



SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090 Fax: 2526 2032 E-Mail: somerley@somerley.com.hk

15 May 2025

To: the Independent Board Committee

Dear Sir/Madam,

PROPOSED CONVERSION OF THE CONVERTIBLE BONDS AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee of Kasen International Holdings Limited (the “**Company**”) in relation to the proposed conversion of convertible bonds of the Company (the “**Proposed Conversion of the Convertible Bonds**”) and the application for whitewash waiver (the “**Whitewash Waiver**”). Details of the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company to the Shareholders dated 15 May 2025 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 7 March 2025, the Company received a notice (the “**Conversion Notice**”) from Joyview of its intention to exercise the conversion rights in respect of the Convertible Bonds in full in an outstanding aggregate principal amount of HK\$141,623,810, subject to the Conversion Conditions.



As at the Latest Practicable Date, Joyview and its respective associates, together with any parties acting in concert with it, were interested in (i) an aggregate of 568,005,113 Shares, representing approximately 39.36% of the total issued share capital of the Company; (ii) the Convertible Bonds in an outstanding aggregate principal amount of HK\$141,623,810; and (iii) 1,000,000 outstanding Share Options which were granted to Mr. Zhu under the Share Option Scheme. Upon full conversion of the Convertible Bonds, 393,399,471 Conversion Shares will be issued to Joyview and therefore, Joyview and parties acting in concert with it will hold an aggregate of 961,404,584 Shares. The aggregate shareholding interests of Joyview and parties acting in concert with it will be increased from approximately 39.36% to approximately 52.35% of the issued share capital of the Company (as enlarged by the issuance of the Conversion Shares pursuant to the conversion of Convertible Bonds, assuming there is no other change in the issued share capital of the Company save for the issuance of such Conversion Shares).

As the aggregate interest of Joyview and its concert parties in the Company would increase by more than 2% following the Proposed Conversion of the Convertible Bonds, Joyview would be obliged to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares and other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) not already owned or agreed to be acquired by Joyview and parties acting in concert with it as a result of the allotment and issuance of the Conversion Shares to Joyview by the Company, unless the Whitewash Waiver is granted by the Executive. In this regard, an application has been made by Joyview to the Executive for the Whitewash Waiver 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 of the Convertible Bonds on 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.

The Independent Board Committee, comprising all the independent non-executive Directors who have no direct or indirect interest in the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver, namely Mr. Chow Hiu Tung, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang, has been formed to advise the Independent Shareholders with regard to the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee in this regard (the “**Engagement**”).



During the past two years immediately preceding the Latest Practicable Date, there have been no other engagements between the Company and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and Joyview and parties acting in concert with it (including Mr. Zhu, Ms. Zhu Jiayun and Ms. Zhu Lingren) that could reasonably be regarded as a hindrance to our independence to act as the Independent Financial Adviser to the Independent Board Committee with respect to the Engagement. During the past two years immediately preceding the Latest Practicable Date, apart from normal professional fees paid or payable to us in connection with the Engagement, no arrangement exists whereby we will receive any fees or benefits from the Company, Joyview or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and the management of the Company (the “**Management**”) and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. Should there be any material changes to our opinion after the Latest Practicable Date, the Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group or Joyview, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver, we have taken into account the principal factors and reasons set out below:

A. The Proposed Conversion of the Convertible Bonds

1. Information on the Group

As advised by the Management, the Company is an investment holding company. Its subsidiaries are principally engaged in the businesses of (i) manufacturing and trading of upholstered furniture (the “**Upholstered Furniture Business**”); (ii) properties development (the “**Property Business**”); (iii) land and properties development of special economic zone in Cambodia; and (iv) travel and related operations. The Group mainly operates in the PRC and Cambodia.



Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2023 and 2024 as extracted from the 2024 annual report of the Company (the “2024 Annual Report”):

	For the year ended 31 December 2024 RMB'000	For the year ended 31 December 2023 RMB'000	Year-on-year change %
Revenue	1,025,691	956,757	7.20
– Manufacturing and trading of upholstered furniture (i.e. Upholstered Furniture Business)	551,891	529,668	4.20
– Properties development (i.e. Property Business)	327,164	300,912	8.72
– Special economic zone	59,802	Nil	N/A
– Others (note)	86,834	126,177	(31.18)
Gross profit	400,773	349,657	14.62
Profit for the year	69,684	65,909	5.73
Profit attributable to equity holders of the Company	63,535	70,426	(9.78)

Note: Comprising mainly provision of travel and tourism-related services, catering and entertainment services and provision of property management service

	As at 31 December 2024 RMB'000	As at 31 December 2023 RMB'000	Year-on-year change %
Cash and cash equivalents	301,685	567,542	(46.84)
Pledged bank deposit	40,000	81,650	(51.01)
Bank borrowings	693,440	728,211	(4.77)
– Bank borrowings (current)	184,453	284,128	(35.08)
– Bank borrowings (non-current)	508,987	444,083	14.62
Property, plant and equipment	1,073,694	967,535	10.97
Lands held for development or sale	674,585	262,138	157.34
Properties under development for sale	1,773,645	1,681,827	5.46
Properties held for sale	850,485	998,636	(14.84)
Net assets	4,035,966	3,813,450	5.84
– Net assets attributable to equity holders of the Company	3,803,977	3,752,621	1.37



(i) Performance and financial position

During the year ended 31 December 2024 (“FY2024”), the Group recorded revenue of approximately RMB1.03 billion, representing an increase of approximately 7.20% as compared to that for the year ended 31 December 2023 (“FY2023”). According to the 2024 Annual Report, such increase in revenue was mainly attributable to (i) the increase in revenue of the Upholstered Furniture Business due to the increase in furniture sales order received in FY2024 as compared to FY2023; (ii) the increase in revenue of the Property Business since there was an increase in the delivery of properties for the Group’s property development projects; and (iii) the recognition of revenue from the special economic zone segment as the Group’s special economic zone (i.e. the Koh Kong Zhejiang Special Economic Zone) development project in Cambodia (the “Cambodia Project”) was launched in 2024 and revenue from the sale/lease of land and factory buildings was recognized (for further details of the Cambodia Project, please refer to the section headed “3. Reasons for and benefits of the Proposed Conversion of the Convertible Bonds” of this letter below). The Group recorded gross profit of approximately RMB400.77 million for FY2024, representing an increase of approximately 14.62% as compared to that for FY2023. As advised by the Management, such increase in gross profit was mainly driven by the increase in revenue.

During FY2024, the Group recorded net profit of approximately RMB69.68 million, representing an increase of approximately 5.73% as compared to that for FY2023. As advised by the Management, such increase in net profit was mainly attributable to the aforesaid increase in gross profit, in particular the contribution of profits from the Cambodia Project (i.e. the development of the Koh Kong Zhejiang Special Economic Zone) which commenced after the Acquisition before the end of 2023.

Despite the increase in net profit for FY2024 as compared to that for FY2023, the Group recorded profit attributable to equity holders of the Company of approximately RMB63.54 million, representing a decrease of approximately 9.78% as compared to that for FY2023. The decrease in profit attributable to equity holders of the Company was mainly due to the sharing of profits to non-controlling interests associated with the Cambodia Project, which was owned as to 49% by the Group.



As at 31 December 2024, the Group had cash and cash equivalents, pledged bank deposit and total bank borrowings of approximately RMB301.69 million, RMB40.00 million and RMB693.44 million respectively. The Group had gearing ratio (being total bank borrowings divided by net assets attributable to equity holders of the Company) and net debt to equity ratio (being the amount of total bank borrowings less cash and cash equivalents, divided by net assets attributable to equity holders of the Company) of approximately 18.23% and approximately 10.30% respectively as at 31 December 2024 as compared to approximately 19.41% and approximately 4.28% respectively as at 31 December 2023. As discussed with the Management, we understand that the decrease in gearing ratio was mainly due to the decrease in bank borrowings and the increased in the audited consolidated net asset value attributable to the shareholders (the “NAV”) of the Group during 2024. Regarding the increase in net debt to equity ratio, we understand from the Management that it was mainly attributable to the substantial decrease in cash and cash equivalents of the Group as at 31 December 2024 as compared to that as at 31 December 2023, as a result of the net cash outflow used in the Group’s investing and financing activities, which mainly included amounts for purchase of property, plant and equipment.

(ii) Property interests and reassessed net assets of the Group attributable to owners of the Company

As at 31 December 2024, substantial portion of the Group’s assets represented properties interests held by the Group. In particular, the Group had property, plant and equipment, lands held for development or sale, properties under development for sale, and properties held for sale of approximately RMB1.07 billion, RMB674.59 million, RMB1.77 billion and RMB850.49 million respectively as at 31 December 2024.

The Company has engaged United Assets & Real Estate Appraisal Co., Ltd. (i.e. the Independent Valuer) to conduct the valuation of the market value of the property interests of the Group located in the PRC and Cambodia as at 28 February 2025 (the “**Valuation Date**”). According to the property valuation report as set out in Appendix II to the Circular (the “**Valuation Report**”), the valuation of the properties of the Group amounted to approximately US\$1,203.18 million (equivalent to approximately RMB8,631.37 million) as at 28 February 2025.

We have reviewed the Valuation Report as contained in Appendix II to the Circular, and have discussed with the Independent Valuer (i) bases and assumptions used; (ii) valuation methodology adopted; and (iii) due diligence work performed. We note that the Independent Valuer has used various valuation methodologies to arrive at the valuations of the property interests, which include (1) the market approach, which compares recent market evidence of similar properties located in the neighborhood of the subject property; and (2) the depreciated replacement cost approach, which estimates the replacement cost of the buildings and constructions as at the Valuation Date, and makes appropriate depreciation due to building age, and physical, functional and economic obsolescence. We have discussed with the Independent Valuer the overall approach to the valuation and queried the selection of relevant valuation methodologies for the property interests. We concur with the valuation approaches the Independent Valuer has taken in valuing the different types of properties.



We have also (i) reviewed the terms of engagement between the Independent Valuer and the Company; and (ii) conducted an interview with the Independent Valuer to discuss, among others, their qualification and experience in relation to the preparation of the Valuation Report. Based on the relevant information provided by the Independent Valuer and our interview with it, we are satisfied with the terms of engagement (including the scope of work) of the Independent Valuer as well as its qualification and experience for preparation of the Valuation Report. The Independent Valuer also confirmed that it is independent to the Group and the Joyview and the parties acting in concert with it (including Mr. Zhu, Ms. Zhu Jiayun and Ms. Zhu Lingren).

As part of our assessment, we have considered the reassessed NAV (the “**Reassessed NAV**”) of the Group based on the Group’s audited consolidated net asset value of the Group attributable to the Shareholders (the “**NAV**”) as at 31 December 2024, adjusted as follows:

	<i>RMB’000</i>
NAV as at 31 December 2024	3,803,977 (equivalent to approximately RMB2.64 per Share)
Adjustment:	
Add: Net revaluation surplus arising from the valuation of properties of the Group (<i>Note 1</i>)	3,492,756
Less: Net tax as a result of the net revaluation surplus (<i>Note 2</i>)	(1,184,756)
Reassessed NAV	6,111,977
Reassessed NAV per Share	RMB4.24 (equivalent to approximately HK\$4.59)



Notes:

1. As advised by the Management, this represents the net revaluation surplus arising from the differences between the market values of the properties of the Group as valued by the Independent Valuer attributable to owners of the Company of approximately RMB6,330.61 million as at the Valuation Date and their corresponding book values attributable to owners of the Company of approximately RMB2,837.85 million as at the Valuation Date.
2. As advised by the Management, this represents the potential tax liabilities on the assumption of direct disposal of the properties, including land appreciation tax, value-added tax and corporate income tax in the PRC and capital gains tax in Cambodia, taking into account the revaluation surplus from the valuation of properties of the Group.

As set out in the table above, the Reassessed NAV per Share is approximately RMB4.24 (equivalent to approximately HK\$4.59). The difference between the NAV as at 31 December 2024 and the Reassessed NAV was mainly attributable to the net revaluation surplus as majority of the properties of the Group were recorded at cost as at 31 December 2024, while the valuation took into account the market value of such properties. In particular, a significant portion of the revaluation surplus related to the “Boao Asia Bay” project (a property development project under development in Hainan Province, the PRC) and the Cambodia Project which, in aggregate, amounted to approximately RMB3,027.55 million. In view of this, we have discussed with the Management and the Independent Valuer for further details regarding such revaluation surplus as set out below.

As advised by the Management, the “Boao Asia Bay” project had commenced since 2009, and majority of the relevant land was acquired by the Group over 15 years ago. The significant revaluation surplus for the “Boao Asia Bay” project was mainly due to the appreciation of land value throughout the years. As for the Cambodia Project, the relevant land was agriculture in nature at the time of the Acquisition. Subsequently, applications had been made to the relevant government authorities in Cambodia for the change in use of the relevant land from agriculture usage to industrial usage; and as at the Valuation Date, approvals for the aforesaid applications had been obtained. The significant revaluation surplus for the Cambodia Project was mainly due to the appreciation of land value taking into account the change in land usage.



Having considered the aforesaid reasons for the net revaluation surplus and our work done regarding the Valuation Report as discussed above (including but not limited to review of the Valuation Report and discussion with the Independent Valuer), we are of the view that the net revaluation surplus is justifiable, and the comparison of the Conversion Price with the Reassessed NAV is relevant for the purpose of our analysis of the Conversion Price. The Conversion Price of HK\$0.36 per Conversion Share represents a discount of approximately 92.16% to the Reassessed NAV per Share. Further details of our analysis on the Conversion Price are set out in the sub-section headed “The Conversion Price” under the section headed “4. The Proposed Conversion of the Convertible Bonds” of this letter.

2. Background of the Convertible Bonds and information on Joyview

As advised by the Management, the Convertible Bonds (being the first batch, second batch and third batch of the Total Convertible Bonds) were issued by the Company to Joyview (as the nominee of the seller, Ms. Zhu Jiayun) pursuant to the Sale and Purchase Agreement dated 29 September 2023, as part of the consideration for the Acquisition which was approved by the independent shareholders of the Company at the extraordinary general meeting on 12 December 2023. The Convertible Bonds were issued on 3 January 2024, 18 March 2024 and 11 December 2024 respectively and will mature 18 months from the date of issue. The Remaining Convertible Bonds (being the fourth batch of the Total Convertible Bonds, and representing approximately 24% of the Total Convertible Bonds) remain unissued, and the issuance is expected to take place by or around the third quarter of 2025.

According to the Board Letter, Joyview, a company incorporated in the British Virgin Islands with limited liability, is interested in 555,645,113 Shares, representing approximately 38.50% of the total issued share capital of the Company as at the Latest Practicable Date. It is principally engaged in investment holding. Joyview is wholly owned by Prosperity and Wealth, being the trustee of the Trust. The beneficiaries of the Trust are Ms. Zhu Jiayun and Ms. Zhu Lingren. The shares of Prosperity and Wealth are held by Ocorian Services (Bermuda) Limited, a Bermuda-licensed trustee as trustee established for the purpose of holding the shares of Prosperity and Wealth.



3. Reasons for and benefits of the Proposed Conversion of the Convertible Bonds

As set out in the section headed “1. Information on the Group” of this letter above, the Group is principally engaged in (i) the Upholstered Furniture Business; (ii) the Property Business; (iii) special economic zone; and (iv) travel and related operations. The Upholstered Furniture Business and the Property Business have been the two main businesses of the Group. The Group’s Upholstered Furniture Business and Property Business are mainly carried out in the PRC and Cambodia, with (a) two production bases for the Upholstered Furniture Business, one in the PRC (the original production base) and one in Cambodia (the newly developed production base since 2024); and (b) six property development projects in the PRC and one property development project in Cambodia.

As advised by the Management, the Group focused on adjusting its layout on industrial structure and increased its investment outside the PRC. In addition to the Group’s original production facilities and property development projects in Cambodia, the Company had acquired 49% interest of Koh Kong Zhejiang Sez Co., Ltd. (i.e. the Acquisition) to commence the Cambodia Project (i.e. the development of the Koh Kong Zhejiang Special Economic Zone) in 2023. Following completion of the Acquisition, the Group had continued its operations of the Upholstered Furniture Business and the original Property Business, while also commenced the development of the Cambodia Project.

The Koh Kong Zhejiang Special Economic Zone under the Cambodia Project is an industrial special economic zone featuring eco-manufacturing, circular economy, industrial clusters, green and low-carbon development, and its development objective is to become a demonstration zone for Sino-Cambodian cooperation in production capacity. The Koh Kong Zhejiang Special Economic Zone’s industrial clusters cover light industry, heavy industry, chemical industry, renewable energy processing industry, etc. The Cambodia Project was launched in 2024, and has begun to generate revenue for the Group from the sale/lease of land and factory buildings during FY2024.

We understand from the Management that the Cambodia Project will be developed as a comprehensive industrial park, comprising an overall planned area of approximately 3,000 hectares, and is expected to be developed in three phases. The development work of the first phase of the Cambodia Project (with a site area of approximately 1,024 hectares) had commenced in 2024. As at 31 December 2024, nearly 100 enterprises had signed contracts to purchase or lease land and factory buildings, and multiple of which had already commenced production in 2024. As advised by the Management, the Cambodia Project is still in the early stage of development and all the phases of development are expected to be completed in four years.



As set out above, the development of the Cambodia Project is now in its early stage of development of phase one, while it is expected that the development of the whole project will continue up to 2028. In view of the above, the Management considers that the Group will require substantial amount of money for the development of the Cambodia Project and it will be strategically beneficial for the Group to retain its cash resources.

As mentioned above, the Group's balance of cash and cash equivalents decreased from approximately RMB567.54 million as at 31 December 2023 to approximately RMB301.69 million as at 31 December 2024. We further understand from the Management that the Group's balance of cash and cash equivalents further decreased to approximately RMB99.45 million as at 28 February 2025. On the other hand, the Group had bank borrowings of approximately RMB693.44 million as at 31 December 2024, of which approximately RMB184.45 million will be due within one year. Considering the above, the Group had a net debt position of approximately RMB391.76 million as at 31 December 2024. As further mentioned earlier, the Group's net debt to equity ratio (being the amount of total bank borrowings less cash and cash equivalents, divided by net assets attributable to equity holders of the Company) increased significantly from approximately 4.28% as at 31 December 2023 to approximately 10.30% as at 31 December 2024. Having considered the above, in particular (a) the decreasing cash and cash equivalents and substantial net debt position of the Group, (b) surging net debt to equity ratio and (c) that substantial amount of money will be required for the development of the Cambodia Project, we concur with the Management that it is beneficial to the Group to retain its cash resources.

The Convertible Bonds will be due on 3 July 2025, 18 September 2025 and 11 June 2026 respectively. With the view to preserve the Group's cash resources, the Management considers that the conversion of the Convertible Bonds will be an appropriate way to reduce the cash outflow of the Group such that the Group will be able to retain its cash resources for its development of businesses, including the Cambodia Project. At the same time, conversion of the Convertible Bonds will help the Group to save the interests payment arising from the Convertible Bonds. As such, the Management did not consider raising a new debt financing for the purpose of repayment of the Convertible Bonds since it would inevitably create interest expenses on the Group. In addition, the Management considers that conversion of the Convertible Bonds is more efficient than equity fund raising methods as substantial time could be required to secure and negotiate with potential investors/underwriters/placing agents under the current market condition. In view of the above, the Management is of the view, and we concur, that it will be in the interests of the Group to carry out the conversion of the Convertible Bonds.



The Convertible Bonds are due to Joyview, which is beneficially owned by Prosperity and Wealth (being the trustee of the Trust of Mr. Zhu). Mr. Zhu is the controlling Shareholder, an executive Director, the chairman and chief executive officer of the Company. He founded the Group in 1995 and has been primarily responsible for formulating its strategic development and is an important key person leading to the Group's success in the past few years. Under his direction, the Group successfully listed on the Stock Exchange in 2005. Over the years, while maintaining the manufacturing and trading of upholstered furniture as one of its principal businesses, Mr. Zhu has facilitated the Group's successful expansion into various sectors, including properties development, travel and related operations, as well as the development of special economic zones. Furthermore, under Mr. Zhu's leadership, the Group has achieved profit-making records in 16 out of 20 years from 2005 to 2024. The Management considers that, with the extensive experience in management and investment and expertise in the Group's principal businesses, Mr. Zhu's continuous involvement in the Group will be important for the Group's future development and operations. Accordingly, the Management also considers that the Proposed Conversion of the Convertible Bonds will further align the interests of the Company and Mr. Zhu, which will then encourage further commitment to developing the Group's businesses in the long-term.

Taking into account the above, we consider that the Proposed Conversion of the Convertible Bonds, although not in the ordinary course of business of the Group, is in the interests of the Company and the Independent Shareholders as a whole.

4. The Proposed Conversion of the Convertible Bonds

On 7 March 2025, the Company received a notice from Joyview of its intention to exercise the conversion rights in respect of the Convertible Bonds in full in an outstanding aggregate principal amount of HK\$141,623,810, subject to the Conversion Conditions.

The major terms of the Convertible Bonds are summarised as follows:

Maturity date:	18 months from the date of issue of the Convertible Bonds (the " Maturity Date ")
----------------	--

The first batch, second batch and third batch of the Convertible Bonds were issued on 3 January 2024, 18 March 2024 and 11 December 2024, respectively.

Interest rate:	5.0% per annum
----------------	----------------

Conversion period:	The period commencing from the date of issue of the Convertible Bonds up to seven days before (and excluding) the Maturity Date
--------------------	---



Conversion Price: The initial Conversion Price of the Convertible Bonds was HK\$0.36 per Conversion Share, subject to adjustments as set out below and in accordance with the terms and conditions of the Convertible Bonds.

Adjustment to Conversion Price: The Conversion Price shall from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds upon occurrence of certain events as set out in the Convertible Bonds instruments. For details of the adjustment mechanism, please refer to the Board Letter and/or the Company's circular dated 23 November 2023 in relation to the Acquisition involving the issue of the Convertible Bonds.

As at the Latest Practicable Date, no adjustment had been made to the Conversion Price.

Listing: No application was/will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

Ranking: The Conversion Shares will, when allotted and issued, rank *pari passu* in all respects among themselves and with all other fully paid Shares in issue.

Further details of the terms of the Convertible Bonds are set out in the Company's circular dated 23 November 2023 in relation to the Acquisition involving the issue of the Convertible Bonds.

As mentioned in the Board Letter, the conversion of the Convertible Bonds is subject to fulfillment of the following Conversion Conditions:

- (i) the Listing Committee having granted the approval for the listing of and permission to deal in the Conversion Shares, and such approval and permission having not been subsequently revoked;
- (ii) the Company being able to maintain any prescribed minimum percentage of its issued share capital held by the public as required under the Listing Rules upon conversion of the Convertible Bonds;
- (iii) 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



- (iv) the respective resolutions relating to the Proposed Conversion of the Convertible Bonds on 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.

None of the above conditions can be waived by any party. If the above conditions are not fulfilled, the conversion of the Convertible Bonds will not take place and the notice from Joyview of its intention to exercise the conversion rights in respect of the Convertible Bonds will be deemed to be withdrawn.

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

Save for condition (i) above, none of the Conversion Conditions had been fulfilled as at the Latest Practicable Date.

The Conversion Price:

- (a) Conversion Price comparison

The Conversion Price of HK\$0.36 per Conversion Share represents:

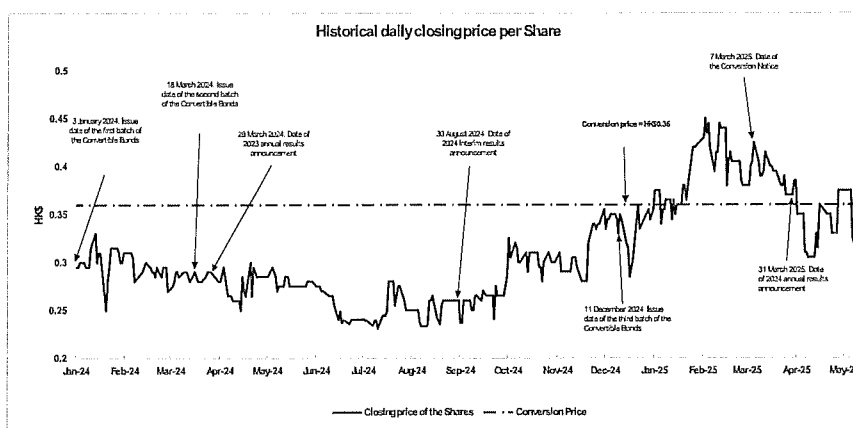
- (i) a premium of approximately 12.5% over the closing price of HK\$0.32 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 11.11% to the closing price of HK\$0.405 per Share as quoted on the Stock Exchange as at the Last Trading Day;
- (iii) a discount of approximately 6.49% to the average closing price of approximately HK\$0.385 per Share as quoted on the Stock Exchange in the five (5) consecutive trading days immediately prior to the Last Trading Day;
- (iv) a discount of approximately 9.09% to the average closing price of approximately HK\$0.396 per Share as quoted on the Stock Exchange in the ten (10) consecutive trading days immediately prior to the Last Trading Day;
- (v) a premium of approximately 2.27% over the average closing price of approximately HK\$0.352 per Share as quoted on the Stock Exchange in the ninety (90) consecutive trading days immediately prior to the Last Trading Day;



- (vi) a discount of approximately 86.05% to net asset value of approximately HK\$2.58 per Share based on the unaudited NAV of RMB3,718,649,000 (equivalent to approximately HK\$4,030,649,000) as at 30 June 2023 and 1,443,141,881 Shares in issue as at 30 June 2023, being the then latest published NAV of the Group as at the date of the Sale and Purchase Agreement for the issue of Convertible Bonds;
- (vii) a discount of approximately 87.41% to net asset value of approximately HK\$2.86 per Share based on the NAV of RMB3,803,977,000 (equivalent to approximately HK\$4,123,105,000) as at 31 December 2024 and 1,443,141,881 Shares in issue as at 31 December 2024; and
- (viii) a discount of approximately 92.16% to the Reassessed NAV per Share of approximately HK\$4.59.

(b) Share price performance

We have reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 3 January 2024, being the issue date of the first batch of Convertible Bonds up to and including the Latest Practicable Date (the “**Review Period**”). We consider that such period represents an appropriate period of time to provide a general overview on the recent market performance of the Shares since the issue of the first batch of Convertible Bonds, and is appropriate for our analysis of the Conversion Price. The comparison of daily closing price of the Shares and the Conversion Price is illustrated as follows:



Source: The Stock Exchange's website

During the Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.45 recorded on 4 February 2025 and HK\$0.231 recorded on 12 July 2024 respectively, and the average closing price of the Shares was approximately HK\$0.307.



The closing price of the Shares fluctuated between HK\$0.231 and HK\$0.33 since the start of the Review Period from 3 January 2024 to 30 September 2024. After that, the closing price of Shares was on a general upward trend, reaching the peak at HK\$0.45 on 4 February 2025. The closing price of the Shares fluctuated afterwards and subsequently went on a general decreasing trend in March 2025. The closing price of the Shares fell below the Conversion Price on 3 April 2025 and closed at HK\$0.305 on 10 April 2025, 11 April 2025 and 14 April 2025. The closing price of the Shares increased again thereafter, and closed at HK\$0.32 as at the Latest Practicable Date. As advised by the Management, the Company was not aware of any specific reason which caused the aforesaid movement in the closing price of the Shares.

We noted that the closing price of the Shares was below the NAV per Share (i.e. approximately HK\$2.86 as at 31 December 2024) during the entire Review Period. As advised by the Management, the Company was not aware of any specific reason of the difference between the closing price of the Shares and the NAV per Share of the Company. During the 329 trading days in the Review Period, the Conversion Price was higher than the closing price of the Shares in 266 trading days (being approximately 81% of trading days in the Review Period).

The closing price of the Shares was HK\$0.295, HK\$0.29 and HK\$0.33 on 3 January 2024, 18 March 2024 and 11 December 2024 respectively, being the issue date of the first, second and third batch of the Convertible Bonds respectively. The Conversion Price was higher than the closing price of the Shares on all of the relevant dates of issue.

(c) Comparable issues

As part of our analysis, we have also searched on the website of the Stock Exchange to identify transactions involving conversion of convertible bonds/notes with whitewash waiver application which were announced by companies listed on the Stock Exchange during the period from 8 September 2024 up to 7 March 2025, being a period of six months prior to and including the date of the Conversion Notice. Nevertheless, we could not identify any transactions which met the said criteria. Alternatively, we have identified transactions in relation to the subscription of convertible bonds/notes under specific mandate (excluding transactions which were terminated/lapsed, transactions by prolonged suspension company with trading suspended for more than three months at the time of the subscription agreement, and transactions involving convertible bonds/notes which are only convertible into non-Stock Exchange listed securities) which were announced by companies listed on the Stock Exchange during the period from 8 September 2024 up to 7 March 2025 (the “Comparable Issues”). We consider that the selection period of approximately six months is appropriate to include an appropriate number of recent Comparable Issues for the purpose of our analysis of the Conversion Price. Despite that the businesses,



scale and prospects of the Company are not the same as the subject companies of the Comparable Issues, the Comparable Issues can demonstrate the market practices of similar transactions during the selection period, which we consider relevant as part of our analysis of the Conversion Price. Based on the aforesaid criteria, we found 10 transactions which met the said criteria, and they are exhaustive. Details of the Comparable Issues are set out below:

Company (stock code)	Principal business (note 1)	Date of announcement	Premium/(discount) of the conversion price over/(to) closing price per share on the last trading day prior to the date of announcement in relation to the respective subscription of convertible bonds/notes (%) ⁽²⁾	Premium/(discount) of the conversion price over/(to) average closing price per share on the 5 consecutive trading days immediately prior to the date of announcement in relation to the respective subscription of convertible bonds/notes (%) ⁽²⁾	Premium/(discount) of the conversion price over/(to) average closing price per share on the 90 consecutive trading days immediately prior to the date of announcement in relation to the respective subscription of convertible bonds/notes (%) ⁽²⁾	Premium/(discount) of conversion price over/(to) the latest NAV per share prior to the respective announcement/circular (note 3) (%) ⁽²⁾
Mongolia Energy Corporation Limited (276)	Mining of coal, the production and sales of coal products, such as cleaned coking coal and steam coal, the provision of coal transportation services, as well as coal processing	6 March 2025	25.00	20.82	4.61	N/A (note 4)
China Metal Resources Utilization Limited (1636)	Manufacturing and trading of copper and related products	28 January 2025	(90.58)	(90.55)	(86.20)	N/A (note 4)
HK Asia Holdings Limited (1723)	Wholesale and retail sales of pre-paid products, such as subscriber identification module (SIM) cards and top-up vouchers in Hong Kong	20 January 2025	(5.26)	(3.02)	59.68	71.10
GCL New Energy Holdings Limited (451)	Development, construction, operation and management of solar power plants, distribution of electricity and provision of solar energy related services	9 January 2025	(1.10)	(6.05)	9.02	(69.33)
Shanghai Qingpu Fire-Fighting Equipment Co., Ltd. (8115)	Pressure vessels manufacturing and selling businesses	8 December 2024	(18.52)	(20.17)	(3.34)	10.07
E&P Global Holdings Limited (1142)	Coal mining business	2 December 2024	(15.25)	(29.78)	(42.07)	N/A (note 4)
NOIZ Group Limited (8163)	Financial services	10 October 2024	25.00	10.86	(5.96)	N/A (note 4)
Sunway International Holdings Limited (58)	Manufacturing and sale of high-strength concrete pipe	27 September 2024	96.08	96.08	45.47	(81.83)
Hatcher Group Limited (8365)	Corporate finance advisory services	23 September 2024	(1.56)	(0.94)	(33.85)	(92.62)
Concortec Technologies Holdings Limited (8391)	Provision of printing services	20 September 2024	(21.88)	(25.37)	(15.16)	455.34
Maximum			96.08	96.08	50.08	455.34
Minimum			(90.58)	(90.55)	(86.20)	(92.62)
Average			(0.81)	(4.81)	(7.64)	48.91
Maximum (excluding outlier)			25.00 (note 2)	20.82 (note 2)	50.08 (note 2)	71.10 (note 5)
Minimum (excluding outlier)			(21.88) (note 2)	(29.78) (note 2)	(42.07) (note 2)	(92.62) (note 5)
Average (excluding outlier)			(1.70) (note 2)	(6.71) (note 2)	(4.46) (note 2)	(32.38) (note 5)
The Conversion Price			(11.11)	(6.49)	2.27	(87.41) (based on the NAV per Share as at 31 December 2024) or (92.16) (based on the Reassessed NAV per Share)



Notes:

1. Based on the Stock Exchange's website
2. Excluding transactions of China Metal Resources Utilization Limited (1636) and Sunway International Holdings Limited (58), which we consider to be outliers since the conversion prices of such issues represented substantial premium/discount to the closing price on the date of announcement as compared to other Comparable Issues
3. Premium/(discount) represented by conversion price over/to the then latest NAV per share, or reassessed NAV per share (if available), as disclosed in the announcement/circular/then latest financial report.
4. The subject company recorded net liabilities attributable to the equity holders, and no premium/discount percentage can be calculated.
5. Excluding transactions of Cornerstone Technologies Holdings Limited (8391), which we consider to be outlier since the conversion price of such issue represented substantial premium to the then latest NAV per share as compared to other Comparable Issues.

Based on the above table, the premium/(discount) as represented by the conversion prices of the Comparable Issues (excluding outliers) (i) ranged from a discount of approximately 21.88% to a premium of approximately 25.00% to/over the closing prices of the shares on the last trading day prior to the respective announcement in relation to the Comparable Issues (the “**LTD Discount/Premium Market Range**”), with an average at a discount of 1.70% (the “**LTD Average Discount**”); (ii) ranged from a discount of approximately 29.78% to a premium of approximately 20.82% to/over the closing prices of the shares on the 5 consecutive trading days immediately prior to the respective announcement in relation to the Comparable Issues (the “**5-days Discount/Premium Market Range**”), with an average at a discount of 6.71% (the “**5-days Average Discount**”); and (iii) ranged from a discount of approximately 42.07% to a premium of approximately 50.08% to/over the closing prices of the shares on the 90 consecutive trading days immediately prior to the respective announcement in relation to the Comparable Issues (the “**90-days Discount/Premium Market Range**”), with an average at a discount of 4.46% (the “**90-days Average Discount**”).

The Conversion Price, which represents a discount of approximately 11.11%, a discount of approximately 6.49% and a premium of approximately 2.27% to/over the closing price of the Shares on the Last Trading day and the average closing price of the Shares on the 5 consecutive trading days immediately prior to the Last Trading Day, and the average closing price of the Shares on the 90 consecutive trading days immediately prior to the Last Trading Day respectively. Such discounts and premium (i) fall within the LTD Discount/Premium Market Range, the 5-days Discount/Premium



Market Range and 90-days Discount/Premium Market Range and (ii) are more favorable than the 5-days Average Discount and 90-days Average Discount, while being less favorable than the LTD Average Discount of the Comparable Issues.

In relation to the premium/discount to the then latest NAV per share in relation to the respective subscription of convertible bonds/notes, we noted that the premium/discount as represented by the conversion price of the Comparable Issues shows a diverse range with substantial discount and premium to the then latest NAV per share of the relevant companies. In addition, 4 out of 10 subject companies of the Comparable Issues had recorded net liabilities attributable to the equity holders at the relevant time, and accordingly, no premium/discount could be computed for such companies. Taking into account the diverse range of the premium/discount and the net liabilities position of certain subject companies of the Comparable Issues, we consider that no representative analysis could be performed in this respect, and it is more appropriate for Independent Shareholders to consider the comparison with closing share prices of the Comparable Issues as set out above.

(d) Our view on the Conversion Price

We note that the Conversion Price represents a discount to the NAV per Share and the Reassessed NAV per Share, and that the discounts as represented by the Conversion Price are less favorable than the LTD Average Discount of the Comparable Issues. On the other hand, we also note that:

- (i) the closing price of the Shares had been below the NAV per Share during the entire Review Period;
- (ii) the Conversion Price was determined pursuant to the Sale and Purchase Agreement dated 29 September 2023 in relation to the Acquisition (the initial Conversion Price already represented substantial discount of approximately 86.05% to the then latest published NAV per Share as at the date of the Sale and Purchase Agreement), and the Acquisition (including the terms of the Convertible Bonds) had been approved by the independent shareholders of the Company;
- (iii) the Conversion Price is higher than the closing price of the Shares during most (81%) of the trading days in the Review Period; and



- (iv) the discounts as represented by the Conversion Price is within the LTD Discount/Premium Market Range, the 5-days Discount/Premium Market Range and the 90-days Discount/Premium Market Range of the Comparable Issues, and is more favorable than the 5-days Average Discount and 90-days Average Discount of the Comparable Issues.

Having considered the above, we are of the view that the Conversion Price is fair and reasonable. Accordingly, we are also of the view that the terms of the Proposed Conversion of the Convertible Bonds are fair and reasonable.

5. Financial effects of the Proposed Conversion of the Convertible Bonds

(i) Profit and loss

As advised by the Management, the Company would not incur further interest expenses on the Convertible Bonds upon conversion of the Convertible Bonds. Also, the Company will record a gain/loss upon the conversion of the Convertible Bonds, based on the difference between the valuation and the carrying book value of the Convertible Bonds immediately prior to the conversion. The actual amounts of the gain or loss as a result of the conversion of the Convertible Bonds to be recorded by the Group will be subject to the audit to be performed by the Company's auditors.

(ii) Gearing ratio

According to the 2024 Annual Report, the Group had gearing ratio (being total bank borrowings divided by net assets attributable to equity holders of the Company) of approximately 18.23% as at 31 December 2024. As if the conversion of the Convertible Bonds had been completed on 31 December 2024, the net assets attributable to equity holders of the Company would increase by the amount of the carrying amount of the Convertible Bonds and hence the gearing ratio of the Group would decrease to approximately 17.53%.

(iii) Asset-liability ratio

As set out in the 2024 Annual Report, as at 31 December 2024, the Group had total assets and total liabilities of approximately RMB6.29 billion and RMB2.26 billion respectively. The ratio of total assets over total liabilities of the Group was approximately 278.85% as at 31 December 2024. As if the conversion of the Convertible Bonds had been completed on 31 December 2024, the total liabilities of the Group would decrease by the amount of the carrying amount of the Convertible Bonds and hence the ratio of total assets over total liabilities of the Group would increase to approximately 298.93%.



As illustrated above, no more interest expenses would be incurred by the Group upon conversion of the Convertible Bonds. Also, the Group's gearing ratio and asset-liability ratio would improve as a result of the conversion of the Convertible Bonds, and thus improving the Group's financial position as well. We are of the view that such financial effects are in the interests of the Company and the Independent Shareholders as a whole.

6. *Dilution effect on the shareholding interests of the existing Shareholders*

According to the shareholding table in the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" of the Board Letter, the shareholding interests of the public Shareholders as at the Latest Practicable Date would be diluted (i) by approximately 9.36 percentage points immediately after the issuance of the Conversion Shares upon full conversion of the Convertible Bonds and (ii) by approximately 11.51 percentage points immediately after the issuance of the Conversion Shares upon full conversion of the Total Convertible Bonds. In this regard, taking into account (i) the reasons for and benefits of the Proposed Conversion of the Convertible Bonds; and (ii) the Conversion Price being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the Independent Shareholders is acceptable.

B. *The Whitewash Waiver*

As at the Latest Practicable Date, Joyview and its respective associates, together with any parties acting in concert with it, are interested in (i) an aggregate of 568,005,113 Shares, representing approximately 39.36% of the total issued share capital of the Company; (ii) the Convertible Bonds in an outstanding aggregate principal amount of HK\$141,623,810; and (iii) 1,000,000 outstanding Share Options which were granted to Mr. Zhu under the Share Option Scheme. Upon full conversion of the Convertible Bonds, 393,399,471 Conversion Shares will be issued to Joyview and therefore, Joyview and parties acting in concert with it will hold an aggregate of 961,404,584 Shares. The aggregate shareholding interests of Joyview and parties acting in concert with it will be increased from approximately 39.36% to approximately 52.35% of the issued share capital of the Company (as enlarged by the issuance of the Conversion Shares pursuant to the conversion of Convertible Bonds, assuming there is no other change in the issued share capital of the Company save for the issuance of such Conversion Shares).

As the aggregate interest of Joyview and its concert parties in the Company would increase by more than 2% following the Proposed Conversion of the Convertible Bonds, Joyview would be obliged to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code for all the issued Shares and other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) not already owned or agreed to be acquired by Joyview and parties acting in concert with it as a result of the allotment and issuance of the Conversion Shares to Joyview by the Company, unless the Whitewash Waiver is granted by the Executive.



In this regard, an application has been made by Joyview to the Executive for the Whitewash Waiver 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 of the Convertible Bonds on 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.

As mentioned earlier, the conversion of the Convertible Bonds is subject to fulfillment of the following Conversion Conditions and none of the such conditions can be waived by any party:

- (i) the Listing Committee having granted the approval for the listing of and permission to deal in the Conversion Shares, and such approval and permission having not been subsequently revoked;
- (ii) the Company being able to maintain any prescribed minimum percentage of its issued share capital held by the public as required under the Listing Rules upon conversion of the Convertible Bonds;
- (iii) 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
- (iv) the respective resolutions relating to the Proposed Conversion of the Convertible Bonds on 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.

As mentioned in the Board Letter, if any of the Conversion Conditions is not fulfilled, the Proposed Conversion of the Convertible Bonds will not take place and the Conversion Notice will be deemed to be withdrawn.

Given that the Proposed Conversion of the Convertible Bonds is conditional upon, amongst other, the granting of the Whitewash Waiver by the Executive, and the Whitewash Waiver has not been subsequently revoked or withdrawn, the Proposed Conversion of the Convertible Bonds will not proceed if the Whitewash Waiver is not granted by the Executive, or the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.



As set out in the section headed “3. Reasons for and benefits of the Proposed Conversion of the Convertible Bonds” of this letter above, taking into account the reasons for and benefits of the Proposed Conversion of the Convertible Bonds, we are of the view that Proposed Conversion of the Convertible Bonds is in the interests of the Company and the Independent Shareholders as a whole. In particular, it will be beneficial for the Group to retain its cash resources considering, among others, the substantial money required for the Cambodia Project, the decreasing cash and cash equivalents, substantial net debt position of the Group, and surging net debt to equity ratio of the Group. Also, the Proposed Conversion of the Convertible Bonds will further align the interests of the Company and Mr. Zhu (the controlling Shareholder, an executive Director, the chairman and chief executive officer of the Company), which will then encourage further commitment to developing the Group’s businesses in the long-term. We have also performed analysis on the Conversion Price and considered that the terms of the Proposed Conversion of the Convertible Bonds are fair and reasonable, further details of which are summarised in the subsection headed “(d) Our view on the Conversion Price” under the section headed “4. The Proposed Conversion of the Convertible Bonds” of this letter above. Accordingly, we are of the opinion that the approval of the Whitewash Waiver, which is one of the Conversion Conditions, is (a) in the interests of the Company and the Independent Shareholders as a whole; and (b) fair and reasonable for the purpose of proceeding with the Proposed Conversion of the Convertible Bonds.

As the aggregate interest of Joyview and its concert parties would exceed 50% as a result of the Proposed Conversion of the Convertible Bonds, if the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, Joyview may increase its interest in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a mandatory general offer.

OPINION AND RECOMMENDATION

As set out in this letter above, we are of the view that (i) the Proposed Conversion of the Convertible Bonds, although not in the ordinary course of business of the Group, is in the interests of the Company and the Independent Shareholders as a whole; and (ii) the terms of the Proposed Conversion of the Convertible Bonds are fair and reasonable. We are also of the opinion that the approval of the Whitewash Waiver, which is a one of the Conversion Conditions, is (a) in the interests of the Company and the Independent Shareholders as a whole; and (b) fair and reasonable for the purpose of proceeding with the Proposed Conversion of the Convertible Bonds.



Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Proposed Conversion of the Convertible Bonds and the Whitewash Waiver.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has fifteen years of experience in the corporate finance industry.

* *Unless the context otherwise requires, conversion of HK\$ into RMB is based on the exchange rate of 1:0.9226, and conversion of US\$ into RMB is based on the exchange rate of 1:7.1738. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in RMB, HK\$ or US\$ have been, could have been or may be converted at such or any other rates or at all.*