28 April 2023

To the Independent Board Committee and
the Independent Shareholders of
China Zenith Chemical Group Limited

Dear Sirs,

(1) PROPOSED REFRESHMENT OF GENERAL MANDATE; AND
(2) PROPOSED REFRESHMENT OF THE LIMIT ON THE GRANT OF OPTIONS UNDER THE SHARE OPTION SCHEME

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit, the details of which are set forth in the "Letter from the Board" (the "**Board Letter**") contained in the circular issued by the Company to the Shareholders dated 28 April 2023 (the "**Circular**"), of which this letter forms apart. Unless the context otherwise requires. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

At the 2022 AGM, the Shareholders approved, among other things, an ordinary resolution to grant to the Directors the Existing General Mandate to allot, issue and deal with up to 602,912,195 Shares (equivalent to 30,145,609 new Shares taking into account of effect of the Capital Reorganisation), representing approximately 20% of the issued share capital of the Company as at the date of granting of the Existing General Mandate.

The Board proposes to convene the SGM at which an ordinary resolution will be proposed to the Independent Shareholders for approving the proposed Refreshment of General Mandate that:

(i) the Directors be granted the New General Mandate to allot and issue Shares up to 20% of the issued share capital of the Company as at the date of the SGM; and

(ii) the New General Mandate be extended to Shares repurchased by the Company pursuant to the repurchase mandate granted to the Directors at the 2022 AGM.

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As of the Latest Practicable Date, the Company has an aggregate of 527,548,168 Shares in issue. Subject to the passing of the ordinary resolution for the approval of the Refreshment of General Mandate at the SGM by the Independent Shareholders and assuming that no further Shares are issued and/or repurchased by the Company from the Latest Practicable Date to the date of SGM, the Company would be allowed under the New General Mandate to allot and issue 105,509,633 Shares, being approximately 20% of the total number of issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 13.36(4) of the Listing Rules, the approval of the proposed Refreshment of General Mandate will be subject to Independent Shareholder's approval at a general meeting of the Company. Any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the resolution to approve the proposed Refreshment of General Mandate.

As at the Latest Practicable Date, to the best knowledge, belief and information of the Directors having made all reasonable enquiries, the Company has no controlling Shareholder. Accordingly, Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, all being executive Directors or non-executive Director (as the case may be) with interests in the Shares, together with their associates are required to abstain from voting in favour of the resolution(s) to approve the proposed Refreshment of General Mandate.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, save as disclosed and as at the Latest Practicable Date, no Shareholder is required to abstain from voting on the proposed resolution(s) on the proposed Refreshment of General Mandate at the SGM.

The Share Option Scheme was approved and adopted by the Shareholders at the 2022 AGM. Pursuant to the existing Scheme Mandate Limit, the maximum number of Shares that may be issued upon exercise of all the Share Options granted under the Share Option Scheme shall not exceed 301,456,097 Shares (equivalent to 15,072,804 new Shares taking into account of effect of the Capital Reorganisation), representing approximately 10% of the then issued share capital of the Company on the date of the 2022 AGM.

At the SGM, an ordinary resolution will be proposed to the Independent Shareholders to approve the proposed Refreshment of Scheme Mandate Limit so as at allow the Company to grant further Options under the Share Option Scheme for subscription of up to 10% of the Shares in issue as at the date of passing the resolution. If the proposed Refreshment of Scheme Mandate Limit is approved at the SGM, based on 527,548,168 Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the date of the SGM, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme will be 52,754,816 Shares, being approximately 10% of the Shares in issue as at the date of the SGM.

Pursuant to Rule 17.03C(1)(b) of the Listing Rules, any refreshment of the existing Scheme Mandate Limit within any three year period from the date of adoption of the scheme is subject to the Independent Shareholders' approval by way of an ordinary resolution at the SGM. Any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the resolution to approve the proposed Refreshment of Scheme Mandate Limit.

As at the Latest Practicable Date, to the best knowledge, belief and information of the Directors having made all reasonable enquiries, the Company has no controlling Shareholder. Accordingly, Ms. Chan Yuk Foebe, Mr. Gao Ran and Mr. Liu Yangyang, all being executive Directors or non-executive Director (as the case may be) with interests in the Shares, together with their associates are required to abstain from voting in favour of the resolution(s) to approve the proposed Refreshment of Scheme Mandate Limit.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, save as disclosed and as at the Latest Practicable Date, no Shareholder is required to abstain from voting on the proposed resolution(s) on the proposed Refreshment of Scheme Mandate Limit at the SGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit, all being independent non-executive Directors, has been established to advise the Independent Shareholders on the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit.

In the past two years, we have not acted in any financial adviser role to the Company but we have acted as an independent financial adviser to the independent board committee and independent shareholders of the Company in connection with the Rights Issue, the details of which are set out in the Company's circular dated 21 November 2022 (the "**Previous Appointment**"). Save for the current engagement as the Independent Financial Adviser and the Previous Appointment, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; (ii) we have maintained our independence from the Company during the Previous Appointment, and our independence from the Company has not been compromised because of the Previous Appointment; and (iii) the aggregate professional fees paid/to be paid to us do not make up a significant portion of our revenue during the relevant periods which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the proposed Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's interim report for the six months ended 31 December 2022 (the "**2022 Interim Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Refreshment of General Mandate and the proposed

Refreshment of Scheme Mandate Limit, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit. The Company has been separately advised by its own professional advisers with respect to the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit and the preparation of the Circular (other than this letter).

We have assumed that the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Refreshment of General Mandate and the proposed Refreshment of Scheme Mandate Limit, we have taken into account the following principal factors and reasons:

1. Background information and financial overview of the Group

The Group is principally engaged in the manufacturing and sales of coal-related chemical products, the generation and supply of electricity and thermal energy and construction services. Certain summary financial information of the Group as extracted from the 2022 Interim Report for the six months ended 31 December 2021 and 2022 ("**HY2021**" and "**HY2022**" respectively) is set out below:

	For the six months 31 December	
	2022	**2021**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue	95,983	299,235
Gross (loss)/profit	(2,267)	33,959
Profit for the period attributable to owners of the Company	274,468	6,306

The Group's consolidated revenue decreased from approximately HK$299,235,000 for HY2021 to approximately HK$95,983,000 for HY2022, representing a decrease of approximately HK$203,252,000 or 67.9%. As per the 2022 Interim Report, the decrease of revenue was primarily attributable to the production line of coal-related chemical in Heihe City had been suspended for three months since October 2022 due to the outbreak of COVID-19 and the utilization of production not smoothly by the impact of COVID-19. The Group turned around from a gross profit of approximately HK$33,959,000 for HY2021 to a gross loss of approximately HK$2,267,000 for HY2022, representing a net difference of approximately HK$36,226,000. As stated in the 2022 Interim Report, the Group's gross loss is mainly attributable to (i) aforementioned production line suspension of coal-related chemicals, and (ii) the discontinued operation of the heat and power segment, as a result of the deconsolidation of Mudanjiang Better Day Power Limited, a wholly-owned subsidiary of the Group, on 26 August 2022, which was taken over by Mudanjiang Authority of Housing and Urban-Rural Development (the "**Deconsolidation**"). The Group recorded consolidated profit for the period attributable to owners of the Company of approximately HK$274,468,000 for HY2022, representing an increase of approximately HK$268,162,000 or 4,252.5%, as compared to the consolidated profit for the period attributable to owners of the Company of approximately HK$6,306,000 for HY2021. Such increase in profit for the period attributable to owners of the Company was mainly derived from the Deconsolidation.

	As at 31 December 2022 *HK$'000* (Unaudited)	**As at 30 June 2022** *HK$'000* (audited)
Bank and cash balances	2,654	12,874
Current assets	61,787	149,983
Net current liabilities	640,222	966,539
Total assets	1,070,562	1,238,247
Current liabilities	702,009	1,116,522
Total liabilities	1,624,969	2,063,097
Net liabilities attributable to owners of the Company	601,523	873,168

The Group's bank and cash balances amounted to approximately HK$2,654,000 as at 31 December 2022, representing a decrease of approximately HK$10,220,000 or 79.4%, as compared to that of approximately HK$12,874,000 as at 30 June 2022. The Group recorded net current liabilities of approximately HK$640,222,000 as at 31 December 2022, representing a decrease of approximately HK$326,317,000 or 33.8% as compared to that of approximately HK$966,539,000 as at 30 June 2022. Such decrease was mainly attributable to the combined effects from a decrease in current assets of approximately 58.8% and a decrease in current liabilities of approximately 37.1% as at 31 December 2022. We note from the 2022 Interim Report that the decrease in current assets is mainly attributable to the substantial decreases in prepayments, deposits and other receivables, inventories, trade receivables and bank and cash balances. Meanwhile, the decrease in current liabilities is mainly due to the combined effects of decrease in trade payables, other payables and accruals, other loans, increase in bonds payable (current portion) and decrease in convertible bonds (current portion). The deterioration in liquidity and solvency gives rise to a decrease in current ratio from approximately 0.13 times as at 30 June 2022 to approximately 0.09 times as at 31 December 2022.

The Group's total liabilities decreased by approximately HK$438,128,000 or 21.2%, from approximately HK$2,063,097,000 as at 30 June 2022 to approximately HK$1,624,969,000 as at 31 December 2022. Such decrease was mainly attributable to the combined effects of the aforementioned factors related to the decrease in current liabilities. As at 31 December 2022, bonds payable of the Group amounted to approximately HK$1,103,600,000, of which the bonds payable (non-current portion) amounted to approximately HK$892,933,000 and bonds payable (current portion) amounted to approximately HK$210,667,000. Apart from the above, the Group also had other debts including bank loans (non-current portion) of approximately HK$12,290,000, convertible bonds (non-current portion) of approximately HK$17,737,000, other loans of approximately HK$48,308,000, and bank loans (current portion) of approximately HK$8,812,000 as at 31 December 2022.

The Group recorded net liabilities attributable to owners of the Company of approximately HK$601,523,000 as at 31 December 2022, which represents a decrease of approximately HK$271,645,000 or 31.1%, from net liabilities attributable to owners of the Company of approximately HK$873,168,000 as at 30 June 2022. This was mainly attributable to decreases in the Group's property, plant and equipment and prepayments, right-of-use assets, prepayments, deposits and other receivables, and bank and cash balances as at 31 December 2022.

Taking into account that (i) the Group was in both net current liabilities and net liabilities positions as at 30 June 2022 and 31 December 2022; and (ii) the Group's necessity in replenishing its cash reserve to sustain the smooth operations amid the significant decrease in bank and cash balances during the period from 30 June 2022 to 31 December 2022, we consider that the proposed Refreshment of General Mandate would provide the Company with an additional financing option to raise further capital to ease such liquidity pressure prior to the upcoming annual general meeting ("**2023 AGM**") of the Company which, based on the timing of the 2022 AGM, is expected to be held in December 2023 which is roughly 8 months away from the Latest Practicable Date.

2. The Refreshment of General Mandate

2.1 The proposed grant of New General Mandate

As mentioned above and as at the Latest Practicable Date, the Company has an aggregate of 527,548,168 Shares in issue. Subject to the passing of the ordinary resolution for the approval of the Refreshment of General Mandate at the SGM by the Independent Shareholders and assuming that no further Shares are issued and/or repurchased by the Company from the Latest Practicable Date to the date of the SGM, the Company would be allowed under the Refreshment of General Mandate to allot and issue 105,509,633 Shares, being 20% of the total number of issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, no Share was issued under the Existing General Mandate and the Company has not made any refreshment of the Existing General Mandate since the 2022 AGM.

The New General Mandate will, if granted, be valid until the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable laws or the bye-laws of the Company; or

(iii) the revocation or variation of the authority given to the Directors by passing an ordinary resolution by the Shareholders at a general meeting.

2.2 Reasons for the Refreshment of General Mandate

On 27 January 2023, the Rights Issue was completed, details of which are set out in the prospectus of the Company dated 30 December 2022. Dealing in Rights Shares on the Stock Exchange commenced on 30 January 2023. Due to the Rights Issue, the issued share capital of the Company has been increased from 150,728,048 to 527,548,168 Shares. Further details have been set out in the "Next Day Disclosure Return" published by the Company on the website of the Stock Exchange on 27 January 2023.

As a result of such increase, the Existing General Mandate (which has not been utilised up to the Latest Practicable Date) only represents approximately 5.7% of the existing issued share capital of the Company as at the Latest Practicable Date. The Directors consider that the proposed Refreshment of General Mandate will give the Board the required flexibility for any future allotment and issue of Shares on behalf of the Company as and when considered necessary. If the proposed Refreshment of the General Mandate is approved by the Independent Shareholders at the SGM, when there are any further funding needs or if attractive offer for investment in the Shares is received from potential investors before the next annual general meeting, the Board will be able to respond to the market or such investment offer promptly by considering the issue of Shares at the maximum of 20% of the issued share capital of the Company as at the date of the SGM. The Board is of the view that fund-raising exercises conducted under a general mandate are simpler and faster than other types of fund-raising exercises and remove uncertainties in the circumstances when specific mandate may not be obtained in a timely manner. Accordingly, the Directors consider that the Refreshment of General Mandate is fair and reasonable and is in the best interests of the Company and the Shareholders as a whole.

2.3 Our analysis on the Refreshment of General Mandate

In assessing the reasonableness and fairness of refreshing the Existing General Mandate prior to the 2023 AGM, we note from the Circular that the Rights Issue completed on 27 January 2023 has increased the Company's issued share capital from 150,728,048 to 527,548,168 Shares. As a result of such increase, the Existing General Mandate only represents approximately 5.7% of the existing issued share capital of the Company, and has not been utilized as at the Latest Practicable Date. Based on the closing price of HK$0.235 per Share on the Latest Practicable Date, the 30,145,609 new Shares issuable under the Existing General Mandate can theoretically raise approximately HK$7.1 million in proceeds (before expenses) for the Company.

Furthermore, as stated from the Board Letter, on 3 April 2023, the Company entered into the CB Placing Agreement with the Placing Agent to subscribe in cash for the Convertible Bonds of up to an aggregate principal amount of HK$44,100,000 at the issue price of 100% of the principal amount of the Convertible Bonds. A maximum of 210,000,000 new Shares will be allotted and issued by the Company, representing (i) approximately 39.81% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 28.47% of the total number of issued Shares as enlarged by the issue of 210,000,000 Conversion Shares. Assuming all the Convertible Bonds are successfully placed by the Placing Agent, the net proceeds from the CB Placing will be approximately HK$43 million, which will be used by the Company (i) as to HK$38 million for repayment of the Company's indebtedness and interest expenses (excluding those of Mudanjiang BD Power); and (ii) as to HK$5 million for general working capital.

As mentioned in section 1 of this letter, the timing of the 2023 AGM is expected to be held around December 2023, which is about 8 months away from the Latest Practicable Date. In accordance with the Listing Rules, should there be any further funding needs in excess of the Existing General Mandate which would allow the issue of up to 30,145,609 new Shares, the Company is required to publish announcement(s), issue circular(s) and seek the Shareholders' approval in a special general meeting, which we consider to be a lengthy process and may therefore hinder the progress of any potential fund-raising exercise. If the proposed Refreshment of the General Mandate is not approved by the Independent Shareholders at the SGM, the Company lacks the flexibility and discretion to capture any appropriate capital raising or to capture any investment offers in the Shares from potential investors in excess of the Existing General Mandate in a timely manner.

We note that the Hang Seng Index increased from a recent tough of 14,687.02 on 31 October 2022 to a recent peak of 22,688.90 on 27 January 2023, representing a significant increase of approximately 54.5% in less than 3 months. The Hang Seng Index closed at 19,757.27 on 26 April 2023, being the Latest Practicable Date. The recent increase in Hang Seng Index is attributable to, among other things, the positive market sentiment over the expectation that the COVID-19 pandemic would soon be over, and the economic activity will gradually resume normal. The Refreshment of General Mandate allows the Company to capture equity capital raising opportunity should such funding needs arise in the positive market sentiment, and is considered beneficial to the Company and its Shareholders.

In connection with the imminency of the Company's funding needs, we have reviewed (i) the unaudited consolidated financial statements of the Group for HY2022; and (ii) the breakdown of the immediate repayment obligations of the Group as at 31 December 2022. Based on our review and discussion with the Management, we noted that (i) the Group's bank and cash balances substantially decreased from approximately HK$12,874,000 as at 30 June 2022 to approximately HK$1,860,000 as at 31 March 2023, being the latest bank and cash balances of the Group prior to the Latest Practicable Date as provided by the Management; and (ii) the Group's bonds payable and bank loans amounted to approximately HK$1,103,600,000 and HK$21,102,000, respectively, as at 31 December 2022. In particular, we note from the Board Letter that the Group has short-term repayment obligations on outstanding bonds payable of approximately HK$170,250,000 due for repayment before the end of March 2024. We understand that the Company is in the process of negotiating for a settlement of a bond payable to several bondholders in the amount of HK$45 million. In the event that a settlement is reached between the Company and bondholders, the Company expects the relevant bond payable in the amount of HK$45 million to be deferred or discounted. Nevertheless, after taking into account the possible deferment and discount on bond payables of HK$45 million and the possible proceeds from the CB Placing of HK$38 million, the remaining outstanding bond payable due for repayment before the end of March 2024 still amounts to approximately HK$87.25 million and it would appear that the Group will need to diligently strengthen its financial resources so as to fulfill its contractual repayment obligations. We also note from the Board Letter that HK$64 million out of approximately HK$170.25 million of indebtedness will be due to settlement by December 2023. Assuming the Company and the bond holders could not reach agreements to any deferment and discount on bond payables of HK$45 million and after taking into account the possible proceeds from the CB Placing of approximately HK$38 million, the Company still needs to raise capital in the amount of approximately HK$26 million by December 2023 (which is about the same timeframe as the expected timing of the 2023 AGM, which is roughly 8 months away). In that connection, we consider that having the fund-raising capability through the grant of the Refreshment of General Mandate, where the 105,509,633 new Shares issuable under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) can theoretically raise approximately HK$24.8 million in proceeds (before expenses) for the Company which is approximately 3.5 times of the aforementioned theoretical fund-raising of approximately HK$7.1 million (before expenses) under the Existing General Mandate and represents a significant improvement given the Group's imminent need for additional financing as discussed immediately above. We are also of the view that the theoretical fund-raising of approximately HK$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest

Practicable Date up to the date of the SGM) is essential to allow the Company to get the required capital of approximately HK$26 million ready before December 2023 by utilizing the New General Mandate instead of passively waiting for the refreshment of general mandate at the 2023 AGM expected to be held around December 2023 and allowing the bond payable in the amount of approximately HK$26 million to default.

In view of (i) the significantly enlarged issued share capital of the Company due to the Rights Issue, (ii) the 2023 AGM is expected to be held around December 2023, which is about 8 months away from the Latest Practicable Date, (iii) after taking into account the possible deferment and discount on bond payables of HK$45 million and the possible proceeds from the CB Placing of HK$38 million, the remaining outstanding bond payable due for repayment before the end of 31 March 2024 still amounts to approximately HK$87.25 million; (iv) the theoretical fund-raising of approximately HK$7.1 million (before expenses) under the Existing General Mandate has little to no meaningful value in the context of the Group's imminent need to raise capital for approximately HK$26 million and HK$87.25 million in outstanding bonds due for repayment by December 2023 and March 2024, respectively; (v) the theoretical fund-raising of approximately HK$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) is essential to allow the Company to get the required capital of approximately HK$26 million ready by December 2023 by utilizing the New General Mandate instead of passively waiting for the refreshment of general mandate at the 2023 AGM expected to be held around December 2023 and allowing the bond payable in the amount of approximately HK$26 million to default; and (vi) the theoretical fund-raising of approximately HK$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) represents a significant improvement over that of the Existing General Mandate, we are of the view that cost of potentially not capturing the aforementioned investment opportunities and reaping the benefits thereof far outweighs the cost of potential default of the Company's indebtedness.

As disclosed in the Board Letter and as at the Latest Practicable Date, the Company has not yet formulated any concrete plan or agreement with any party to issue Shares by utilising the New General Mandate. However, given that the Company still has an indebtedness in the amount of approximately HK$170 million, of which HK$64 million will become due by December 2023, the Company foresees that there will be a compelling need to utilise the New General Mandate for fund-raising purpose by the Company before the annual general meeting to be held in December 2023 and by having the New General Mandate, the Company will be actively looking for suitable fund-raising activities including but not limited to placing and/or subscription of new Shares and/or convertible securities of the Company to settle the indebtedness of the Company. We are of the view that the Refreshment of General Mandate would enable the Company to capture better timing for fund-raising before the 2023 AGM. Nevertheless, the Refreshment of General Mandate would enhance the financial flexibility of the Group to raise the necessary financing to make timely decision if attractive offer for investment in the Shares is received from potential investors before the 2023 AGM. Having said that, as at the Latest Practicable Date, the Group is not in negotiation (whether concluded or not) in respect of any issue of new Shares which will utilise the New General Mandate, but will be actively looking for suitable fund-raising activities including but not limited to placing and/or subscription of new Shares and/or convertible securities of the Company to settle the indebtedness of the Company once the New General Mandate is available to ensure the bond payable in the amount of HK$64 million falling due by December 2023 could be discharged.

Having considered (i) while the Group is already proposing the CB Placing, additional debt financing may be subject to lengthy due diligence and additional interest/principal repayment burden will be incurred on the Group, which exerts additional financial pressure to the Group's net current liabilities and net liabilities positions; and (ii) while the Company has already completed the Rights Issue on 27 January 2023, further rights issue or open offer may involve substantial time, administrative work and cost to complete, as such we are of the view that the proposed Refreshment of General Mandate will provide the Company with an additional alternative and it is reasonable for the Company to have flexibility and discretion in deciding the financing methods for its debt servicing obligations. As a result, we consider that raising funds through issue of new Shares under the New General Mandate can better control the completion risk and is more cost effective and time efficient compared to other financing alternatives.

Having considered the above, we consider that the proposed Refreshment of General Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Proposed Refreshment of Scheme Mandate Limit

3.1 Information on the proposed Refreshment of Scheme Mandate Limit

As mentioned earlier and at the SGM, an ordinary resolution will be proposed to the Independent Shareholders to approve the proposed Refreshment of Scheme Mandate Limit so as to allow the Company to grant further Options under the Share Option Scheme for subscription of up to 10% of the Shares in issue as at the date of passing the resolution. If the proposed Refreshment of Scheme Mandate Limit is approved at the SGM, based on 527,548,168 Shares in issue as at the Latest Practicable Date and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the date of the SGM, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme will be 52,754,816 Shares, being approximately 10% of the Shares in issue as at the date of the SGM.

There has not been any refreshment of the Scheme Mandate Limit since the adoption of the Share Option Scheme. Apart from the Share Option Scheme, the Company has no other share option scheme currently in force.

3.2 Reasons for the proposed Refreshment of Scheme Mandate Limit

As discussed in the section 2.2 of this letter, the issued share capital of the Company has been increased from 150,728,048 to 527,548,168 Shares due to the Rights Issue. In view of the increase of issued share capital of the Company, the Directors consider that the Company should refresh the Scheme Mandate Limit so that the Company will have more flexibility to provide incentives or rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high quality personnel and attract human resources that are valuable to the Group.

Accordingly, the Directors consider that the Refreshment of Scheme Mandate Limit is fair and reasonable and is in the best interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Company has not yet identified any specific eligible participant, of whom the Company considers to be necessary to grant options to under the Share Option Scheme (as may be refreshed with new Scheme Mandate Limit as proposed in the Circular).

3.3 Our analysis on the Refreshment of Scheme Mandate Limit

We are given to understand that (i) the Group completed the Rights Issue to raise further capital to ease liquidity pressure arisen from the aforementioned repayment obligations on outstanding bonds payable; (ii) the Company entered into the CB Placing Agreement with the Placing Agent to subscribe in cash for the Convertible Bonds which the net proceeds are expected to be utilised for repayment of the Company's indebtedness and interest expenses, and general working capital; (iii) the Company is in the process of negotiating, on a best effort basis, for a settlement of a bond payable to several bondholders in the amount of HK$45 million for deferment and discount; and (iv) the Group is actively seeking for opportunity to carry out new projects and transactions which could bring economic value and benefit to Shareholders. Therefore, we consider that having the Refreshment of Scheme Mandate Limit is a prudent approach in maintaining the Group's ability to provide incentives or rewards to eligible participants for their contributions to the Group.

Upon our review of the 2022 Interim Report, we note that a total of 4,956,777 share options (the "**Old Share Options**") under the old share option scheme (the "**Old Share Option Scheme**", defined as "**Existing Share Option Scheme**" in the Company's circular (the "**2022 AGM Circular**") dated 14 November 2022 identifying the old share option scheme adopted by the Company on 20 December 2012) were granted to eligible participants and remain outstanding as at 31 December 2022. As per the 2022 AGM Circular, the Old Share Options will continue to be valid and exercisable in accordance with the provisions of the Old Share Option Scheme which already expired on 19 December 2022. However, the 2022 Interim Report also states that the Old Share Options shall expire on 2 November 2023 which is roughly 6 months away from the Latest Practicable Date. As the completion of the Rights Issue (i.e. 27 January 2023) occurred shortly after the date of adoption of the Share Option Scheme (i.e. 14 December 2022), this exceptional case has currently resulted in a mismatch in the maximum number of 15,072,804 Share Options that may be granted under the Share Option Scheme versus the Company's issued share capital as at the Latest Practicable Date and as enlarged by the Rights Issue. Should the Refreshment of Scheme Mandate Limit be approved by the Independent Shareholders, the maximum number of Share Options that may be granted will be refreshed to 52,754,816 Share Options, representing approximately 10% of the Company's issued share capital as at the date of the SGM (assuming no further changes in the Company's issued share capital from the Latest Practicable Date up to the date of SGM). In the event that the Refreshment of Scheme Mandate Limited is not granted and the Company refreshes the existing Scheme Mandate Limit after the 3-year period stipulated under Rule 17.03C(1), it is expected that the Company can only conduct such refreshment on or after 14 December 2025 which is roughly 2 years and 8 months away from the Latest Practicable Date which would severely limit the effectiveness and the Company's discretion in utilizing the Share Option Scheme during this prolonged period. Given the expiry of the Old Share Options in the not too distant future on 2 November 2023, this will provide the Company with more flexibility in achieving the stated purpose of the Share Option Scheme, i.e. enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group with the extent of such ability matching the scale of the Company based on its current issued share capital of the Company as enlarged by the Rights Issue in January 2023.

Having considered the above, we consider that the proposed Refreshment of Scheme Mandate Limit is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Potential dilution of shareholding of the Shareholders

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming no other Shares are issued and/or repurchased and cancelled by the Company from the Latest Practicable Date up to and including the date when the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit is utilized in full) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares; and (iii) upon full conversion of the Convertible Bonds at the initial Conversion Price and full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming no other Shares are issued and/or repurchased and cancelled by the Company from the Latest Practicable Date up to and including the date when the Refreshment of General Mandate and the

Refreshment of Scheme Mandate Limit is utilized in full other than full conversion of the Convertible Bonds) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares, for illustrative and reference purpose:

Shareholders	As at the Latest Practicable Date		Upon full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming there is no other change in the shareholding structure of the Company from the Latest Practicable Date) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares		Upon full conversion of the Convertible Bonds at the initial Conversion Price and full utilization of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit (assuming no other Shares are issued and/or repurchased and cancelled by the Company from the Latest Practicable Date up to and including the date when the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit is utilized in full other than full conversion of the Convertible Bonds) and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares	
	No. of Shares held	*Approximate % of total Shares in issue*	*No. of Shares held*	*Approximate % of total Shares in issue*	*No. of Shares held*	*Approximate % of total Shares in issue*
Substantial Shareholders						
Mr. Chan Yuen Tung	116,048,147	22.00	116,048,147	16.92	116,048,147	12.95
Mr. Chiau Che Kong	69,175,416	13.11	69,175,416	10.09	69,175,416	7.72
Directors						
Ms. Chan Yuk Foebe	143,000	0.03	143,000	0.02	143,000	0.02
Mr. Gao Ran	122,000	0.02	122,000	0.02	122,000	0.01
Mr. Liu Yangyang	166,000	0.03	166,000	0.02	166,000	0.02
Other public Shareholders	341,893,605	64.81	341,893,605	49.85	341,893,605	38.17
Maximum number of new Shares that can be issued under the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit	–	–	158,264,449	23.08	158,264,449	17.67
Placees	–	–	–	–	210,000,000	23.44
Total	527,548,168	100.00	685,812,617	100.00	895,812,617	100.00

As illustrated above, the shareholding of the existing public Shareholders would be diluted from approximately 64.81% to (i) approximately 49.85% upon full utilisation of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares and (ii) approximately 38.17% upon full conversion of the Convertible Bonds at the initial Conversion Price and full utilisation of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit and full exercise of the Share Options issued under the new Scheme Mandate Limit into Shares.

Taking into consideration that (i) the grant of the Refreshment of General Mandate will empower the Directors to issue new Shares under the refreshed limit and provide the Company with the flexibility and ability to capture any appropriate capital raising or to capture opportunities in a timely manner if attractive offer for investment in the Shares is received from potential investors before the 2023 AGM; (ii) the grant of the Refreshment of General Mandate does not create any interest paying obligations on the Group; (iii) the theoretical fund-raising of approximately HK$24.8 million (before expenses) under the New General Mandate (assuming no change in the Company's issued share capital from the Latest Practicable Date up to the date of the SGM) is essential to allow the Company to get the required capital of approximately HK$26 million ready by December 2023 by utilizing the New General Mandate instead of passively waiting for the refreshment of general mandate at the 2023 AGM expected to be held around December 2023 and allowing the bond payable in the amount of approximately HK$26 million to default as discussed in section 2.3 of this letter; and (iv) the Refreshment of Scheme Mandate Limit would allow the Group to have additional flexibilities in providing incentives or rewards to eligible participants for their contributions to the Group, we consider that the dilution effect on the shareholding interests of the existing public Shareholders as a result of the grant of the Refreshment of General Mandate and the Refreshment of Scheme Mandate Limit is acceptable.

5. Fund-raising in the past twelve months

In the last twelve months immediately prior to the Latest Practicable Date, the Company completed the Rights Issue on 27 January 2023, with total net proceeds raised of approximately HK$77,600,000, of which HK$67,600,000 was expected to be utilised for the repayment of the Group's indebtedness and interest expenses and approximately HK$10,000,000 was expected to be utilised as general working capital of the Group. As stated in the Board Letter, the Group utilized HK$71,500,000 for the repayment of the Group's indebtedness and interest expenses and approximately HK$6,100,000 for the general working capital of the Group.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that the proposed Refreshment of General Mandate and Refreshment of Scheme Mandate Limit, although not in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, we would recommend (i) the Independent Shareholders; and (ii) the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the proposed Refreshment of General Mandate and Refreshment of Scheme Mandate Limit.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited

Kevin So
Managing Director – Investment Banking Department

Note: Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.