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11 November 2022

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs and Madams,

**CONNECTED TRANSACTION
IN RELATION TO THE PROPOSED EXTENSION OF
THE MATURITY DATE OF THE CONVERTIBLE BOND**

INTRODUCTION

We refer to our appointment as the independent financial adviser (the “**Independent Financial Adviser**”) to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the proposed extension under the Amendment Agreement (the “**Proposed Extension**”) and the grant of a specific mandate, particulars of which are set out in the section headed “Letter from the Board” (the “**Letter**”) contained in the Circular of the Company to the Shareholders dated 11 November 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Reference is made to the (i) announcements of the Company dated 30 December 2020, 15 January 2021 and 31 March 2021 and the circular of the Company dated 5 February 2021 in relation to, among others, the subscription of the Convertible Bond by the Subscriber; and (ii) the announcement of the Company dated 30 September 2022 in relation to the Extension. As at the Latest Practicable Date, the entire principal amount of the Convertible Bond remains outstanding and is matured on 30 September 2022 pursuant to the existing terms and conditions of the Convertible Bond.

On 30 September 2022 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the Amendment Agreement to extend the Original Maturity Date (i.e. 30 September 2022) for 3 years to the Extended CB Maturity Date (i.e. 30 September 2025), subject to the fulfilment of the Conditions Precedent to the Amendment Agreement. Save for the Extension, all other terms of the Convertible Bond shall remain unchanged and in full force.

As at the Latest Practicable Date, the Subscriber holds approximately 27.97% of the total issued share capital of the Company and therefore is a substantial Shareholder of the Company. Accordingly, the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Amendment Agreement and the issue of the Conversion Shares pursuant to the Specific Mandate constitute a connected transaction of the Company, and is subject to, among other requirements, the approval from the Independent Shareholders under Chapter 14A of the Listing Rules by way of poll at the SGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Yeung Pui Han, Regina, Mr. Li Chi Fai and Ms. Sie Nien Che, Celia has been established to advise the Independent Shareholders in relation to the Proposed Extension contemplated under the Amendment Agreement. None of the members of the Independent Board Committee has any material interest in the Proposed Extension.

OUR INDEPENDENCE

We, Euto Capital Partners Limited (“**Euto Capital**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard, and such appointment has been approved by the Independent Board Committee pursuant to the Listing Rules.

Euto Capital is a licensed corporation licensed under the Securities and Futures Ordinance (“**SFO**”) to carry out Type 6 (advising on corporate finance) regulated activity. Euto Capital has participated in and completed various independent financial advisory transactions since 2015. Ms. Wendy Liu (“**Ms. Liu**”) is the person signing off the opinion letter from Euto Capital contained in the Circular. Ms. Liu has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2014. Ms. Liu has participated in and completed various independent financial advisory transactions in Hong Kong.

There was no other service provided by Euto Capital to the Company during the past two years immediately preceding the Latest Practicable Date. As at the Latest Practicable Date, we confirmed that there is no relationship or interest between Euto Capital and the Company or any other parties that could reasonably be regarded as hindrance to Euto Capital’s independence as set out under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Extension contemplated under the Amendment Agreement.

We are not associated with and have no significant connection financially or otherwise, with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations.

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence.

Accordingly, we consider that we have performed all reasonable steps as required under the Listing Rules and are eligible to give independent advice in respect of the Proposed Extension contemplated under the Amendment Agreement.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things: the Amendment Agreement, the financial statements of the Group and other information as set out in the Circular. We have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”).

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We consider that we have been provided with, and we have reviewed, among others: the annual reports of the Company for the year ended 31 March 2021 (the “**2021 Annual Report**”) and for the year ended 31 March 2022 (the “**2022 Annual Report**”) and the announcement of the Company dated 30 September 2022 in relation to the Proposed Extension which are made available to us and enable us to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

We have assumed that the Proposed Extension 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 Proposed Extension, 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 Proposed Extension. 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. 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 note 1 to Rule 13.80 of the Listing Rules.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Proposed Extension contemplated under the Amendment Agreement, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information on the parties to the Amendment Agreement

The Company is incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange. The principal activity of the Company is investment holding. The Group is principally engaged in (i) operating the gaming tables in Cambodia; and (ii) development of innovative intellectual properties and technological solutions in connection with augmented reality or virtual reality applications to clients.

The Subscriber, Mr. Ng Man Sun, is a substantial Shareholder, executive Director, the Chairman and Chief Executive Officer of the Company. As at the Latest Practicable Date, the Subscriber holds approximately 27.97% of the total issued share capital of the Company.

1.1 Historical financial performance of the Group

Set out below is the summary of the Group's financial information for each of the years ended 31 March 2020, 2021 and 2022 as extracted from the 2022 Annual Report and the 2021 Annual Report:

	For the year ended March 2021		
	2022	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
Revenue	200	727	45,922
Loss before taxation	(3,857)	(44,991)	(63,858)
Loss for the year attributable to the owners of the Company	(3,675)	(42,999)	(39,219)

(a) Year ended 31 March 2022 (“FY2022”) compared with year ended 31 March 2021 (“FY2021”)

As disclosed in the 2022 Annual Report, the Group recorded a revenue of approximately HK\$0.2 million from continuing operations for FY2022, decreasing by approximately 72.5% as compared to approximately HK\$0.7 million for FY2021. There was no revenue generated from gaming table business because of the spread of COVID-19 and the temporary closure of all casinos in Cambodia since 1 April 2020 and also that the work on the re-opening of the casino is still in progress. Net loss for FY2022 was approximately HK\$3.7 million, decreasing approximately 91.4% as compared to approximately HK\$43.0 million for FY2021. The change in net loss for FY2022 was mainly due to fair value gain on financial assets and financial liabilities at fair value through profit or loss increased, representing an increase of approximately HK\$43.1 million.

(b) FY2021 compared with year ended 31 March 2020 (“FY2020”)

As stated in the 2021 Annual Report, the Group recorded a revenue of approximately HK\$0.7 million from continuing operations for FY2021, decreasing by approximately 98.4% as compared to approximately HK\$45.9 million for FY2020. The decrease in revenue was mainly attributable to the spread of COVID-19 and the temporary closure of all casinos in Cambodia since 1 April 2020 affecting the gaming table business and also that the work on the re-opening of the casino is still in progress. Net loss for FY2021 was approximately HK\$43.0 million, increasing by approximately 12.8% as compared to approximately HK\$38.1 million for FY2020. The loss was mainly due to (a) the decrease in revenue for the Group which was mainly attributable to (i) the termination of the VIP room gaming business; and (ii) the temporary closure of casinos in Cambodia affecting the gaming table business and also that the work on the re-opening of the new casino was delayed due to strict lockdown measures imposed in Cambodia since February 2021; and (b) amortization made on the intangible assets in relation to the gaming table business, and amortisation and impairment losses made on the intangible assets and goodwill in relation to the AR/VR applications operation in the amounts of approximately HK\$13.6 million and HK\$25.9 million respectively.

1.2 Historical financial position of the Group

	For the year ended 31 March	
	2022	2021
	HK\$'000	HK\$'000
	(audited)	(audited)
Total assets	133,555	114,377
Non-current assets	38,402	65,373
Current assets	95,153	49,004
Total liabilities	160,225	137,372
Current liabilities	160,225	96,363
Non-current liabilities	–	41,009
Net assets/(liabilities)	(26,670)	(22,995)

As stated in the 2022 Annual Report, as at 31 March 2022, the Group had total assets and net liabilities of approximately HK\$133.6 million (2021: approximately HK\$114.4 million) and HK\$26.7 million (2021: approximately HK\$23.0 million), comprising non current assets of approximately HK\$38.4 million (2021: approximately HK\$65.4 million) and current assets of approximately HK\$95.2 million (2021: approximately HK\$49.0 million). The Group also have current liabilities of approximately HK\$160.2 million (2021: approximately HK\$96.4 million) and did not have any non-current liabilities of (2021: approximately HK\$41.0 million).

For further details of the financial information of the Group, please refer to the financial reports published by the Company.

1.3 Prospects of the Group

As stated in the 2022 Annual Report, Cambodia, as one of the countries with the highest vaccination rate, is on its road to recovery. On 23 March 2022, the Ministry of Tourism of the Kingdom of Cambodia has further announced the reopen for fully vaccinated travelers without quarantine and the visa on arrival service have been resumed. Many Southeast Asian countries, including Thailand and Singapore, have also lifted the travel quarantine policy and fully open to visitors who have vaccinated more than two doses. The Company believe that this can further boost the global travel and tourism industry. According to of the Kingdom of Cambodia, it is forecasted that there will be one million international tourists and about eight millions domestic trips by the end of 2022, with tourism visits and spending expected to return to pre-pandemic levels in 2023. According to the Tourism Statistics Department, Ministry of Tourism, 6.61 million international visitors visited Cambodia before the pandemic in 2019.

Looking forward, the Company will consider business restructuring and focus on the core business and gaming related operations. Leveraging the extensive experience of gaming landscape, the Company will utilize the expertise know-how and core capability in gaming operations and replicate its application to other business areas and regions. The Company believe this can further diversify the geographical risk and risk hedging. As the reopening of the assigned gaming tables is on schedule, the Company believe that it will bring a prominent prospect in the future. The successful vaccination rollout in Cambodia, together with the fully-reopened border, the Company are confident that the Kingdom's economy will soon return to normality while the Group's business can further ride on the market recovery and of Cambodia regain the momentum.

Based on the aforesaid, we understand that the macro-economic environment may be improving, however, it remains uncertain as to whether the trend will continue as it is hard to predict the macro environment in the future. Therefore, we consider the future prospects of the Group remain challenging and uncertain in the near future.

2.1 Background of and reasons for the Amendment Agreement

As detailed in the circular of the Company dated 5 February 2021 (the “**2021 Circular**”), the Original Maturity Date of the Convertible Bond is 30 September 2022 and the bondholder of the Convertible Bond has a right to redeem or convert the Convertible Bond on the Original Maturity Date. Given (i) the out-of-money situation where the Conversion Price is HK\$0.50 per Conversion Share, representing (a) a premium of approximately 96.08% over the closing price of HK\$0.255 per Share on the date of the Amendment Agreement; and (b) a premium of approximately 92.31% over the average closing price of HK\$0.26 per Share of the last five consecutive trading days up to and including the date of the Amendment Agreement; and (ii) the net liabilities position of the Group as at 31 March 2022, the Subscriber is unlikely to convert all or part of the Convertible Bond on or before the Original Maturity Date and therefore require the Company to redeem the Convertible Bond in full if there would be no Extension.

With reference to the 2022 Annual Report, the Group had revenue of only approximately HK\$200,000 and loss attributable to the Shareholders of approximately HK\$3.7 million for the year ended 31 March 2022. The relatively small amount of revenue was mainly due to the low demand in the Group’s augmented reality and virtual reality entertainment products and services and the further delay in the gaming table operation in Cambodia as a result of the COVID-19 pandemic. As at 31 March 2022, the Group recorded net current liabilities of approximately HK\$65.1 million, net liabilities of approximately HK\$26.7 million and other borrowings of approximately HK\$100.2 million, while the Group had cash and cash equivalents of approximately HK\$3.8 million. As such, the Group’s liquidity is under severe pressure and the Company is not able to fully redeem the Convertible Bond without raising additional funds from borrowings or other fund-raising activities, and therefore will pose an adverse impact on the cashflow and financial stability of the Group. To avoid the Group defaulting in its redemption obligations of the Convertible Bond on the Original Maturity Date, and taking into account the net current liabilities position of the Group and working capital requirements for the business operations of the Group, the Proposed Extension will enable the Group to postpone a substantial cash outflow and allow it to have reasonable time to improve its financial performance and net current liabilities position in order to satisfy the redemption obligations under the terms of the Convertible Bond.

As stated in the Letter in the Circular, the Proposed Extension will also allow the Group to have more financial flexibility in the deployment of its working capital for its business operations and development. In light of the zero coupon rate of the Convertible Bond, the Directors consider it is in the interests of the Company and the Independent Shareholders as a whole to utilise its cash resources for business development and invest in other business opportunities should they arise. Further, as the Group does not have sufficient cash for the full redemption of the Convertible Bond, the Group would be required to raise additional funds from bank borrowings or carry out other fund-raising activities for the Group to fulfill its redemption obligations. Given the financial performance and position of the Group, the Directors consider that it may not be practicable for the Group to secure further financing from banks without incurring relatively high financing cost, and result in additional interest burdens to the Group.

In respect of the potential repayment or refinancing of the Convertible Bond (being alternatives to the Proposed Extension), we have reviewed the 2022 Annual Report and we noted that: (i) the Group only had cash and bank balances of approximately HK\$3.8 million and net current liabilities of approximately HK\$65.1 million as at 31 March 2022 and (ii) other unsecured loans of the Group had effective interest rates of approximately 10% per annum for the year ended 31 March 2022. Moreover, we note that the principal amount of HK\$50 million of the Convertible Bond represented approximately 152.9% of the market capitalisation of the Company of approximately HK\$32.7 million as at the date of the Amendment Agreement. As confirmed by the Directors, the net proceeds from the Convertible Bonds had already been fully utilized. In view of the aforesaid and the loss making financial performance of the Group in the past few years, we understand that (i) the repayment of the Convertible Bond would reduce the working capital of the Group and hamper its business development; (ii) refinancing the Convertible Bond with bank loans would incur interest that would cause further financial burden to the Group, in particular, the market interest rate is currently on a rising trend; and (iii) refinancing the Convertible Bond through equity fund raising exercise (such as placing of new shares, rights issue or open offer) would cause an immediate and material dilution to all Shareholders (including the Independent Shareholders) who do not participate in the exercise.

Taking into account, in particular, (i) save for the Proposed Extension, all terms of the Convertible Bond remain unchanged and in full force; (ii) the Convertible Bond is interest-free, whereas the market interest rate is currently on a rising trend, the average Hong Kong interbank offered rate in January 2022 was approximately 0.15% and increased to approximately 2.28% in September 2022.; (iii) the Group has been loss making in the past few years and the repayment of the Convertible Bond would reduce the working capital and cash resources of the Group and hamper its business development; (iv) the Group had net liabilities of approximately HK\$26.7 million and other borrowings of approximately HK\$100.2 million as at 31 March 2022; and (v) the terms of the Proposed Extension contemplated under the Amendment Agreement are fair and reasonable as discussed below, we are of the view that although the Proposed Extension contemplated under the Amendment Agreement is not in the ordinary and usual course of business of the Group, it is fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

2.2 Principal terms of the Amendment Agreement

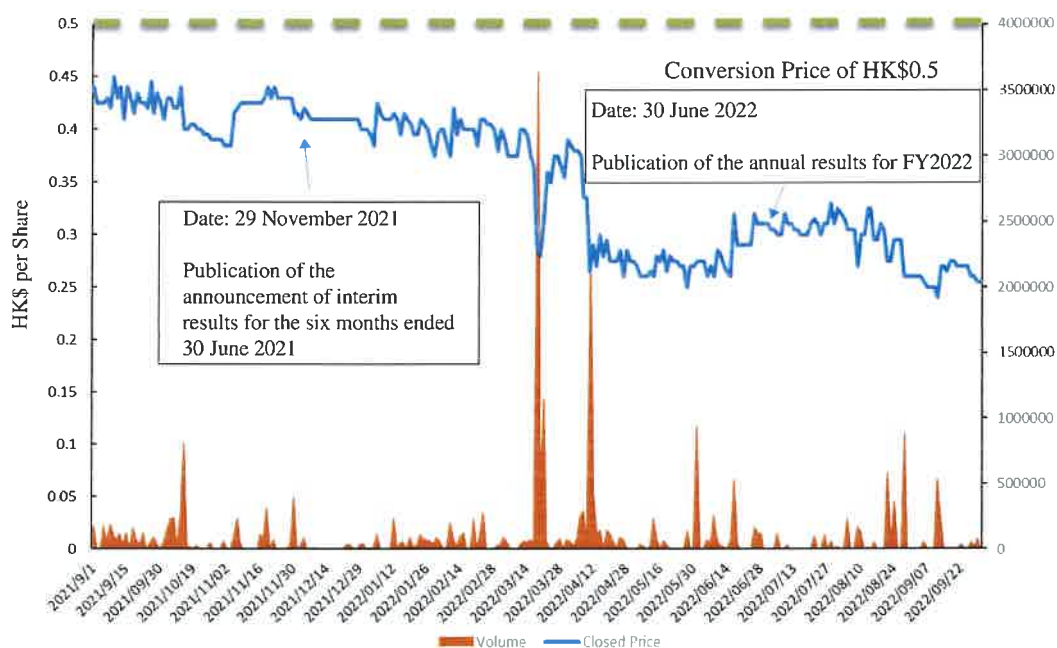
The Amendment Agreement extends the Maturity Date (i.e. the Proposed Extension) from 30 September 2022 to 30 September 2025, subject to the fulfilment of the Conditions Precedent to the Amendment Agreement. Save for the Proposed Extension, all terms of the Convertible Bond remain unchanged and in full force. The following sets out the existing principal terms of the Convertible Bond, which was approved by the then independent shareholders of the Company at the special general meeting held on 1 March 2021. For further details of the terms, please refer to the 2021 Circular and the Letter in the Circular.

Principal amount	:	HK\$50,000,000
Maturity	:	30 September 2025
Interest rate	:	the Convertible Bond will be interest free
Denomination for conversion	:	With a minimum aggregate amount of HK\$1,000,000 and authorised denominations(s) integral multiples thereof save that if at any time the aggregate outstanding principal amount held by a holder of the Convertible Bond is less than HK\$1,000,000, the whole (but not part only) of such aggregate outstanding principal amount may be converted.
Conversion rights	:	A holder of the Convertible Bond shall have the right to convert in whole or in part (in an integral multiple of HK\$1,000,000) of the Convertible Bond into Conversion Shares at the Conversion Price (subject to adjustments) on any Business Day from the date of issue of the Convertible Bond and up to the maturity date of the Convertible Bond, subject to the restrictions on the exercise of the Conversion Rights as set out below.
Conversion price	:	HK\$0.50 per Conversion Share, subject to adjustments. For details of the adjustments, please refer to the Letter.
Ranking	:	The Conversion Shares to be issued upon the exercise of the Conversion Rights will be credited as fully paid and will rank pari passu in all respects among themselves and with other existing Shares outstanding at the date of issue of the Conversion Shares and be entitled to all dividends and other distributions the record date for which falls on a date on or after the date of their issue.
Voting	:	A holder of the Convertible Bond will not be entitled to receive notices of, attend or vote at any Shareholders' meetings of the Company by reason only of it being a holder of the Convertible Bond.

- Redemption and repurchase** : The Company shall redeem at 100% of the outstanding principal amount of the Convertible Bond (as the case may be) on the maturity date. The Company shall have the right to redeem in whole or any part(s) of the principal amount of the Convertible Bond, with an aggregate amount of HK\$1,000,000 and authorized denomination(s) integral multiples thereof (if at any time the aggregate outstanding principal amount held by a holder of the Convertible Bond is less than HK\$1,000,000, the whole (but not part only) of such aggregate outstanding principal amount may be redeemed), at any time on any business day prior to the maturity date by giving prior notice of not less than thirty (30) days in writing to the holder of the Convertible Bond. The Convertible Bond(s) or any part thereof so redeemed shall forthwith be cancelled by the Company.
- Status** : The obligations of the Company arising under the Convertible Bond constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws.
- Restriction on the exercise of the Conversion Rights** : The holder(s) of the Convertible Bond agree and undertake to the Company that it shall not exercise any of the Conversion Rights if (i) the holder(s) of the Convertible Bond and parties acting in concert with it/them will directly or indirectly control or be interested in such percentage of voting rights of the Company which the holder(s) would be obliged to make a general offer under the Takeovers Code unless (a) a whitewash waiver is obtained in accordance with the requirement of the Takeovers Code; or (b) a general offer is made in accordance with the requirement of the Takeovers Code; (ii) the Company will be unable to meet the public float requirements under the Listing Rules; or (iii) the holder(s) of the Convertible Bond or the Company will as a result of the issue of the relevant Conversion Shares be in breach of the Listing Rules, the Takeovers Code or applicable laws or regulations.

Price performance of the Shares

We have reviewed the historical price performance of the Shares. The chart below depicts the closing prices of the Shares from 1 September 2021, being approximately one full calendar year before the date of the Amendment Agreement, up to and including the date of the Amendment Agreement (the “**Review Period**”). Given the duration of the Review Period of one year (i) can adequately reflect the recent market trend of the pricing of the Shares in view of the ever changing market environment, where the pricing dated a long time ago would be less representative of the current prevailing environment; and (ii) is in line with the usual market practice for market pricing review, we consider such duration to be fair and representative.



With reference to the above chart for the Review Period, the average closing price of the Shares was approximately HK\$0.35 per Share (the “**Average Closing Price**”). The closing prices of the Shares ranged from HK\$0.24 per Share (the “**Lowest Closing Price**”) recorded on 13 September 2022 to HK\$0.45 per Share (the “**Highest Closing Price**”) recorded on 9 September 2021 during the Review Period. Since the beginning of the Review Period, the daily closing price has been in a flat and steady trend from September 2021 to mid-March 2022. Since then, the closing price of the Shares exhibited a significant drop from HK\$0.365 on 16 March 2022 to HK\$0.29 on 17 March 2022. Afterwards, the closing prices rebounded to HK\$0.36 on 22 March 2022. Subsequently, the Shares exhibited a significant drop from HK\$0.335 on 8 April 2022 to HK\$0.265 on 11 April 2022 and experienced a downward trend since April 2022 and remained steady to the date of the Amendment Agreement.

We note that (i) the closing prices of the Shares overall demonstrated a decline trend during the Review Period, where the highest closing price recorded in September 2021 and the lowest closing price recorded in September 2022 represented a decline of approximately 46.67%; and (ii) the Conversion Price of HK\$0.5 per Conversion Share represents a premium of approximately 96.08% to the closing price of the Shares as at the date of the Amendment Agreement, where we understand the Conversion Price to be way higher than the recent market trading price of the Shares.

Average daily trading volume of the Shares

	Approximate average daily trading volume of the Shares <i>(Number of Shares)</i>	Approximate percentage of average daily trading volume to total number of issued Shares
2021		
September	76,590	0.06%
October	103,027	0.08%
November	65,417	0.05%
December	12,120	0.01%
2022		
January	49,720	0.04%
February	70,450	0.05%
March	261,330	0.20%
April	228,164	0.18%
May	78,488	0.06%
June	72,783	0.06%
July	21,853	0.02%
August	109,086	0.09%
September	48,816	0.04%

Source: website of the Stock Exchange

As shown in the table above, the average daily trading volume of the Shares in each month ranged from 12,120 Shares in December 2021 to 261,330 Shares in March 2022, representing approximately 0.01% and 0.20% of the total number of issued Shares as at the end of the relevant months indicating a relatively thin trading liquidity in general since 2021 and up to the date of the Amendment Agreement. We note from the above table that the trading volume of the Shares was extremely thin during the Review Period, where the percentages of the average daily trading volume of the Shares to the total number of issued Shares were mainly below or around 0.1%. We also note that, upon exercise of the conversion rights under the Convertible Bond in full, a total of 100,000,000 new Shares (being the Conversion Shares) may be allotted and issued to the Bondholder (subject to certain restrictions), representing approximately 77.97% of the total number of issued Shares as at the Latest Practicable Date and approximately 43.81% of the total issued share capital of the Company as enlarged by the issue of the Conversion Shares. Accordingly, the Bondholder would find it difficult to dispose of a large volume of Shares, such as substantial part or all the Conversion Shares, in the open market within a short period of time without exerting material downward pressure on the price of the Shares. The Independent Shareholders should note that (i) the large issue size of the Conversion Shares is based on the existing principal terms of the Convertible Bond, which

were already approved by the then Independent Shareholders of the Company at the special general meeting held on 1 March 2021; and (ii) the potential dilution effect has already been ongoing, rather than an additional impact, with regard to the entering into of the Amendment Agreement which purely extends the Original Maturity Date with all other terms of the Convertible Bond remain unchanged, for the purpose of preserving cash resources (rather than repaying the proceeds from the Convertible Bond to the Bondholder) in view of the uncertain business environment. For further details of such ongoing potential dilution effect, please refer to the section headed “Financial and dilution impacts of the Convertible Bond” below.

Comparable analysis

In addition, we have exhaustively identified a list of comparable issues (“**Comparable Issues**”), which (i) involved the issue of or the entering into of relevant agreements/deeds in relation to convertible bond for shares listed on the Main Board of the Stock Exchange and (ii) the issues were announced within six months before the date of the Amendment Agreement. In view of the criteria, we consider the Comparable Issues to be fair and representative for the purpose of conducting a comparable analysis for reference, nonetheless the Independent Shareholders should note that the Conversion Price had already been fixed and agreed between the Company and the Bondholder approximately 1.5 years ago, where the terms of the Convertible Bond had already been considered as fair and reasonable as set out in the 2021 Circular, and the issuance of the Convertible Bond Issues was approved by the then Independent Shareholders in March 2021. The details of the Comparable Issues are set out in the following table.

Announcement date	Name of company (stock code)	Maturity (year(s))	Interest rate per annum	Premium/ (discount) of the conversion price over/to the closing price per share as at the date of relevant agreement or deed
4 Apr 2022	Capital Finance Holdings Ltd (8239)	1.5	0.0%	61.29%
11 Apr 2022	CIFI Holdings (Group) Co. Ltd. (884)	3	7.0%	19.18%
22 Apr 2022	IBO Technology Co. Ltd. (2708)	2	0.0%	3.32%
5 May 2022	China Infrastructure Investment Ltd (600)	1	8.0%	1.28%
12 May 2022	Grown Up Group Investment Holdings Ltd (1842)	2	2.5%	(19.60)%
23 May 2022	Sino Splendid Holdings Ltd (8006)	2	1.5%	31.60%
24 May 2022	Beaver Group (Holding) Co. Ltd. (8275)	2	2.5%	33.33%

Announcement date	Name of company (stock code)	Maturity (year(s))	Interest rate per annum	Premium/ (discount) of the conversion price over/to the closing price per share as at the date of relevant agreement or deed
26 May 2022	SJM Holdings Ltd (880)	5	2.0%	35.70%
8 Jun 2022	China Fordoo Holdings Ltd (2399)	2	8.0%	5.26%
9 Jun 2022	China Health Group Ltd (673)	2	6.0%	112.77%
21 Jun 2022	China Zenith Chemical Group Ltd (362)	1	0.0%	49.30%
21 Jun 2022	Grand Ocean Advanced Resources Co. Ltd. (65)	1	0.3%	6.95%
11 Jul 2022	Jiayuan International Group Ltd (2768)	1	8.0%	56.32%
27 Jul 2022	Virtual Mind Holding Co. Ltd. (1520)	2	10.0%	6.84%
28 Jul 2022	Luye Pharma Group Ltd (2186)	1	6.5%	40.00%
1 Aug 2022	Vobile Group Ltd (3738)	3	4.0%	32.67%
19 Aug 2022	Central Development Holdings Ltd (475)	3	0.0%	0.00%
7 Sep 2022	Capital VC Limited (2324)	2	1.5%	19.00%
13 Sep 2022	South China Financial Holdings Ltd (619)	3	1.0%	0.00%
19 Sep 2022	Huscoke Holdings Limited (704)	2	8.0%	(30.50)%
	Maximum	5	10.0%	112.77%
	Average	2	3.8%	23.24%
	Median	2	2.5%	19.09%
	Minimum	1	0.0%	(30.50)%
The Proposed Extension as at 30 September 2022		3	0.0%	96.08%

Source: the announcements of relevant companies published on the website of the Stock Exchange

Analysis

As shown in the table above, the conversion prices of the Comparable Issues ranged from a discount of approximately 30.50% to a premium of approximately 112.77% to/over the respective closing price per share as at the date of the relevant agreement/deed, with an average and median of a premium of approximately 23.24% and 19.09%, respectively. The premium of approximately 96.08%, as represented by the Conversion Price over the closing price of HK\$0.255 per Share on the date of the Amendment Agreement, is within the aforesaid range and significantly higher than the average and median of the Comparable Issues.

We note that the Proposed Extension of three years and the total duration of 4.5 years for the Convertible Bond are within the range of those of the Comparable Issues and therefore in line with market practice. Moreover, from the perspective of the extension of an interest-free borrowing, particularly when all the funds from the borrowing had already been utilised and market interest rates in coming years are widely anticipated to be on a rising trend, we consider extending the repayment timeframe would be favourable to the Company and the Shareholders (including the Independent Shareholders) as a whole.

Financial and dilution impacts of the Convertible Bond

We have discussed with, and have been advised by, the Management that the Amendment Agreement is not expected to additionally lead to any immediate financial impact to the Group given the Convertible Bond were already issued in March 2021 and the Amendment Agreement only extends the Original Maturity Date.

The table below illustrates the shareholding structure of the Company as at the Latest Practicable Date and immediately upon full conversion of the Convertible Bond of HK\$50,000,000 at the Conversion Price of HK\$0.50 per Conversion Share (assuming there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date and up to the date of issuance of the Conversion Shares):

	As at the Latest Practicable Date		Immediately after issue and full conversion of Convertible Bond into Conversion Shares (Note 2)	
	Number of Shares	%	Number of Shares	%
Mr. Ng Man Sun (Note 1)	35,872,196	27.97	135,872,196	59.53
Ms. Cheng Wai Man (Note 3)	9,621,212	7.50	9,621,212	4.22
Mr. Huang Wei Qiang (Note 3)	8,690,000	6.78	8,690,000	3.80
Mr. Wong Kam Wah (Note 3)	8,254,212	6.44	8,254,212	3.62
Public Shareholders	65,809,941	51.31	65,809,941	28.83
Total	<u>128,247,561</u>	<u>100.00</u>	<u>228,247,561</u>	<u>100.00</u>

Notes:

1. Mr. Ng Man Sun is a substantial Shareholder, executive Director, the Chairman and Chief Executive Officer of the Company.
2. For illustrative purpose only. The conversion of the Convertible Bond shall be subject to the “Restriction on the exercise of the Conversion Rights” under the terms of the Convertible Bond.
3. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, each of Ms. Cheng Wai Man, Mr. Huang Wei Qiang and Mr. Wong Kam Wah is a third party independent of the Company and its connected persons.

The Independent Shareholders should note that the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in a breach of the public float requirement under the Listing Rules or mandatory general offer being triggered under the Takeovers Code, and the balance of the conversion rights attaching to the Convertible Bond which the Bondholder sought to convert shall be suspended until such time when the Company is able to issue additional Shares in satisfaction of the exercise of the said balance of conversion rights attaching to the Convertible Bond and at the same time comply with the public float requirement under the Listing Rules; or without triggering a mandatory general offer under the Takeovers Code; or the general offer is made by such Bondholder or Shareholder and parties acting in concert with it respectively; or a whitewash waiver is approved and granted (as the case may be).

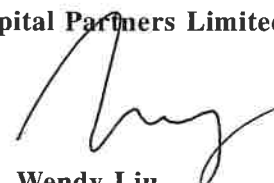
As shown in the Letter under the section headed “Effect on the Shareholding Structure of the Company”, assuming there is no other change in the issued share capital and shareholding structure of the Company other than the conversion of the Convertible Bond, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 51.31% as at the Latest Practicable Date to approximately 28.83% immediately after full conversion of the Convertible Bond.

After primarily taking into account, (i) the Convertible Bond was already issued in March 2021; (ii) the Amendment Agreement purely extends the Original Maturity Date, where all other terms of the Convertible Bonds remain unchanged, and does not cause any additional further dilution to the Independent Shareholders; (iii) the Convertible Bond is interest-free, where the Group has been loss making in the past few years and the net proceeds of the Convertible Bond had already been fully utilised; (iv) the Company may at any time during the period commencing from the Issue Date and expiring on the new Maturity Date redeem the whole or part of the outstanding Convertible Bond; (v) the reasons for entering into of the Amendment Agreement as previously discussed; (vi) the out-of-money situation where the Conversion Price is HK\$0.50 per Conversion Share, representing (a) a premium of approximately 96.08% over the closing price of HK\$0.255 per Share on the date of the Amendment Agreement; and (b) a premium of approximately 92.31% over the average closing price of HK\$0.26 per Share of the last five consecutive trading days up to and including the date of the Amendment Agreement; (vii) the extent of the conversion of the Convertible Bond is subject to the Takeovers Code, such as triggering a general offer or application for a whitewash waiver which would require a separate approval from the Independent Shareholders; and (viii) the terms of the Proposed Extension contemplated under the Amendment Agreement are on normal commercial terms and are fair and reasonable as aforementioned, we consider the potential dilution impacts (being the continuation of the ongoing potential dilution impacts, rather than the creation of any further potential dilution impacts) of the Convertible Bond under the Amendment Agreement to be acceptable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we consider that the Amendment Agreement of the Proposed Extension contemplated thereunder and the grant of specific mandate are on normal commercial terms. Although the Proposed Extension is not in the ordinary and usual course of business of the Group, it is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Extension and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully
For and on behalf of
Euto Capital Partners Limited



Wendy Liu
Director

Ms. Wendy Liu (“Ms. Liu”) is a licensed person registered with SFC and regarded as a responsible officer of Type 6 (advising on corporate finance) of Euto Capital Partners Limited. Ms. Liu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under SFO since 2014 and has participated in and completed various independent financial advisory transactions in Hong Kong.