



28 February 2025

To: *The Independent Board Committee and the Independent Shareholders*

Dear Sirs,

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

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Settlement Agreement, the Loan Settlement, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder (including the grant of the Specific Mandate) (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 28 February 2025 (the “**Circular**”), of which this letter of advice forms a part. Unless the context requires otherwise, capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular.

On 17 January 2025 (after trading hours), the Company and Xin Hua entered into the Loan Settlement Agreement, pursuant to which, the parties have conditionally agreed that the partial and aggregated principal amount of Loan from Xin Hua of HK\$5,000,000 will be partially settled through allotment and issuance of 12,048,192 Capitalisation Shares at the Issue Price of HK\$0.415 per Capitalisation Share to Xin Hua.

Listing Rules implications

As at the Latest Practicable Date, Xin Hua is a controlling shareholder of the Company who beneficially owns 580,172,014 Shares, representing approximately 67.67% of the issued Shares. Xin Hua is ultimately owned by Mr. Yu, the executive Director, as to 46.28%, Ms. Chen Junyan as to 34.92% and Mr. Chen Yaxin as to 18.80%. Xinhua, Mr. Yu, Ms. Chen Junyan and Mr. Chen Yaxin are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Loan Settlement Agreement, the Loan Settlement, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder (including the grant of the Specific Mandate) constitute a connected transaction of the Company and is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Mr. Yu (the chairman of the Board and an executive Director), being the shareholder of Xin Hua, is considered to have material interest in the transactions contemplated under the Loan Settlement Agreement. Therefore, Mr. Yu had abstained from voting on the relevant resolution(s) of the Board. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, none of the other Directors has any material interest in the Loan Settlement Agreement, the Loan Settlement, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder (including the grant of the Specific Mandate) or is otherwise required to abstain from voting on the relevant resolution(s) of the Board. .

THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Ms. Zhong Bifeng, Mr. Huang Qingwei and Mr. Shen Shigang, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Transactions. We, Red Solar Capital Limited, 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

During the past two years immediately preceding the Latest Practicable Date, save for this engagement of us as the Independent Financial Adviser, no other relationship has been formed and no direct engagement has been performed between the Group, the other party(ies) to the Transactions, or a close associate or core connected person of any of them and us. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, the other party(ies) to the Transactions, or a close associate or core connected person of any of them and us, or other parties that could reasonably be regarded as relevant to our independence. Apart from the normal advisory fee payable to us in connection with our engagement as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company and its subsidiaries or their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them. Accordingly, we considered 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.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have reviewed the documents including but not limited to (i) the announcement dated 17 January 2025 in relation to the Transactions; (ii) other information provided by the Directors and/or the senior management of the Company (the “**Management**”); (iii) the opinions expressed by and the representations of the Directors and the Management; and (v) the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”). We have assumed that the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the SGM. The Shareholders will be informed should there be any material change of information in the Circular up to the date of the SGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the Management 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 management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility of the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. 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 considered 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, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Transactions, we have considered the following principal factors and reasons:

I. Background of the Group

(i) Background information of the Group

The Group is an investment holding company principally engaged in oil and gas businesses. It conducts its operations through two main segments. The Oil and Gas Sales segment specializes in the exploration, extraction, and sale of petroleum and natural gas, while the Trading of Oil-related Products segment is involved in the trading of oil-related products. The Group carries out its business activities in both Hong Kong and the United States of America.

(ii) Historical financial performance and position of the Group

The following table sets out key consolidated financial information of the Group for the six month ended 30 June 2024 and 2023 as extracted from the 2024 Interim Report:

	For the sixth month ended	
	2024	2023
	HK\$'000	HK\$'000
Revenue	36,705	39,952
Oil and Gas sales	—	—
Trading of oil, oil-related and other products	36,705	39,952
Gross Profit	121	492
Gross Profit Margin	0.33%	1.23%
Loss for the period	(12,389)	(7,620)

According to the 2024 Interim Report, the revenue decreased from approximately HK\$39.95 million for the six months ended 30 June 2023 to approximately RMB36.71 million for the six months ended 30 June 2024. The gross profit margin decreased from approximately 1.23% for the six months ended 30 June 2023 to approximately 0.33% for the six months ended 30 June 2024. Such decrease was mainly attributable to unfavorable oil price movements, some oil refineries faced thin margins or even losses, and scaled down their production, which eventually limited the extent of trade activities and caused significant impact on performance for the Group's trading business in term of trading volume and profit margin.

The Group recorded losses for both the six months ended 30 June 2023 and 2024 of approximately RMB7.62 million and RMB12.39 million, respectively.

Set out below are certain key consolidated financial information of the Group as extracted from the consolidated balance sheet set out in the 2024 Interim Report.

	As at	
	30 June 2024	31 December 2023
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Total Assets	324,375	337,122
Total Liabilities	85,979	83,784
Net Assets	238,396	253,338
Bank balances and cash	40,285	1,252

The total assets of the Group amounted to approximately HK\$324.38 million as at 30 June 2024, representing a decrease of approximately RMB12.75 million or approximately 3.78%, as compared to RMB337.12 million as at 31 December 2023. The decrease was primarily due to (i) the decrease in prepayments, deposits and other receivables of approximately RMB50.45 million; and (ii) the increase in bank balances and cash of approximately RMB39.03 million. The total liabilities of the Group amounted to approximately RMB85.98 million as at 30 June 2024, representing an increase of approximately RMB2.20 million or approximately 2.62%, as compared to RMB83.78 million as at 31 December 2023. The increase was primarily due to (i) the increase in loans from ultimate holding company of approximately RMB8.58 million; and (ii) the decrease in bank loan and other borrowings of approximately RMB11.06 million. The net assets of the Company amounted to approximately RMB238.40 million as at 30 June 2024, representing a decrease of approximately RMB14.94 million or approximately 5.90%, as compared to RMB253.34 million as at 31 December 2023. Such decrease was mainly attributable to losses incurred during the six months ended 30 June 2024. The Group's cash and cash equivalents amounted to approximately RMB40.29 million and RMB1.25 million as at 30 June 2024 and 31 December 2023, respectively.

II. Reasons for and Benefits of the Loan Settlement

As at the Latest Practicable Date, the outstanding principal amount of Loan from Xin Hua in aggregate amounted to HK\$11,010,000, details of which are set out below:

No.	Items	Principal amount HK\$'000	Interest rate per annum (%)	Security	Maturity date
1.	Loan from Xin Hua	1,000	–	Unsecured	10 March 2025
2.	Loan from Xin Hua	2,000	–	Unsecured	19 March 2025
3.	Loan from Xin Hua	2,000	–	Unsecured	25 March 2025
4.	Loan from Xin Hua	1,800	–	Unsecured	8 April 2025
5.	Loan from Xin Hua	750	–	Unsecured	29 April 2025
6.	Loan from Xin Hua	1,000	–	Unsecured	10 May 2025
7.	Loan from Xin Hua	500	–	Unsecured	11 May 2025
8.	Loan from Xin Hua	800	–	Unsecured	12 May 2025
9.	Loan from Xin Hua	1,000	–	Unsecured	13 May 2025
10.	Loan from Xin Hua	50	–	Unsecured	11 June 2025
11.	Loan from Xin Hua	50	–	Unsecured	7 July 2025
12.	Loan from Xin Hua	60	–	Unsecured	14 July 2025
	Total amount	<u>11,010</u>			

As at the Latest Practicable Date, (i) items 1 to 3 of the above table are expected to be settled by the Loan Settlement; and (ii) items 4 to 12 of the above table are expected to be settled by the Group's internal financial resources.

The Loan Settlement enables the Group to settle its existing liabilities without utilising the Group's existing internal financial resources and can avoid cash outflows. After Completion, the Group's gearing level will be reduced, thereby improving the financial position of the Group. As disclosed in the Company's annual report 2023, the Group requires additional capital from time to time to maintain operations and maximise trading return. The Group's source of funds primarily generated from the business activities and the Group adopts a relatively conservative treasury policy to reduce business risks. As at 31 December 2024, the Group's unaudited bank balances and cash was approximately HK\$13.5 million. The Directors consider that it is prudent to maintain certain amount of cash for the Group's business operations.

The following table summarizes the amount of bank balances and cash of the Group as at 31 December 2020, 2021, 2022, 2023 and 2024 respectively:

	As at 31 December				
	2020	2021	2022	2023	2024
	(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
Bank balances and cash	27.9	9.1	15.1	1.3	13.5

The above analysis indicates that the Group's bank balances and cash as at 31 December 2024 have returned to a level within the range observed during 2020 to 2022. However, if the bank balances and cash were to be used as Loan Settlement, the resulting bank balance and cash position would be significantly reduced, potentially leaving insufficient liquidity to sustain the Group's business operations.

In light of the above, we concur with the Directors' view that it is prudent to maintain a certain level of cash to ensure the Group's financial stability and operational continuity. The Loan Settlement represents an opportunity in improving the Group's financial position, enabling the Group to align with these objectives.

In addition, the Directors consider that the Loan Settlement can reflect the continuous support and solid confidence given by Xin Hua and its ultimate beneficial owners (i.e., Mr. Yu, Ms. Chen Junyan and Mr. Chen Yaxin) to the Company towards the long-term development of the Group.

The Directors had considered other alternative means of fund raising to settle the partial and aggregated principal amount of HK\$5,000,000 under the Loan from Xin Hua, such as equity financing (including but not limited to rights issue and open offer) or debt financing and bank borrowings. However, in terms of the equity financing, including rights issue and open offer, the Directors considered that (i) the equity financing typically necessitate substantial negotiations with potential underwriters or placing agents; (ii) financing expenses, such as underwriting commission, placing commission and a range of professional service fees, will likely be incurred; and (iii) given the Group's recent financial performance, the Company will likely be required to issue Shares at a certain discount in order to secure a pre-emptive fundraising, such as rights issue and open offer. In terms of debt financing and bank borrowings, the Directors also considered that additional interest burden will be incurred for obtaining additional bank borrowings to settle the Loan. The Company considers that the Loan Settlement would be the best financing option as compared to the above other financing alternatives.

In view of the above, the Board (excluding Mr. Yu (who had abstained from voting on the relevant resolution(s) of the Board in respect of the Loan Settlement Agreement, the Loan Settlement, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder) and the independent non-executive Directors consider that although the Loan Settlement is not in the ordinary and usual course of the Group's business, the terms of the Loan Settlement Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole.

Our view

As outlined in the Letter from the Board, regarding debt financing and bank borrowings, the Directors have considered that: (i) one of the key rationales for the Loan Settlement is to improve the Group's gearing ratio, which cannot be effectively achieved through debt financing; and (ii) obtaining additional bank borrowings to settle the Loan would result in incurring higher finance costs. Nevertheless, we have discussed with the Management and understand that the Management has attempted to seek for debt financing as alternative means of settling the Loan, but the results have not been satisfactory.

Given the Group's current financial performance and position, as detailed in the section titled "I. Background of the Group" in this letter, the Directors note that obtaining bank borrowings generally involves extensive due diligence, internal risk assessments, and prolonged negotiations with banks. Additionally, such borrowings typically require the borrower to provide suitable assets as collateral, which the Group does not currently have available. As a result, the Directors, with whom we agree, believe that debt financing is both uncertain and time-consuming. Furthermore, even if bank borrowings were secured, they would inevitably increase the Group's interest burden and further worsen its gearing ratio. Based on these considerations and the Management's stated objective of reducing the Group's gearing ratio, we concur with the Directors' assessment that taking on additional liabilities to settle the Loan would not be in the Group's best interests.

Regarding equity financing options such as rights issues or open offers, the Board has considered that the likelihood to issue new shares with substantial discount is high due to the Group's historical loss-making performance, coupled with prevailing market conditions and sentiment. Furthermore, as highlighted in the section "III (iii) (a). Analysis of the Issue Price – (b) Review on trading liquidity of the Shares," the Group's recent financial performance and the limited liquidity of its Shares make it challenging to raise funds through equity financing without offering a substantial discount to the prevailing market price of the Shares, in order to attract potential investors or Shareholders.

In light of the above, the Directors are of the view and we concur that it is unlikely for the Group to raise funds by way of placing or rights issue or open offer of new Shares without a deep discount to the prevailing market price of the Shares so as to attract subscription by the potential investors or Shareholders.

Having considered the above and, in particular that:

- (i) the likelihood of success in obtaining additional bank borrowing with favourable terms is low. And even if the Group could obtain bank borrowings as an alternative mean of settling the Loan, such bank borrowings will inevitably increase interest burden and further deteriorate the gearing level of the Group which is not aligned with the Company's goal of reducing gearing;
- (ii) significant discount to the prevailing closing price of the Shares would be inevitable for any equity fundraising exercise by the Company, in order to encourage participation from shareholders and/or potential investors, given the low trading volume of the Shares. In contrast, the Issue Price under the Loan Settlement Agreement represents a premium over the closing price of the Shares as at the date of the Loan Settlement Agreement;
- (iii) the likelihood of issuing new shares with substantial discount is high considering the Group's history of loss-making performance, along with the prevailing market conditions and investor sentiment;
- (iv) equity fundraising typically involves prolonged discussions with potential commercial underwriters and involve high amounts of professional fee;
- (v) the Loan is repayable in March 2025; and the Group's cash position will be reduced if internal resources are used to settle the Loan;
- (vi) the Group's gearing will be reduced immediately after Completion;
- (vii) the Loan Settlement demonstrated the continuous support and solid confidence given by Xin Hua and its ultimate beneficial owners (i.e., Mr. Yu, Ms. Chen Junyan and Mr. Chen Yaxin) to the Company towards the long-term development of the Group; and
- (viii) the analysis of the Issue Price as discussed in the paragraph headed "III (iii) (a). Analysis of the Issue Price" below,

we concur with the view of the Board (excluding Mr. Yu (who had abstained from voting on the relevant resolution(s) of the Board in respect of the Loan Settlement Agreement, the Loan Settlement, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder) and the independent non-executive Directors) that although the Loan Settlement is not in the ordinary and usual course of the Group's business, the terms of the Loan Settlement Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole.

III. The Loan Settlement Agreement

(i) Background information of the Parties

Xin Hua is a company incorporated under the laws of Hong Kong with limited liability and principally engaged in investment holding. Xin Hua is a controlling shareholder of the Company and is ultimately owned as to 46.28%, 34.92% and 18.80% by Mr. Yu, Ms. Chen Junyan and Mr. Chen Yaxin, respectively.

(ii) Principal terms of the Settlement Agreement

The principal terms of the Loan Settlement Agreement are summarised as follows:

Date:

17 January 2025 (after trading hours)

Parties:

- (i) The Company; and
- (ii) Xin Hua

As at the Latest Practicable Date, Xin Hua is a controlling shareholder of the Company who beneficially owns 580,172,014 Shares, representing approximately 67.67% of the issued Share.

Number of Capitalisation Shares:

As at the Latest Practicable Date, the Company has 857,305,482 Shares in issue. The Capitalisation Shares represent (i) approximately 1.41% of the issued Shares as at the Latest Practicable Date; and (ii) approximately 1.39% of the issued Shares as enlarged by the allotment and issue of the Capitalisation Shares immediately after Completion, assuming that there will be no change in the total number of issued Shares (other than the issue of the Capitalisation Shares) between the Latest Practicable Date and Completion.

The Capitalisation Shares to be allotted and issued to Xin Hua will be allotted and issued under the Specific Mandate to be obtained at the SGM.

Based on the closing price of the Shares of HK\$0.395 per Share on the Last Trading Day, the Capitalisation Shares have a market value of approximately HK\$4,759,036 and an aggregate nominal value of approximately HK\$2,409,638.

The Issue Price:

The Issue Price is HK\$0.415 per Capitalisation Share, and the aggregate Issue Price of all Capitalisation Shares of approximately HK\$5,000,000 payable by Xin Hua shall be satisfied by capitalising and setting off against the partial and aggregated principal amount of HK\$5,000,000 under the Loan from Xin Hua upon Completion.

The Issue Price represents:

- (i) a discount of approximately 11.70% to the closing price of HK\$0.470 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 5.06% to the closing price of HK\$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 5.03% to the average closing price of approximately HK\$0.437 per Share for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- (iv) a discount of approximately 15.65% to the average closing price of approximately HK\$0.492 per Share for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day; and
- (v) a premium of approximately 49.82% to the latest unaudited consolidated net asset value per Share (“NAV per Share”) as at 30 June 2024 of approximately HK\$0.277 calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$237,381,000 as at 30 June 2024 as set out in the Company’s interim report 2024 and 857,305,482 Shares in issue as at the Latest Practicable Date.

The net Issue Price (after deduction of all professional fees and related expenses) is estimated to be approximately HK\$0.382 per Capitalisation Share. The professional fees and related expenses for the Loan Settlement, which amount to approximately HK\$0.4 million, will be settled by the Group’s internal financial resources.

The Issue Price was determined after arm's length negotiations between the Company and Xin Hua with reference to:

- (i) the prevailing market price of Shares, having considered (a) the Issue Price falls within the range of the historical closing prices of Shares, with the lowest closing price of HK\$0.076 per Share and the highest closing price of HK\$0.73 per Share, during the period from 16 July 2024 to 17 January 2025, (the "**Review Period**"); (b) the Issue Price represents a premium of approximately 92.13% and 131.84% to the average closing price of approximately HK\$0.216 per Share and the median closing price of approximately HK\$0.179 per Share respectively; and (c) 92 trading days out of 108 trading days during the Review Period were closed below the Issue Price;
- (ii) the Group's historical financial performances and financial position, having considered (a) the loss-making positions of the Group for the two years ended 31 December 2023 and the six months ended 30 June 2024; and (b) the net assets of the Group attributable to the Shareholders of approximately HK\$237,381,000 as at 30 June 2024. The Directors noted that the Issue Price represents a premium of approximately 49.82% to the NAV per Share as at 30 June 2024 of approximately HK\$0.277. The Issue Price of HK\$0.415 per Capitalisation Share represents a premium over the closing prices of Shares during the majority of the Review Period and a premium over the NAV per Share as at 30 June 2024, which reflect the continuous support and solid confidence given by Xin Hua and its ultimate beneficial owner to the Company towards the long-term development of the Group;
- (iii) the current market condition, having reviewed the relevant connected transactions for subscription of new shares under specific mandate for cash consideration of other companies listed on the Stock Exchange (the "**Issue Price Comparables**") during the Review Period and identified an exhaustive list of ten Issue Price Comparables (excluding those transactions involved (a) issuance of new shares for restructuring scheme, emolument or acquisition purposes; (b) issuance of A shares or domestic shares; and (c) application for whitewash waiver or general offer obligations under the Takeovers Code). The Directors consider that a review period of six months can represent the recent and general reference of market terms under the recent market condition and sentiment. Details of the Issue Price Comparables are set out below:

No.	Name of company (stock code)	Date of initial announcement	Premium/(Discount) of the subscription price over/(to) the closing price per share on/prior to the date of agreement (%)	Premium/(Discount) of the subscription price over/(to) the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement (%)	Premium/(Discount) of the subscription price over/(to) the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement (%)
1.	Well Link Securities Holdings Limited (8350)	2 September 2024	65.60	66.90	64.40
2.	China Hongguang Holdings Limited (8646)	4 September 2024	(42.80)	(34.40)	(22.91)
3.	CircuTech International Holdings Limited (8051)	4 October 2024	(2.60)	0.30	6.80
4.	Virtual Mind Holding Company Limited (1520)	10 October 2024	13.64	38.89	47.06
5.	Honbridge Holdings Limited (8137)	17 October 2024	(75.00)	(77.01)	(73.47)
6.	Zhi Sheng Group Holdings Limited (8370)	21 October 2024	(60.53)	(60.63)	(58.79)

No.	Name of company (stock code)	Date of initial announcement	Premium/(Discount) of the subscription price over/(to) the closing price per share on/prior to the date of agreement (%)	Premium/(Discount) of the subscription price over/(to) the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement (%)	Premium/(Discount) of the subscription price over/(to) the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement (%)
7.	China Resources Power Holdings Company Limited (836)	23 October 2024	(5.06)	(3.48)	(3.98)
8.	Directel Holdings Limited (8337)	24 October 2024	138.10	138.10	138.10
9.	Bonjour Holdings Limited (653)	12 November 2024	0.00	(1.00)	(2.65)
10.	True Partner Capital Holding Limited (8657)	27 December 2024	(13.00)	(13.00)	(13.00)
		Maximum	138.10	138.10	138.10
		Minimum	(75.00)	(77.01)	(73.47)
		Average	1.84	5.47	8.16
		Median	(3.83)	(2.24)	(3.32)
	The Company (632)	17 January 2025	5.06	(5.03)	(15.65)

Source: Website of the Stock Exchange (<https://www.hkex.com.hk/>)

As shown in the above table, the Directors noted that

- (1) the pricing of the subscription price in the Issue Price Comparables to the respective closing prices of their shares on/prior to the date of respective subscription agreements represents a range from a premium of approximately 138.10% to a discount of approximately 75.00% (the “**LTD Market Range**”) with an average premium of approximately 1.84% and a median discount of approximately 3.83%. The premium represented by the Issue Price to the closing price of Shares on the date of Loan Settlement Agreement of approximately 5.06%, whilst falling within the LTD Market Range, is above the average premium and the median discount of the LTD Market Range;
 - (2) the pricing of the subscription price in the Issue Price Comparables to the respective closing prices of their shares in the last five consecutive trading days prior to/up to and including the date of respective subscription agreements represents a range from a premium of approximately 138.10% to a discount of approximately 77.01% (the “**Five Days LTD Market Range**”) with an average premium of approximately 5.47% and a median discount of approximately 2.24%. The discount represented by the Issue Price to the closing price of Shares in the last five consecutive trading days up to and including the date of Loan Settlement Agreement of approximately 5.03%, whilst falling within the Five Days LTD Market Range, is close to the median discount of the Five Days LTD Market Range; and
 - (3) the pricing of the subscription price in the Issue Price Comparables to the respective closing prices of their shares in the last ten consecutive trading days prior to/up to and including the date of respective subscription agreements represents a range from a premium of approximately 138.10% to a discount of approximately 73.47% (the “**Ten Days LTD Market Range**”) with an average premium of approximately 8.16% and a median discount of approximately 3.32%. The discount represented by the Issue Price to the closing price of Shares in the last ten consecutive trading days up to and including the date of Loan Settlement Agreement of approximately 15.65%, whilst falling within the Ten Days LTD Market Range; and
- (iv) the reasons as discussed in the paragraph headed “Reasons for and benefits of the Loan Settlement” in the “Letter from the Board” of this circular.

In view of the above, the Board (excluding Mr. Yu (who had abstained from voting on the relevant resolution(s) of the Board in respect of the Loan Settlement Agreement, the Loan Settlement, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder) and the independent non-executive Directors) is of the view that the Issue Price is fair and reasonable.

Ranking of the Capitalisation Shares:

The Capitalisation Shares when allotted and issued, shall rank pari passu in all respects among themselves free from all liens, charges, guarantee, adverse interests and adverse claims, and with the Shares in issue on the date of allotment and issue of the Capitalisation Shares including all dividends declared or payable or distribution made or proposed on or after the Completion Date.

Conditions Precedent:

Completion is conditional upon the fulfilment (or, where applicable, waiver) of the following Conditions Precedent:

- (i) the Company has provided Xin Hua with a copy of the resolutions of its directors approving the Loan Settlement Agreement and the transactions contemplated by the Loan Settlement Agreement, which shall be certified as true and complete by one of its directors;
- (ii) Xin Hua has provided the Company with a copy of the resolution of its directors approving the Loan Settlement Agreement and the transactions contemplated by the Loan Settlement Agreement, which shall be certified as true and complete by one of its directors;
- (iii) the Company has obtained at the SGM the necessary approval from the Shareholders for the Loan Settlement Agreement and the transactions contemplated thereunder including but not limited to authorising the Directors to allot and issue the Capitalisation Shares to Xin Hua (or its designated person) at the Issue Price by way of the Specific Mandate in accordance with the relevant requirements of the Listing Rules;
- (iv) the Listing Committee of the Stock Exchange has granted approval for the listing of, and permission to deal in, the Capitalisation Shares on the Stock Exchange;
- (v) Xin Hua has provided the Company with an application for shares duly completed and signed by Xin Hua (or its designated person) in respect of the Capitalisation Shares; and
- (vi) the Company is not in material breach of any representation or warranty made by it pursuant to the Loan Settlement Agreement.

The Company undertakes to use its best and reasonable endeavours to procure the satisfaction of the Conditions Precedent set out above (other than those set out in sub-paragraph (ii) and (v)) on or before the Long Stop Date. Xin Hua undertakes to use its best and reasonable endeavours to procure the satisfaction of the Conditions Precedent set out in sub-paragraphs (ii) and (v) on or before the Completion Date. Neither the Company nor Xin Hua shall be entitled to waive any of the Conditions Precedent except that Xin Hua shall be entitled to waive in writing the Conditions Precedent set out in sub-paragraph (vi) at any time on or before the Long Stop Date.

If any of the Conditions Precedent has not been satisfied (or, if applicable, waived) in full by the Long Stop Date, Xin Hua may terminate the Loan Settlement Agreement by written notice to the Company after the Long Stop Date, whereupon the rights and obligations of the Company and Xin Hua under the Loan Settlement Agreement shall forthwith cease and terminate (other than the terms in relation to, among others, Conditions Precedent, confidentiality, fees, notice and applicable law and jurisdiction). Neither party shall have any claim against the other party in respect of the Loan Settlement Agreement, provided that it shall not prejudice or affect any right of either party under the Loan Settlement Agreement to pursue any breach of any term of the Loan Settlement Agreement by the other party prior to the termination of the Loan Settlement Agreement.

As at the Latest Practicable Date, except conditions (i) and (ii) which have been fulfilled, none of the other Conditions Precedent set out above has been fulfilled. In terms of condition (iv), application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

Completion:

Completion will take place on the fifth business days after the fulfilment (or, if applicable, waiver) of the Conditions Precedent (or such later date as may be agreed between the Company and Xin Hua in writing).

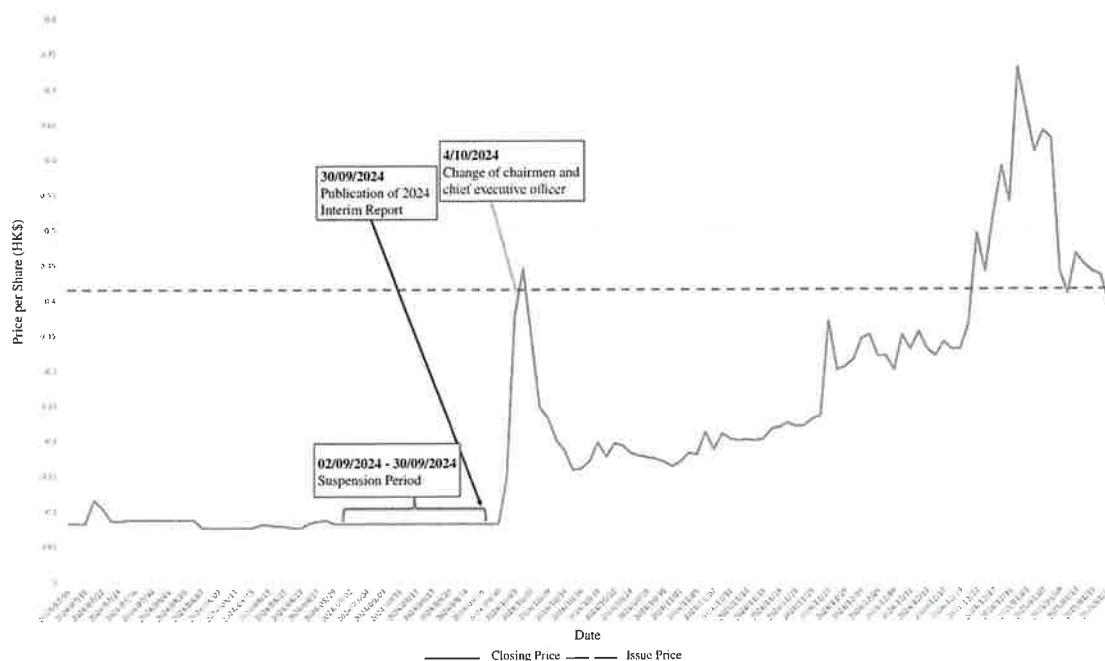
(iii) Analysis of the Issue Price

In order to assess the fairness and reasonableness of the Issue Price, we have performed a review on the daily closing prices and trading volume of the Shares from 16 July 2024 to 17 January 2025, being a period of six months prior to and including the Last Trading Day (the “**Review Period**”) and compared with the Issue Price.

In relation to the six-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 with reference to the dynamic financial markets. Accordingly, we consider that the sampling period of six months for the Review Period is appropriate when conducting an analysis on the historical daily closing price of the Shares, trading volume and the Issue Price.

(a) Analysis on historical Share price performance

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



Source: website of the Stock Exchange (www.hkex.com.hk)

As shown in the chart above, during the Review Period, the daily closing prices of the Shares ranged from HK\$0.076 per Share (the “**Lowest Closing Price**”) recorded during the period from 7 August 2024 to 15 August 2024 and the period from 22 August 2024 to 23 August 2024 to HK\$0.73 per Share (the “**Highest Closing Price**”) recorded on 2 January 2025, with the average closing price of the Shares amounted to approximately HK\$0.216 per Share (the “**Average Closing Price**”).

As depicted in the above chart, the closing prices of the Shares fluctuated between HK\$0.082 and HK\$0.445 from 16 July 2024 to 4 October 2024. During this period, trading of the Shares was suspended from 2 September 2024 up to and including 30 September 2024 (the “**Suspension Period**”) due to the delay in the release of the 2024 interim results announcement. We have discussed with the Company on the increasing trend of the Share price and were advised that the publication of interim results announcement on 30 September 2024 and the announcement for change of chairmen and chief executive officer of the Company dated 4 October 2024 led to the increase in the price of the Shares. Then the closing prices of the Shares slid down from HK\$0.445 as at 4 October 2024 to HK\$0.158 as at 15 October 2024. As discussed with the Company, the management did not identify any specific reasons for the movements. From 15 October 2024 to 2 January 2025, the price demonstrated an upward trend from HK\$0.158 as at 15 October 2024 to HK\$0.73 as at 2 January 2025, and then decreased to HK\$0.395 on 17 January 2025. We have discussed with the Company on the increasing and decreasing trends of the Share price and were advised that the management did not identify any specific reasons for the fluctuation of the closing prices of the Shares.

We note that the Issue Price of HK\$0.415 per Capitalisation Share represents (i) a premium of approximately 446.05% over the Lowest Closing Price of HK\$0.076 per Share; (ii) a discount of approximately 43.15% over the Highest Closing Price of HK\$0.73 per Share; and (iii) a premium of approximately 92.13% to the Average Closing Price of approximately HK\$0.216 per Share. Taking into consideration that the Issue Price reflects a significant premium over the Lowest and Average Closing Prices, we are of the view that the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(b) Review on trading liquidity of the Shares

	Total trading volume of the Shares for the month/period	Number of trading days	Average daily trading volume of the Shares for the month/period <i>(Note 1)</i>	Percentage of the average daily trading volume over total number of issued Shares as at the end of the month/period
2024				
July	1,389,096	12	115,758	0.01%
August	6,723,288	22	305,604	0.04%
September <i>(Note 2)</i>	—	—	—	—
October	144,382,753	21	6,875,369	0.82%
November	210,532,002	21	10,025,333	1.19%
December	290,099,665	20	14,504,983	1.72%
January (up to the date of the Loan Settlement Agreement)	162,590,698	12	13,549,225	1.61%
Maximum (excluding September 2024)			14,504,983	1.72%
Minimum (excluding September 2024)			115,758	0.01%
Average (excluding September 2024)			7,562,712	0.90%

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. It is 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 the trading in the shares of the Company on the Stock Exchange was suspended from 2 September 2024 to 30 September 2024 pending the publication of the announcement in relation to the 2024 interim results by the Company, September 2024 was considered as outlier and has been excluded for analysis purpose.

As illustrated from the table above, the average daily trading volume of the Shares ranged from 115,758 Shares to 14,504,983 Shares during the Review Period, representing approximately 0.01% to 1.72% of the total number of Shares in issue as at the end of relevant month/period. It illustrates that the trading volume of the Shares was relatively thin during the Review Period. The relatively thin trading liquidity may hinder independent placing agent(s) or underwriter(s) to participate when the Company attempt to conduct an equity fund raising exercise and even if there is such equity fund raising exercise, it is inevitable that significant discount to the current market price of Shares will be required to encourage participation of potential investors.

Having considered that (i) Xin Hua is willing to accept the Issue Price which is slightly higher than the closing price of the Shares as at the date of the Loan Settlement Agreement, this demonstrates his support and confidence to the Group's business operation and prospects; (ii) the thin trading volume and low liquidity of the Shares may hinder the success of an equity fund raising exercise of the Company; and (iii) the Loan Settlement will enable the Group to retain cash for general working capital and maximise trading return, we are of the view that the Issue Price of HK\$0.415 is on normal commercial terms, fair and reasonable.

(c) Market comparable analysis

To evaluate the fairness and reasonableness of the Issue Price in connection with the issuance of Shares, we have identified, to the best of our knowledge, effort and endeavor, an exhaustive list of 11 comparable transactions (the "**Comparables**") based on the following criteria: (i) companies listed on the Stock Exchange; (ii) companies that had published announcements in relation to connected transactions for subscription of new shares (excluding transactions involving (a) issue of new shares for restructuring scheme, emolument or acquisition purposes, or A shares or domestic shares; and (b) whitewash waiver applications or general offer obligations under the Takeovers Code) under specific mandate for cash consideration for the period from 1 July 2024 to 17 January 2025 (being approximately six months prior to and including the Last Trading Day). The six-month period was adopted to capture recent market activity with a sufficient number of Comparables, we consider the six months period is reasonable and representative.

We also noted that the terms of the transactions involving the Comparables may vary due to differences in financial positions, business performance, and future prospects of the respective companies. Nevertheless, we are of the view that the Comparables reflect recent trends in similar transactions under prevailing market conditions and can serve as a general reference. We set out our findings in the table below:

				Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement	Premium/ (Discount) of the subscription price over/to the net asset value attributable to owners of the company per share	
	Date of initial announcement	Stock code	Name of company	Premium/ (Discount) of the subscription price over/to the closing price per share on/prior to the date of agreement	Premium/ (Discount) of the subscription price over/to the net asset value attributable to owners of the company per share	
1	27/12/2024	8657	True Partner Capital Holding Limited	(13.00%)	(13.00%)	135.20%
2	12/11/2024	653	Bonjour Holdings Limited	0.00%	(1.00%)	(86.72%)
3	24/10/2024	8337	Directel Holdings Limited	138.10%	138.10%	41.80%
4	23/10/2024	836	China Resources Power Holdings Company Limited	(5.06%)	(3.48%)	4.75%
5	21/10/2024	8370	Zhi Sheng Group Holdings Limited	(60.53%)	(60.63%)	26.14%
6	17/10/2024	8137	Honbridge Holdings Limited	(75.00%)	(77.01%)	(81.63%)
7	10/10/2024	1520	Virtual Mind Holding Company Limited	13.64%	38.89%	56.95%
8	4/10/2024	8051	CircuTech International Holdings Limited	(2.60%) (Note 1)	0.30% (Note 1)	(55.27%)
9	4/9/2024	8646	China Hongguang Holdings Limited	(42.80%)	(34.40%)	(63.15%)

				Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement	Premium/ (Discount) of the subscription price over/to the net asset value attributable to owners of the company per share	
	Date of initial announcement	Stock code	Name of company	Premium/ (Discount) of the subscription price over/to the closing price per share on/prior to the date of agreement	Premium/ (Discount) of the subscription price over/to the net asset value attributable to owners of the company per share	
10	2/9/2024	8350	Well Link Securities Holdings Limited	65.60%	66.90%	2,961.85% (Note 2)
11	8/7/2024	209	Winshine Science Company Limited	(9.10%)	(9.10%)	Net liabilities
			<i>Maximum</i>	138.10%	138.10%	135.20%
			<i>Minimum</i>	(75.00%)	(77.01%)	(86.72%)
			<i>Average</i>	1.19%	4.53%	(2.44%)
			<i>Median</i>	(7.08%)	(6.29%)	4.75%
	17/1/2025	632	<i>The Company</i>	5.06%	(5.03%)	49.82%

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The relevant subscription agreement includes two batches of subscriptions with varying prices and conditions precedent. The subscription that includes a profit guarantee as a condition precedent is excluded from the market comparable analysis, as the determination of its subscription price may be influenced by the existence of the profit guarantee.
2. Well Link Securities Holdings Limited exhibited a significantly high premium on the subscription price compared to the net asset value per share attributable to the company's owners. This discrepancy may distort the overall market comparable analysis of net asset value. As a result, it has been excluded from the analysis on net asset value.
3. The net asset value attributable to owners of the company per share are converted from Renminbi to HK\$, where applicable, at the exchange rate of RMB1 = HK\$1.064

As illustrated in the table above, we noted that the subscription prices of the Comparables ranged from (i) a discount of approximately 75.00% to a premium of approximately 138.10% to/over the respective closing prices of the shares on the last trading day prior to/on the date of the relevant announcements (the “**Range**”), with a median discount of approximately 7.08% (the “**Median**”) and an average premium of approximately 1.19% (the “**Average**”); (ii) a discount of approximately 77.01% to a premium of approximately 138.10% to/over the respective average closing prices of the shares on the last five consecutive days up to and including the date of the relevant announcements (the “**Five Days Range**”), with a median discount of approximately 6.29% (the “**Five Days Median**”) and an average premium of approximately 4.53% (the “**Five Days Average**”); and (iii) a discount of approximately 86.72% to a premium of approximately 135.20% to/over their respective net asset value attributable to owners of the company per share (the “**NAV Range**”), with a median premium of approximately 4.75% (the “**NAV Median**”) and an average discount of approximately 2.44% (the “**NAV Average**”).

We observed that the Issue Price represents (i) premiums of approximately 5.06% and 49.82% over the closing Share price on the Last Trading Day and the net asset value attributable to owners of the Company per Share, respectively; and (ii) a discount of approximately 5.03% to the average closing Share price for the last five consecutive trading day immediately prior to and including the Last Trading Day, which (i) fall within the Range, Five Days Range and NAV Range; and (ii) are better than the Average, the Median, Five Days Median, NAV Median and NAV Average.

(d) Conclusion

Having considered that:

- (i) the Issue Price was higher than the closing prices of the Shares on the Last Trading Day and on a significant number of trading days throughout the Review Period;
- (ii) the relatively low liquidity of Shares as discussed above; and
- (iii) for the Loan Settlement regarding the issue of Capitalisation Shares:

(a) the Issue Price represents a premium of approximately 5.06% over the closing Share price on the Last Trading Day falls within the Range and is better than the Average and the Median; (b) the Issue Price represents a discount of approximately 5.03% to the closing Share price for the last five consecutive trading days immediately prior to and including the Last Trading Day falls within the Five Days Range and is better than the Five Days Median; (c) the Issue Price represents a premium of approximately 49.82% over the net asset value attributable to owners of the Company per Share falls within the NAV Range and is better than the NAV Median and NAV Average,

we are of the view that the terms of the Loan Settlement Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Group and the Shareholders as a whole.

IV. Potential dilution effects of the Loan Settlement

As at the Latest Practicable Date, the Company has 857,305,482 Shares in issue. The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion, assuming there will be no change in the issued Shares other than the allotment and issue of the Capitalisation Shares:

	As at the Latest Practicable Date		Immediately after the allotment and issue of the Capitalisation Shares	
	Number of Shares	Approximate (%) (Note 1)	Number of Shares	Approximate (%) (Note 1)
Controlling shareholders				
Xin Hua (Note 2)	580,172,014	67.67	592,220,206	68.12
Directors				
Ms. Zhong Bifeng	5,000,000	0.58	5,000,000	0.58
Mr. Jin Ailong	4,726,000	0.55	4,726,000	0.54
Public Shareholders	<u>267,407,468</u>	<u>31.20</u>	<u>267,407,468</u>	<u>30.76</u>
Total	<u>857,305,482</u>	<u>100.00</u>	<u>869,353,674</u>	<u>100.00</u>

Notes:

1. The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.
2. Xin Hua is ultimately owned as to 46.28%, 34.92% and 18.80% by Mr. Yu, Ms. Chen Junyan and Mr. Chen Yaxin, respectively.

As shown in the above table, we noted that the shareholding in the Company held by the existing public Shareholders would be diluted from approximately 31.20% as at the Latest Practicable Date to approximately 30.76% immediately after the allotment and issue of the Capitalisation Shares, representing a dilution of approximately 0.44%. We are aware of the Loan Settlement will incur a dilution effect on the shareholding of the existing public Shareholders. Nonetheless, having considered that (i) the Loan Settlement can relieve part of the Group's existing borrowings without depleting its existing financial resources; (ii) the Capitalisation Shares, when allotted and issued, will be recognised entirely as equity of the Company which in turn will reduce the gearing ratio, enlarge the capital base and enhance the net asset position of the Group; and (iii) the terms of the Loan Settlement are fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the potential dilution effect on the shareholding interests of the public Shareholders to be acceptable.

V. Financial effects of the Loan Capitalisation

There will be no proceeds arising from the Loan Settlement as the entire aggregate Issue Price will set off against the partial and aggregated principal amount of HK\$5,000,000 under the Loan from Xin Hua on a dollar-to-dollar basis. As at the Latest Practicable Date, the outstanding principal amount of Loan from Xin Hua in aggregate amounted to HK\$11,010,000. Upon Completion, the partial and aggregated principal amount of HK\$5,000,000 under the Loan from Xin Hua shall be deemed to have been repaid. After Completion, the remaining and aggregated principal amount of HK\$6,010,000 under the Loan from Xin Hua will remain as a liability of the Group and is expected to be repaid by the Group's internal financial resources.

Based on the total indebted amount owed by the Company to Xin Hua under the Loan of HK\$11,010,000 as at the Latest Practicable Date and the partial repayment amount of HK\$5,000,000 to be offset against the Loan Settlement, upon Completion, it is expected that (i) the net current liabilities of the Group will be decreased by HK\$5,000,000; and (ii) the net assets position of the Group will be increased by HK\$5,000,000.

The financial effect of the Loan Settlement as set out in the foregoing paragraph is presented for illustrative purpose only and is subject to change upon Completion, review and final audit by the auditor of the Company.

VI. RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that although the Loan Settlement Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms of the Loan Settlement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the relevant resolution(s) at the SGM to approve the transactions contemplated under the Loan Settlement Agreement.

Yours faithfully,
For and on behalf of
RED SOLAR CAPITAL LIMITED



Leo Chan
Managing Director

Mr. Leo Chan is a licensed person and responsible officer of Red Solar Capital Limited registered with the SFC to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance industry.