

May 13, 2025

To: *the Independent Board Committee and  
the independent Shareholders of SouthGobi Resources Ltd.*

Dear Sirs and Madams,

## **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE MARCH 2025 DEFERRAL AGREEMENT**

### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in relation to the March 2025 Deferral Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the **“Letter from the Board”**) in the management proxy circular issued by the Company to the Shareholders dated May 13, 2025 (the **“Circular”**), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On March 20, 2025, the Company and its subsidiaries, namely Southgobi Sands LLC and SGQ Coal Investment Pte. Ltd., entered into the March 2025 Deferral Agreement with JDZF, pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash interest, PIK Interest, management fees, and related deferral fees in aggregate amount of approximately US\$111.6 million which will be due and payable to JDZF on or before August 31, 2025 pursuant to the March 2024 Deferral Agreement and April 2024 Deferral Agreement; (ii) cash interest payment of approximately US\$7.9 million which will be due and payable to JDZF on May 19, 2025 under the Convertible Debenture; (iii) the cash interest payment of approximately US\$8.1 million payable to JDZF and PIK Interest payment of US\$4.0 million, which will in each case, be due and payable on November 19, 2025 under the Convertible Debenture; and (iv) the management fees in the aggregate amount of approximately US\$6.1 million payable to JDZF on May 16, 2025, August 15, 2025, November 15, 2025 and February 15, 2026, respectively, under the Amended and Restated Cooperation Agreement (collectively, the **“March 2025 Deferred Amounts”**) until August 31, 2026 (the **“Deferral”**).

## LISTING RULE IMPLICATION

As at the Latest Practicable Date, JDZF is beneficially interested in 85,714,194 Common Shares, representing approximately 28.89% of the total issued share capital of the Company and also the Convertible Debenture. Accordingly, the JDZF is a substantial Shareholder of the Company and together with its associates are connected persons of the Company. Accordingly, the entering into of the March 2025 Deferral Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the transactions contemplated under the March 2025 Deferral Agreement, when aggregated with the transactions contemplated under the April 2024 Deferral Agreement, is/are more than 5% but all of the applicable percentage ratios are less than 25%, the entering into of the March 2025 Deferral Agreement, on an aggregated basis, constitutes discloseable and connected transactions of the Company, which is subject to the reporting, announcement, circular and the independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Yingbin Ian He, Ms. Jin Lan Quan and Mr. Fan Keung Vic Choi has been established to consider and make a recommendation to the independent Shareholders on whether the terms of the March 2025 Deferral Agreement are fair and reasonable so far as the independent Shareholders are concerned, whether the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and how the independent Shareholders should vote at the Meeting. We, DL Securities (HK) Limited, have been appointed to advise the Independent Board Committee and the independent Shareholders in this regard.

## OUR INDEPENDENCE

Within the two years prior to the Latest Practicable Date, we have acted as the independent financial adviser to the independent Shareholders of the Company in relation to connected transactions and continuing connected transactions of the Company, details of which are set out in the circulars of the Company dated July 20, 2023 and July 25, 2024 (collectively, the **"Engagements"**). The Engagements were limited to providing independent advisory services to the Independent Board Committee and the independent Shareholders of the Company pursuant to the Listing Rules. Under the Engagements, we received normal professional fees from the Company. Notwithstanding the Engagements, as at the date of this letter, we did not have any relationships or interests with the Company, JDZF or any other parties that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules. Apart from normal professional fees payable to us in connection with the Engagements, no arrangements exist whereby we will receive any fees or benefits from the Company, JDZF or any other party to the captioned transactions, and therefore we are considered to be eligible to give independent advice on the terms of the March 2025 Deferral Agreement.

## **BASIS OF OUR OPINION**

In formulating our opinion and recommendation to the Board in relation to the terms of the March 2025 Deferral Agreement and the transactions contemplated thereunder, we have reviewed, amongst others, (i) the March 2025 Deferral Agreement, (ii) the annual results announcement of the Company for the year ended December 31, 2024; (iii) the annual report of the Company for the year ended December 31, 2023; and (iv) other information as set out in the Circular. We have relied on the information, facts and representations contained or referred to in the Circular, the public information announced by the Company and the information, facts and representations provided by, and the opinions expressed by the Directors and management of the Company (the “**Management**”). We have assumed that all information, facts, opinions and representations made or referred to in the disclosed information and the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the Circular and public information disclosed and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular and public information disclosed have been arrived at after due and careful consideration and there are no other facts not contained in the public information disclosed, the omission of which would make any statement in the public information disclosed misleading.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the public information disclosed or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the transactions contemplated under the March 2025 Deferral Agreement, as referred to in Rule 13.80 of the Hong Kong Listing Rules (including the notes thereof) in formulating our opinion and recommendation. This letter is issued for the information for the Board solely in connection with their consideration of the terms of the March 2025 Deferral Agreement and the transactions contemplated thereunder, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion to the Independent Board Committee and the independent Shareholders, we have considered the following principal factors and reasons:

### **1. Information of the parties to the March 2025 Deferral Agreement**

#### ***The Group***

The Company is an integrated coal mining, development and trading company. SGQ Coal Investment Pte. Ltd. is a wholly-owned subsidiary of the Company incorporated under the laws of Singapore, which is principally engaged in investment holding activities. Southgobi Sands LLC is a wholly-owned subsidiary of the Company incorporated under the laws of Mongolia, which is principally engaged in coal mining, development and exploration of properties in Mongolia.

### ***Financial performance and financial position of the Group***

The following is a summary of the audited consolidated financial results of the Group for the three years ended December 31, 2024 as extracted from the annual result announcement for the year ended December 31, 2024 (the “**2024 Result Announcement**”) and the annual report for the year ended December 31, 2023 (the “**2023 Annual Report**”) respectively:

**Table 1: Consolidated financial result of the Group**

	<b>For the year ended December 31</b>		
	<b>2024</b>	<b>2023</b>	<b>2022</b>
	<i>US\$'000</i> (audited)	<i>US\$'000</i> (audited)	<i>US\$'000</i> (audited)
Revenue	493,378	331,506	73,084
Gross profit	132,790	173,311	15,322
Profit from operations	153,942	75,870	13,572
Profit/(loss) before tax	123,616	34,726	(25,751)
Net profit/(loss) attributable to equity holders of the Company	92,497	908	(30,419)

With reference to the 2024 Result Announcement, the Group’s revenue increased by approximately \$161.9 million or 48.8% from approximately \$331.5 million for the year ended December 31, 2023 (“**FY2023**”) to approximately \$493.4 million for the year ended December 31, 2024 (“**FY2024**”). Such increase was mainly attributable to the increased sales volume as a result of expansion of its sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio. The Group recorded a profit from operations of approximately \$153.9 million in FY2024 compared to profit from operations of approximately \$75.9 million in FY2023. The increase was mainly due to an increase of approximately 3.4 million tonnes of sales volume in FY2024 as compared to FY2023 and a reversal of additional tax and tax penalty of \$48.5 million was recorded in the fourth quarter of FY2024. The Group recorded an increased net profit attributable to shareholders of approximately \$92.5 million for FY2024 from approximately \$0.9 million for FY2023.

With reference to the 2023 Annual Report, the Group’s revenue increased by approximately \$258.4 million or 353.6% from approximately \$73.1 million for the year ended December 31, 2022 (“**FY2022**”) to approximately \$331.5 million for FY2023. Such increase was mainly attributable to (i) coal export volumes through the Ceke Port of Entry gradually increased since the second quarter of FY2023; and (ii) the Company experienced an increase in the average selling price of coal from \$65.7 per tonne for FY2022 to \$93.0 per tonne for FY2023, as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base. Given the increased export volume and average selling price, the Group recorded a profit from operations of approximately \$75.9 million for FY2023, representing an increase of approximately 459.0% as compared to a profit from operations of approximately \$13.6 million for FY2022. The Group recorded a net profit attributable to shareholders of approximately \$0.9 million for FY2023 as compared to a net loss attributable to shareholders of approximately \$30.4 million for FY2022.

**Table 2: Consolidated financial position of the Group**

	<b>As at December 31</b>	
	<b>2024</b>	<b>2023</b>
	<i>US\$'000</i>	<i>US\$'000</i>
	(audited)	(audited)
<b>Current assets</b>		
Cash and cash equivalents	8,590	47,993
Restricted cash	274	423
Inventories	107,246	52,927
Other current assets	37,569	14,012
	<u>153,679</u>	<u>115,355</u>
<b>Non-current assets</b>		
Property, plant and equipment	243,564	157,119
Investments in joint ventures	12,400	15,178
Investments in associates	20,210	8,086
	<u>276,174</u>	<u>180,383</u>
<b>Total assets</b>	<u>429,853</u>	<u>295,738</u>
<b>Current liabilities</b>		
Trade and other payables	169,281	60,192
Additional tax and tax penalty	43,790	83,897
Deferred revenue	34,350	65,670
Convertible debenture	120,651	103,150
Other current liabilities	13,741	21,261
	<u>381,813</u>	<u>334,170</u>
<b>Non-current liabilities</b>		
Convertible debenture	84,267	91,150
Other non-current liabilities	13,616	11,750
	<u>97,883</u>	<u>102,900</u>
<b>Total liabilities</b>	<u>479,696</u>	<u>437,070</u>
<b>Total deficiency in assets</b>	<u>(49,843)</u>	<u>(141,332)</u>

Current assets of the Group as at December 31, 2024 mainly comprised inventories and cash and cash equivalents. As at December 31, 2024, the Group had inventories of approximately \$107.2 million and cash and cash equivalents of approximately \$8.6 million, together representing over 75% of the Group's current assets. The non-current assets of the Group were approximately \$276.2 million as at December 31, 2024 which was mainly consisted of mineral properties among the property, plant and equipment.

Current liabilities of the Group as at December 31, 2024 mainly comprised convertible debenture, trade and other payables. The balance of current liabilities increased to approximately \$381.8 million as at December 31, 2024 from approximately \$334.2 million as at December 31, 2023 mainly due to the increase in trade and other payables from approximately \$60.2 million as at December 31, 2023 to approximately \$169.3 million as at December 31, 2024. The non-current liabilities of the Group slightly decreased from approximately \$102.9 million as at December 31, 2023 to approximately \$97.9 million as at December 31, 2024. The deficiency in assets of the Group decreased to approximately \$49.8 million as at December 31, 2024 as compared to approximately \$141.3 million as at December 31, 2023.

## **JDZF**

JDZF is an exempted limited partnership formed under the laws of the Cayman Islands, which is principally engaged in investment holding activities. JDZF's general partner and limited partner are JD Dingxing Limited and Inner Mongolia Tianyu Trading Limited, respectively. To the best of the Company's knowledge and belief, the ultimate beneficial owner of the limited partner is Mr. Yong An and that of the general partner is Ms. Chonglin Zhu. Mr. Yong An is the Chairman and founder of Inner Mongolia Tianyu Innovation Investment Group Co. Ltd.\* (內蒙古天宇創新投資集團有限公司) ("**Tianyu Group**"), and he has been conducting business in Inner Mongolia region since 1998. Ms. Chonglin Zhu was the Chief Financial Officer of Tianyu Group from March 2015 to September 2022, who was also responsible for managing JDZF. Ms. Chonglin Zhu has served as the executive Director and Senior Vice President of Finance of the Company since September 8, 2022, and was appointed as the Chief Financial Officer of the Company on February 2, 2024.

## **2. Reasons and benefits of the Deferral**

As stated in the Letter from the Board, the Board consider that the March 2025 Deferral Agreement is designed to improve the financial position of the Company which could also provide sufficient audit evidence to the Auditors in respect of the going concern assumption to support the issuance of their unmodified opinion on the financial statements for FY2024.

With reference to the 2024 Result Announcement, we notice that there are several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements, including but not limited to, (i) the deficiency in assets of approximately \$49.8 million as at December 31, 2024 as compared to a deficiency in assets of approximately \$141.3 million as at December 31, 2023; and (ii) the working capital deficiency (i.e. the net current liabilities) of approximately \$228.1 million as at December 31, 2024 compared to a working capital deficiency of approximately \$218.8 million as at December 31, 2023. In assessing the appropriateness of the use of the going concern basis to prepare the financial statements, the management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2024 for which the deferral of interest and management fee payment stipulated under the March 2025 Deferral Agreement has been considered as one of the important measures for improving the liquidity and financial position of the Company. We have also reviewed the cashflow projection of the Company for the 12 months ending December 31, 2025 and noticed that, in the absence of the March 2025 Deferral Agreement, there would be a material uncertainty on whether the Company will have sufficient working capital and financial resources in repaying the cash portion under the March 2025 Deferred Amounts.



Therefore, by entering into the March 2025 Deferral Agreement, the Deferral can relieve the imminent need of the Company to repay the March 2025 Deferred Amounts in light of the Group's recent net current liabilities position, which in turn, can protect the Company from potential default on the existing deferral agreements, the Amended and Restated Cooperation Agreement as well as the Convertible Debenture while enabling the Company to retain the funds for replenishing the Company's working capital to support its existing business operation and allow more financial flexibility for its ongoing business development to improve the business performance and financial position of the Group.

As advised by the management of the Group, the Company has considered other forms of equity financing. However, considering the (i) prevailing relatively low market prices of the Common Shares as compared to the minimum conversion price of the Convertible Debenture; and (ii) the Group has been reporting consecutive net losses attributable to owners of the Company right before the turn around in FY2023 and FY2024, and (iii) the net liabilities position of the Group in FY2024; and (iv) the worsened capital deficiency of the Group in FY2024, any types of equity financing, including those that are pro rata in nature such as open offer or rights issue, may not be attractive to the investors and/or the Shareholders without substantial discounts to its Share price. Furthermore, fundraising by way of equity financing will create dilution effect on the shareholding of the non-participating Shareholders. With respect to bank borrowings, the ability for the Group to obtain bank borrowings with loan size that are comparable to the March 2025 Deferred Amounts would largely depend on the Group's profitability, financial position and the then prevailing market condition. However, given the existing financial position of the Group, it would be difficult for the Group to finance the March 2025 Deferred Amounts by way of bank borrowings.

Having considered that (i) the Deferral under the March 2025 Deferral Agreement represents one of the key factors in preparing the working capital forecast in justifying the preparation of the financial statements for the year ended 31 December 2024 on a going concern basis; (ii) the Deferral would effectively allow the Company to refinance its payment of the March 2025 Deferred Amounts for a further 6-15 months; (iii) the Deferral can relieve the imminent need of the Company to repay the March 2025 Deferred Amounts in light of the Group's recent net current liabilities position; and (iv) the Deferral can protect the Company from potential default on the existing deferral agreements, the Amended and Restated Cooperation Agreement as well as the Convertible Debenture, we are of the view that entering into of the March 2025 Deferral Agreement is in the interests of the Company and the Shareholders as a whole although it is not conducted in the ordinary and usual course of business of the Group.

### **3. Principal terms of the March 2025 Deferral Agreement**

Under the March 2025 Deferral Agreement, JDZF agreed to grant the Company the Deferral of the following payments until the Deferral Date, i.e. August 31, 2026:

- (i) the cash interest, PIK Interest, management fees, and related deferral fees in aggregate amount of approximately US\$111.6 million will be due and payable to JDZF on or before August 31, 2025 pursuant to the March 2024 Deferral Agreement and April 2024 Deferral Agreement;
- (ii) the semi-annual cash interest payment of approximately US\$7.9 million payable to JDZF on May 19, 2025 under the Convertible Debenture;
- (iii) the semi-annual cash interest payment of approximately US\$8.1 million payable to JDZF and PIK Interest payment of US\$4.0 million, which will in each case, be due and payable on November 19, 2025 under the Convertible Debenture; and
- (iv) management fees in the aggregate amount of approximately US\$6.1 million payable to JDZF on May 16, 2025, August 15, 2025, November 15, 2025 and February 15, 2026, respectively, under the Amended and Restated Cooperation Agreement.

As consideration for the Deferral, the Company agrees to pay JDZF the consideration comprising of the Convertible Debenture Deferral Fee and the Cooperation Agreement Deferral Fee.

The Convertible Debenture Deferral Fee represents a deferral fee equal to 6.4% per annum on the March 2025 Deferred Amounts which relate to payment obligations payable under the Convertible Debenture commencing on the date on which each such March 2025 Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

The Cooperation Agreement Deferral Fee represents a deferral fee equal to 1.5% per annum on the March 2025 Deferred Amounts which relate to the outstanding balance of the payment obligations arising from the Amended and Restated Cooperation Agreement commencing on the date on which each such March 2025 Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.



The due date of the March 2025 Deferred Amounts is extended to August 31, 2026 under the March 2025 Deferral Agreement. We understand that the Deferral Date was determined after arm's length negotiation among the Company and JDZF having taken into account, among others, (i) the current financial positions of the Group; and (ii) a deferral date extending the respective due dates of those payments which would otherwise become due during the current and coming financial year for a further approximately 6-15 months could help justifying the going concern assumptions in the Company's audited financial statements. As such, we are of the view that the Deferral Date of August 31, 2026 under the March 2025 Deferral Agreement is fair and reasonable. Pursuant to the March 2025 Deferral Agreement, there is no fixed repayment schedule for the March 2025 Deferred Amounts or related deferral fees. Instead, the Deferral Agreement requires the Company to use its best efforts to pay the March 2025 Deferred Amounts and related deferral fees due and payable under the March 2025 Deferral Agreement to JDZF. During the term of the March 2025 Deferral Agreement, the Company shall provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF shall on a monthly basis discuss and assess in good faith the amount (if any) of the March 2025 Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

The March 2025 Deferral Agreement also imposes certain covenants on the Company and defines the events of default, details of which are set out in the Letter from the Board.

#### ***Deferral fee under the March 2025 Deferral Agreement***

We notice that the deferral fees under the March 2025 Deferral Agreement, similar to the March 2024 Deferral Agreement and April 2024 Deferral Agreement, are equivalent to their respective interest rate or fee rate stipulated under the Convertible Debenture and the Amended and Restated Cooperation Agreement. Under the existing terms of the Convertible Debenture, the total interest rate is 8% per annum which comprises of a 6.4% cash interest payable semi-annually and a 1.6% payment in kind interest in form of the Common Shares of the Company payable annually. Pursuant to the Amended and Restated Cooperation Agreement, JDZF reduced the service fee payable by the Company from 2.5% to 1.5% of all net revenues realized by the Group derived from sales into China.

We have enquired into the Management regarding the existing financing cost of the Group. However, we are given to understand that the Group currently does not have any outstanding bank borrowings. Based on our review of the recent financial statements of the Company, we notice from the interim report of the Company for the six months ended June 30, 2022 that, the latest external financing obtained by the Group was a bank loan obtained by a subsidiary of the Company from a Mongolian bank with a maturity of 3 months and an interest rate of 16.8% per annum. With reference to the data published by CEIC Data Company Ltd., a financial information service firm that specializes in economic databases of emerging and developed markets worldwide, the lending rate for Mongolian banks was reported at 16.942% per annum in January 2025. Therefore, in the absence of the March 2025 Deferral Agreement whereby the Group may need to obtain bank loans in Mongolia to finance the repayment of the March 2025 Deferred Amounts, the interest cost to be borne by the Company would be substantially higher than the fee rates of 6.4% and 1.5% per annum under the March 2025 Deferral Agreement.

In assessing the fee rates to be charged under the March 2025 Deferral Agreement, we have also reviewed the finance costs of the loans and borrowings of two companies listed on the Main Board of the Hong Kong Stock Exchange which are also principally engaged in coal mining with coal mines or majority of the assets located in Mongolia (the “Comparable Companies”). To the best of our knowledge and as far as we are aware of, we have identified the following Comparable Companies which met the said criteria and set out below is the exhaustive list of the Comparable Companies that we found based on our selection criteria:

Company	Stock code	Principal Business	Market Capitalization as at March 20, 2025	Latest Published Full Year Financial Information	Financing Cost
Mongolian Mining Corporation	975	Mining, processing, transportation and sales of coal with two open-pit mines of coking coal in Southern Gobi of Mongolia	HK\$6,151.7 million	For the year ended/as at December 31, 2024:  Revenue: US\$1,039.9 million Net Profit: US\$243.6 million Net Assets: US\$1,380.9 million	Senior notes: 12.5% per annum Bank loan: 13.3% per annum
Mongolia Energy Corporation Limited	276	Mining of coal, the production and sales of coal products which is operated by its wholly-owned subsidiary in Mongolia	HK\$103.5 million	For the year ended/as at March 31, 2024:  Revenue: HK\$3,173.2 million Net Profit: HK\$1,677.9 million Net Liabilities: HK\$2,685.3 million	Convertible notes and loan note: 3% per annum Advances from a director: Hong Kong Dollar Prime Rate plus 3% per annum
The Company	1878	Coal mining, development and exploration of properties in Mongolia	HK\$887.1 million*	For the year ended/as at December 31, 2024:  Revenue: US\$493.4 million Net Profit: US\$92.5 million Net Liabilities: US\$49.8 million	Deferral Fee: 1.5% or 6.4% per annum

Note: Such market capitalization is calculated solely based on the closing price of the Shares quoted from the Hong Kong Stock Exchange on March 20, 2025 and multiplied by the number of total issued Shares, without taking into account the closing price of Shares quoted from TSX-V.

Notwithstanding that the principal activities, market capitalization, profitability and financial position of the Comparable Companies identified may not be the same as, or may even substantially vary from, that of the Company, we consider that their existing financing costs can still provide a general reference on the current market conditions for coal mining listed companies on the Hong Kong Stock Exchange with major assets or operations in Mongolia in issuing debt or obtaining bank financing. With reference to the latest published annual reports of the Comparable Companies, we notice that the existing outstanding loans and borrowings of the Comparable Companies mainly consist of bank loans, convertible notes and senior notes, with interest rates ranging from 3% to 13.3% per annum. Therefore, the deferral fee of 6.4% per annum on the March 2025 Deferred Amounts which relate to payment obligations payable under the Convertible Debenture is within the range of the finance costs of the Comparable Companies while the deferral fee equal to 1.5% per annum on the March 2025 Deferred Amounts which relate to the outstanding balance of the payment obligations arising from the Amended and Restated Cooperation Agreement is lower than that of the Comparable Companies.

Furthermore, the Company would have been technically in default pursuant to the terms of the Convertible Debenture and the Amended and Restated Cooperation Agreement but for the arrangements under the existing deferral agreements and the March 2025 Deferral Agreement. It is also not uncommon for debt instruments including convertible debenture to have a default interest rate that is higher than the coupon interest rate under such debt instruments.

Having taken into account the fact that (i) the deferral fee rates under the March 2025 Deferral Agreement remain the same as the interest rate and the fee rate under the Convertible Debenture and the Amended and Restated Cooperation Agreement, respectively, without any additional default penalty; (ii) the deferral fee rates are substantially lower than the historical lending interest rate of the Group offered by its bank; and (iii) the deferral fee rates are either lower than or within the range of the finance costs of the Comparable Companies, we are of the view that the terms of the March 2025 Deferral Agreement are on normal commercial terms and fair and reasonable.

## CONCLUSION

Having considered the above principal factors and reasons, although the entering into of the March 2025 Deferral Agreement is not in the ordinary and usual course of business of the Group, we consider that it is on normal commercial terms and we are of the view that (i) the terms of the March 2025 Deferral Agreement are fair and reasonable so far as the independent Shareholders are concerned; and (ii) the Deferral under the March 2025 Deferral Agreement 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 to vote in favor of the resolutions to be proposed at the Meeting for approving the March 2025 Deferral Agreement and the transactions contemplated thereunder.

Yours faithfully  
For and on behalf of  
**DL Securities (HK) Limited**



**Tommy Cheng**  
Managing Director  
Corporate Finance Division

*Mr. Tommy Cheng is licensed persons under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and regarded as responsible officer of DL Securities (HK) Limited. Mr. Tommy Cheng has over 14 years of experience in corporate finance industry.*