創陞融資
Innovax
Capital

創陞融資有限公司
Innovax Capital Limited
Unit B / 13/F / Neich Tower
128 Gloucester Road / Wanchai / Hong Kong

6 June 2025

Dear Sirs,

**PROPOSED CONVERSION OF CONVERTIBLE NOTES
AND
APPLICATION FOR WHITEWASH WAIVER**

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 Proposed Conversion of the Convertible Notes by the Subscribers and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in this circular issued to the Shareholders dated 6 June 2025 (the "**EGM Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in this EGM Circular, unless otherwise specified.

On 28 March 2025 (after trading hours), Mr. Chen and the Subscribers notified the Company by way of the Conversion Notices of their intention to convert the Convertible Notes subject to the principal amounts of the Convertible Notes proposed to be converted to be finalised upon Closing and subject to the Conversion Conditions.

On 22 May 2025 (after trading hours), Mr. Chen and the Subscribers notified the Company by way of the New Conversion Notices of their definitive plan for the Proposed Conversion in the principal of US$164,500,000 (representing 5,132,400,000 Conversion Shares), subject to the Conversion Conditions. The Proposed Conversion, if materialised, will trigger the Mandatory Conversion in the principal of US$50,200,000 simultaneously (representing 1,566,240,000 Conversion Shares).

Upon the Total Conversion, Mr. Chen will, collectively with the Subscribers, hold approximately 74.99% of the enlarged issued share capital of the Company (assuming that there will be no other change in the issued share capital of the Company save for the issuance of the Conversion Shares). Accordingly, upon completion of the Total Conversion, pursuant to Rule 26.1 of the Takeovers Code, Mr. Chen will be required to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by Mr. Chen, the Subscribers and parties acting in concert with any of them, the

Conversion Shares allotted and issued to the CN Placees pursuant to the Mandatory Conversion and any unconverted Convertible Notes placed to the CN Placee(s), unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

In this regard, an application has been made by Mr. Chen to the Executive for the granting of the Whitewash Waiver in relation to the allotment and issuance of the Conversion Shares pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy at the EGM by way of poll; and (ii) the approval of the Proposed Conversion by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy at the EGM by way of poll as required under the Takeovers Code.

The Independent Board Committee, comprising all the non-executive Directors who have no direct or indirect interest in the Total Conversion, the Whitewash Waiver and the transactions contemplated thereunder, namely Ms. Sun Meng, Ms. Chen Dai, Mr. Kim Sung Rae and Mr. Wong Wei Hua Derek, has been formed to advise the Independent Shareholders with regard to the Proposed Conversion and the Whitewash Waiver.

OUR APPOINTMENT

We, Innovax Capital Limited, have been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee in this respect.

As at the Latest Practicable Date, we did not have any relationships or interests in the Company that could reasonably be regarded as relevant to the independence of Innovax Capital Limited. During the past two years immediately preceding and up to date of our appointment as the Independent Financial Adviser in respect of the Proposed Conversion and the Whitewash Waiver, we have not entered into any engagement with the Group, Mr. Chen, the Subscribers or parties acting in concert with them. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangements exist whereby we have or will receive any fees or benefits from the Group, Mr. Chen, the Subscribers and their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are qualified to give independent advice in respect of the Proposed Conversion and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in this EGM Circular and the information and representations as provided to us by the Directors and the management of the Company (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in this EGM 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 this EGM Circular, or the reasonableness of the opinions expressed by the

Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Directors and the Management that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Proposed Conversion and the Whitewash Waiver.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix II to this EGM Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the EGM Circular, save and except for this letter of advice.

The Directors and the Management have jointly and severally accepted full responsibility for the accuracy of the information contained in the EGM Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the EGM Circular have been arrived at after due and careful consideration and there are no material facts not contained in the EGM Circular, the omission of which would make any statement in the EGM Circular misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Management, and they have confirmed that no material information has been withheld or omitted from the information provided and referred to in the EGM Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and/or the Management, nor have we conducted an independent investigation into the business, affairs, operations, financial position or future prospects of the Group or the Shareholders as a result of the Proposed Conversion and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other relevant securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Innovax Capital Limited to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations in respect of the Proposed Conversion and the Whitewash Waiver, we have taken the following principal factors and reasons into consideration:

1. Background of the Proposed Conversion

Reference is made to the Company's announcements dated 2 December 2024, 4 December 2024, 17 March 2025 and 22 May 2025 and the CN Circular dated 20 December 2024.

On 2 December 2024, the Company entered into the Subscription Agreement with the Subscribers, pursuant to which the Subscribers conditionally agreed to subscribe to, and the Company conditionally agreed to issue, the Convertible Notes in the aggregate principal amount of US$400,390,000, which shall be satisfied by the execution of the deed of settlement in full and final settlement of the Third Convertible Note. The Subscription Agreement was approved by the Shareholders at the extraordinary general meeting of the Company held on 6 January 2025, and the completion of the Subscription Agreement took place on 17 March 2025.

On 28 March 2025 (after trading hours), Mr. Chen and the Subscribers notified the Company by way of the Conversion Notices of their intention to convert the Convertible Notes subject to the principal amounts of the Convertible Notes proposed to be converted to be finalised upon Closing and subject to the Conversion Conditions.

On 22 May 2025 (after trading hours), Mr. Chen and the Subscribers notified the Company by way of the New Conversion Notices of their definitive plan for the Proposed Conversion in the principal of US$164,500,000 (representing 5,132,400,000 Conversion Shares), subject to the Conversion Conditions. The Proposed Conversion, if materialised, will trigger the Mandatory Conversion in the principal of US$50,200,000 simultaneously (representing 1,566,240,000 Conversion Shares).

2. Information of the Group

Principal business of the Group

The Company is an investment holding company. The principal activities of its principal subsidiaries are engaged in holding mining and exploration rights of coal mines in the Russian Federation and trading of diesel, gasoline and other products in the Republic of Korea.

Historical financial information of the Group

Set out below is a summary of (i) the audited consolidated financial information of the Company for each of the two financial years ended 31 March 2023 and 2024, as extracted from the Company's annual report dated 28 June 2024 ("**Annual Report 2024**"); (ii) the unaudited consolidated information of the Company for the six months ended 30 September 2023, as extracted from the Company's interim report dated 30 November 2023; and (iii) the unaudited consolidated information of the Company for the six months ended 30 September 2024, as extracted from the Company's interim report dated 29 November 2024 ("**Interim Report 2024**"):

	For the year ended 31 March		For the six months ended 30 September	
	2023	**2024**	**2023**	**2024**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	1,149,675	664,701	353,724	240,825
– *Sale of diesel*	*836,329*	*510,957*	*273,935*	*188,540*
– *Sale of gasoline*	*199,369*	*123,339*	*74,543*	*49,168*
– *Sale of others*	*113,977*	*30,405*	*5,246*	*3,117*
Profit/(loss) before tax	528,926	108,658	41,593	(92,257)
Profit/(loss) attributable to the Shareholders	550,211	106,899	41,107	(93,873)
Net cash from operating activities	11,082	190	1,731	4,044
Net cash used in investing activities	(32,988)	(7,358)	(7,130)	(358)
Net cash from financing activities	24,723	2,706	2,488	1,736
Increase/(Decrease) in cash and cash equivalents	2,817	(4,462)	(2,911)	5,422

	As at 31 March		As at 30 September	
	2023	**2024**	**2023**	**2024**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Total current assets	23,833	14,448	16,290	16,367
– *Cash and cash equivalents*	*5,349*	*228*	*2,290*	*5,762*
Total assets	2,045,010	2,163,595	2,090,141	2,008,192
Total current liabilities	(3,728,260)	(3,719,510)	(3,746,357)	(3,676,626)
Total liabilities	(3,899,915)	(3,914,397)	(3,906,957)	(3,877,343)
Net current liabilities	(3,704,427)	(3,705,062)	(3,730,067)	(3,660,259)
Capital deficiencies	(1,854,905)	(1,750,802)	(1,816,816)	(1,869,151)

For the year ended 31 March 2024 vs 31 March 2023

In the Annual Report 2024, the Company highlighted a 42.2% decrease in revenue for the Group, dropping from HK$1,149.7 million in the year ended 31 March 2023 to HK$664.7 million in the year ended 31 March 2024. This decline in revenue was primarily attributed to reduced demand for diesel and gasoline, influenced by higher sales prices of diesel and gasoline driven by geopolitical tensions between Russia and Ukraine and overall inflation during the year. Additionally, the general depreciation of the Korean Won further impacted the Group's revenue when converted into the reporting currency of Hong Kong Dollar for the purpose of consolidated accounts reporting.

Furthermore, the Group reported a significant decrease of 79.5% in profit before tax, decreasing from HK$528.9 million for the year ended 31 March 2023 to HK$108.7 million for the year ended 31 March 2024. According to the Annual Report 2024, the decrease in profit before tax was primarily attributable to the decrease in reversal of impairment loss on exploration and evaluation assets (in relation to mining rights of Lot 2 of the Group's Russian coal mines) of approximately HK$142.9 million (31 March 2023: Approximately HK$717.5 million), which was partially offset by the decrease in the amortization of other intangible assets (in relation to mining rights of Lot 1 and Lot 1 Extension of the Group's Russian coal mines) as no such amortization was recorded for the year ended 31 March 2024 (31 March 2023: Approximately HK$175.92 million) where the intangible assets had been fully amortized under the cost model as at 31 March 2023.

Despite the Group recorded profits for the years ended 31 March 2023 and 31 March 2024, the Group's cash flow position did not allow for the accumulation of sufficient cash reserves for potential repayment of the Convertible Notes in the future. Net cash inflows from operating activities of approximately HK$11.1 million and HK$0.2 million were generated for the years ended 31 March 2023 and 31 March 2024, respectively, resulting in cash and cash equivalents of approximately HK$5.3 million and HK$0.2 million for the corresponding periods. The cash balance is inadequate to meet the future repayment obligations of the Convertible Notes.

For the six months ended 30 September 2024 vs 30 September 2023

The Company reported in its Interim Report 2024 that the Group recorded a decrease of 31.9% in revenue, from HK$353.7 million for the six months ended 30 September 2023 to HK$240.8 million for the six months ended 30 September 2024. According to the Interim Report 2024, the decrease in revenue was mainly due to the decline in sales of diesel and gasoline to the Group's certain top customers for the six months ended 30 September 2024, driven by lower purchasing sentiment amid geopolitical tensions, including the ongoing Ukraine-Russia conflict, the Israel-Gaza Strip conflict, and economic uncertainties related to the United States and Organization of the Petroleum Exporting Countries (OPEC) policies.

The Group also recorded a loss before tax of approximately HK$92.3 million for the six months ended 30 September 2024, when compared with profit before tax of approximately HK$41.6 million for the six months ended 30 September 2023. According to the Interim Report 2024, the loss before tax was mainly attributable to the combined effects of impairment loss on exploration and evaluation assets of approximately HK$131.1 million for the six months ended 30 September 2024 (30 September 2023: reversal of impairment loss of approximately HK$55.0 million), partially offset by the decrease in administrative expenses from HK$10.6 million for the six months ended 30 September 2023 to HK$4.5 million for the six months ended 30 September 2024 and the gain from write off of interest-bearing borrowings of approximately HK$46.1 million (30 September 2023: nil). The gain from the write-off arose because such interest-bearing borrowings, which had been outstanding for over six years and owed to a lender who dissolved in 2023, became time-barred under Hong Kong's Limitation Ordinance, enabling the Group to write off the liability.

For the six months ended 30 September 2024, the Group recorded an increase in cash and cash equivalents of approximately HK$5.4 million. The Group's condensed consolidated statement of cash flows as set out in the Interim Report 2024 suggests that the said increase was mainly due to (i) working capital change of approximately HK$6.3 million; and (ii) loans received from shareholders of approximately HK$1.6 million. As such, we are of the view that the said net increase does not indicate the Group will be able to accumulate sufficient cash to repay the Convertible Notes when fall due.

Audit opinion

In the audit opinion of Prism Hong Kong and Shanghai Limited, the independent external auditor, contained in the Annual Report 2024, the auditor highlighted the material uncertainty related to the going concern as one of the emphasis of matter with the following statements in their report:

"Development of Russia – Ukraine War

We draw attention to the development of geopolitical tensions related to situation in Ukraine and sanctions imposed by certain countries that have affected and could significantly affect in the future the Russian economy, as well as the activity of the Group. Our opinion is not modified in respect of this matter.

Material Uncertainty Related to the Going Concern

As at 31 March 2024, the Group had net current liabilities and net liabilities of approximately HK$3,705,062,000 and HK$1,750,802,000 respectively. These conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Group is in the progress of implementing various measures to improve its liquidity. On the basis that all these measures could be successfully implemented, the directors of the Company are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due and, accordingly, the consolidated financial statements have been prepared on a going concern basis. Our opinion is not modified in respect of this matter.

Also, we draw attention to Note 44 to the consolidated financial statements which describes the uncertainty related to the outcome of the lawsuits filed against the Group. Our opinion is not modified in respect of this matter."

According to the audit opinion in the Annual Report 2024, the Group faced significant financial challenges, with net current liabilities of approximately HK$3,705.1 million and net liabilities of HK$1,750.8 million as at 31 March 2024. These conditions, along with other factors noted in the financial statements, indicated a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. The use of the going concern basis for preparing the consolidated financial statements depends heavily on whether the Group implements measures to improve its liquidity successfully. Should the Group be unable to continue as a going concern, it may not be able to realize its assets or discharge its liabilities in the normal course of business. Failure to improve liquidity could lead to creditor actions, liquidation, suspension of trading of the Shares, or eventual delisting from the Stock Exchange.

According to the Management, based on their discussion with the independent auditor, the Proposed Conversion, which involves converting debt to equity, is expected to significantly reduce the Group's net current liabilities and net liabilities. If successfully implemented, the Proposed Conversion should effectively improve the Group's liquidity and mitigate its going concern uncertainty.

The Profit Warning Announcements

As disclosed in the Profit Warning Announcements, based on the Board's preliminary assessment of the unaudited consolidated management accounts of the Group for FY2025, the Group is expected to record a consolidated loss for FY2025 in the range of HK$290 million to HK$420 million (unaudited). According to the Profit Warning Announcements, the consolidated loss for FY2025 arises from: (i) an estimated impairment loss on the exploration and evaluation assets of approximately HK$708 million for FY2025 due to the decrease in valuation of the exploration and evaluation assets based on a preliminary valuation as at 31 March 2025, attributable to the combined effects of decrease in coal sales prices of certain types of coals, appreciation of Russian Rubles to United States Dollars and change in expected future inflation rate of costs; (ii) a gain from the settlement of the Third Convertible Notes of approximately HK$468.5 million, representing the difference between the carrying amount of the Third Convertible Notes and the consideration; and (iii) a fair value adjustment loss on the Convertible Notes of not less than HK$100 million for FY2025 based on a preliminary valuation of the Convertible Notes as at 31 March 2025.

Given that the Group is expected to record a consolidated loss for FY2025, which will worsen its financial position by increasing net liabilities, we believe that the Proposed Conversion is crucial to help the Company mitigate the Group's net liabilities and improve its financial position.

3. Competitive environment of the Group's business

Trading segment

The Group's trading segment, which specialise in the sale and distribution of diesel, gasoline, and related petroleum products to gas stations and industrial fuel consumers in Korea, operates in a highly competitive market with persistently slim margins. For the years ended 31 March 2023 and 2024, gross profit margins of the Group's trading segment were 1.1% and 1.2%, respectively, reflecting intense profitability pressures. Demand for these products depends on global diesel and gasoline prices, influenced by international oil markets and competition from alternatives like electric vehicles and natural gas. Higher oil prices typically reduce demand, while sharp decrease can lower profit margins and risk losses on inventory.

According to the United States Energy Information Administration[1], diesel prices in United States ranged from US$3.5 to US$4.0 per gallon in 2024, with a volatility of 14.3%, while gasoline prices in United States spanned US$3.1 to US$3.7 per gallon, with a volatility of 19.4%. These trends were mainly driven by Brent crude oil prices, which fluctuated between US$74.0 and US$89.0 per barrel in 2024. This volatility, driven partly by Russia's conflict with Ukraine, may lead to inconsistent sales for the Group. Looking ahead, ongoing geopolitical tensions, now compounded by a trade war sparked by tariffs introduced by United States in April 2025, are likely to sustain volatility in prices and demand for diesel and gasoline, posing persistent challenges to the Group's trading segment.

Coal mining segment

As noted in the Annual Report 2024, the development of the Group's coal mining segment is constrained by volatile coal prices, geopolitical risks, and sanctions-related funding constraints. The Group recognized a reversal of impairment loss on exploration and evaluation assets of approximately HK$142.9 million for the year ended 31 March 2024 but recorded an impairment loss of approximately HK$131.1 million for the six months ended 30 September 2024. The Russia-Ukraine conflict and global economic uncertainties have caused sharp fluctuations in international coal prices. According to the International Monetary Fund[2]'s coal price index, the coal price index ranged from 173.8 to 414.5 in 2023 and from 163.5 to 197.1 in 2024. The average monthly coal price index decreased from 227.8 in 2023 to 184.2 in 2024, a decline of approximately 19.1%. These price fluctuations have significant impact on the period-end/year-end valuation of the Group's exploration and evaluation assets, potentially affecting the Group's financial results through impairment losses or reversals and its total non-current assets. Moreover, United States and European Union sanctions on major Russian banks have disrupted fund remittances to the Group's Russian subsidiary, impeding daily operations and coal mine development.

4. Information on Mr. Chen and the Subscribers

Mr. Chen

Mr. Chen, formerly known as Chen William Youwen (陳彥瑜), aged 36, is a seasoned investor with property investments in the PRC and the Commonwealth of Australia and investments in coal mine in Mongolia. Mr. Chen is a director of Wonderful Power Limited, which in turn owned Azure Coal Mongol Mining Company Limited, a limited liability company incorporated in Mongolia. Azure Coal Mongol Mining Company Limited was licensed to explore mineral reserve over 1802 acre of land in

1 *The United States Energy Information Administration is a principal agency of the United States Federal Statistical System and is responsible for collecting, analyzing, and disseminating energy information.*
Source of the data: https://www.eia.gov/petroleum/gasdiesel/

2 *The International Monetary Fund is an international organization established in 1944 with 190 member countries to promote global monetary cooperation, ensure financial stability, facilitate international trade, foster sustainable economic growth. It can access comprehensive data from member countries, central banks, and industry sources.*
Source of the data: https://www.imf.org/en/Research/commodity-prices

Mongolia by the competent authority of Mongolia. With his background in mining business, Mr. Chen has experience and knowledge in managing the principal assets of the Group which consist of exploration and mining rights.

Mr. Chen obtained a bachelor's degree in business from the Royal Melbourne Institute of Technology in 2012 and was awarded an executive master of business administration by the University of Northampton in 2022.

Based on the confirmation of Mr. Chen, he has not been interested (directly or indirectly) in any companies listed on the Stock Exchange for more than 5% of the issued share capital in the past and he has not been appointed as a director of any companies listed on the Stock Exchange.

As stated in the Letter from the Board, Mr. Chen does not intend to introduce any major changes to the Group's existing business operations, discontinue the employment of any employees of the Group, or change the composition of the Board. Although he lacks experience as a substantial shareholder or director of a listed company on the Stock Exchange, based on the experience of Mr. Chen in the coal mining business, we believe he is capable to assist the Group in expanding its core businesses should opportunities arise and to recommend qualified candidates to strengthen the management team's profile and experience.

Wayside

Wayside Holdings Limited, a company incorporated in the independent state of Samoa with limited liability, which (i) was the registered holder of the Convertible Notes in the amount of US$49,897,500 as at the Latest Practicable Date; (ii) was the beneficial owner of the Convertible Notes in the amount of US$350,190,000 as at the Latest Practicable Date; and (iii) is beneficially owned by Mr. Chen.

A Mark

A Mark Limited, a company incorporated in Hong Kong with limited liability, which held the Convertible Notes in the amount of US$200,195,000 as at the Latest Practicable Date on behalf of Wayside. A Mark is beneficially owned by Mr. Wong Wilson, aged 33, sibling of Mr. Chen.

Ocean Resources

Ocean Resources Int'l Investment Group Limited, a company incorporated in the British Virgin Islands with limited liability, which held the Convertible Notes in the amount of US$100,097,500 on behalf of Wayside as at the Latest Practicable Date. Ocean Resources is owned by Jin Xin Resources Group Limited, which is in turn wholly-owned by Jin Xin (PTC) Limited for and on behalf of the family trust for the family of Mr. Yao Junliang. Jin Xin (PTC) Limited and Mr. Yao Junliang is the trustee and the settlor of the said family trust, respectively. As stated in the Letter from the Board, Mr. Yao Junliang is a friend of Mr. Chen and Mr. Wong Wilson over five years.

5. Reasons and benefits of the Proposed Conversion

As stated in the Letter from the Board, the Board considers that the Proposed Conversion and the Whitewash Waiver to be fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, details of which can be referred to the section headed "E. Reasons for the Proposed Conversion" in the Letter from the Board in this EGM Circular. We have taken into account the following factors when assessing the reasonableness of the Proposed Conversion:

The financial position and going concern uncertainty of the Group

As stated in the Letter from the Board, the Group has been reporting net liabilities and net current liabilities positions over a long period of time which, have adverse impact on the Group's financial position. As at 31 March 2024 and 30 September 2024, the Group had net liabilities of approximately HK$1,750.8 million (audited) and HK$1,869.2 million (unaudited), respectively, and net current liabilities of approximately HK$3,705.1 million (audited) and HK$3,660.3 million (unaudited), respectively. The Board is of the view that the Total Conversion, including the Proposed Conversion, can assist the Company to alleviate the Group's net liabilities and net current liabilities.

According to the Interim Report 2024, the Company had net liabilities of approximately HK$1,869.2 million and net current liabilities of approximately HK$3,660.3 million, including the Third Convertible Notes with a carrying value of approximately HK$3,591.5 million, classified as current liabilities. Assuming the settlement of the Third Convertible Notes and the completion of the Proposed Conversion took place on 30 September 2024, triggering the Mandatory Conversion:

(i) the Group's net current liabilities would be reduced from HK$3,660.3 million to HK$68.8 million and would shift from a net liabilities position to a net assets position, details of the financial effect can be referred to the section headed "7. Financial effect of the Proposed Conversion – Effect on net liabilities/net current liabilities"; and

(ii) the Group's current ratio, defined as the ratio of current assets to current liabilities, would increase from 0.45% to 19.23%.

Therefore, we agree with the Board's view that the Proposed Conversion can alleviate the net liabilities and net current liabilities positions of the Group.

Furthermore, as outlined in the section headed "2. Information of the Group – Historical financial information of the Group – Audit opinion" above, the material uncertainty related to the going concern of the Group was mainly attributable to the net current liabilities and net liabilities of the Group as at 31 March 2024. Given the Proposed Conversion can substantially reduce the net current liabilities and net liabilities, we believe the Proposed Conversion can mitigate the Group's going concern uncertainty.

Ability of the Group to redeem the Convertible Notes upon maturity

As at the Latest Practicable Date, the outstanding principal amount of the Convertible Notes was US$400,390,000 (equivalent to HK$3,123,042,000). For the year ended 31 March 2024 and the six months ended 30 September 2024, the Group recorded net cash inflow from operating activities of approximately HK$0.2 million and HK$4.0 million only, respectively. With cash and cash equivalents of approximately HK$0.2 million as at 31 March 2024 and HK$5.8 million as at 30 September 2024, we believe the Group lacks sufficient funds to meet the repayment obligations of the Convertible Notes due in 2030 based on its existing business operations.

Based on our discussion with the Management, we understand that the Group has exhausted all alternative methods of fund raising available, none of which were successful. As stated in the Letter from the Board, the financial performance and the financial positions of the Group, in particular, the net liabilities and net current liabilities positions as well as the going concern uncertainty as mentioned above, have limited the ability of the Group to carry out (i) equity fund raising by placing of new shares of the Company to independent third parties; (ii) borrowings from banks and independent third parties; and (iii) and pre-emptive offering of new shares to existing Shareholders by rights issue or open offer. Without the Proposed Conversion, it would be difficult for the Group to improve its financial position and secure external financing through debt or equity to redeem the Convertible Notes.

The Total Conversion would allow the Company (i) to settle the outstanding amount of the principal under the Convertible Notes partially without immediate cash outflow as a result of its repayment of the Convertible Notes; and (ii) provide the Company with flexibility in working capital management and deployment of its financial resources to fund its business operations and development as well as the planning of its working capital requirements.

Taking into account of the above, we agree with the Board's assessment that the Total Conversion, which includes the Proposed Conversion, could alleviate the Group's net liabilities and net current liabilities positions, thus mitigating the significant uncertainty surrounding the Group's ability to continue as a going concern and paving the way for alternative fund raising opportunities following the completion of the Proposed Conversion.

6. Conversion Price

The Convertible Notes shall be converted at the initial Conversion Price of HK$0.25 per Conversion Share (subject to adjustments), which represents:

(i) a discount of approximately 83.55% to the closing price of HK$1.52 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 51.92% to the closing price of HK$0.520 per Share as quoted on the Stock Exchange on the Last Trading Date;

(iii) a discount of approximately 52.47% to the average of the closing prices of HK$0.526 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date;

(iv) a discount of approximately 52.26% to the average of the closing prices of HK$0.527 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date;

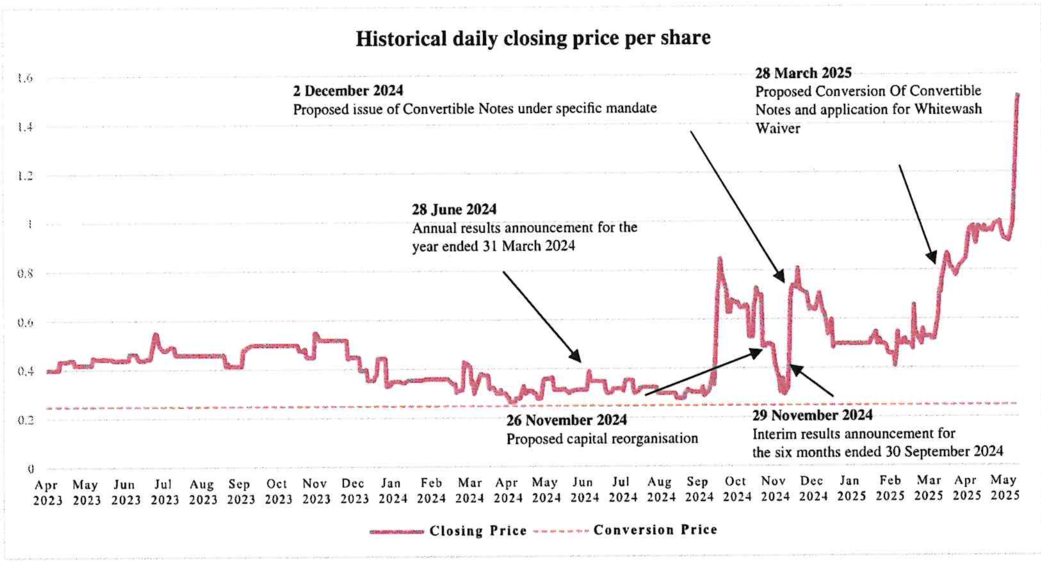
(v) a difference (i.e. the initial Conversion Price minus net deficit per Share) of HK$12.3231 relative to the audited net deficit per Share of approximately HK$12.0731 as at 31 March 2024 (based on the audited consolidated net deficit of the Company of approximately HK$1,750.8 million as at 31 March 2024 and 145,017,062 Shares in issue as at the Latest Practicable Date);

(vi) a difference of approximately HK$13.1392 relative to the unaudited net deficit per Share of approximately HK$12.8892 as at 30 September 2024 (based on the unaudited consolidated net deficit of the Company of approximately HK$1,869.2 million as at 30 September 2024 and 145,017,062 Shares in issue as at the Latest Practicable Date); and

(vii) a premium of approximately 524.5% over the adjusted net asset value per Shares of approximately HK$0.04 as at 30 September 2024 (based on the unaudited consolidated net deficit of the Company of approximately HK$1,869.2 million as at 30 September 2024, the carrying value of the Third Convertible Notes of approximately HK$3,591.5 million as at 30 September 2024 as disclosed in the Interim Report 2024, the principal of the Remaining Convertible Notes upon Total Conversion of HK$1,448.4 million and 6,834,657,062 Shares in issue upon Total Conversion).

The Conversion Price is subject to adjustments, which are exhaustive, upon the occurrence of consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, capital distributions, rights issues of Shares, options over Shares, issue of Shares or convertible securities other than Shares issued on the exercise of the conversion right under the Convertible Notes, modification of rights of conversion or offers to Shareholders at price less than 80% of the then market price per Share. Details of the adjustments are set out in the CN Circular.

In order to assess the fairness and reasonableness of the Conversion Price, we conducted an analysis on the price of the Shares. Set out below is a chart showing the movement of the closing prices of the Shares during the period from 28 March 2024 to the Latest Practicable Date, being a period covering (i) one year prior to and including the Conversion Notices dated 28 March 2025; and (ii) the period from the date of Conversion Notices to the Latest Practicable Date (the "**Share Review Period**"). The comparison of closing prices of the Shares and Conversion Price is illustrated as follows:



Source: Stock Exchange

During the Share Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$1.52 per Share recorded on 3 June 2025 and HK$0.265 recorded on 25 April 2024, 26 April 2024 and 29 April 2024. The Conversion Price was at a discount of approximately 5.7% to the lowest closing price of the Shares during the Share Review Period.

Although the Conversion Price was lower than the lowest closing price of the Shares during the Share Review Period, we wish to highlight that since the date when the Subscription Agreement was entered into (i.e. 2 December 2024) and up to the Last Trading Date (i.e. 27 March 2025), the Shares have consistently traded above the Conversion Price, with the Share price rising by 62.5% during this period. This performance significantly outperformed the Hang Seng Index, which increased by approximately 20.6% over the same period. Additionally, no announcements were made by the Company during this period that had a material positive impact on the Share price. We believe these factors indicate a strong positive market reaction to the Subscription Agreement, which is further evidence by the unanimous approval of the shareholders' resolution to issue the Convertible Notes, including the Conversion Price, by the Shareholders at the extraordinary general meeting held on 6 January 2025.

Having considered (i) the Conversion Price is at premium of approximately HK$13.1392 over the unaudited net deficit per Share of approximately HK$12.8892 as at 30 September 2024 (based on the unaudited consolidated net deficit of the Company of approximately HK$1,869.2 million as at 30 September 2024 and 145,017,062 Shares in issue as at the Latest Practicable Date); (ii) the Conversion Price is at premium of approximately 524.5% over the adjusted net asset value per Share of approximately HK$0.04 as at 30 September 2024 as illustrated above, the Proposed Conversion can lead to a higher adjusted net asset value per Shares following the completion of the Total Conversion; (iii) although the Conversion Price is at a discount to the lowest closing price of the Shares during the Share Review Period, the Shares have not been traded below the Conversion Price since the date of the Subscription Agreement; (iv) the Conversion Price was approved by the Shareholders in the extraordinary general meeting held on 6 January 2025 unanimously; and (v) as stated in the section headed "5. Reasons and benefits of the Proposed Conversion – Ability of the Group to redeem the Convertible Notes upon maturity", the Management has exhausted all alternative methods of fund raising available and none of which were successful, we are of the view that the Conversion Price is fair and reasonable.

7. Financial effect of the Proposed Conversion

Between the completion date of the Subscription Agreement (i.e. 17 March 2025) and the Latest Practicable Date, the Company has not issued any financial statements. Consequently, the financial impact of issuing the Convertible Notes has not been reflected in any of the Company's published financial statements.

Effect on net liabilities/net current liabilities

According to the Interim Report 2024, the Group's net current liabilities was approximately HK$3,660.3 million and net liabilities was approximately HK$1,869.2 million as at 30 September 2024. As advised by the Management, the Group's current liabilities as at 30 September 2024, included convertible notes payables, specifically the Third Convertible Notes, with a carrying amount of approximately HK$3,591.5 million. This carrying value comprised HK$3,123.0 million in principal and HK$468.5 million in imputed interest, representing the 15.0% redemption premium recognized as liability in prior financial years.

Assuming the settlement of the Third Convertible Notes and the completion of the Proposed Conversion took place on 30 September 2024, which would also trigger the Mandatory Conversion, the Group's net current liabilities would decrease from HK$3,660.3 million to HK$68.8 million (excluding any gain or loss that may arise from fair value change of the Convertible Notes upon issuance or subsequently) as a combined effect of the following:

(i) completion of the Subscription Agreement and execution of the deed of settlement, settling the principal of the Third Convertible Notes through the issuance of new Convertible Notes and waiving of the redemption premium, resulting in a gain from the write-off of the convertible notes payable of approximately HK$468.5 million;

(ii) the reclassification of the Remaining Convertible Notes, amounting to US$185.7 million (equivalent to HK$1,448.4 million), from current liabilities to non-current liabilities due to their maturity date in March 2030; and

(iii) partial conversion of the Convertible Notes through the Proposed Conversion, totaling US$164.5 million (equivalent to HK$1,283.1 million) and the Mandatory Conversion of US$50.2 million (equivalent to HK$391.6 million).

In view of such and as advised by the Directors, following the settlement of the Third Convertible Notes and assuming completion of the Proposed Conversion took place on 30 September 2024, which would also trigger the Mandatory Conversion, the Group's net current liabilities would be reduced. Consequently, the Group would shift from a net liabilities position to a net assets position.

Effect on gearing

The Group's gearing ratio, calculated as total interest-bearing loans and borrowings divided by total assets, was approximately 10.80% as at 30 September 2024. As advised by the Directors, the completion of the Proposed Conversion is expected to have no effect on the said gearing ratio as the Convertible Notes and the Third Convertible Notes, which are not interest bearing as at 30 September 2024, are not included as numerator of the Group's gearing ratio.

To better assess the financial impact of the Proposed Conversion, we also review its impact to the Group's current ratio. According to the Interim Report 2024, the Group's current ratio, being a ratio of current assets to current liabilities, was 0.45%. As advised by the Directors, following the settlement of the Third Convertible Notes by the issuance of the Convertible Notes, and the completion of the Total Conversion, the Group's current ratio would increase from 0.45% to 19.23%, This clearly illustrates the significant positive impact of the Proposed Conversion to the Group's financial position.

Effect on liquidity

Given that the Proposed Conversion involves transferring debt to equity without involving cash flow, it will not have an immediate material impact on the Group's cash position.

According to the Interim Report 2024, the Group's cash and cash equivalents amounted to approximately HK$5.8 million as at 30 September 2024. As disclosed in the CN Circular and advised by the Management, the liquidity of the Group for the year ended 31 March 2024 and 30 September 2024 is demonstrated below:

(i) the Group recorded the net cash outflow of approximately HK$4.46 million for the year ended 31 March 2024 while the total cash and cash equivalents decreased to approximately HK$0.23 million as at 31 March 2024 (31 March 2023: HK$5.35 million);

(ii) as at 31 March 2024 and 30 September 2024, the aggregate interest-bearing borrowings was approximately HK$62.10 million and HK$20.40 million, respectively, and the amounts due to Shareholders was approximately HK$172.66 million and HK$177.26 million, respectively, the majority of which was repayable within a period of more than one year but not exceeding two years; and

(iii) during the year ended 31 March 2024 and six months ended 30 September 2024, the Group raised several loans of approximately HK$4.38 million and HK$2.2 million, respectively.

The aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position and performance of the Group will be after the completion of the Proposed Conversion. As advised by the Directors, completion of the Total Conversion is expected to reduce cash outflow for redemption of the Convertible Notes at maturity (i.e. March 2030), as the Group lacks the ability to meet this obligation based on its latest published financial statements.

8. Dilution effect on the shareholding interest of the public shareholders

With reference to the shareholding table in the section headed "C. Effect on the Shareholding Structure of the Company" of the Letter from the Board, the shareholding interests of the existing other public Shareholders would be diluted from 36.46% to 0.77% immediately after completion of the Total Conversion (assuming the Whitewash Waiver is granted by the Executive and the Whitewash Resolutions are approved by the Independent Shareholders).

We are of the view that the dilution effect of the Proposed Conversion is justifiable and reasonable after taking into consideration that:

(i) the Group's current liabilities and net current liabilities can be alleviated immediately, and the going concern uncertainty can be mitigated accordingly after completion of the Proposed Conversion. Assuming the settlement of the Third Convertible Notes and the completion of the Proposed Conversion took place on 30 September 2024, which would also trigger the Mandatory Conversion, the Group's current ratio as at 30 September 2024 would increase from 0.45% to 19.23%;

(ii) the Subscription Agreement and the transactions contemplated thereunder were approved by the then independent Shareholders on 6 January 2025 and the Proposed Conversion is only the exercise of the conversion rights attaching to the Convertible Notes which was previously granted to the holders of the Convertible Notes; and

(iii) as stated in the section headed "5. Reasons and benefits of the Proposed Conversion – Ability of the Group to redeem the Convertible Notes upon maturity", the Management has exhausted all alternative methods of fund raising available and none of which were successful due to the financial performance and the financial positions of the Group, in particular, its net liabilities and net current liabilities position as well as the going concern uncertainty. Without the Proposed Conversion, it would be difficult for the Group to improve its financial position and secure external financing through debt or equity.

Taking into account of the above factors, we are of the view that the said dilution effect on the shareholding interest of the existing other public Shareholders is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

9. The Whitewash Waiver

With reference to the Letter from the Board, the Proposed Conversion and the Mandatory Conversion are inter-conditional and the Total Conversion is subject to fulfillment of the following Conversion Conditions:

(i) the approval and permission for the listing of and permission to deal in the Conversion Shares granted by the Listing Committee not having been subsequently revoked;

(ii) (as modified by the Supplemental Conversion Notices) the Company will, immediately upon the Total Conversion, be able to maintain at least 25% of its total number of issued Shares (excluding treasury shares) to be held by the public as required under the Listing Rules;

(iii) no regulatory authorisations implementing or enacting any decrees, legislations or regulations to prohibit the Proposed Conversion and/or the Mandatory Conversion, and no courts with competent jurisdiction issuing a decree or injunction to stop or prohibit the Proposed Conversion and/or the Mandatory Conversion;

(iv) the Executive having granted the Whitewash Waiver (which have not been subsequently revoked or withdrawn) and all the conditions attached thereto (if any) having been satisfied; and

(v) the respective resolutions relating to the Proposed Conversion on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll.

Conversion Conditions (i) and (ii) cannot be waived by any party. If the above Conversion Conditions (i) and (ii) are not fulfilled, the Total Conversion will not take place and the New Conversion Notices from Mr. Chen and the Subscribers of their intention to exercise the conversion rights in respect of the Convertible Notes will be deemed to be withdrawn.

If Conversion Condition (iii) is not fulfilled (in respect of one or more than one CN Placee), the Subscribers will, in relation to the Sale CN of such CN Placees, scale down the Conversion Shares to be issued and allotted pursuant to the Proposed Conversion, such that the aggregate shareholding of Mr. Chen and the Subscribers immediately upon the scaled-down Total Conversion will be no more than 75% of the enlarged issued capital to render fulfilment of Conversion Condition (ii).

Conversion Conditions (iv) and (v) (the "**Whitewash Conditions**") can only be waived by Mr. Chen and the Subscribers if they can provide proof of financial resources to the satisfaction of their financial adviser that sufficient financial resources are available to Mr. Chen and the Subscribers to satisfy full acceptance of the Possible Offer. Mr. Chen and the Subscribers reserve their rights to waive Conversion Conditions (iv) and (v), however, none of Mr. Chen and the Subscribers has a firm intention to waive conditions (iv) and (v) and to make the Possible Offer as at the Latest Practicable Date.

As at the Latest Practicable Date, the Listing Committee has granted and has not withdrawn or revoked the approval of listing of and permission to deal in the Conversion Shares (subject to conversion) which may fall to be allotted and issued upon the exercise of the conversion rights pursuant to Convertible Notes.

Other than Conversion Condition (i), none of the Conversion Conditions has been fulfilled as at the Latest Practicable Date.

With reference to the Letter from the Board, as at the Latest Practicable Date, save for the Convertible Notes, neither Mr. Chen, the Subscribers nor any party acting in concert with any of them owns (or has control or direction over) any Shares or any other convertible securities, options, warrants or derivatives in the Company.

Upon the Total Conversion, Mr. Chen will, collectively with the Subscribers, hold approximately 74.99% of the enlarged issued share capital of the Company (assuming that there will be no other change in the issued share capital of the Company save for the issuance of the Conversion Shares) and the Remaining Convertible Notes in the aggregate principal amount of US$185,690,000.

Accordingly, upon completion of the Total Conversion, pursuant to Rule 26.1 of the Takeovers Code, Mr. Chen will be required to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by Mr. Chen, the Subscribers and parties acting in concert with any of them, the Conversion Shares allotted and issued to the CN Placees pursuant to the Mandatory Conversion and any unconverted Convertible Notes placed to the CN Placee(s), unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

In this regard, an application has been made by Mr. Chen to the Executive for the granting of the Whitewash Waiver in relation to the issuance of the Conversion Shares pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be conditional upon, among others, the conditions that the respective resolutions relating to the Proposed Conversion on the one hand, and the Whitewash Waiver on the other hand, being approved by more than 50% and at least 75% respectively, of the votes cast by the Independent Shareholders at the EGM by way of poll.

10. Summary of our analysis

Having considered that:

(i) the Proposed Conversion will ease the going concern uncertainty and the Group's net current liabilities and net liabilities positions as at 30 September 2024, which is crucial to the Company as the Group is expected to record a consolidated loss for FY2025 according to the Profit Warning Announcements;

(ii) the competitive market condition facing by the trading and coal mining segment of the Group;

(iii) the Conversion Price is fair and reasonable as concluded under the section headed "6. Conversion Price" above;

(iv) the financial effect of the Proposed Conversion as set out under the section headed "7. Financial effect of the Proposed Conversion" above;

(v) the dilution effect of the Proposed Conversion of the Convertible Notes on the shareholding interests of the public Shareholders is acceptable as set out under the section headed "8. Dilution effect on the shareholding interest of the public shareholders" above; and

(vi) if any of the Whitewash Conditions is not fulfilled, there is no certainty that the Proposed Conversion will take place,

we consider that the Proposed Conversion of the Convertible Notes and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the factors as set out above, we consider that the Proposed Conversion and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Proposed Conversion and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Innovax Capital Limited

Calvin Poon	**Alvin Wong**
Managing Director	*Director*

Mr. Calvin Poon and Mr. Alvin Wong are licensed persons under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO and regarded as responsible officers of Innovax Capital Limited. Mr. Calvin Poon and Mr. Alvin Wong have over 21 and 14 years of experience in corporate finance industry, respectively.