

15 March 2024

*To: The independent board committee and the independent shareholders
of Virtual Mind Holding Company Limited*

Dear Sir/Madam,

**CONNECTED TRANSACTION
IN RELATION TO
SUBSCRIPTION OF NEW SHARES BY CONNECTED PERSON**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Second Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 15 March 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 20 October 2023, the Company and the Second Subscriber entered into the Previous Subscription Agreement, pursuant to which the Company contemplated to allot and issue, and the Second Subscriber was desirous of subscribing for, 500,000,000 shares at the subscription price of HK\$0.10 per subscription share (i.e. the Previous Subscription). On 31 January 2024, as certain conditions precedent set out in the Previous Subscription Agreement were not fully satisfied or fulfilled, the Previous Subscription Agreement lapsed and the Previous Subscription did not proceed.

On 2 February 2024, the Company and the Second Subscriber entered into the Second Subscription Agreement, pursuant to which the Company contemplates to allot and issue, and the Second Subscriber is desirous of subscribing for, up to 400,000,000 Second Subscription Shares at the Second Subscription Price of HK\$0.10 per Second Subscription Share (i.e. the Second Subscription).

On 2 February 2024, the Company also entered into the First Subscription Agreement with the First Subscriber (who is a third party independent of and not connected with the Company and its connected persons), pursuant to which the Company contemplates to allot and issue, and the First Subscriber is desirous of subscribing for, up to 400,000,000 First Subscription Shares at the First Subscription Price of HK\$0.10 per First Subscription Share (i.e. the First Subscription). The Second Subscription Price equals to the First Subscription Price.

With reference to the Board Letter, the Second Subscription constitutes a connected transaction of the Company under the Listing Rules, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Tang Shu Pui Simon, Mr. Hon Ming Sang and Ms. Lo Wing Sze BBS, JP (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Second Subscription are on normal commercial terms and are fair and reasonable; (ii) whether the Second Subscription is conducted in the ordinary and usual course of the business of the Group and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Second Subscription Agreement and transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and/or the management of the Company. We have assumed that all information and representations that have been provided by the Directors, 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 the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Second Subscription. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Second Subscriber or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Second Subscription. 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. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other 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 Gram Capital 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 in respect of the Second Subscription, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Second Subscription

Information on the Group

With reference to the Board Letter, the Group is principally engaged in (i) design, manufacture and trading of apparel; (ii) provision of money lending business; and (iii) intellectual property (“IP”) application and products business.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2022 as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report") and six months ended 30 June 2023 ("1H2023") as extracted from the Company's interim results report for 1H2023 (the "2023 Interim Report"):

	For the six months ended 30 June 2023 HK\$'000 (unaudited)	For the year ended 31 December 2022 HK\$'000 (audited)	For the year ended 31 December 2021 HK\$'000 (audited)	Change from 2021 to 2022 Approximate%
Revenue	31,932	89,620	139,818	(35.90)
– Design, manufacturing and trading of apparels	26,431	74,337	129,254	(42.49)
– Money lending services	4,124	13,631	10,564	29.03
– Sale of trendy and cultural products	1,377	1,652	–	N/A
Gross profit	6,199	14,060	38,699	(63.67)
Loss for the year/period	(21,324)	(65,875)	(46,271)	42.37
Net cash used in operating activities	(29,041)	(81,009)	(58,792)	37.79
	As at 30 June 2023 HK\$'000	As at 31 December 2022 HK\$'000	As at 31 December 2021 HK\$'000	
Cash and cash equivalents	24,340	52,012	15,348	

As depicted from the table above, the Group's revenue decreased by approximately 35.90% from approximately HK\$140 million for the year ended 31 December 2021 ("FY2021") to approximately HK\$90 million for the year ended 31 December 2022 ("FY2022"), mainly attributable to decrease in revenue from design, manufacturing and trading of apparels (which is due to difficult environment in the principal markets of the Group's apparel operation, namely, Mainland China and Hong Kong).

The Group recorded loss of approximately HK\$66 million for FY2022, represented an increase of approximately 42.37% as compared to that of approximately HK\$46 million for FY2021. With reference to 2022 Annual Report, such increase was mainly due to (i) decrease in revenue and gross profit due to difficult environment; (ii) impairment loss on goodwill for the Group's money lending operation; and (iii) increase in administrative expenses, as partially offset by (a) gain on disposal of land and buildings; and (b) decrease in selling and distribution expenses.

The Group continued to make loss of approximately HK\$21 million for 1H2023, represented a decrease of approximately 47.95% as compared to that for the corresponding period in 2022. With reference to 2023 Interim Report, such decrease in loss was primarily due to reversal of expected credit loss on loans and interest receivables for 1H2023.

As depicted from the table above, the Group's net cash used in operating activities were approximately HK\$59 million for FY2021, approximately HK\$81 million for FY2022 and approximately HK\$29 million for 1H2023. The Group's cash and cash equivalents was approximately HK\$24 million as at 30 June 2023.

With reference to 2022 Annual Report, the Group will further expand its apparel portfolio and leverage trendy IPs to open up sportswear, children's wear and other markets. The Group will also grasp the opportunity to expand its business in the trendy cultural products closely related to apparel to seize the huge opportunities presented by the economic development of China.

Information on Second Subscriber

With reference to the Board Letter, the Second Subscriber is a company incorporated in the British Virgin Islands with limited liability and is an investment holding company. As at the date of the Second Subscription Agreement, the Second Subscriber is wholly and beneficially owned by Mr. Wong Kin Ting, the father of Mr. Wong who is an executive Director, and therefore the Second Subscriber is an associate of Mr. Wong and hence a connected person of the Company under Chapter 14A of the Listing Rules.

Reasons for and benefits of the Second Subscription and use of proceeds

With reference to the Board Letter, the Second Subscription reflects the confidence and support for the development of the Company by the Second Subscriber. The Second Subscription will further strengthen the capital base and financial position of the Company and lay down a more solid foundation for the future business development.

Financing alternatives

As advised by the Directors, in light of the prevailing financial conditions of the Group, the Board considers the Subscriptions (including the Second Subscription) to be a suitable financial option as compared to other means of financing as it enables the Group to raise capital without increasing interest burden on the Group. The Directors further advised that they also considered other forms of fund raising methods for the Group, such as other equity financing (i.e. rights issue or open offer) and debt financing, before conducting the Subscriptions (including the Second Subscription).

In respect of the debt financing, it will incur additional finance costs and increase gearing level of the Group and may be subject to lengthy due diligence and negotiations with lenders. Having also taken into account that the Company intends to apply part of the net proceeds from the Second Subscription for repayment of the Group's outstanding liabilities, the Directors considered that debt financing is not an optimal financing method.

In respect of rights issue or open offer, the Directors considered that (i) such fundraising activities may incur additional costs, including but not limited to underwriting commission and other professional fees; (ii) given the Group's loss-making position for FY2021, FY2022 and 1H2023, the Company may have difficulties in seeking underwriter; and (iii) if the rights issue or open offer is not underwritten, its results will be uncertain.

Based on the above factors, the Directors considered that the Second Subscription is a suitable financial option as compared to other means of financing.

Use of proceeds

With reference to the Board Letter, it is expected that net proceeds from the Second Subscription (after deduction of relevant expenses of the Second Subscription) will be up to approximately HK\$39.72 million (the “**Net Proceeds**”). The Company intends to apply the Net Proceeds as to (i) approximately HK\$9.79 million for repayment of outstanding liabilities (the “**Net Proceeds for Repayment**”); (ii) approximately HK\$11.88 million for provision of general working capital (the “**Net Proceeds for WC**”); and (iii) approximately HK\$18.05 million for existing projects’ business development (the “**Net Proceeds for BD**”), of which approximately HK\$6.27 million will be applied to the Honor of Kings Project and approximately HK\$11.78 million will be applied to the Other Project.

Upon our enquiry, the Directors advised us that Net Proceeds for Repayment will improve the Group’s financial position.

We understood from the Company that the Net Proceeds for WC may be applied for the Group’s daily operation needs, such as office and administrative expenses, professional fees and annual listing fee. In addition, as discussed in the section headed “Information on the Group” above, the Group’s net cash used in operating activities were approximately HK\$59 million for FY2021, approximately HK\$81 million for FY2022 and approximately HK\$29 million for 1H2023. Accordingly, we also consider that the Net Proceeds for WC can support the Group’s business operation.

With reference to the Company’s announcement dated 20 November 2023, the Company’s wholly-owned subsidiary has entered into a production and sales licensing contract with a subsidiary of Tencent, obtaining the non-exclusive licensing from Tencent for the Group to produce and sell water cup peripheral merchandise of the online game Honor of Kings in the People’s Republic of China (excluding Hong Kong, Macao and Taiwan) (the “**PRC**”) (i.e. the Honor of Kings Project). In addition, the Directors advised us that the Group plans to produce and sell the trendy and cultural products of another popular online game in the PRC (i.e. the Other Project).

The Directors advised us that the Net Proceeds for BD will be used in (i) the Honor of Kings Project; and (ii) the Other Project. For our due diligence purpose, we obtained (i) further breakdown of the Net Proceeds for BD; and (ii) certain copies of the supporting documents relating to (a) the Honor of Kings Project; and (b) the Other Project.

With reference to 2022 Annual Report, the Group commenced sale of trendy and cultural products and generated revenue from this segment in FY2022. We consider that the Net Proceeds for BD can facilitate the business development of this newly commenced segment, which also aligns with the Group’s business strategy.

Having considered (i) reasons for and benefits of the Second Subscription as mentioned above; (ii) the Second Subscription is a suitable financial option as compared to other means of financing; and (iii) that the proposed use of the Net Proceeds will improve the Group's financial position and facilitate the Group's business development and operation, we are of the view that although the Second Subscription is not conducted in the ordinary and usual course of business of the Group, it is in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Second Subscription

Set out below are the summarised terms of the Second Subscription as contemplated under the Second Subscription Agreement, details of which are set out under the section headed "THE SECOND SUBSCRIPTION AGREEMENT" of the Board Letter.

Date: 2 February 2024 (the "Agreement Date")

Parties: (a) the Company (as the issuer); and
(b) King Castle Enterprises Limited (as the subscriber).

Second Subscription Shares:

The 400,000,000 Second Subscription Shares represent (i) approximately 18.47% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 15.59% of the total number of issued Shares as enlarged by the allotment and issue of the Second Subscription Shares (assuming no other change in the issued share capital of the Company from the Latest Practicable Date to the Second Subscription Completion Date).

Subscription price:

The Second Subscription Price is HK\$0.10 per Second Subscription Share, which represents:

- (i) a discount of approximately 15.25% to the closing price of HK\$0.118 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 23.66% to the closing price of HK\$0.131 per Share as quoted on the Stock Exchange on the Agreement Date (the "Agreement Date Discount");
- (iii) a discount of approximately 24.81% to the average closing price of approximately HK\$0.133 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Agreement Date (the "5-Day Discount"); and
- (iv) a premium of approximately 7.53% over the Company's unaudited consolidated net asset value per Share as at 30 June 2023 of approximately HK\$0.093 (calculated by equity attributable to the owners of the Company of approximately HK\$201 million as at 30 June 2023 and 2,165,276,324 Shares in issue as at the Latest Practicable Date).

With reference to the Board Letter, the Second Subscription Price was determined with reference to the prevailing market price of the Shares and was negotiated on an arm's length basis between the Company and the Second Subscriber.

Analysis on the Second Subscription Price

In order to assess the fairness and reasonableness of the Second Subscription Price, we conducted the following analysis:

a) *Share price performance*

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 1 February 2023 to Agreement Date, being a period of approximately one year up to and including the Agreement Date (the "Shares Review Period"), to illustrate the general trend and level of movement of the closing prices of the Shares:



Source: the Stock Exchange's website

During the Shares Review Period, the highest and lowest closing prices of Shares as quoted on the Stock Exchange were HK\$0.240 recorded on 3 March 2023 and 8 March 2023 and HK\$0.086 recorded on 15 November 2023 respectively. The Second Subscription Price falls within the aforesaid closing price range.

During the Shares Review Period, the closing price of the Shares decreased from HK\$0.226 on 1 February 2023 to HK\$0.086 on 15 November 2023. Subsequently, the closing price of Shares remained at relatively low level and surged significantly to HK\$0.169 on 1 December 2023. Thereafter, the closing price of the Shares followed a decreasing trend and reached HK\$0.131 on the Agreement Date.

b) Comparables

As part of our analysis, we also identified subscription of new ordinary shares listed on the Stock Exchange under specific mandate for cash consideration (excluding transactions involving restructuring) which were announced by Hong Kong listed companies (and were not lapsed or terminated) during the three-month period from 2 November 2023 up to and including the Agreement Date. We found 10 transactions (the “**Comparables**”) which met the said criteria and they are exhaustive. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables.

Company name (stock code)	Date of announcement	Involving connected transaction (%)	Status as at Latest Practicable Date (%)	Premium/ (discount) of the subscription price to the average closing price per share for the last five consecutive trading days immediately prior to the date of the agreement in relation to the respective subscription of new shares	Premium/ (discount) of the subscription price to the closing price per share on the date of the agreement in relation to the respective subscription of new shares
Denox Environmental & Technology Holdings Limited (1452)	6 November 2023	Yes	Completed	(4.00)	2.13
Hopefluent Group Holdings Limited (733)	6 November 2023	Yes	Terminated	73.12 (Note)	75.00 (Note)
InvesTech Holdings Limited (1087)	7 November 2023	No	Completed	(9.52)	(9.09)
Creative China Holdings Limited (8368)	10 November 2023	Yes	Completed	(10.17)	(7.99)
OSL Group Limited (formerly known as BC Technology Group Limited) (863)	14 November 2023	No	Completed	(22.76)	(4.81)
Chuan Holdings Limited (1420)	17 November 2023	Yes	Completed	–	–
Greatview Aseptic Packaging Company Limited (468)	30 November 2023	No	Pending	(5.26)	(3.57)
Cornerstone Technologies Holdings Limited (8391)	22 December 2023	Yes	Pending	17.14	13.57
ZO Future Group (2309)	12 January 2024	Yes	Pending	(15.00)	(11.41)
Renaissance Asia Silk Road Group Limited (274)	30 January 2024	No	Pending	(39.13)	(31.71)
Maximum (excluding outlier)				17.14	13.57
Minimum (excluding outlier)				(39.13)	(31.71)
Average (excluding outlier)				(9.86)	(5.88)
The Second Subscription	2 February 2024			(23.66)	(24.81)

Source: the Stock Exchange's website

Note: The premium of relevant transaction was exceptionally high and considered to be an outlier.

According to the above table, the subscription prices of the Comparables (excluding outlier) ranged from a discount of approximately 39.13% to a premium of approximately 17.14%, with average discount of approximately 9.86% to the respective closing prices of the shares on the date of agreement in relation to the respective subscription (the “**Agreement Date Discount/Premium Market Range**”). The Agreement Date Discount falls within the Agreement Date Discount/Premium Market Range.

According to the above table, the subscription prices of the Comparables (excluding outlier) ranged from a discount of approximately 31.71% to a premium of approximately 13.57% with average discount of approximately 5.88% to the respective average closing prices of the shares for the last five consecutive trading days immediately prior to the dates of agreement in relation to the respective subscription of new shares (the “5-Day Discount/Premium Market Range”). The 5-Day Discount also falls within the 5-Day Discount/Premium Market Range.

Having considered the following factors, including:

- (i) the Agreement Date Discount falls within the Agreement Date Discount/Premium Market Range;
- (ii) the 5-Day Discount falls within the 5-Day Discount/Premium Market Range;
- (iii) the Second Subscription Price falls within the closing price range of the Shares during the Shares Review Period; and
- (iv) the Second Subscription Price equals to the First Subscription Price under the First Subscription Agreement, whereas the First Subscriber is a third party independent of and not connected with the Company and its connected persons,

we are of the view that the Second Subscription Price is fair and reasonable.

Having considered the principal terms of the Second Subscription as set out above, we are of the view that the terms of the Second Subscription are on normal commercial terms and are fair and reasonable.

3. Possible dilution effect on the shareholding interests of the public Shareholders

With reference to the shareholding table in the section headed “12. EFFECTS ON SHAREHOLDING STRUCTURE” of the Board Letter, the shareholding interests of the other public Shareholders would be diluted by approximately 13.39 percentage points from approximately 85.92% as at the Latest Practicable Date to approximately 72.53% immediately after completion of the Second Subscription (assuming no other change in the issued share capital of the Company from the Latest Practicable Date to the Second Subscription Completion Date). Taking into account (i) the aforementioned reasons for and benefits of the Second Subscription; and (ii) the terms of the Second Subscription being fair and reasonable, we are of the view that the aforesaid dilution is acceptable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Second Subscription are on normal commercial terms and are fair and reasonable; and (ii) although the Second Subscription is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Second Subscription and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.