed on the Stock Exchange; (ii) companies that had published announcements in relation to subscription of new shares under specific mandate by connected persons during the period from 18 October 2024 to 17 April 2025 (being six months prior to and including the date of the Loan Capitalisation Agreement, the “**Comparable Period**”); (iii) excluding issues under share award or for emolument, restructuring scheme or acquisition purposes; and (iv) excluding issues of A shares or PRC domestic shares. We have restricted our comparison to subscriptions by connected persons as we consider transactions such as placing to independent third parties, rights issue and open offer in the market tend to be conducted at a discount to their respective last trading days in order to attract new investors and existing shareholders to subscribe, and may therefore distort our comparable analysis.

We are of the view that the aforementioned criteria are appropriate and that the Comparable Period would provide us with the recent relevant information on the market sentiment, which plays an important role in the determination of the subscription prices of the Comparables in general. The six-month timeframe was adopted to demonstrate the recent market trends with sufficient and representative number of Comparables and thus, we consider the timeframe of the Comparable Period is reasonable and representative. We also noted that the terms of the relevant transactions of the Comparables may vary from companies with different financial standings, business performance and future prospects. We have also disregarded the relevance of comparing the size and use of proceeds from subscriptions carried out by the Comparables as they vary among companies with different purposes for their respective subscriptions. Since the Comparables are the recent transactions announced to the public, we consider that they represent the recent trend of relevant transactions in the prevailing market condition and could provide a general reference for the terms of the subscription price.

Our relevant findings are summarised in the table below:

Date of announcement	Stock code	Company name	Premium/ (discount) of the subscription price over/ to the average closing price for the last five consecutive trading days prior to/up to and including the date of the corresponding agreement	Premium/ (discount) of the subscription price over/ to the average closing price for the last five consecutive trading days prior to/up to and including the date of the corresponding agreement
			Approx. %	Approx. %
17 April 2025	3896	Kingsoft Cloud Holdings Limited	(8.76)	(16.83)
16 April 2025	8246	Zhonghua Gas Holdings Limited	0.00	0.00
11 April 2025	2309	ZO Future Group	(19.83)	(18.10)
7 April 2025	575	Regent Pacific Group Limited	0.00	16.00
27 January 2025	2098	Zall Smart Commerce Group Ltd.	(10.34)	(9.72)
21 January 2025	8391	Cornerstone Technologies Holdings Limited	0.00	0.00
17 January 2025	632	CHK Oil Limited	5.06	(5.03)
30 December 2024	206	CM Energy Tech Co., Ltd.	25.00	25.79
27 December 2024	2122	Kidsland International Holdings Limited (Note 1)	94.44	101.15
28 November 2024	1011	China NT Pharma Group Company Limited	6.45	13.79
12 November 2024	653	Bonjour Holdings Limited	0.00	(1.00)
1 November 2024	167	IDT International Limited	(44.40)	(46.80)
24 October 2024	8337	Directel Holdings Limited (Note 1)	138.10	138.10
23 October 2024	836	China Resources Power Holdings Company Limited	(5.06)	(3.48)
21 October 2024	8370	Zhi Sheng Group Holdings Limited	(60.53)	(60.63)
		Maximum	25.00	25.79
		Minimum	(60.53)	(60.63)
		Average	(8.65)	(8.15)
		Median	0.00	(3.48)
17 April 2025	931	The Company	0.00	(0.51)

Note:

1. Kidsland International Holdings Limited and Directel Holdings Limited are considered as outliers due to the fact that their significantly high premiums of the subscription price over (i) the closing price on/prior to the date of the corresponding agreement and (ii) the average closing price for the last five consecutive trading days prior to/up to and including the date of corresponding agreements, which may provide an abnormal average value and hence they have been excluded from the above analysis.

Source: the Stock Exchange

As illustrated in the table above, the subscription prices of the Comparables:

- (i) ranged from a discount of approximately 60.53% to a premium of approximately 25.00% over their respective closing prices on or immediately prior to the date of the relevant agreement (the “**Market Range**”), with a median of no premium or discount (the “**Market Median**”); and
- (ii) ranged from a discount of approximately 60.63% to a premium of approximately 25.79% over the average closing price per share for the five consecutive trading days up to and including the date of the relevant agreement (the “**5-Day Market Range**”), with a median of approximately 3.48% discount (the “**5-Day Market Median**”).

The Capitalisation Price is equivalent to the closing price per Share on the date of the Loan Capitalisation Agreement, which falls within the Market Range and aligns with the Market Median. It also represents a slight discount of approximately 0.51% to the average closing price per Share for the five consecutive trading days up to and including the date of the Loan Capitalisation Agreement, which is within the 5-Day Market Range and is better than the 5-Day Market Median.

5.4 Our view

Having considering the above, in particular that:

- (i) the Capitalisation Price falls within the historical closing price range during the Review Period, during which the Share prices exhibited a downward trend and experienced a notable decline in recent months as illustrated in the paragraph headed “5.1 Analysis of historical Share price performance” above;
- (ii) the Shares have demonstrated relatively thin trading liquidity, as discussed in the paragraph headed “5.2 Analysis of trading liquidity of the Shares” above; and

- (iii) the Capitalisation Price (a) is equivalent to the closing price on the date of the Loan Capitalisation Agreement, which falls within the Market Range and matches the Market Median; and (b) represents a minimal discount to the five-day average closing price per Share, which is within the 5-Day Market Range and is better than the 5-Day Market Median,

we are of the view that the Capitalisation Price is fair and reasonable so far as the Independent Shareholders are concerned.

6. Potential dilution effect on the shareholding of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and the allotment and issue of the Capitalisation Shares as contemplated pursuant to the Loan Capitalisation, assuming there are no other changes to the total issued share capital of the Company between the Latest Practicable Date and the Completion Date save for the allotment and issue of the Capitalisation Shares:

	As at the Latest Practicable Date		Immediately upon Completion	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Directors				
Dr. Kan and Mrs. Kan (Note 1)	4,054,682,628	60.75	4,772,631,346	64.57
Mr. Li	200,000	0.01	200,000	0.01
Sunland Limited (Note 2)	116,279,070	1.74	116,279,070	1.57
Old Boy Limited (Note 2)	116,279,070	1.74	116,279,070	1.57
Other public Shareholders	2,386,588,881	35.76	2,386,588,881	32.28
Total	6,674,029,649	100.00	7,391,978,367	100.00

Notes:

- 5,000,000 Shares among these Shares are held by Ground Up, a company wholly-owned by Dr. Kan. Dr. Kan is also a director of Ground Up.
- The aggregate of 232,558,140 Shares represent initial consideration shares that have been allotted and issued under the General Mandate for a major acquisition, pursuant to the sale and purchase agreement dated 21 December 2023 entered into between the Company, Sunland Limited and Old Boy Limited.

As illustrated in the table above, the shareholding of the other public Shareholders would decrease from approximately 35.76% to approximately 32.28% immediately upon Completion, representing a dilution effect of approximately 3.48%.

Despite the dilution effect to the existing public shareholders brought about by the issue of Capitalisation Shares, taking into account that (i) the Capitalisation Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole, as discussed in the section headed “5. Analysis of the Capitalisation Price” above; (ii) the Loan Capitalisation will reduce future interest expenses arising from the Shareholder’s Loans; and (iii) the enhancement to the Group’s gearing ratio and financial position after Completion, we consider that the dilution effect on the shareholding interest of the public Shareholders is acceptable.

7. Possible financial effects of the Loan Capitalisation

7.1 Earnings

The Shareholder’s Loans carry an interest rate of 5% per annum. The Loan Capitalisation will allow the Group to eliminate interest expenses associated with the capitalised portion of the Shareholder’s Loans. Upon Completion, the Group is expected to save HK\$7 million in annual interest expenses, calculated by multiplying the 5% interest rate to the capitalised loan principal amount of HK\$140 million. The aforesaid savings are expected to have positive impact on the Group’s earnings going forward.

7.2 Net asset value

Immediately upon Completion, the net asset value of the Group is expected to increase by HK\$140 million, corresponding to the Repayment Amount being capitalised.

7.3 Gearing ratio

As at 30 September 2024, the gearing ratio of the Group was approximately 193.5%. Upon Completion, (i) the allotment and issue of the Capitalisation Shares will enlarge the Company’s capital base and enhance its equity position; and (ii) the capitalisation of the Shareholder’s Loans will reduce the Group’s total interest-bearing debt by HK\$140 million. Assuming all other factors remain unchanged, the Group’s gearing ratio is expected to improve to approximately 104.1% immediately upon Completion.

It should be noted that the above analyses are for illustrative purpose only and do not purport to reflect the actual financial position of the Group upon Completion.

IV. OPINION AND RECOMMENDATION

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

- (i) the Loan Capitalisation will alleviate part of the Group's financial burden, reduce future financing costs and improve the overall its indebtedness level;
- (ii) the Loan Capitalisation is considered a preferable fundraising alternative when compared to other options, as discussed in the section headed "4. Reasons for and benefits of the Loan Capitalisation" above in this letter;
- (iii) the Capitalisation Price is, in our view, fair and reasonable, as discussed in the section headed "5. Analysis of the Capitalisation Price" above in this letter, especially given that it is equivalent to the closing price on the date of the Loan Capitalisation Agreement and represents a substantial premium over the Company's NAV per Share as at 30 September 2024; and
- (iv) the potential dilution effect to the existing Shareholders is considered acceptable, as discussed in the section headed "6. Potential dilution effect on the shareholding of the Company" above in this letter,

on balance, we are of the view that, although the entering into of the Loan Capitalisation Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the Loan Capitalisation Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED



Ng Ka Po

Managing Director, Corporate Finance

Mr. Ng Ka Po is a responsible officer of Optima Capital and a licensed person registered with the Securities and Futures Commission to carry out type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Ng has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.