

24 December 2024

*To the Independent Board Committee and the Independent Shareholders of
Zhong Ji Longevity Science Group Limited*

Dear Sirs or Madams,

**MAJOR AND CONTINUING CONNECTED TRANSACTION
IN RELATION TO
THE 2025 REVOLVING LOAN AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps, particulars of which are set out in the letter from the Board (the **“Letter from the Board”**) contained in the circular dated 24 December 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 11 November 2024 (after trading hours), Joy Wealth (a wholly-owned subsidiary of the Company), as the lender, and HK Zhong Ji 1, Asian Integrated, International Medical and Longevity Medical, as the borrowers and Mr. Yan Li as the Guarantor, entered into the 2025 Revolving Loan Agreement pursuant to which, among other things, the Lender has conditionally agreed to grant the 2025 Revolving Loan in the principal amount of up to a maximum of HK\$30,000,000 to the Borrowers for a term from the Effective Date and up to 31 December 2027 for the purpose of financing new business development projects and general working capital of the Borrowers subject to the terms and conditions therein.

Head office 總辦事處:

Room A, 17/F, Fortune House, 61 Connaught Road Central, Central, Hong Kong
香港中環干諾道中61號福興大廈17樓A室

Branch office 分辦事處:

Unit B, 15/F, Two Chinachem Plaza, 68 Connaught Road Central, Central, Hong Kong
香港中環干諾道中68號華懋廣場二期15樓B室

LISTING RULES IMPLICATIONS

As the highest relevant applicable percentage ratio (as defined in the Listing Rules) in respect of the 2025 Revolving Loan Agreement and the transactions contemplated thereunder exceeds 25% but less than 100%, it constitutes a major transaction for the Company and is therefore subject to the reporting, announcement, circular and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, HK Zhong Ji 1, Asian Integrated, International Medical and Longevity Medical are connected persons of the Company as Mr. Yan Li is a Director of the Company and holds approximately 8.99% of the issued share capital of the Company. Asian Integrated, International Medical and Longevity Medical are wholly-owned by Osteoarticular Medical, which in turn is wholly-owned by Mr. Yan Li, while HK Zhong Ji 1 is 94.0% owned by Mr. Yan Li, 5.0% owned by Ms. Ma Yufeng and 1.0% owned by Mr. Zhou Rongliang, respectively. Therefore, the entering into the 2025 Revolving Loan Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the amount of the 2025 Revolving Loan or the Proposed Annual Caps exceeds 25% and the amount of the 2025 Revolving Loan or the Proposed Annual Caps exceeds HK\$10,000,000, the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps constitute a continuing connected transaction for Company and are therefore subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The SGM will be convened and held to consider and, if thought fit, approve the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps by the Independent Shareholders by way of poll. Mr. Yan Li and his associates will abstain from voting in respect of the resolution(s) approving the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps at the SGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Lee See Barry, Mr. Huang Jiang and Prof. Huang Cibo, all being independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendations of the Independent Financial Adviser. We, Alpha Financial Group Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

OUR INDEPENDENCE

In the last two years, prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Group and its associates that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence as defined under Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the “**Management**”); and (iv) our review of the relevant public information.

We have assumed that all the information provided, and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon and continue to be so up to the date of the SGM. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and continue to be so up to the date of the SGM and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM. Independent Shareholders will be informed of any material change of information and the representations made or referred to in the Circular as soon as possible up to the date of the SGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. In formulating our recommendation in relation to the 2025 Revolving Loan and the Proposed Annual Caps and pursuant to Rule 13.80(2), we have obtained and reviewed the relevant information in relation to the 2025 Revolving Loan and the Proposed Annual Caps, among others, (i) the annual report for the year ended 31 December 2023 of the Company (the “**2023 Annual Report**”); (ii) the interim report for the six months ended 30 June 2024 of the Company (the “**2024 Interim Report**”); (iii) the 2025 Revolving Loan Agreement; (iv) the recent announcements of the Company; and (v) the information set out in the Circular.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter. We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made, or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the 2025 Revolving Loan and the Proposed Annual Caps and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1 Background And Financial Information

A. Information on the Group

The principal activity of the Company is investment holding and through its subsidiaries, engaging in the business of longevity science business, money lending and financial advisory business, securities and other investments and property investments.

B. Financial Information of the Group

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 December 2022 and 2023 (“FY2022” and “FY2023”, respectively) and the six months ended 30 June 2023 and 2024 (“6M2023” and “6M2024”, respectively), as extracted from the 2023 Annual Report and the 2024 Interim Report:

	6M2024 <i>HK\$'000</i> (unaudited)	6M2023 <i>HK\$'000</i> (unaudited)	FY2023 <i>HK\$'000</i> (audited)	FY2022 <i>HK\$'000</i> (audited)
Revenue	42,403	29,911	64,989	89,668
Cost of sales	(9,127)	(3,424)	(8,709)	(5,831)
Gross profit	33,276	26,487	56,280	83,837
Profit/(loss) for the year/ period attributable to owners of the Company	(1,021)	1,938	2,313	(904)
	As at 30 June 2024 <i>HK\$'000</i> (unaudited)	As at 31 December 2023 <i>HK\$'000</i> (audited)	As at 31 December 2022 <i>HK\$'000</i> (audited)	
Non-current assets	178,361	185,783	175,269	
Current assets	320,472	323,471	309,570	
Total assets	498,833	509,254	484,839	
Non-current liabilities	2,009	5,445	637	
Current liabilities	64,711	73,344	63,353	
Total liabilities	66,720	78,789	63,990	
Cash and cash equivalents	78,705	81,075	60,069	
Net current assets	255,761	250,127	246,217	
Equity attributable to owners of the Company	406,797	403,403	393,829	

FY2023 vs FY2022

For FY2023, the Group recorded a total revenue of approximately HK\$65.0 million, representing a decrease of approximately HK\$24.7 million, or approximately 27.5%, as compared to the total revenue of approximately HK\$89.7 million for FY2022. For FY2023, the Group recorded gross profit of approximately HK\$2.5 million, representing an increase of approximately HK\$1.8 million, or approximately 160.0%, as compared to a gross profit of approximately HK\$0.7 million for FY2022.

During FY2023, the longevity science business contributed revenue of approximately HK\$31.3 million (FY2022: approximately HK\$43.9 million) and a segment loss of approximately HK\$24.0 million (FY2022: profit of approximately HK\$9.0 million). The segmental loss was mainly due to the increased related expenses of marketing, advertising and promotion activities for the longevity science business invested by the Group during FY2023.

During FY2023 the money lending and financial advisory business contributed revenue of approximately HK\$33.7 million (FY2022: approximately HK\$45.7 million) and a segment profit of approximately HK\$25.4 million (FY2022: approximately HK\$30.9 million). The decrease in segmental results was due to a decrease in interest receivables balances derived by the strategic partners loan portfolio in the PRC stated in other receivables for FY2023.

As at 31 December 2023, the Group recorded cash and cash equivalents amounting to approximately HK\$81.1 million (31 December 2022: approximately HK\$60.1 million), loan and interest receivables of approximately HK\$177.7 million (31 December 2022: approximately HK\$172.3 million), deposits, prepayments and other receivables of approximately HK\$196.6 million (31 December 2022: approximately HK\$184.0 million) and the net current assets value amounting to approximately HK\$250.1 million (31 December 2022: approximately HK\$246.2 million).

The gearing ratio of the Group as at 31 December 2023 (defined as the Group's total interest-bearing borrowings divided by the Group's total equity) was approximately 2.1% (31 December 2022: approximately 1.6%).

6M2024 vs 6M2023

For 6M2024, the Group recorded a total revenue of approximately HK\$42.4 million, representing an increase of approximately HK\$24.7 million, or approximately 41.8%, as compared to the total revenue of approximately HK\$29.9 million for 6M2023. For 6M2024, the Group recorded gross loss of approximately HK\$0.9 million, representing a decrease of approximately HK\$2.9 million, or approximately 147.3%, as compared to a gross profit of approximately HK\$1.9 million for 6M2023.

During 6M2024, the longevity science business contributed revenue of approximately HK\$25.2 million (6M2023: approximately HK\$11.9 million) and a segment loss of approximately HK\$4.3 million (6M2023: approximately HK\$13.3 million). During 6M2024, the existing Shenzhen sales center operated smoothly, but due to the revocation of the day care license, a new sales center is being established in Hong Kong, incurring setup costs.

During 6M2024, the money lending and financial advisory business contributed revenue of approximately HK\$17.2 million (6M2023: approximately HK\$18.0 million) and a segment profit of approximately HK\$16.2 million (6M2023: approximately HK\$36.3 million). The decrease in segmental results was due to a decrease in interest receivables balances derived by the strategic partners loan portfolio in the PRC for 6M2024.

As at 30 June 2024, the Group recorded cash and cash equivalents amounting to approximately HK\$78.7 million (31 December 2023: approximately HK\$81.1 million), loan and interest receivables of approximately HK\$178.1 million (31 December 2023: approximately HK\$177.7 million), deposits, prepayments and other receivables of approximately HK\$197.4 million (31 December 2023: approximately HK\$196.6 million) and the net current assets value amounting to approximately HK\$255.8 million (31 December 2023: approximately HK\$250.1 million).

The gearing ratio of the Group as at 30 June 2024 (defined as the Group's total interest-bearing borrowings divided by the Group's total equity) was approximately 2.7% (31 December 2023: approximately 2.1%).

C. The Borrowers

HK Zhong Ji 1

HK Zhong Ji 1 is a company incorporated in Hong Kong with limited liability. The principal activities of HK Zhong Ji 1 include providing cell testing, enhancement, and medical treatments with its biological products division specializing in the development, production and sale of health products.

Asian Integrated

Asian Integrated is a company incorporated in Hong Kong with limited liability. Asian Integrated is an autoimmune cell bank. Its facilities are implementing the standards set forth by FDA, PIC/S cGMP, ISBT128, AABB, FACT and ISBT 128. Storing 300,000 pieces immune cell per international cells storage high standards. Asian Integrated offers registered medical tests or laboratory tests such as advanced tumor cell screening, immunity/killer T cell tests, joint health blood and micronutrients tests, female and male fertility as well as salivary hormone tests, comprehensive thyroid assessments, and patented third-generation whole genome sequencing genetic tests. Its other auxiliary, non-medical treatments together with cells managements presently offer hair cell revitalization and supernatant fluid skin energizing.

International Medical

International Medical is a company incorporated in Hong Kong with limited liability. International Medical operates with Asian Integrated's life management division on application of cell and gene revitalize management, offering cell testing, storage, enhancement, and medical treatments; and specializes in the development, production, and sale of health products such as NMN and sustained-release vitamin C tablets.

Longevity Medical

Longevity Medical is a company incorporated in Hong Kong with limited liability. Longevity Medical is set up for working together with others research entities, advance clinical centre or laboratory in the PRC, Japan and any other regions co-sharing pioneer technology on harnessing nature's own approaches to eradicating cancer and disease: the cytotoxic or killer T cell, precision allogeneic T cell development platform for broadly applicable approach for developing convenient and reasonably priced cellular immunotherapies for the treatment of acute viral infections, long-term consequences of viral infections such viral- and non-viral-induced cancers, and certain neurological disorders. Longevity Medical has long history on success of kneel cap cells recovery.

As at the Latest Practicable Date, HK Zhong Ji 1, Asian Integrated, International Medical and Longevity Medical are connected persons of the Company as Mr. Yan Li is a Director of the Company and holds approximately 8.99% of the issued share capital of the Company. Asian Integrated, International Medical and Longevity Medical are wholly-owned by Osteoarticular Medical, which in turn is wholly-owned by Mr. Yan Li, while HK Zhong Ji 1 is 94.0% owned by Mr. Yan Li, 5.0% owned by Ms. Ma Yufeng and 1.0% owned by Mr. Zhou Rongliang, respectively. Both Ms. Ma Yufeng and Mr. Zhou Rongliang are Independent Third Parties.

D. The Guarantor

Mr. Yan Li, as the Guarantor, has entered into the 2025 Revolving Loan Agreement with the Lender and the Borrowers, under which he undertakes to guarantee the Borrowers' repayment obligations as specified in the 2025 Revolving Loan Agreement.

2 The 2025 Revolving Loan

As disclosed in the Letter from the Board, on 11 November 2024 (after trading hours), Joy Wealth (a wholly-owned subsidiary of the Company), as the lender, and HK Zhong Ji 1, Asian Integrated, International Medical and Longevity Medical, as the borrowers and Mr. Yan Li as the Guarantor, entered into the 2025 Revolving Loan Agreement pursuant to which, among other things, the Lender has conditionally agreed to grant the 2025 Revolving Loan in the principal amount of up to a maximum of HK\$30,000,000 to the Borrowers for a term from the Effective Date and up to 31 December 2027 for the purpose of financing new business development projects and general working capital of the Borrowers subject to the terms and conditions therein.

The 2025 Revolving Loan Agreement

The principal terms and conditions of the 2025 Revolving Loan Agreement are set out below:

Date	:	11 November 2024
Lender	:	Joy Wealth
Borrowers	:	HK Zhong Ji 1, Asian Integrated, International Medical and Longevity Medical
Guarantor	:	Mr. Yan Li
Term	:	From the Effective Date and up to 31 December 2027
Effective Date	:	The 2025 Revolving Loan Agreement will be effective on 1 January 2025 or such later date on which all the conditions precedent therein having been fulfilled or waived (to the extent permissible).

- Principal amount of the 2025 Revolving Loan : Up to a maximum of HK\$30,000,000
- The Borrowers may draw the 2025 Revolving Loan in a minimum amount of HK\$500,000 and in integral multiple(s) of HK\$100,000 per advance from the Effective Date. Any repaid principal amount of the 2025 Revolving Loan will be available for drawing within the term of the 2025 Revolving Loan Agreement provided that the aggregate outstanding principal amount of the 2025 Revolving Loan shall not exceed HK\$30,000,000 at any time during the term.
- Purpose of the 2025 Revolving Loan : Pursuant to the terms and conditions of the 2025 Revolving Loan Agreement, the 2025 Revolving Loan shall be used to finance new business development projects and general working capital of the Borrowers.
- Interest rate : Interest shall accrue at ten (10.0)% p.a. on the outstanding principal amount of the 2025 Revolving Loan and shall be calculated on the actual number of days elapsed and on the basis of a 365-day year.
- The interest rate was agreed upon by the Lender and the Borrowers with reference to commercial practice and after arm's length negotiations taking into account the Lender's cost of capital and the prevailing market interest rates, such as the 12-month Hong Kong interbank offered rate offered by major banks in Hong Kong.
- Default interest rate : If any Borrower fails to pay any sum payable under the Revolving Loan Agreement when due, such Borrower shall pay interest on such sum from the due date up to the date of actual payment at a rate which is ten (10.0%) p.a. above the rate specified in the 2025 Revolving Loan Agreement. Such default interest shall be compounded monthly and payable on demand.
- Interest shall be paid by the relevant Borrower regarding the part of the 2025 Revolving Loan drawn by it in arrears on the last date of any interest period, i.e. the successive period of six (6) months with the first interest period commencing from the drawdown date of the 2025 Revolving Loan drawn by such Borrower.

Upon occurrence of an event of default, the Lender will initiate a recovery process beginning with a formal default notice and immediate demand for full repayment of outstanding principal and interest. The Lender will simultaneously enforce the personal guarantee provided by the Guarantor while engaging with the defaulting Borrower to establish a repayment plan. If the initial recovery measures prove insufficient, the Company will commence legal proceedings in Hong Kong courts against both the Borrowers and the Guarantor, including potential statutory demands and enforcement actions against their respective assets to recover the outstanding amounts.

- Drawdown : Advances can be made in HK\$ in a minimum amount of HK\$500,000 and in integral multiple(s) of HK\$100,000, subject to availability as determined at the Lender's discretion. A Borrower shall give the Lender prior written notice of each advance proposed of not less than 14 Business Days.
- Maturity date (the "**Maturity Date**") : The last Business Day before the end of the term of the 2025 Revolving Loan Agreement, i.e. 31 December 2027.
- Repayment : All interest on the 2025 Revolving Loan shall be repaid at the end of the relevant interest period and all amounts due and owing under the 2025 Revolving Loan Agreement shall be repaid in full by the Borrowers no later than the Maturity Date. Notwithstanding the above provisions, the 2025 Revolving Loan shall in any event be repayable on demand by the Lender. Upon such demand being made, the relevant Borrower shall immediately repay the part of the Loan drawn by it together with all accrued interest and other relevant sums payable.

Early repayment : Any Borrower may early repay and without any penalty the whole or any part of an advance to such Borrower by the Lender on any Business Day provided that an advance shall be only be prepaid on the interest payment date subject to not less than 7 Business Days prior notice of repayment to the Lender for that advance.

Subject to the terms and conditions of the 2025 Revolving Loan Agreement, any amounts early repaid shall be available for reborrowing and drawing provided always that the aggregate outstanding principal amount of the 2025 Revolving Loan shall not exceed HK\$30,000,000.

Condition precedent : The 2025 Revolving Loan Agreement and the availability of the 2025 Revolving Loan are subject to the satisfaction of the following conditions:

- (1) the delivery of all necessary corporate documents of the Borrowers, including but not limited to:
 - (a) certified copies of certificates of incorporation;
 - (b) certified copies of articles of association;
 - (c) director's certificates confirming the composition of shareholders and directors;
 - (d) all necessary documents required under the Money Lenders Ordinance;
- (2) the execution of all security documents for the 2025 Revolving Loan by the relevant parties and completion of all necessary registrations and filings to perfect the security;
- (3) the independent Shareholders having approved by way of poll at the SGM the entering into of the 2025 Revolving Loan Agreement; and
- (4) the Stock Exchange having raised no objection to the transactions contemplated under the 2025 Revolving Loan Agreement.

The Lender shall be entitled to waive any of the conditions set out in (1)(a)-(c) above at its absolute discretion subject to such conditions as the Lender may impose.

As at the Latest Practicable Date, conditions (1), (2) and (4) have been fulfilled.

Events of default : There shall be an event of default if, *inter alia*:

- (1) any Borrower fail to pay any principal, interest, or any other sum payable at time; or
- (2) any other situation which, in the Lender's absolute discretion, could adversely affect the ability of the Borrowers to perform any of their respective obligations under the term of the 2025 Revolving Loan Agreement.

Proposed Annual Caps

When setting out the maximum principal amount to be drawn by the Borrowers under the 2025 Revolving Loan Agreement (i.e. HK\$30,000,000), we understand the Group has considered (i) the historical transaction amounts as discussed below under the paragraph "HISTORICAL TRANSACTION AND NON-COMPLIANCE" in the Letter from the Board; (ii) the Group's internal financial resources currently available; and (iii) the reasons for entering into the 2025 Revolving Loan Agreement as discussed in the Letter from the Board.

In determining the Proposed Annual Caps in respect of the 2025 Revolving Loan under the 2025 Revolving Loan Agreement for each of the financial years ending 31 December 2025, 2026 and 2027 ("FY2025", "FY2026" and "FY2027"), the Company has taken into account:

- (a) the maximum principal amount not exceeding HK\$30,000,000 that may be provided by Joy Wealth under the 2025 Revolving Loan Agreement; and
- (b) the maximum accrued interest amount that may be payable under the 2025 Revolving Loan Agreement based on the maximum principal amount set out in (a) above, and the interest rate stipulated under the 2025 Revolving Loan Agreement, with an estimated annual interest rate of 10.0% and the estimated maximum accrued interest for each of FY2025, FY2026 and FY2027 being approximately HK\$3,000,000.

For illustration purposes, assuming the Borrowers draw down the maximum principal amount during the term of the 2025 Revolving Loan Agreement and that the interest rate at 10.0% p.a. applies to the maximum principal amount for the whole term of the 2025 Revolving Loan Agreement, the Proposed Annual Caps will not be more than HK\$33,000,000 which is calculated as per below:

	FY2025	FY2026	FY2027
Maximum principal amount	HK\$30,000,000	HK\$30,000,000	HK\$30,000,000
Estimated maximum accrued interest	HK\$3,000,000	HK\$3,000,000	HK\$3,000,000
Proposed Annual Caps	HK\$33,000,000	HK\$33,000,000	HK\$33,000,000

For further details in relation to the 2025 Revolving Loan Agreement and the Proposed Annual Caps, please refer to the paragraphs headed “THE 2025 REVOLVING LOAN AGREEMENT” in the Letter from the Board.

3 Reasons for and Benefits of the 2025 Revolving Loan

Taking into account the principal business activities of the Group, the grant of the 2025 Revolving Loan to the Borrowers is in the ordinary and usual course of business of the Group.

We noted from the Letter of the Board that the terms of the 2025 Revolving Loan Agreement were negotiated on an arm’s length basis between the Lender and the Borrowers. The advance in respect of the 2025 Revolving Loan Agreement was made based on (i) the Group’s credit assessments on the financial strength and repayment ability of the Borrowers; and (ii) the shareholder background of the Borrowers. None of the Borrowers have late repayment and default records based on the historical loan transactions with the Lender. Furthermore, given the asset-light business nature of the Borrowers, they do not have any fixed asset which is suitable for securing the 2025 Revolving Loan. Mr. Yan Li, as the Guarantor, has entered into the 2025 Revolving Loan Agreement with the Lender and the Borrowers, under which he undertakes to guarantee the Borrowers’ repayment obligations as specified in the 2025 Revolving Loan Agreement. The personal guarantee from Mr. Yan Li provides additional security for the 2025 Revolving Loan.

We are also given to understand that, in assessing the financial strength and repayment ability of the Borrowers, the Group has (i) performed internal credit assessment of the Borrowers, with satisfactory results; and (ii) conducted a winding-up search on the Borrowers, with no material irregularities noted. After taking into account the factors as disclosed above in assessing the risk of the advance, the Group considers that the risk involved in the advance to the Borrowers is low and acceptable to the Group.

We have reviewed the aforesaid internal credit assessment report by the Group on the Borrowers and the winding-up search conducted on the Borrowers. In approving the granting of the 2025 Revolving Loan, we understand the financial performance of the Borrowers, the financial background of the Guarantor, the results of the winding-up search conducted on the Borrowers and the previous historical transaction with HK Zhong Ji 1 were considered by the Lender.

Taking into account the reasons as discussed above and that a stable revenue and cashflow stream from the interest income is expected to be generated by the Company, we understand that the Directors (excluding Mr. Yan Li) consider that the terms of the 2025 Revolving Loan Agreement are fair and reasonable and the entering into of the 2025 Revolving Loan Agreement is in the interests of the Company and its Shareholders as a whole.

After reviewing the aforesaid documents and understanding the basis of approving the terms of the 2025 Revolving Loan by the Lender, we concur with the Directors (excluding Mr. Yan Li) that the terms of the 2025 Revolving Loan Agreement are fair and reasonable and the entering into of the 2025 Revolving Loan Agreement is in the interests of the Company and its Shareholders as a whole.

4 Our Analysis on the 2025 Revolving Loan

In order to assess the fairness and reasonableness of the terms of the 2025 Revolving Loan Agreement, in view that the 2025 Revolving Loan is provided by the subsidiary of the Company to its connected persons, we therefore reviewed similar transactions of companies listed on the Stock Exchange or their subsidiaries of which provided loan or financial assistance to connected person(s) during the period from 12 August 2024 to and up to 11 November 2024 (the “**Review Period**”), being approximately three months from the date of the 2025 Revolving Loan Agreement, which we consider to be sufficient for the purpose of our analysis set out hereunder as we are of the view that the transactions to be representative of similar recent transactions. We believe the transactions which met the said criteria serve as an accurate reflection on how companies listed on the Stock Exchange or their subsidiaries provided loan or financial assistance to connected person(s).

On a best effort basis and to the best of our knowledge, we have identified seven transactions on an exhaustive basis (the “**Market Comparables**”) which meet the aforementioned criteria, save for the transaction of China Shuifa Singyes New Materials Holdings Limited (8073) as the circular containing the opinion from the letter of advice of the independent board committee is yet to be published as at the Latest Practicable Date. We are of the view that the Market Comparables based on such Review Period and criteria set out above are meaningful references to the Independent Shareholders on the general market practice in connection with recent similar transactions of companies listed on the Stock Exchange or their subsidiaries of which provided loan or financial assistance to connected person(s). The Independent Shareholders should note that the size, business nature, scale of operations and prospects of the Company may not be exactly the same as the Market Comparables and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the Market Comparables.

Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions of companies listed on the Stock Exchange or their subsidiaries of which provided loan or financial assistance to connected person(s), we consider that our comparable analysis on the terms of the 2025 Revolving Loan Agreement without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable for the Independent Shareholders' reference.

The following table sets out the details of the Market Comparables:

Date of announcement	Name (Stock code)	Loan size	Interest rate	Term to maturity (months)	Collateral/ Guarantee
11 Nov 2024	Furniweb Holdings Limited (8480)	Equivalent to approximately HK\$8.8 million ⁽²⁾	6.0%	24	No
1 Nov 2024	Jilin Province Chunheng Heating Company Limited (1853)	Equivalent to approximately HK\$324.0 million ⁽³⁾	4.5%	60	No
14 Oct 2024	BII Railway Transportation Technology Holdings Company Limited (1522)	HK\$255.0 million	5.07155% ⁽⁵⁾	36	Yes
7 Oct 2024	Minshang Creative Technology Holdings Limited (1632)	HK\$9.5 million	8.0%	12	No
30 Sep 2024	S-Enjoy Service Group Co., Limited (1755)	Equivalent to approximately HK\$129.6 million ⁽³⁾	6.05% ⁽⁶⁾	36	Yes
19 Sep 2024	Hui Xian Real Estate Investment Trust (87001)	Equivalent to approximately HK\$43.2 million ⁽³⁾	4.95% ⁽⁷⁾	60	No
12 Sep 2024	Dida Inc. (2559)	Equivalent to approximately HK\$58.4 million ⁽⁴⁾	5.35%	18	Yes
	Maximum	HK\$324.0 million	8.0%	60	
	Minimum	HK\$8.8 million	4.5%	12	
	Average	HK\$118.4 million	5.7%	35	
	Median	HK\$58.4 million	5.4%	36	
	The Company (767)	HK\$30 million	10.0%	36	Yes

Source: *hkexnews.hk*

Notes:

- (1) Information has been extracted from the relevant announcements of the respective comparables.
- (2) For illustration purpose only, RM has been translated at RM1 to HK\$1.76.
- (3) For illustration purpose only, RMB has been translated at RMB1 to HK\$1.08.
- (4) For illustration purpose only, US\$ has been translated at US\$1 to HK\$7.78.
- (5) As disclosed in the announcement of BII Railway Transportation Technology Holdings Limited dated 14 Oct 2024, the loan shall floating interest rate equal to 1 month HIBOR (Hong Kong Interbank Offered Rate) + 70 basis points (bps), with a maximum interest rate of 6.5% p.a.. As at the date of the announcement, the applicable rate was 5.07155% p.a..

- (6) As disclosed in the announcement of S-Enjoy Service Group Co., Limited dated 30 Sep 2024, the loan shall bear floating interest rate equal to the higher of (i) the floating loan prime rate for loans of more than one year (inclusive) and less than five years (if any) published by the People's Bank of China applicable on the date of drawdown; and (ii) the fixed lending rate of 6.05% p.a.. As at the date of the announcement, the applicable rate was 6.05%.
- (7) As disclosed in the announcement of Hui Xian Real Estate Investment Trust dated 19 Sep 2024, the loan shall bear floating interest rate equal to the over-five-year loan prime rate announced by the National Interbank Funding Center in the last calendar month of the immediately preceding quarter plus 1% p.a.. As at the date of the announcement, the applicable rate was 4.95% p.a..

(a) Interest rate

As illustrated by the above table, the interest rate of the Market Comparables ranges from 4.5% to 8.0%, with an average of approximately 5.7% and a median of approximately 5.4%.

We note that the interest rate of 10.0% under the 2025 Revolving Loan Agreement is higher than the average and the median and the range of the interest rate of the Market Comparables. We further noted that (i) four out of seven Market Comparables carried fixed interest rates; and (ii) three out of seven Market Comparables carried floating interest rates.

Considering (i) majority of the Market Comparables carried fixed interest rates; and (ii) floating interest rates may increase or decrease resulting in the potential fluctuation on the interest income, we are of the view that the fixed interest rate of the 2025 Revolving Loan is a normal and common market practice and provide the Group with a fixed interest income in a prudent basis. Accordingly, we consider that adopting a fixed interest rate and also the interest rate of 10.0% p.a. pursuant to the 2025 Revolving Loan is fair and reasonable.

(b) Term to maturity

As illustrated by the above table, the term of maturity of the Market Comparables ranges from 12 months to 60 months with an average of approximately 35 months and median of 36 months. The duration of the 2025 Revolving Loan Agreement is in line with the aforesaid range of Market Comparables. Accordingly, we consider the term of maturity of the 2025 Revolving Loan Agreement to be fair and reasonable.

(c) Collateral/Guarantee

As illustrated by the above table, four out of seven Market Comparables were not secured by collateral or guarantee or no information in relation to the collateral or the guarantee was noted in the announcements. As such, it is not uncommon in the market for provision of a loan to a connected person by the listed companies in Hong Kong without collateral or guarantee.

Based on the above, we are of the view that the terms of the 2025 Revolving Loan Agreement are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

5 Our Analysis on the Proposed Annual Caps

As disclosed in the Letter from the Board, the Proposed Annual Caps in respect of the 2025 Revolving Loan for each of FY2025, FY2026 and FY2027 pursuant to the 2025 Revolving Loan Agreement was determined by taking into account of (i) the maximum principal amount not exceeding HK\$30 million that may be provided under the 2025 Revolving Loan Agreement; and (b) the maximum accrued interest amount that may be payable under the 2025 Revolving Loan Agreement.

Taking into account that (i) the cash and cash equivalents held by the Group of approximately HK\$78.7 million as at 30 June 2024, which is able to fund the maximum principal amount of HK\$30 million that may be provided under the 2025 Revolving Loan; (ii) the anticipated interest income to be received pursuant to the 2025 Revolving Loan; and (iii) the personal guarantee from Mr. Yan Li, we consider the Proposed Annual Caps to be fair and reasonable so far as the Independent Shareholders are concerned.

6 Possible Financial Effects

(a) Effect on total assets

According to the 2024 Interim Report, the total assets of the Group was approximately HK\$498.8 million. In relation to the grant of the 2025 Revolving Loan of up to a maximum principal amount of HK\$30,000,000, which represents approximately 6.0% of the total assets of the Group as at 30 June 2024. As the Group intends to finance the provision of the 2025 Revolving Loan by its general working capital and the 2025 Revolving Loan to be provided will continue to be classified as assets of the Group, it is expected that the total assets of the Group would remain unchanged as a result of the provision of the 2025 Revolving Loan.

(b) Effect on revenue

As the Group shall be entitled to an estimated maximum accrued interest of HK\$3,000,000 for each of FY2025, FY2026 and FY2027 pursuant to the 2025 Revolving Loan Agreement, the provision of the 2025 Revolving Loan is expected to have a positive impact on the future earnings of the Group in the event that any amount is drawn down by the Borrowers.

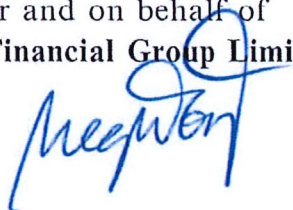
(c) Effect on liquidity and gearing ratio

As the Group intends to finance the provision of the 2025 Revolving Loan by its general working capital and the 2025 Revolving Loan to be provided will continue to be classified as current assets of the Group, it is expected that the Group's gearing ratio (defined as the Group's total interest-bearing borrowings divided by the Group's total equity) and current assets would remain unchanged as a result of the provision of the 2025 Revolving Loan.

OPINION AND RECOMMENDATION

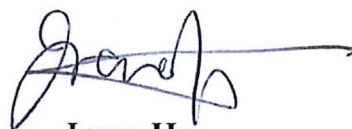
Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) proposed at the SGM thereby approving the 2025 Revolving Loan Agreement and the transactions contemplated thereunder or the Proposed Annual Caps.

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited



Cheng Chi Ming, Andrew
Managing Director

Yours faithfully,
For and on behalf of
Alpha Financial Group Limited



Irene Ho
Vice President

Mr. Cheng Chi Ming, Andrew is the Managing Director of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheng has over 21 years of experience in the corporate finance industry in Hong Kong.

Ms. Irene Ho is the Vice President of Alpha Financial Group Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Ms. Ho has over 10 years of experience in the corporate finance industry in Hong Kong.