



8 April 2024

*To the Independent Board Committee and  
the Independent Shareholders of  
Enviro Energy International Holdings Limited*

Dear Sirs,

**CONNECTED TRANSACTION  
IN RELATION TO ISSUE OF NEW SHARES UNDER  
SPECIFIC MANDATE FOR DEBT CAPITALISATION  
AND APPLICATION FOR WHITEWASH WAIVER**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Debt Capitalisation and the relevant specific mandate, and the Whitewash Waiver (the “**Transactions**”), the details of which are set forth in the “Letter from the Board” (the “**Board Letter**”) contained in the circular (the “**Circular**”) issued by the Company to the Shareholders dated 8 April 2024, of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As stated in the Board Letter, on 25 January 2024 (after trading hours), the Company entered into the Settlement Agreement with the Creditors, pursuant to which the Company has conditionally agreed to capitalise the Indebted Amount owed to the Creditors by the Company, the Creditors have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 896,993,536 Capitalisation Shares at the Issue Price of HK\$0.05 per Capitalisation Share under a specific mandate.

Assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Completion, the Capitalisation Shares to be allotted and issued represent (i) approximately 165.38% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 62.32% of the issued share capital of the Company as enlarged by the issued of the Capitalisation Shares.

As at the Latest Practicable Date, (i) WIFHL does not hold any Shares; and (ii) parties acting in concert with WIFHL (i.e. WIIHL and Mr. Pan) hold an aggregate of 145,902,047 Shares, representing approximately 26.90% existing issued share capital of the Company as at the Latest Practicable Date.

Assuming there will be no change in the number of issued Shares from the Latest Practicable Date up to the Completion, upon Completion, (i) the shareholding of WIFHL in the Company will increase from nil to approximately 39.10%; and (ii) the shareholding of WIFHL and its concert parties in the Company will increase from approximately 26.90% to 70.48%. WIFHL will, therefore, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by it and its concert parties pursuant to Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted.

In light of the above, WIFHL had made an application to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Capitalisation Shares.

## **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Zhong Jian, Mr. Pan Yongye and Mr. Liu Qin, has been established to advise the Independent Shareholders in respect of the Transactions. We, Grand Moore Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

## **OUR INDEPENDENCE**

As at the Latest Practicable Date, we were not connected with the Company, WIFHL or any of their respective substantial shareholders (as applicable), ultimate beneficial owner(s), directors or chief executives (as applicable), or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, and we were not in the same group as the financial or other professional adviser (including a stockbroker) to WIFHL and the Group, we do not and did not have, a significant connection, financial or otherwise with either WIFHL or the Group, or the controlling shareholder(s) of either of them (as applicable), of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice. Accordingly, we are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions in compliance with Rule 2.6 of the Takeovers Code.

In the past two years, we have not acted in any financial adviser role to the Company or WIFHL. Save for the appointment as the Independent Financial Adviser, there was no other relationship and/or engagement between the Company or WIFHL and us in the past two years.

With regards to our independence from the Company or WIFHL, 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 and WIFHL, their subsidiaries or their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Transactions pursuant to Rule 13.84 of the Listing Rules and Rule 2.1 of the Takeovers Code.

## **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 annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"); (iii) the 2023 Annual Results; (iv) other information provided by the Directors and/or the senior management of the Company (the "**Management**") and WIFHL (where applicable); (v) the opinions expressed by and the representations of the Directors, the Management and WIFHL (where applicable); and (vi) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors, the Management and WIFHL (where applicable), 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 and WIFHL (where applicable) 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 and WIFHL (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. 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 and WIFHL (where applicable), nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, or WIFHL or their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transactions, nor have we considered the taxation implication on the Group or the

Shareholders as a result of the Transactions. The Company has been separately advised by its own professional advisers with respect to the Transactions and the preparation of the Circular (other than this letter).

We have assumed that the Transactions 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 Transactions, 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 Transactions. 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. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

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 Transactions, we have taken into account the following principal factors and reasons:

### 1. Background information and financial overview of the Group

As stated in the Board Letter, the Group is principally engaged in the supply of construction essentials business since 2017, which primarily consisted of two major businesses, namely (1) the supply of building materials business; and (2) the supply of aluminium related products business, which are part of the construction supply chain. Certain summary financial information of the Group as extracted from (a) the 2023 Annual Results for the years ended 31 December 2022 and 2023 (“FY2022” and “FY2023” respectively); and (b) the 2022 Annual Report for the year ended 31 December 2021 (“FY2021”) and FY2022 is set out below:

	<b>For the year ended 31 December</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited as at the Latest Practicable Date)	(audited)	(audited)
Revenue	531,504	269,577	321,844
Gross profit	41,245	16,742	15,918
Loss for the year attributable to owners of the Company	35,750	257,028	357,773



### *FY2022 vs FY2023*

The Group recorded revenue of approximately HK\$531,504,000 for FY2023, representing an increase of approximately HK\$261,927,000 or 97.2%, as compared to the revenue of approximately HK\$269,577,000 for FY2022. As per the 2023 Annual Results, the increase in revenue is mainly attributable to the revenue contribution from Hangzhou Junheng (as defined below) which became the Group's subsidiary in October 2022.

The Group recorded gross profit of approximately HK\$41,245,000 for FY2023, representing an increase of approximately HK\$24,503,000 or 146.4%, as compared to the gross profit of approximately HK\$16,742,000 for FY2022. As per the 2023 Annual Results, the increase in gross profit is mainly attributable to the aforementioned revenue contribution from Hangzhou Junheng (as defined below) which became the Group's subsidiary in October 2022.

The Group recorded a loss for the year attributable to owners of the Company of approximately HK\$35,750,000 for FY2023, representing a decrease of approximately HK\$211,278,000 or 86.1%, as compared to a loss for the year attributable to owners of the Company of approximately HK\$257,028,000 for FY2022. Such decrease in loss for the year attributable to owners of the Company was mainly attributable to the increase in operating profit by virtue of the abovementioned recognition of revenue and gross profit of the Company during FY2023, which was absent during FY2022. Nevertheless, the Group was unable to turnaround from the loss for the period attributable to owners of the Company for FY2023, which is mainly due to the recognition of the fair value loss on investment properties of approximately HK\$28,943,000.

### *FY2021 vs FY2022*

The Group recorded revenue of approximately HK\$269,577,000 for FY2022, representing a decrease of approximately HK\$52,267,000 or 16.2%, as compared to the revenue of approximately HK\$321,844,000 for FY2021. As per the 2022 Annual Report, the Group experienced a temporary downturn of its principal business in 2022 as a result of a number of force majeure factors causing the abnormal and significant price fluctuation in aluminium related products, including but not limited to COVID-19 precaution measures in the PRC, outbreak of the Russian Ukrainian War and surge in international freight and shipping costs. In view of the above price instability in the aluminium price and to safeguard the interest of the Company in 2022, the Group had no alternative but temporarily ceased the supply of aluminium and related products to its overseas customers, while exploring for other business opportunities based on its existing supply of building material business networks in the PRC. In October 2022, the Group has jointly established Hangzhou Junheng Building Materials Company Limited (杭州峻衡建材有限公司) (“**Hangzhou Junheng**”) with Hangzhou Zhongji Architectural Decoration Engineering Co., Ltd. (杭州中機建築裝飾工程有限公司) (“**Hangzhou Zhongji**”). Accordingly, Hangzhou

Junheng become a subsidiary of the Company. Hangzhou Junheng is principally engaged in trading of building materials in the PRC. Hangzhou Zhongji is interested in 40% of the equity interests in Hangzhou Junheng and is a connected person of the Group at a subsidiary level as at the Latest Practicable Date. Hangzhou Zhongji is principally engaged in the provision of construction and renovation services in the PRC. Leveraging on the construction and renovation services provided by Hangzhou Zhongji, the Group benefited from the introduction of customers for downstream expansion, and the financial result of the Group substantially improved since then.

The Group recorded gross profit of approximately HK\$16,742,000 for FY2022, representing an increase of approximately HK\$824,000 or 5.2%, as compared to the gross profit of approximately HK\$15,918,000 for FY2021. As per the 2022 Annual Report, the increase in gross profit is mainly attributable to the higher gross profit margin for sales of aluminium related products and scrap copper to overseas customers since early 2021 for the purpose of expanding the Group's client portfolio.

The Group recorded a loss for the year attributable to owners of the Company of approximately HK\$257,028,000 for FY2022, representing a decrease of approximately HK\$100,745,000 or 28.2%, as compared to a loss for the year attributable to owners of the Company of approximately HK\$357,773,000 for FY2021. Such decrease in loss for the year attributable to owners of the Company was mainly attributable to the combined effects of (i) the decrease in net impairment loss on the trade receivables and prepayments of approximately HK\$339,806,000 or 99.8%; and (ii) the Group recorded an impairment loss on loan and interest receivables of approximately HK\$215,290,000 for FY2022, which was absent during FY2021.

The table below illustrates certain key consolidated financial information of the Group as extracted from the consolidated statement of financial position set out in the 2023 Annual Results:

	<b>As at 31 December 2023</b> <i>HK\$'000</i> (unaudited as at the Latest Practicable Date)	<b>As at 31 December 2022</b> <i>HK\$'000</i> (audited)
Bank and cash balances	28,027	8,143
Current assets	210,465	267,668
Net current liabilities	154,074	166,628
Total assets	304,604	394,125
Current liabilities	364,539	434,296
Total liabilities	368,488	434,296
Total deficit	63,884	40,171
Deficit attributable to owners of the Company	79,680	44,679

The Group's bank and cash balances amounted to approximately HK\$28,027,000 as at 31 December 2023, representing an increase of approximately HK\$19,884,000 or 244.2%, as compared to that of approximately HK\$8,143,000 as at 31 December 2022. The increase in bank and cash balances is mainly attributable to (i) the relatively swift repayment of trade receivables by trade debtors as evidenced by the decrease in trade receivables from approximately HK\$100,731,000 as at 31 December 2022 to approximately HK\$28,331,000 as at 31 December 2023, representing a decrease of approximately HK\$72,400,000 or 71.9%; and (ii) the abovementioned increase in revenue during FY2023. In any event, it is noted that the aforementioned bank and cash balances as at 31 December 2023 are insufficient to fully settle the Indebted Amount. The Group recorded net current liabilities of approximately HK\$154,074,000 as at 31 December 2023, representing a decrease of approximately HK\$12,554,000 or 7.5%, as compared to that of approximately HK\$166,628,000 as at 31 December 2022. Such decrease was mainly attributable to the combined effects from a decrease in current assets of approximately HK\$57,203,000 or 21.4% and a decrease in current liabilities of approximately HK\$69,757,000 or 16.1% as at 31 December 2023, as compared to that of 31 December 2022. We note from the 2023 Annual Results that the decrease in current

assets is mainly attributable to the combined effects of the aforementioned decrease in trade receivables and the increase in bank and cash balances. Meanwhile, the decrease in current liabilities is mainly due to the decrease in trade and other payables. The deterioration in liquidity and solvency gives rise to a slight decrease in current ratio from approximately 0.62 times as at 31 December 2022 to approximately 0.58 times as at 31 December 2023.

The Group did not record any non-current liabilities as at 31 December 2022, but recorded a non-current liability of approximately HK\$3,949,000 as at 31 December 2023, which is entirely attributable to the non-current portion of other borrowings. The Group's total liabilities amounted to approximately HK\$368,488,000 as at 31 December 2023, representing a decrease of approximately HK\$65,808,000 or 15.2%, as compared to that of approximately HK\$434,296,000 as at 31 December 2022, the decrease in total liabilities is mainly attributable to the aforementioned factors related to the decrease in current liabilities. As at 31 December 2023, the Group recorded a total debt of approximately HK\$245,498,000, of which the (i) current and non-current portions of other borrowings amounted to approximately HK\$200,631,000; (ii) loans from fellow subsidiaries amounted to approximately HK\$29,570,000; (iii) shareholders' loans amounted to approximately HK\$11,410,000; and (iv) loans from related parties amounted to approximately HK\$3,887,000.

The Group recorded a gearing ratio of approximately 141.6% as at 31 December 2023. The gearing ratio is calculated as net debt divided by total capital. The Group recorded a net debt of approximately HK\$217,471,000 as at 31 December 2023. Net debt is calculated as the difference of the aforementioned total debt and bank and cash balances of the Group of approximately HK\$245,498,000 and approximately HK\$28,027,000 as at 31 December 2023, respectively. The Group recorded a total capital of approximately HK\$153,588,000 as at 31 December 2023. Total capital is calculated as the difference of the aforementioned net debt and total deficit of the Group of approximately HK\$217,471,000 and approximately HK\$63,884,000 as at 31 December 2023, respectively, being approximately HK\$153,587,000.

The Group recorded a deficit attributable to owners of the Company of approximately HK\$79,680,000 as at 31 December 2023, which represents an increase of approximately HK\$35,001,000 or 78.3%, from a deficit attributable to owners of the Company of approximately HK\$44,679,000 as at 31 December 2022. Such increase was mainly attributable to the loss for the year attributable to owners of the Company during FY2023.

## **2. Reasons for and benefits of the Debt Capitalisation**

It is stated in the Board Letter that as disclosed in the 2022 Annual Report, as (i) the Group incurred substantial loss for FY2022; (ii) the Group recorded net current liabilities of approximately HK\$166.6 million and net liabilities of approximately HK\$40.2 million as at 31 December 2022; and (iii) the Group's bank and cash balances is insufficient to



cover the current liabilities as at 31 December 2022, the auditors of the Company had given an emphasis of matter in relation to the material uncertainty related to going concern of the Company.

As further disclosed in the 2023 Annual Results, the Company has a net current liabilities and net liabilities of approximately HK\$154.1 million and HK\$63.9 million, respectively, as at 31 December 2023. Coupled with the recent cautious investment sentiment and the prevailing high interest rate in the debt market, the Company had difficulties in seeking debt or equity financing to finance its business development.

As at 31 December 2023, other than accounts payable and other payables arising from the ordinary business operation, the Company had a total indebtedness of approximately HK\$268.4 million, which mainly consisted of:

- (i) secured borrowings and accrued interest of approximately HK\$218.2 million with Lender B, which was secured by the investment properties of the Group with a carrying amount of approximately HK\$94.1 million as at 31 December 2023.

On 16 January and 27 March 2019, the Yingkou Subsidiaries entered into the Original Loan Agreements with the Bank, pursuant to which the Bank shall provide loans with an aggregate principal of RMB162.0 million (the “**Original Loan**”) to the Yingkou Subsidiaries which carry interest rate ranging from 9.0045% to 9.5265% per annum and was secured by the Yingkou Properties. The respective Original Loan and the respective accrued interests became overdue on 21 December 2019 and 21 January 2020 respectively.

On 3 March 2020, the Bank assigned its entire rights over the Original Loan to the Lender A, an independent third party, at an aggregate consideration of approximately RMB166.6 million (the “**Lender A Receivables**”). On 18 August 2020, Lender A assigned its entire rights over the Lender A Receivables to the Lender B, an independent third party, at an aggregate consideration of approximately RMB176.8 million.

On 31 August 2020, the Yingkou Subsidiaries entered into the Extended Loan Agreements, pursuant to which (i) the balance of the Original Loan and accrued interest as at 18 August 2020 shall amount to approximately RMB176.8 million, which the Lender B is entitled to the rights of such receivable from the Yingkou Subsidiaries; (ii) the Lender B shall extend the repayment date of such RMB176.8 million (the “**Extended Loan**”) by the Yingkou Subsidiaries to 17 August 2023, and the Extended Loan shall carry an interest rate of 5%.

As the Group did not repay the Extended Loan and respective accrued interest pursuant to the Extended Loan Agreements, the Extended Loan and the respective accrued interest became overdue on 17 August 2023. As at 31 December 2023, the balance of the Extended Loan and accrued interest amounted to approximately HK\$218.2 million.

As further disclosed in the section headed “9 MATERIAL LITIGATION” in Appendix III to the Circular, the Lender A had pledged its rights to the Lender A Receivables to the Bank and there was a dispute between the Bank and Lender A. The Bank had filed a claim against the Lender A and the Yingkou Subsidiaries and other defendants for the repayment of outstanding loans and interest due to default in certain loan agreements between the Bank and Lender A. Based on the latest civil judgement received by the Group, the Bank or the relevant court in the PRC may have the right to dispose the Yingkou Properties by way of auction or sale. It is expected that, upon the conclusion of the litigation between the Bank and the Lender A or the disposal of the Yingkou Properties in accordance to the judgement by the relevant court in the PRC, the Group may be released from its obligation under the Extended Loan Agreements. Please refer to the section headed “9 Material Litigation” in Appendix III to the Circular for further details;

- (ii) unsecured borrowings and accrued interests of approximately HK\$5.4 million which is repayable in 2026. It is intended that the Group will settle such borrowings and accrued interest with its internal resources in 2026; and
- (iii) the unsecured Loans with the Indebted Amount of HK\$44.8 million which is overdue as at the Latest Practicable Date.

On top of the above indebtedness, the Company had other payables of approximately HK\$48.6 million as at 31 December 2023, which mainly represented other payables recorded by the Yingkou Subsidiaries, including an aggregate amount of approximately HK\$32.5 million due to Lender B and its related companies.

During FY2023, the Company is exploring with Lender B and local government in the PRC, to settle such other payables together with the Extended Loan by way of disposal of the Yingkou Subsidiaries to Lender B or its group companies. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Lender A and Lender B are not a Shareholder. As at 31 December 2023, the assets of Yingkou Subsidiaries principally consisted of investment properties and consideration receivables with carrying amount of approximately HK\$94.1 million and HK\$130.4 million respectively, and the liabilities of the Yingkou Subsidiaries principally consisted of secured borrowings and accrued interests and other payables of approximately HK\$218.2 million and HK\$46.8 million respectively. It is expected that the settlement arrangement, if materialises, may be finalised by 2024.

Based on the above, the Company considers, in the event the disposal of the Yingkou Subsidiaries materialises, it merely represented a disposal of the Group’s assets under the Yingkou Subsidiaries for the settlement of the Extended Loan and the other payables mentioned above, which may resolve the respective qualification on the consolidated financial statements issued by the auditor of the Company, ZHONGHUI ANDA CPA Limited. In addition, the counterparty of the disposal, if materialised, would only be decided based on the results of the discussion with the local government in the PRC. As such, the Company considers there is no Rule 25 implications in the event the disposal of

the Yingkou Subsidiaries materialises. The Company will comply with the requirement of the Takeovers Code in the event the disposal materialises and have any Takeovers Code implications.

As at the Latest Practicable Date, no agreements have been entered in relation to the disposal of the Yingkou Subsidiaries or relevant assets. In the event any settlement arrangement materialises, the Company will comply with the Listing Rules and Takeovers Code accordingly.

Save for the above, the remaining liabilities of the Group principally represented trade payables and accrued expenses incurred in the ordinary business and operation of the Group. As such, in the event (i) the Debt Capitalisation completes; and (ii) the settlement of the Extended Loan and other payables materialise as detailed above, save for the unsecured borrowings and accrued interests of approximately HK\$5.4 million which is repayable in 2026, the Group will be free of debt and the remaining liabilities of the Group would principally be trade payables and accrued expense incurred in the ordinary business and operation of the Group.

#### *The Indebted Amount and the Debt Capitalisation*

During the suspension of the trading of the Shares from 15 September 2021 to 5 May 2023, WIIHL and Mr. Pan, as the single largest shareholder and second largest shareholder of the Company, have continued to provide financial support to the Company for business development and daily operation of the Group, through themselves and/or their associates by way of the Loans.

The Debt Capitalisation offers the Group with a valuable chance of reaching a full settlement of its outstanding debt without utilizing existing financial resources of the Company and exerting pressure on the cashflow position of the Group.

#### *Alternative financing methods considered by the Company*

The Company has considered various alternatives in view of settling the Indebted Amount, including but not limited to debt refinancing and various means of equity issuance. Among the possible alternatives available to the Company, the Company considers that the Debt Capitalisation is an appropriate and cost-effective method to the Company. For debt financing, having considered the lack of security for arranging any possible debt financing, the Directors considered the Group is not in a feasible position to obtain further debt financing from financial institutions for settlement of the Indebted Amount. In this regard, the Company had approached its principal banks in exploring to obtain a loan for the settlement of the Indebted Amount and the banks did not respond positively given the Group's circumstances. In addition, the prevailing high interest rate in the debt market will also increase the interest burden of the Group. Comparing to debt financing, the Debt Capitalisation would allow the Company in avoiding further finance cost.

In respect of equity fund raising, given the relatively substantial amount of the Indebted Amount, the recent weak sentiment of the stock market and uncertain economic environment, it is difficult to procure an underwriter or a placing agent for rights issue or open offer or a placing agent for share placement which is able to raise sufficient funding for the settlement of the Indebted Amount.

Although the allotment and issue of the Capitalisation Shares will have a dilution effect on the shareholding interest of the existing Shareholders, having considered (i) the capitalisation of the Indebted Amount can discharge the settlement obligations of the Loans; and (ii) the Capitalisation Shares, when allotted and issued, will be recognised entirely as equity of the Company which in turn will enlarge the capital base, and accordingly, strengthen the financial position of the Group.

The Company also considered other equity issuance methods, such as rights issue, open offer and placing new shares to independent third parties. However, (i) given the recent unfavourable market sentiment, the Company had difficulties in sourcing investors or placing agents for equity investments with terms acceptable to the Company and amounts sufficient in settling the Indebted Amount; and (ii) although both open offer and rights issue would allow the Shareholders to participate in the subscription on new Shares to be issued by the Company and maintain their respective pro-rata shareholdings in the Company, given the thin trading volume of the Shares, the Company would have difficulties in sourcing underwriter with reasonable underwriting fee and subscription price of reasonable discount. The Company had approached a number of placing agents in exploring to conduct equity fundraising activities. However, the Company could not find any placing agents interested in equity fundraising activities of the Company at the moment due to various factors as disclosed above.

As such, the Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to preserve as much liquidity as possible in order to maintain the Group's financial and liquidity position for its business operation and development.

#### *Improvement in the financial position of the Company*

Upon Completion, the Group's net liabilities position is expected to decrease by the Indebted Amount of approximately HK\$44.8 million. For illustrative purpose, based on the Group's consolidated net liabilities of approximately HK\$63.9 million as at 31 December 2023, assuming the Debt Capitalisation and the allotment and issue of the Capitalisation Shares had taken place on 31 December 2023, the total liabilities and net liabilities of the Group will be reduced to approximately HK\$323.7 million and HK\$19.1 million respectively. Accordingly, the net gearing ratio (being net debt divided by total capital, where net debt is calculated as the sum of other borrowings, shareholders' loan, loans from fellow subsidiaries and loan from related parties, less cash and bank balances) shall be decreased from approximately 141.6% to approximately 109.6% as at 31 December 2023.

In view of the above, the Directors consider that the terms of the Settlement Agreement and the Debt Capitalisation are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

We have reviewed the email records between the Group and these financial institutions and note that they did not show positive interest in the Group's invitation taking into account the Group's historical financial performance and current market situation. As a result, the financing alternatives such as (i) debt financing exercise; or (ii) other equity fund raising exercises, such as rights issue, open offer and placing new shares to independent third parties, are not feasible.

In light of the above, we understand that under the prevailing high interest rate macroeconomics environment, lenders would request higher interest rates from the borrowers, and thus resulting in additional interest burden on the Group, and therefore debt financing and the relevant finance cost would be detrimental to the financial performance and financial position of the Group especially under the existing tightened financing environment. Furthermore, obtaining a new loan to settle the Indebted Amount would inevitably result in future financial burden on the part of the Group in the form of an obligation to repay the principal amount upon maturity of the loan. In any event, it is already discussed above that the Group has approached its principal banks in connection with obtaining a loan for settlement of the Indebted Amount but the banks did not respond positively given the Group's circumstances. In relation to other equity issuance alternatives, such as rights issue, open offer and placing of new shares, we are of the view that (a) such alternatives may potentially incur higher transaction costs as a placing or underwriting commission (subject to negotiations) to the placing agent(s) and/or the underwriter(s) is normally payable; (b) in the case(s) of rights issue and/or open offer, involve more document preparation with more professional parties involved resulting in additional transaction costs; (c) in the case(s) of rights issue and/or open offer, would need a relatively longer timeframe to complete in comparison to the Debt Capitalisation after taking into account the Indebted Amount of HK\$44,849,677 and the market capitalisation of the Company as at the Latest Practicable Date of approximately HK\$43,934,000, it would result in the increase of the number of issued Shares by more than 50%, in which it would be made conditional on approval by Shareholders in compliance with Rules 7.19A and 7.27A of the Listing Rules, therefore involving preparation and issuance of circular, notice period of an extraordinary general meeting, subsequent posting of a prospectus and an offer period of not less than 10 business days which may expose the Company to additional completion risks due to unexpected termination of the placing or underwriting agreement by a third party due to a force majeure event arising out of weak macroeconomy factors or multiple ongoing global geopolitical risks; and (d) in the case of placing of new shares under general mandate, the Company has already received negative responses from two brokerage firms and even in the hypothetical situation where such placing of new shares were to proceed, such gross proceeds raised (after taking into account (i) the weak historical financial performance of the Group as discussed in section 1 of this letter; (ii) in view of the foregoing, any places (if any) will likely demand the maximum price discount of 20% as allowed under Rule 13.36(2)(b) of the Listing Rules; and (iii) the aforementioned market capitalisation of the Company as at the Latest Practicable Date) will likely be in the ballpark of



approximately HK\$7,029,000, an amount which is inconsequential within the context of settlement of the Indebted Amount. We, therefore, are of the view that the Debt Capitalisation is the most appropriate means of financing option, as compared with other alternative financing methods, to settle the Indebted Amount.

Way of debt settlement is an outcome of arm's length negotiation between debtor(s) and creditor(s), taking into account, amongst others, debtor(s)' operational and financial situation and financing capability and the creditor(s)' financial situation, liquidity and investment objective. Based on our discussion with the Management, we understand that the Debt Capitalisation (which is considered the most appropriate means of financing option for the Group after taking into account the respective pros and cons of each of the financing alternatives in the sub-paragraph headed "Alternative financing methods considered by the Company" above, and is the agreed settlement method of the Indebted Amount after arm's length negotiation between the Company as the debtor and the Creditors as the creditors to on one hand allow the Company to settle the Indebted Amount amid the current financial situation and on the other hand fulfil the Creditors' equity investment objective) is effective as part of the Group's overall plan in addressing its liquidity challenges after having considered, as disclosed in the section headed "Reasons for and benefits of the Debt Capitalisation" in the Board Letter, (i) the Group's secured borrowings and accrued interest of approximately HK\$218.2 million with the Lender A (i.e. the Group's largest remaining liability as at 31 December 2023 outside of the Indebted Amount) is expected to be released upon conclusion of the litigation between the Bank and the Lender A or the disposal of the Yingkou Properties in accordance to the judgement by the relevant court in the PRC; and (ii) the Group's other payables of approximately HK\$48.6 million as at 31 December 2023, which mainly represented other payables recorded by the Yingkou Subsidiaries in relation to the property investment business of the Yingkou Subsidiaries in the past, including an aggregate amount of approximately HK\$32.5 million due to Lender B and its related companies. During FY2023, the Company is exploring with Lender B and local government in the PRC, to settle such other payables together with the Extended Loan by way of disposal of the Yingkou Subsidiaries to Lender B or its group companies. As at 31 December 2023, the assets of Yingkou Subsidiaries principally consisted of investment properties and consideration receivables with carrying amount of approximately HK\$94.1 million and HK\$130.4 million respectively, and the liabilities of the Yingkou Subsidiaries principally consisted of secured borrowings and accrued interests and other payables of approximately HK\$218.2 million and HK\$46.8 million respectively. It is expected that the settlement arrangement, if materialises, may be finalised by 2024.

Having considered that (i) the Debt Capitalisation will allow the Company to settle the Indebted Amount without imposing any substantial cash outflow so as to release the liquidity and working capital pressure of the Company; (ii) the severe shortage of cash and working capital for the repayment of the indebtedness of the Group; (iii) the latest published financial position of the Group, particularly the net current liabilities position and the net liabilities position as at 31 December 2023, as discussed in section 1 of this letter; (iv) the Debt Capitalisation is the most appropriate means of financing option for the Group after taking into account the respective pros and cons of each of the financing alternatives and in the case of bank loan and other equity fund raising exercises, their

infeasibility after consultation with securities brokerage firms and the Group's principal banks; (v) the principal terms of the Debt Capitalisation (including the Issue Price) compare favourably against the Comparable Transactions as defined and discussed in section 5 of this letter; and (vi) the Creditors are willing to accept the settlement of the Indebted Amount by way of the Debt Capitalisation which in turn demonstrated the faith and confidence of the Group's controlling shareholders in the Group's business operation and prospects, we therefore concur with the Directors' view that the terms of the Settlement Agreement are fair and reasonable and the Debt Capitalisation is in the interests of the Company and the Shareholders as a whole.

### **3. The proposed Debt Capitalisation**

With reference to the Board Letter, on 25 January 2024 (after trading hours), the Company entered into the Settlement Agreement with the Creditors, pursuant to which the Company has conditionally agreed to capitalise the Indebted Amount (representing all debts and accrued interests owed to the Creditors by the Company), the Creditors have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 896,993,536 Capitalisation Shares at the Issue Price of HK\$0.05 per Capitalisation Share under a specific mandate. Pursuant to the Settlement Agreement, upon Completion, all obligations of the Company under the respective loan agreement (including all debts and accrued interests owed to the Creditors by the Company) will be fulfilled.

#### ***3.1 The Settlement Agreement***

The principal terms of the Settlement Agreement are set out as follows:

Parties	:	The Company and the Creditors
Issuer	:	The Company
Capitalisation Shares	:	896,993,536 Capitalisation Shares
Issue Price	:	HK\$0.05 per Capitalisation Share

##### ***3.1.1 Debt Capitalisation***

The Company is indebted to the Creditors in the sum of the Indebted Amount. The Company will issue to the Creditors the Capitalisation Shares at the Issue Price as full settlement of the Loans and the fulfilment of all obligations of the Company under the respective loan agreement.

##### ***3.1.2 Capitalisation Shares***

The 896,993,536 Capitalisation Shares under the Debt Capitalisation will be allotted and issued under a specific mandate which is subject to Independent Shareholders' approval at the EGM.

Assuming there will be no change in the issued share capital of the Company from the date of the Settlement Agreement up to the date of Completion, the Capitalisation Shares represent:

- (i) approximately 165.38% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 62.32% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares.

### *3.1.3 Issue Price*

The Issue Price of HK\$0.05 per Capitalisation Share represents:

- (i) a discount of approximately 10.7% to the closing price of HK\$0.056 per Share as quoted on the Stock Exchange on the date of the Settlement Agreement;
- (ii) a discount of approximately 5.7% to the average closing price of approximately HK\$0.053 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the date of the Last Trading Day;
- (iii) a discount of approximately 61.73% to the closing price of HK\$0.081 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iv) a discount of approximately 57.47% to the average closing price of approximately HK\$0.087 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the date of the Latest Practicable Date;
- (v) a price difference of approximately HK\$0.132 as compared to the audited consolidated net liabilities of approximately HK\$0.082 per Share as at 31 December 2022, which is calculated based on the Group's audited consolidated net liabilities of the Company of approximately HK\$44,679,000 as at 31 December 2022 and 542,392,207 Shares in issue as at the Latest Practicable Date;
- (vi) a price difference of approximately HK\$0.118 as compared to the unaudited consolidated net liabilities of the Company of approximately HK\$0.068 per Share as at 30 June 2023, which is calculated based on the Group's unaudited consolidated net liabilities of the Company of approximately HK\$37,051,000 as at 30 June 2023 and 542,392,207 Shares in issue as at the Latest Practicable Date;

- (vii) a price difference of approximately HK\$0.168 as compared to the audited consolidated net liabilities of the Company of approximately HK\$0.118 per Share as at 31 December 2023, which is calculated based on the Group's audited consolidated net liabilities of the Company of approximately HK\$63.9 million as at 31 December 2023 and 542,392,207 Shares in issue as at the Latest Practicable Date;
- (viii) a price difference of approximately HK\$0.170 as compared to the adjusted unaudited net liabilities of the Company of approximately HK\$0.120 per Share as at 31 December 2023. The calculation of the adjusted unaudited consolidated net liabilities of the Company per Share as at 31 December 2023 is set out under the section headed "Property Interests and Adjusted Net Asset Value" in Appendix I to the Circular; and
- (ix) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 6.61% of the theoretical diluted price of HK\$0.0523 per Share to the benchmarked price of HK\$0.056 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the date of the Settlement Agreement of HK\$0.056 per Share and the average closing price of HK\$0.0532 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the date of the Settlement Agreement).

As at 31 December 2023, the audited consolidated net liabilities of the Group were approximately HK\$63.9 million.

The Issue Price was determined after arm's length negotiation between the Company and the Creditors after taking into account (i) the Indebted Amount being overdue or would be overdue imminently as at the date of the Settlement Agreement; (ii) the recent trading prices of the Shares prior to the date of signing the Settlement Agreement; (iii) the trading volume of the Shares was thin with average daily trading volume of the Shares per month around 0.05% of the total number of issued Shares since the resumption of trading of the Shares in May 2023; (iv) the net current liabilities and net liabilities of the Group as at 31 December 2022 and 31 December 2023; and (v) the current equity capital market conditions. The Directors consider that the terms of the Settlement Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The amount of the total Issue Price of the Capitalisation Shares shall be satisfied by way of capitalising the Indebted Amount owed to the Creditors by the Company. In addition, the Group will use its internal resources to settle the professional fees and all related expenses of approximately HK\$0.8 million which may be borne by the Company in connection with the Debt Capitalisation.

### *3.1.4 Ranking*

The Capitalisation Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Capitalisation Shares.

### *3.1.5 Conditions precedent*

The Completion is conditional upon the satisfaction of the following conditions precedent:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Capitalisation Shares;
- (ii) passing by the Independent Shareholders of the Company resolutions at the EGM approving (a) the Settlement Agreement and the transactions contemplated thereunder (more than 50% of the votes cast by the Independent Shareholders at the EGM by way of poll); and (b) the Whitewash Waiver (at least 75% of the votes cast by the Independent Shareholders at the EGM by way of poll) in accordance with the Listing Rules and the Takeovers Code;
- (iii) the Executive having granted (and such grant not having been withdrawn) the Whitewash Waiver to WIFHL, and the satisfaction of all conditions (if any) attached thereto; and
- (iv) the obtaining by the Company of the approval from the Shareholders on the Proposed Increase in Authorised Share Capital.

All the above conditions precedent are not waivable. As at the Latest Practicable Date, none of the conditions precedent above has been fulfilled.

If the above conditions precedents are not satisfied by the Long Stop Date, the Settlement Agreement shall be automatically terminated with immediate effect.

### *3.1.6 Completion*

Completion of the Debt Capitalisation shall take place within seven Business Days after the date on which the last conditions precedent is satisfied, or at such other date, time and venue as the parties may agree in writing.

## **3.2 Information on the Creditors**

As stated in the Board Letter, the Creditors consisted of WIFHL, Longma International, Mr. Tang, WIFL, Mr. Pan, Able Plus and Mr. Zhou.



WIFHL is a company with limited liability incorporated in Hong Kong principally engaged in investment holding, which holds 66.67% equity interest of Longma International as its only investment. WIFHL is wholly-owned by Wonderland International Financial Holdings Company, which is in turn owned as to (i) 55.95% by Hua Zhi Investment Limited, which is in turn owned as to 56.21% by Mr. Li Gang, 29.95% by Mr. Wang Shengkun, 11.98% by Ms. Lu Qing and 1.86% by Mr. Feng Dafu; (ii) 41.79% by Pu Shi International Investment Limited, which is ultimately and beneficially held by Mr. Su Shaowen; (iii) 1.79% by Mr. Soh Kai Jun; and (iv) 0.47% by Ms. Xia Liping.

Longma International is a company with limited liability incorporated in Hong Kong principally engaged in investment holding, which holds 34% equity interest of Longma International Consulting Limited, a company principally engaged in the provision of company secretarial service, as its only investment. Longma International is owned as to 66.67% by WIFHL and 33.33% by Mr. Li Gang.

Mr. Tang is the son of Mr. Li Gang, the chairman and executive Director of the Company.

WIFL is a company with limited liability incorporated in Hong Kong principally engaged in money lending business and is a wholly-owned subsidiary of Wonderland Capital International Holdings Limited, which is beneficially owned as to (i) 33.33% by Wonderland Group Investment Holdings Corporation, which is in turn equally held by Mr. Jiang Peixing and Mr. Liu Shao Kang; (ii) 19.05% by China Minghua Holdings Limited which is wholly owned by Mr. Zhang Xiaoming; (iii) 19.05% by Mr. Yan Qiang; (iv) 19.05% by Mr. Shi Jiaqi; and (v) 9.52% by Mr. Li Xiaolei. Mr. Jiang Senlin, the executive Director of the Company, is one of the directors of WIFL.

Mr. Pan is an executive Director and a Shareholder holding 33,112,281 Shares representing approximately 6.11% of the issued shares of the Company as at the Latest Practicable Date.

Able Plus is a company with limited liability incorporated in Hong Kong principally engaged in trading of non-ferrous metal products, which is owned as to 40% by Mr. Pan and 60% by Ms. Ma Hiu Ngai, the spouse of Mr. Pan.

WIIHL, the single largest shareholder of the Company as at the Latest Practicable Date, is owned as to (i) 58.44% by Hua Zhi Investment Limited, which is the intermediate holding company of WIFHL and Longma International and Mr. Li Gang is the ultimate beneficial owner as detailed above; (ii) 18.38% by Pu Shi International Investment Limited, which holds 41.79% shareholding interest in Wonderland International Financial Holdings Company as detailed above; (iii) 13.18% by Wonderland Capital International Holdings Limited, which is the immediate holding company of WIFL as detailed above; and (iv) 10.00% by Able Plus Investment (Holdings) Limited, which is wholly-owned by Mr. Pan.

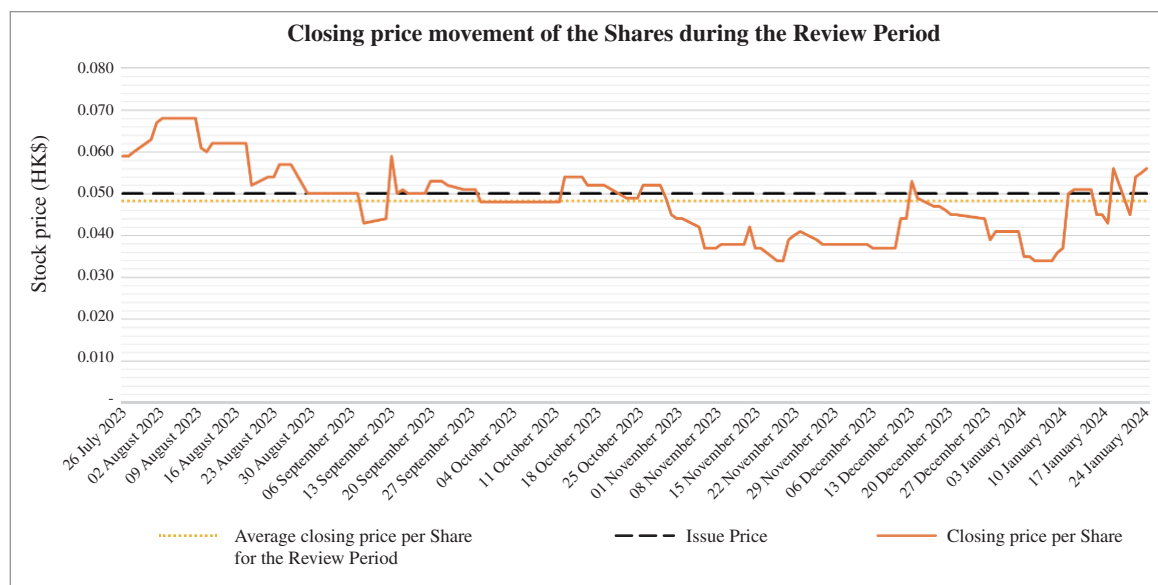
Mr. Zhou is a Shareholder holding 14,071,460 Shares representing approximately 2.59% of the issued shares of the Company as at the Latest Practicable Date. Mr. Zhou is not connected with (i) any of the other Creditors, their respective shareholders and ultimate beneficial owners; and (ii) WIFHL and parties acting in concert with it.

#### 4. Historical price and trading volume of the Shares

In order to assess the fairness and reasonableness of the Issue Price, we have taken into account (i) the daily closing price of the Shares as quoted on the Stock Exchange during the 6 months ended the date of the Settlement Agreement, i.e. from 26 July 2023 to 25 January 2024 (the “**Review Period**”); and (ii) the average daily trading volumes of the Shares for each of the months/periods during the Review Period.

In relation to the 6 months Review Period adopted in our analysis, we note that (i) it represents a reasonable period to provide a general overview of the recent price performance of the Shares which has fully reflected relevant information of the Group’s performance; (ii) a shorter period (e.g. 3 months) may not sufficiently illustrate a meaningful historical trend for a proper assessment; and (iii) a longer period (e.g. 12 months) may have been too distant in time making such historical trend less relevant within the context of the Debt Capitalisation and with reference to the dynamic financial markets. Accordingly, we consider that the sampling period of 6 months for the Review Period is appropriate when conducting an analysis on the historical closing prices of the Shares, trading volumes and the Issue Price.

##### 4.1 Closing price movement of the Shares during the Review Period



Source: website of the Stock Exchange

As illustrated in the chart above, the closing price of the Shares exhibited a generally volatile trend during the Review Period. Starting from the closing price of HK\$0.059 per Share at the beginning of the Review Period on 26 July 2023, the closing price of the Shares entered into a phase of unstable trend, reaching the closing price of HK\$0.059 per Share on 12 September 2023. Subsequently, the closing price of the Shares experienced a sliding trend from 13 September 2023 to 11 December 2023, ranging from a low closing price of HK\$0.034 per Share on 20 November 2023 and 21 November 2023, to a high closing price of HK\$0.054 per Share on 13 October 2023 and 16 October 2023. The closing price of the Shares then sharply increased from HK\$0.037 per Share on 11 December 2023 to HK\$0.053 per Share on 14 December 2023, before experiencing a downturn reaching HK\$0.034 per Share on 8 January 2024. The closing price of the Shares exhibited a generally escalating trend thereafter, reaching the closing price of HK\$0.056 per Share on the date of the Settlement Agreement on 25 January 2024.

In relation to the decrease from HK\$0.053 per Share on 14 December 2023 to HK\$0.034 per Share on 8 January 2024, we note that such decrease in closing price of the Shares was coupled with marked increases in trading volume on 15 December 2023 and 3 January 2024 of 488,700 Shares and 539,000 Shares, respectively. Nevertheless, trading volumes in those two days represented only approximately 0.1% of the total issued Shares as at the Latest Practicable Date. We are unable to point out the definitive reason for such fluctuations in our capacity as the Independent Financial Adviser. We have made inquiry to the Management which is also not aware of any other reasons for the aforementioned decline in the closing price of the Shares. We have also reviewed the announcements disclosed during such period and we are not aware of any information which caused the substantial change in the closing price of the Shares.

Having considered (i) the Issue Price of HK\$0.05 per Capitalisation Share is slightly above the average closing price of Shares during the Review Period of HK\$0.048 per Share; and (ii) the generally volatile trend of the Share price during the Review Period, we are of the view that the Issue Price is fair and reasonable to the Shareholders within the context of the historical closing prices of the Shares during the Review Period.

4.2 *Average daily trading volume of the Shares for each month/period during the Review Period*

The table below sets out the average daily trading volume of the Shares for each month/period during the Review Period:

<b>Month/period</b>	<b>Number of trading days</b>	<b>Average daily trading volume of the Shares during the month/period (Note 1) (approximate)</b>	<b>Average daily trading volume of the Shares during the month/period to the total number of issued Shares (Note 2) (approximate)</b>
<b>2023</b>			
July (from 26 July 2023)	4	99,250	0.02%
August	23	126,890	0.02%
September	19	115,776	0.02%
October	20	55,220	0.01%
November	22	78,612	0.01%
December	19	76,095	0.01%
<b>2024</b>			
January (up to and including the date of the Settlement Agreement, i.e. 25 January 2024)	18	414,999	0.08%

*Source: website of the Stock Exchange*

*Notes:*

1. The average daily trading volume of the Shares are calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.
2. As at the Latest Practicable Date, the total number of issued Shares is 542,392,207.

During the Review Period, the average daily trading volume of the Shares in each month/period ranged from a low of 55,220 Shares in October 2023 to a high of 414,999 Shares in January 2024, representing approximately 0.01% and 0.08% to the total number of issued Shares as at the Latest Practicable Date, respectively.

### *4.3 Our observations*

We consider that the trading liquidity of the Shares were very thin during the Review Period, with the average daily trading volume of all months/periods being less than 0.10% to the total number of issued Shares as at the end of their respective month/period. The limited trading liquidity and low trading volume pose significant hurdles for the Company when considering alternative financing options such as placing of new Shares with independent investors, rights issues, and open offers. This situation of low trading liquidity also suggests that selling a substantial block of Shares in the open market could potentially lead to a substantial decline in the Share prices. Consequently, when the Company explores substantial equity financing options in the stock market, potential investors are likely to seek more significant incentives, including a substantial discount on the issue price relative to the prevailing market price of the Shares, to encourage their participation in these fund-raising initiatives.

In addition to the low trading volume during the Review Period, based on the terms of the Debt Capitalisation which are fair and effective in addressing the Group's liquidity challenges, and our analysis of recent market practices related to the Comparable Transactions, as defined and discussed in section 5 of this letter, we are of the view that it is reasonable to set the Issue Price at a discount to the prevailing historical closing prices of the Shares to balance the low trading liquidity of the Shares during the Review Period.

## **5. Comparative analysis on the proposed terms of the Debt Capitalisation**

### *5.1 The Comparable Transactions*

In order to assess the fairness and reasonableness of the Issue Price, we have identified an exhaustive list of 6 debt/loan capitalisation transactions involving issue of new shares to independent third party(ies) or connected person(s) under specific mandate (the “**Comparable Transaction(s)**”) which were announced by companies listed on the Main Board or GEM of the Stock Exchange during 12-month period ended on the date of the Settlement Agreement, i.e. 25 January 2024.

Although the Comparable Transactions include debt/loan capitalisation transactions in different scale, companies involved in the Comparable Transactions engaged in different business or have different financial performance and funding needs from the Company, having considered (i) all of the companies involved in the Comparable Transactions and the Group are listed on the Stock Exchange; (ii) the selection of the Comparable Transactions without considering the connected relationship of the subscriber(s) with the listed companies could instead provide a more balanced and comprehensive reference as terms given to connected person(s) shall be no more favourable than terms given to independent third party(ies) under the general regulatory framework; (iii) including Comparable Transactions with different funding needs and business represents a more comprehensive overall market sentiment in our comparable analysis; (iv) a 12-month period for the selection of the Comparable Transactions has generated a reasonable and meaningful number of



sample size of transactions announced by Hong Kong listed issuers to reflect the market practice regarding recent debt/loan capitalisation transactions, whereas if a longer period (e.g. 24-month) is used, that would have generated way too many comparable debt/loan capitalisation transactions making the analysis less meaningful with a wider range of premium and discount of the relevant issue prices; and (v) we have made these two exclusions for the following reasons: (a) the loan capitalisation transaction of China Evergrande New Energy Vehicle Group Limited (stock code: 708) (the “**China Evergrande Transaction**”), announced by it on 14 August 2023, met our aforementioned selection criteria, but recorded an issue price premium of approximately 157.7% to the closing price per share as of its relevant last trading day, and such issue price premium represents approximately 17.6 times the issue price premium of approximately 9.0% to the closing price per share as of its relevant last trading day, as noted from the loan capitalisation transaction of China Regenerative Medicine International Limited (stock code: 8158), which has the second highest issue price premium should the China Evergrande Transaction be also considered as one of the Comparable Transactions. The issue price premium of China Evergrande Transaction is exceptionally high as compared with those of the other Comparable Transactions, and therefore we are of the view that the China Evergrande Transaction does not relate to the other samples of our selected Comparable Transactions (which do have parameters that relate to each other) indicating the China Evergrande Transaction is an outlier case and is deemed inapplicable for the purpose of our analysis; and (b) the loan capitalisation transaction of SoftMedx Healthcare Limited (stock code: 648) (the “**SoftMedx Transaction**”), announced by it on 3 November 2023, met our aforementioned selection criteria, but it is a long trading suspended company, and its last trading day immediately before its trading suspension as disclosed in the relevant announcement is 24 November 2017, which is considered to be too distant for comparison purposes (collectively with the China Evergrande Transaction, the “**Excluded Company(ies)**”), the 6 Comparable Transactions identified and included during the aforementioned period were exhaustively included without any artificial selection or filtering on our part so the Comparable Transactions represent a true and fair view of the recent market trends for similar transactions conducted by other Hong Kong listed issuers, we consider that the Comparable Transactions are fair and representative samples.

Moreover, the selection of the Comparable Transactions did not adopt the involvement of whitewash waiver (as in the case of the Debt Capitalisation) as a criteria, as the purpose of our analysis is to compare the terms of similar underlying transactions (i.e. debt/loan capitalisation) on the market against the proposed terms of the Debt Capitalisation to assess the fairness and reasonableness of the Issue Price. We note that the issue price of the Comparable Transactions was determined with reference to, among other factors, the market conditions and the financial position of the listed companies while we are not aware of any empirical evidence which suggests that the inclusion or not of a whitewash waiver would materially alter the terms of the underlying transaction. In addition, should the selection of the Comparable Transactions also adopt the involvement of whitewash waiver as a criteria, we note that (i) only one transaction, i.e. the SoftMedx Transaction which

had already been excluded as an Excluded Company for the reasons stated above, will be deemed applicable during 12-month period ended on the date of the Settlement Agreement, i.e. 25 January 2024, which is too small of a sample size for the purpose of our analysis; and (ii) alternatively, an extension on the selection period (e.g. 24-month or 36-month) would be required so as to increase the number of samples gathered but we consider such lengthened reference time is too distant for comparison purposes and may fail to illustrate the recent market trends for similar transactions conducted by other Hong Kong listed issuers.

Based on the above, we are of the view that our comparable analysis based on the above criteria is meaningful for us to form our view regarding the fairness and reasonableness of the Issue Price. To the best of our knowledge and as far as we are aware of, the Comparable Transactions represent an exhaustive list of all relevant transactions fitting our search criterion as mentioned above, and we consider that such Comparable Transactions can provide a reference on the recent debt/loan capitalisation transactions given the sufficient number of transactions in such period resulting in a reasonable sample size.

It should be noted that all the subject companies constituting the Comparable Transactions may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and the circumstances leading to the subject companies to proceed with the debt/loan capitalisation transactions may also be different from that of the Company.

The following table sets forth the relevant details of the Comparable Transactions:

Company name (stock code)	Announcement date	Nature of the debt/loan capitalisation	Indebted amount subject to the debt/loan capitalisation (HK\$ million)	Premium/(discount) of the issue/ subscription price over/(to)		Closing price per share on the last trading day prior to/on the date of the relevant announcement/ agreement	Average closing price per share on the last 5 consecutive trading days prior to/on the date of the relevant announcement/ agreement	Percentage of the issued share capital of issuer as enlarged by the allotment and issue of the capitalisation shares	Dilution impact on public shareholders (Note 3)	Whitewash waiver involved (Y/N)	Shareholders' approval obtained (Y/N) (Note 5)
				Closing price per share on the last trading day prior to/on the date of the relevant announcement/ agreement	Average closing price per share on the last 5 consecutive trading days prior to/on the date of the relevant announcement/ agreement						
Da Sen Holdings Group Limited (stock code: 1580)	7 September 2023	Debt capitalisation	20.0	(35.5%)	(40.5%)			22.82%	9.46%	N	Y
New City Development Group Limited (stock code: 456)	6 September 2023	Loan capitalisation	17.5	(5.0%)	(7.0%)			26.19%	12.36%	N	Y
Bonjour Holdings Limited (stock code: 653)	31 August 2023	Loan capitalisation	77.0	0.0% (Note 1)	0.7%			26.12%	9.36%	N	Y
China Regenerative Medicine International Limited (stock code: 8158)	14 July 2023	Loan capitalisation	16.0	9.0%	14.4%			6.19% (Note 4)	3.70%	N	Y
HG Semiconductor Limited (stock code: 6908)	31 May 2023	Debt capitalisation	103.6	(57.7%)	(48.1%)			18.21%	13.26%	N	Y
Golden Ponder Holdings Limited (stock code: 1783)	21 March 2023	Debt capitalisation	41.5	(14.9%)	(17.9%)			9.75%	5.31%	N	Y
			Average:	(17.3%)	(16.4%)						
			Min:	(57.7%)	(48.1%)						
			Max:	9.0%	14.4%						
			Median:	(9.9%)	(12.4%)						
<b>The Company</b>	<b>7 February 2024</b>	<b>Debt capitalisation</b>	<b>44.8</b>	<b>(10.7%)</b>	<b>(5.7%)</b>			<b>62.32%</b>	<b>43.94%</b>	<b>Y</b>	<b>NA</b>
											(Note 2)

*Source: website of the Stock Exchange*

*Notes:*

1. It is stated in the announcement of the company involved in this Comparable Transaction that “the Subscription Price represents the closing price of HK\$0.062 per Share as quoted on the Stock Exchange on 31 August 2023, the date of the Subscription Agreement”. In this regard, no premium or discount of its subscription price over or to the closing price per share on the date of the relevant agreement is adopted for this Comparable Transaction.
2. It is stated in the Board Letter that “WIFHL had made an application to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Capitalisation Shares”, and “the Executive may or may not grant the Whitewash Waiver”.
3. The dilution effect on public shareholders is calculated as the difference of the shareholdings of public shareholders of the respective companies involved in the Comparable Transactions as at the date of the relevant announcements and immediately after the completions of the respective debt/loan capitalisation.
4. It is stated in the announcement of the company involved in this Comparable Transaction that “save for the Capital Reorganisation, assuming that there will be no change in the issued share capital of the Company between the date of this announcement and the Completion, the total of 18,823,530 Subscription Shares represent approximately 6.19% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (after taking into account the effect of the Capital Reorganisation)”.
5. The results on whether the shareholders’ approval was obtained, in relation to the respective debt/loan capitalisation transactions, were based on the relevant announcements in relation to the poll results of the corresponding extraordinary general meetings.

## *5.2 The Issue Price*

As illustrated in the table above, we note that variance of the issue/subscription price over/to the closing price per share of the respective company on the last trading day prior to/on the date of the relevant announcement/agreement of the Comparable Transactions, ranged from a discount of approximately 57.7% to a premium of approximately 9.0%, with an average figure being a discount of approximately 17.3% and a median figure being a discount of approximately 9.9%. The Issue Price’s discount to closing price on the date of the Settlement Agreement of approximately 10.7% therefore falls within the range of the discount to the last trading day of the Comparable Transactions, and it represents a higher discount than the median figure but a lower discount than the average figure thereof and is far lower than the maximum discount figure thereof.

We note that variance of the issue/subscription price over/to the average closing price per share of the respective company on the last five consecutive trading days prior to/on the date of the relevant announcement/agreement of the Comparable Transactions, ranged from a discount of approximately 48.1% to a premium of approximately 14.4%, with an average figure being a discount of approximately 16.4% and a median figure being a discount of approximately 12.4%. The Issue Price’s discount to average closing price for the last five (5) trading days up to and including the date of the Last Trading Day of approximately 5.7% therefore falls

within the range of the discount to average closing price per share on the last five consecutive trading days of the Comparable Transactions and represents a lower discount than the average figure and the median figure thereof and is far lower than the maximum discount figure thereof.

We understand that, as stated in the Board Letter, the Issue Price was determined after arm's length negotiation between the Company and the Creditors after taking into account (i) the Indebted Amount being overdue or would be overdue imminently as at the date of the Settlement Agreement; (ii) the recent trading prices of the Shares prior to the date of signing the Settlement Agreement; (iii) the trading volume of the Shares was thin with average daily trading volume of the Shares per month around 0.05% of the total number of issued Shares since the resumption of trading of the Shares in May 2023; (iv) the net current liabilities and net liabilities of the Group as at 31 December 2022 and 31 December 2023; and (v) the current equity capital market conditions.

In light of the results of the Comparable Transactions, as set out above, where:

- (i) the Issue Price represents a higher discount than the median closing price of the last trading day but a lower discount than the average closing price of the last trading day of the companies involved in the Comparable Transactions, and it falls within the ranges of the discount to the last trading day of such Comparable Transactions and such discount is far lower than the maximum discount figures of such Comparable Transactions thereof;
- (ii) the Issue Price falls within the ranges of the discount to average closing price per share on the last five consecutive trading days of the companies involved in the Comparable Transactions and represents a lower discount than the average figure and the median figure thereof and such discount is far lower than the maximum discount figures of such Comparable Transactions thereof; and
- (iii) the Issue Price representing a discount to recent closing prices of the Shares may increase the overall appeal or attractiveness of the Debt Capitalisation to the Creditors in light of the dire circumstances (in particular the net current liabilities and net liabilities position as at 31 December 2023) faced by the Company as discussed in section 1 of this letter. On the contrary, if the issue price was set at a premium to the prevailing market price of the Share, it may increase the risk of the Creditors of not accepting the proposed Debt Capitalisation,

we consider the principal terms of the Debt Capitalisation (including the Issue Price) are fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole.

## **6. Potential dilution effect on interests of other public Shareholders**

The attention of the Independent Shareholders is drawn to the section headed “Effect on Shareholding Structure of the Company” in the Board Letter for the analysis on shareholding under various scenarios. As noted in the aforementioned section, the shareholding of the ‘Other Shareholders’ is approximately 70.51% as at the Latest Practicable Date. Under the scenario immediately after the Completion and issue of the Capitalisation Shares (assuming no change to the number of issued Shares from the Latest Practicable Date up to the date of the Completion), the shareholding of the ‘Other Shareholders’ would be diluted to approximately 26.57%, representing a decrease in shareholding by approximately 43.94%.

We are aware of the Debt Capitalisation will incur a dilution effect on the shareholding of the other public Shareholders. Nonetheless, having considered that (i) the Debt Capitalisation can relieve the Group’s repayment obligation on the Indebted Amount without depleting its existing financial resources; (ii) the existing financial resources of the Group may be applied to the development of the businesses and projects of the Group to generate more revenue and profit; (iii) the Debt Capitalisation can improve the financial position of the Group; and (iv) the terms of the Debt Capitalisation, as discussed in section 5 of this letter, being fair and reasonable so far as the Shareholders are concerned, we consider the potential dilution effect on the shareholding interests of the other public Shareholders to be acceptable.

## **7. Financial effects of the Debt Capitalisation**

### *7.1 Total liabilities and total deficit*

According to the 2023 Annual Results and as discussed in section 1 of this letter, the total liabilities and total deficit of the Group were approximately HK\$368,488,000 and HK\$63,884,000 as at 31 December 2023, respectively. Assuming the Group will not incur new borrowings and no other settlement will be made on the Group’s liabilities, the total liabilities of the Group will be decreased by the Indebted Amount of HK\$44,849,677 upon the Completion. In light of the decrease of total liabilities of the Group, the total deficit of the Group will also be enhanced by the Indebted Amount of HK\$44,849,677. As stated in the Board Letter, the total liabilities and net liabilities of the Group will be reduced to approximately HK\$323.7 million and HK\$19.1 million. We consider that the Debt Capitalisation will result in an overall improvement on the Group’s financial position.

### *7.2 Gearing ratio*

According to the 2023 Annual Results and as discussed in section 1 of this letter, the Group recorded a gearing ratio of approximately 141.6% as at 31 December 2023. Upon the Completion, the gearing ratio of the Group is expected to improve accordingly as the total debt of the Group would decrease by the Indebted Amount of HK\$44,849,677. As stated in the Board Letter, the net gearing ratio shall be decreased from approximately 141.6% to approximately 109.6% as at 31 December 2023. The Debt Capitalisation will recognise the Capitalisation Shares



entirely, when allotted and issued, as equity of the Company. We, therefore, consider that the Debt Capitalisation will have an overall improvement on the gearing ratio of the Group.

### *7.3 Working capital*

As the Indebted Amount will be fully settled by way of allotment and issue of the Capitalisation Shares without incurring any cash outflow (save and except the professional fees and all related expenses in connection with the Debt Capitalisation) by the Group, the Debt Capitalisation would enable the Company to free the cash flow on its general working capital, for repayment of other borrowings and/or development of its business without affecting the working capital of the Company. Accordingly, the cash and liquidity positions of the Group are expected to improve upon the Completion.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the Completion.

## **8. The Whitewash Waiver**

As stated in the Board Letter, assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Completion, the Capitalisation Shares to be allotted and issued represent (i) approximately 165.38% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 62.32% of the issued share capital of the Company as enlarged by the issued of the Capitalisation Shares.

As at the Latest Practicable Date, (i) WIFHL does not hold any Shares; and (ii) parties acting in concert with WIFHL (i.e. WIIHL and Mr. Pan) hold an aggregate of 145,902,047 Shares, representing approximately 26.90% existing issued share capital of the Company as at the Latest Practicable Date.

Assuming there will be no change in the number of issued Shares from the Latest Practicable Date up to the Completion, upon Completion, (i) the shareholding of WIFHL in the Company will increase from nil to approximately 39.10%; and (ii) the shareholding of WIFHL and its concert parties in the Company will increase from approximately 26.90% to 70.48%. WIFHL will, therefore, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by it and its concert parties pursuant to Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted.

In light of the above, WIFHL had made an application to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensation from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Capitalisation Shares.

The Executive has agreed, subject to approval by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive any obligations to make a general offer which might result from the Debt Capitalisation.

The Executive may or may not grant the Whitewash Waiver. The Debt Capitalisation will not proceed if the Whitewash Waiver is not granted or approved.

Upon the Completion, the maximum potential aggregate holding of voting rights of the WIFHL and its concert parties in the Company will exceed 50% of the voting rights of the Company, and WIFHL and its respective concert parties may increase their shareholding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer thereafter.

The Completion is conditional on, among other things, the granting of the Whitewash Waiver by the Executive conditional only on the approval by the Independent Shareholders approving the same by way of poll at the EGM and such Whitewash Waiver not having been withdrawn. As discussed in section 3.1.5 of this letter, all the conditions precedent to the Completion, including the grant of the Whitewash Waiver as discussed above, are not waivable. Accordingly, the Debt Capitalisation will not proceed and the Shareholders will forgo the benefits associated with the Debt Capitalisation as discussed in section 2 of this letter, if the Whitewash Waiver is not granted by the Executive and not approved by the Independent Shareholders.

The successful implementation of the Settlement Agreement and the Debt Capitalisation will (i) alleviate the financial stress currently encountered by the Group; and (ii) recognise the Capitalisation Shares entirely, when allotted and issued, as equity of the Company which in turn will enlarge the capital base, and accordingly, strengthen the financial position of the Group. On the contrary, in the absence of the Settlement Agreement and the Debt Capitalisation, the Company (i) will forgo all the benefits that are associated with the Debt Capitalisation, as discussed in section 2 of this letter; or (ii) will not be able to settle the Indebted Amount in the immediate future given the infeasibility of alternative financing methods as discussed in section 2 of this letter and its insufficient available financial resources as at 31 December 2023 as discussed in sections 2 and 3 of this letter, in which case(s), it is likely that the end result would be far less favourable to the Shareholders. Therefore, we consider that the grant of the Whitewash Waiver, being a condition precedent to and an essential element of the Settlement Agreement and a common feature in similar rescue proposals for companies which are in grave financial difficulties and subsequently revived as a result of debt or loan capitalisations, is fair and reasonable.

## OPINION AND RECOMMENDATION



Having considered the above principal factors and in particular,

- (i) the latest published financial position of the Group, particularly the net current liabilities position and the net liabilities position of approximately HK\$154,074,000 and HK\$63,884,000, respectively, as at 31 December 2023, as discussed in section 1 of this letter;
- (ii) the bank and cash balances of the Group of approximately HK\$28,027,000 as at 31 December 2023 is insufficient to fully settle the Indebted Amount, as discussed in section 1 of this letter;
- (iii) the Debt Capitalisation is the most appropriate means of financing option, as compared with other alternative financing methods, to settle the Indebted Amount, as discussed in section 2 of this letter;
- (iv) the Issue Price represents a higher discount than the median closing price of the last trading day but a lower discount than the average closing price of the last trading day of the companies involved in the Comparable Transactions, and it falls within the ranges of the discount to the last trading day of such Comparable Transactions and such discount is far lower than the maximum discount figures of such Comparable Transactions thereof, as discussed in section 5.2 of this letter;
- (v) the Issue Price falls within the ranges of the discount to average closing price per share on the last five consecutive trading days of the companies involved in the Comparable Transactions and represents a lower discount than the average figure and the median figure thereof and such discount is far lower than the maximum discount figures of such Comparable Transactions thereof, as discussed in section 5.2 of this letter;
- (vi) the principal terms of the Debt Capitalisation, including the ranking of the Capitalisation Shares, the conditions precedent to and Completion of the Settlement Agreement, are not out of ordinary. In particular, the Issue Price, as discussed in the subparagraph (iv) and (v) above, is fair and reasonable to the Shareholders and in the interest of the Company and the Shareholders as a whole, as discussed in section 5.2 of this letter;
- (vii) (a) the Debt Capitalisation can relieve the Group's repayment obligation on the Indebted Amount without depleting its existing financial resources; (b) the existing financial resources of the Group may be applied to the development of the businesses and projects of the Group to generate more revenue and profit; (c) the Debt Capitalisation can improve the financial position of the Group; and (d) the terms of the Debt Capitalisation, as discussed in section 5 of this letter, being fair and reasonable so far as the Shareholders are concerned, thus the potential dilution effect to the public Shareholders is considered acceptable, as discussed in section 6 of this letter; and

(viii) the grant of the Whitewash Waiver, being a condition precedent to and an essential element of the Settlement Agreement and a common feature in similar rescue proposals for companies which are in grave financial difficulties and revived as a result of debt or loan capitalisations, is fair and reasonable, as discussed in section 8 of this letter,

we are of the view that the Transactions, although not in the ordinary and usual course of business, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the resolutions to approve the Transactions at the EGM.

Yours faithfully,  
For and on behalf of  
**Grand Moore Capital Limited**  
**Philip Chau** **Kevin So**

  
*Managing Director*   
*Managing Director —*  
*Investment Banking*  
*Department*

*Notes:*

Mr. Philip Chau is a licensed person under the SFO to undertake type 1 regulated activity (dealing in securities) and type 6 regulated activity (advising on corporate finance). Mr. Chau is a representative and a responsible officer in respect of Grand Moore Capital Limited's type 1 regulated activity (dealing in securities) and type 6 regulated activity (advising on corporate finance), respectively. Mr. Chau has over 30 years of experience in the corporate finance industry in Hong Kong.

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.