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CORNERSTONE TECHNOLOGIES HOLDINGS LIMITED
基石科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8391)

SUPPLEMENTAL ANNOUNCEMENT
CONNECTED TRANSACTION
IN RELATION TO SETTLEMENT OF LOAN
THROUGH SUBSCRIPTION OF NEW SHARES

Reference is made to the announcement of Cornerstone Technologies Holdings Limited (the “**Company**”) dated 21 January 2025, regarding, among others, the connected transaction in relation to settlement of loan through subscription of new shares (the “**Transaction**”) (the “**Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Company would like to provide the following further information on the Transaction as disclosed in the Announcement.

The Shareholders’ Loan was structured with a long-term tenure to facilitate the ongoing expansion of the Company both in Hong Kong and internationally. The Company’s plan involved repaying the Shareholders’ Loan gradually using operating cash flow as it became available over time.

Both Mr. Liang Zihao (“**Mr. Liang**”) and Ms. Wu Yanyan (“**Ms. Wu**”) were informed of the funding requirements and the repayment plan prior to their agreement to support the Company through the Shareholders’ Loan. In addition, both Mr. Liang and Ms. Wu reached a mutual agreement with the Company regarding the terms and nature of the Shareholders’ Loan.

The decision of settling the Debts (collectively Debt (A) and Debt (B)) provided by Mr. Liang and Ms. Wu, through the subscription of new shares was made to maintain cash flow liquidity for ongoing projects, ensuring funds for daily operations, and providing a buffer against market fluctuation for the Company. The Board assessed that the terms and conditions of the Deed are fair and reasonable, and also reflects the ongoing support to the Company by the Shareholders.

DEED OF SETTLEMENT OF DEBT

The Debts

	Debt (A)	Debt (B)
Lender	Mr. Liang	Ms. Wu
Principal amount	HK\$1,000,000	HK\$14,664,960
Interest	6.0% per annum	6.0% per annum
Repayment	Repayment on demand with 14-day notice from the Creditor (A)	Repayment on demand with 14-day notice from the Creditor (B)

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Company has fully utilised the Debts of approximately HK\$15.7 million by September 2024, the Debts were used for general working capital purposes included funding day-to-day operational expenses, staff affairs, and fulfilling other short-term expenses.

In 2024, the Company had high volume of trade orders for electric vehicle (“EV”) charging solutions, the Company had encountered greater expenditure than anticipated related to subcontractors and suppliers for the procurement of EV charging hardware. The nature of the trade orders and EHSS projects necessitates substantial prepayments for contractor services and hardware procurement. However, many of the payments from the projects have been delayed on the customer side, increased in accounts receivable and increased pressures in the Company’s cash flow. The Board then arranged the Shareholders’ Loan of approximately HK\$15.7 million.

The Company intended to repay the Shareholders’ Loan with the accounts receivable associated with these trade orders. By the end of 2024, the Company had received payments for these accounts receivables. However, the Board after considering the pace of new orders continuing to increase, then decided that the Debts would continue to be utilised to support the completion of these new and upcoming trade orders.

In considering alternative financing methods, the Board undertook a thorough assessment of various options available to the Company. Although the interest rate on the Debts is higher than the common market lending rate, the Board determined that the immediacy and flexibility provided by these loans were paramount. Given the prevailing market conditions and the Company’s financial position at that time, other sources of debt financing and bank borrowing would require pledge of assets of the Company; other equity financing such as placing of new shares and rights issues usually require attractive discount to the prevailing market price of the Shares and is relatively more time consuming.

The Board has carefully reviewed this matter in light of the Company's current financial position and operational needs. According to the interim report of the Company for the six months ended 30 June 2024, the Company maintained bank balances and cash amounting to approximately HK\$3 million and bank borrowings of approximately of HK\$58.7 million, the net proceeds from the August Placing (as defined below) of HK\$24 million, while the outstanding Debts amounted to HK\$15.7 million.

Reference is made to the announcements of the Company dated 2 August 2024 and 29 August 2024 in relation to the placing of new shares under general mandate (the “**August Placing**”). After thorough deliberation, the Board has decided against utilising the unutilised proceeds from the August Placing to settle the Debts for several key reasons.

Firstly, cash flow liquidity for ongoing projects, the Company is actively engaged in several projects locally and overseas that require sustainable cash flow liquidity. It is imperative to ensure that the Company has adequate funds available to support these initiatives and meet project milestones efficiently.

Secondly, operational cash flow requirements, maintaining a robust cash flow is essential for the Company's daily operations. The decision not to settle the Debts with the proceeds from the August Placing allows the Company to preserve liquidity, ensuring that the Company can manage operational expenses and any unforeseen financial commitments that may arise.

Lastly, strategic financial management, the Board believes in a prudent approach to financial management. Retaining a portion of the proceeds from the August Placing will provide the Company with a buffer against potential market fluctuations and enhance our financial flexibility in the coming months.

The Board has thoroughly assessed the Company's financial position, including the bank balance of HK\$52.25 million as at 31 December 2024, alongside the cash flows generated from the recent issuance of convertible notes. As at 31 December 2024, total payables amount to HK\$75 million, of which HK\$25 million of the project-related payables were due within 30 days and HK\$8.6 million due within 60 days. The Board understands the urgency of meeting these obligations. Despite the bank balance appearing sufficient, HK\$20 million of the cash balance is from the convertible notes as is allocated for working capital purposes. Given the continuous increase in trade orders, amounting to HK\$22 million, the Board has concluded that utilizing the Shareholders' Loan is essential in supporting the fulfilment of these new and upcoming orders while ensuring operational stability.

After careful consideration, the Board concluded that the Loan Capitalisation is in the best interests of the Company and the Shareholders due to:

- (i) Reduction in indebtedness – The Loan Capitalisation alleviates financial pressure by reducing outstanding liabilities, thereby improving the Group's financial position.

- (ii) Avoidance of high gearing ratio – Unlike additional debt financing, which would increase financial leverage, the Loan Capitalisation strengthens the balance sheet without increasing debt obligations.
- (iii) Confidence and support from Shareholders – The Loan Capitalisation demonstrates the strong commitment and confidence of the Creditors in the Group’s long-term development, signaling positive sentiment to the market.
- (iv) Minimization of funding costs and dilution impact – Compared to alternative equity financing options that typically require a significant discount to attract investors, the Loan Capitalisation is a cost-effective method that minimizes potential dilution impact while securing necessary funding.

The Board has evaluated various repayment options and considers the issuance and allotment of Shares under a specific mandate to be a viable and prudent settlement method for the Shareholders’ Loan. This decision is rooted in the recognition of the Company’s potential growth and the immediate cash flow requirements to honor client obligations. The Board believes that this approach is in the best interest of the Company and the Shareholders, as it does not compromise existing operational cash flow while enabling the settlement of the Shareholders’ Loan.

While the Board acknowledges the potential dilution effect on existing Shareholders and the associated compliance costs under the GEM Listing Rules, including the preparation of circular and convening of a general meeting, it has determined that the anticipated benefits, such as strengthened capital for operational continuity and enhanced market confidence, outweigh these factors. The issuance of Shares, especially with the chairman’s backing, is expected to instill greater confidence in the market regarding the Company’s direction and future prospects. The Board confirms that both Mr. Liang and Ms. Wu were abstained from voting on the Board resolution approving the Loan Capitalisation.

The Board assesses that the term and condition of the Debts are fair and reasonable, as the Debts were crucial for resolving immediate cash flow challenges stemming from delayed customer payments. The Debts were necessary to bridge the gap between project expenditures and incoming payments, ensuring operational continuity without resorting to more costly alternatives. Additionally, the liquidity provided by the Debts allowed the Company to fulfill contracts and maintain customer relationships, which supports long-term growth and benefits all shareholders. Ultimately, the Shareholders acted in the best interests of the Company by providing essential funding to navigate its financial pressures effectively.

The Directors have fulfilled their fiduciary duties and exercised due skill, care, and diligence regarding the Debts by ensuring informed decision-making through comprehensive information on funding requirements, prioritizing the interests of the Company and Shareholders in securing loans for substantial orders from reputable clients, conducting thorough risk assessments to weigh benefits against potential risks, and positioning the Debts as the most effective solution, and maintaining open communication with Shareholders about the rationale for the Debts.

By Order of the Board
Cornerstone Technologies Holdings Limited
LIANG Zihao
Co-Chairman and Executive Director

Hong Kong, 15 May 2025

As at the date of this announcement, the executive Directors are Mr. LIANG Zihao, Mr. WU Jianwei, Mr. LI Man Keung Edwin, Mr. YIP Shiu Hong, Mr. HO Karl, Mr. PAN Wenyuan and Ms. WU Yanyan, the non-executive Director is Mr. KOH Herbin Puay Teck and the independent non-executive Directors are Ms. IP Ka Lai, Mr. LI Michael Hankin, Ms. SO Sze Wan Lisa and Mr. TAM Ka Hei Raymond.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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