中穀資本有限公司
Grand Moore Capital Limited

9 January 2025

To the Independent Board Committee and
the Independent Shareholders of
Kidsland International Holdings Limited

Dear Sirs,

CONNECTED TRANSACTION
LOAN CAPITALISATION INVOLVING ISSUE OF
NEW SHARES AND CONVERTIBLE PREFERENCE SHARES
UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation and the transactions contemplated thereunder (the "**Transaction**"), the details of which are set forth in the "Letter from the Board" (the "**Board Letter**") contained in the circular issued by the Company to the Shareholders dated 9 January 2025 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 27 December 2024 (after trading hours), the Company, Asian Glory and Lovable entered into the Loan Capitalisation Agreement, pursuant to which, the parties have conditionally agreed that the Loan from Lovable will be settled through the issuance of (a) 305,914,286 Capitalisation Ordinary Shares and (b) 1,122,657,143 Capitalisation Convertible Preference Shares, both at the Issue Price, to Asian Glory.

One Capitalisation Convertible Preference Share is convertible into one Conversion Share (subject to adjustments). For the avoidance of doubt, Asian Glory is not required to pay any additional money upon conversion of the Capitalisation Convertible Preference Share(s) to the Conversion Share(s), other than taxes and stamp, issue and registration duties (if any) arising on conversion.

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THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Cheng Yuk Wo, Mr. Huang Lester Garson and Mr. Albert Thomas da Rosa, Junior, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Transaction. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company, Asian Glory, Lovable, their respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

In the past two years, we have not acted in any financial adviser role to the Company. Save for the appointment as the Independent Financial Adviser, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Transaction pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's interim report for the six months ended 30 June 2024 (the "**2024 Interim Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. 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, the Directors and/or the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

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 Chapters 13 and 14A of the Listing Rules. 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, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, Asian Glory, Lovable, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transaction, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and the Shareholders will be notified of any material changes as soon as possible up to the date of EGM. The Company has been separately advised by its own professional advisers with respect to the Transaction and the preparation of the Circular (other than this letter).

We have assumed that the Transaction will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Transaction, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Transaction. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Transaction, we have taken into account the following principal factors and reasons:

1. Background Information of the Group

As per the 2024 Interim Report, the Group is principally engaged in trading and sales of toy and related lifestyle products. Set out below is the key consolidated financial information of the Group for the six months ended 30 June 2023 and 2024 as extracted from the 2024 Interim Report.

	For the six months ended 30 June	
	2024	**2023**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue	493,652	581,872
– Self-operated retail channels	404,381	498,761
– Wholesale channels	89,271	83,111
Gross profit	167,910	196,851
(Loss) for the period	(80,220)	(82,869)

According to the 2024 Interim Report, the revenue decreased from approximately RMB581.9 million for the six months ended 30 June 2023 to approximately RMB493.7 million for the six months ended 30 June 2024, such decrease was mainly due to the weak market sentiment and consumption downgrading with consumers becoming more cautious about spending and more focused on price-value proposition. In particular, the revenue from the self-operated retail channels decreased from approximately RMB498.8 million for the six months ended 30 June 2023 to approximately RMB404.4 million for the six months ended 30 June 2024 which was mainly attributable to the decrease in revenue from retail shops and consignment counters by 20.1% to approximately RMB265.7 million and 20.9% to approximately RMB109.1 million, for the six months ended 30 June 2024, respectively.

The gross profit margin increased from approximately 33.8% for the six months ended 30 June 2023 to approximately 34.0% for the six months ended 30 June 2024. Such increase was mainly attributable to the exploration of innovative products and optimisation of product assortment, which offset the depression of short-term gross profit margin resulted from stock clearance activities. Stock clearance activities continuously reduced inventory backlog during the six months ended 30 June 2024. And therefore, the gross profit decreased from approximately RMB196.9 million for the six months ended 30 June 2023 to approximately RMB167.9 million for the six months ended 30 June 2024.

The Group recorded losses for both the six months ended 30 June 2023 and 2024 of approximately RMB82.9 million and RMB80.2 million, respectively.

Set out below are certain key consolidated financial information of the Group as extracted from the consolidated balance sheet set out in the 2024 Interim Report.

	As at	
	30 June 2024	**31 December 2023**
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total assets	530,406	580,753
Total liabilities	495,517	467,468
Equity attributable to the owners of the Company	28,716	107,006
Cash and cash equivalents	19,271	21,937

The total assets of the Group amounted to approximately RMB530.4 million as at 30 June 2024, representing a decrease of approximately RMB50.4 million or approximately 8.7%, as compared to RMB580.8 million as at 31 December 2023. The decrease was primarily due to (i) the decrease in inventory of approximately RMB32.5 million; (ii) the decrease in property, plant and equipment of approximately RMB6.8 million; and (iii) the decrease in the right-of-use assets of approximately RMB4.1 million.

The total liabilities of the Group amounted to approximately RMB495.5 million as at 30 June 2024, representing an increase of approximately RMB28.0 million or approximately 6.0%, as compared to RMB467.5 million as at 31 December 2023. The increase was primarily due to (i) the increase in loans from a related company of approximately RMB24.4 million; (ii) the increase in bank borrowings of approximately RMB18.2 million; and (iii) the increase in loan from a director of approximately RMB15.0 million, and partially offset by (i) the decrease in trade payables of approximately RMB10.7 million; (ii) the decrease in other payables and accruals of approximately RMB11.4 million; and (iii) the decrease in lease liabilities of approximately RMB4.9 million.

The Group's equity attributable to owners of the Company amounted approximately RMB28.7 million as at 30 June 2024, representing a decrease of approximately RMB78.3 million or approximately 73.2%, as compared to RMB107.0 million as at 31 December 2023. Such decrease was mainly attributable to losses incurred during the six months ended 30 June 2024.

The Group's cash and cash equivalents amounted to approximately RMB19.3 million and RMB21.9 million as at 30 June 2024 and 31 December 2023, respectively.

2. Information on Lovable and Asian Glory

Lovable is a company incorporated under the laws of Hong Kong with limited liability and principally engaged in the trading of toy products. Lovable is indirectly wholly-owned by Mr. Lee as at the Latest Practicable Date.

Asian Glory is a company incorporated in the British Virgin Islands and an investment holding company. Mr. Lee is the sole shareholder of Asian Glory.

3. Reasons for and benefits of the Loan Capitalisation

As stated in the Board Letter, the Loan had been provided by Lovable to the Group since the year of 2019. The Loan is unsecured, interest-bearing at the rate of 2% per annum and repayable within two years.

As disclosed in the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**") and the 2024 Interim Report, the gearing ratio (net debt divided by the total equity) of the Group has increased by approximately 302.6% as at 30 June 2024, compared to 31 December 2023. According to the 2024 Interim Report, the Group's net current assets position decreased from approximately RMB83.3 million as at 31 December 2023 to approximately RMB42.9 million as at 30 June 2024.

The Loan Capitalisation enables the Group to settle its existing liabilities without utilising the existing financial resources and can avoid cash outflows and future interest payments for the Loan. Also, after the Completion, the gearing level of the Group will be reduced, thereby improving the financial position of the Group. As set out in the 2024 Interim Report, during the first half of 2024, there was a dramatical change of the consumption market, in terms of both consumer sentiments and behaviours, where consumption downgrading became the main theme with consumers becoming more cautious about spending and more focused on price-value proposition. The Group has worked tirelessly to adapt its business model to the new trends and the Directors are currently evaluating the Group's financial strategy and considering plans to optimize operations and enhance operational efficiency. The Loan Capitalisation represents the first step in improving the Group's financial position, enabling the Group to prepare for future transactions aligned with these objectives and to capture upcoming opportunities.

In addition, the Issue Price of HK$0.07 per Capitalisation Ordinary Share and Capitalisation Convertible Preference Share represents a substantial premium over the recent closing price of the Shares. Accordingly, the Directors consider that the Loan Capitalisation can reflect the continuing support and solid confidence given by Asian Glory and its ultimate beneficial owner (i.e., Mr. Lee) to the Company towards the long-term and sustainable growth of the Group. Asian Glory and its ultimate beneficial owner (i.e., Mr. Lee) have played, and will continue to play, a vital role in the Company, particularly in the future development plan.

There will be no proceeds arising from the Loan Capitalisation as the entire aggregate Issue Price will be set off against the Loan on a dollar-to-dollar basis.

The Directors had considered other alternative means for raising funds to settle the Loan, such as equity financing (including but not limited to rights issue, open offer and placement of Shares) or debt financing and bank borrowings. However, in terms of the equity financing, including rights issue and open offer, the Directors considered that (i) the equity financing typically necessitate substantial negotiations with potential commercial underwriters; (ii) financing expenses, such as underwriting commission and a range of professional service fees, will likely be incurred; and (iii) given the Group's recent financial performance, the Company will likely be required to issue Shares at a substantial discount in order to secure a successful Share placement to independent placees or pre-emptive fundraising, such as rights issue and open offer. In term of debt financing and bank borrowings, the Directors considered that (i) one of the rationales for the Loan Capitalisation is to improve the Group's gearing level which could not be achieved by debt financing; and (ii) it is estimated that additional finance costs will be incurred for obtaining additional bank borrowings to settle the Loan. The Company considers that the Loan Capitalisation would be the best financing option as compared to the above financing alternatives.

Immediately after the allotment and issue of the Capitalisation Ordinary Shares, the public float of the Company will be reduced to approximately 30.00% (details of which are set out in the section headed "EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Board Letter). The issue of both Capitalisation Ordinary Shares and the Capitalisation Convertible Preference Shares under the Loan Capitalisation Agreement enables the Company to comply with the minimum public float requirement under Rule 8.08 of the Listing Rules, while Asian Glory cannot exercise the conversion rights as to such number of Capitalisation Convertible Preference Share if upon conversion, the percentage of the Shares held by the public will fall below the minimum public float requirement.

In view of the above, the Board (excluding Mr. Lee (who had abstained from voting at the Board meeting in respect of the resolutions proposed to approve the Loan Capitalisation) consider that although the Loan Capitalisation are not in the ordinary and usual course of business of the Group, the terms of the Loan Capitalisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Our view

As set out in the 2024 Interim Report, we noted that the cash and cash equivalents of the Group amounted to approximately RMB19.3 million as at 30 June 2024 which was not sufficient for the settlement of the outstanding balance of the Loan. As mentioned above, the Board has considered various fund-raising methods to improve the financial position of the Group including long term bank borrowings, placement of Shares to independent third parties, rights issue and open offer.

As stated in the Board letter, in term of debt financing and bank borrowings, the Directors considered that (i) one of the rationales for the Loan Capitalisation is to improve the Group's gearing level which could not be achieved by debt financing; and (ii) it is estimated that additional finance costs will be incurred for obtaining additional bank borrowings to settle the Loan.

Nevertheless, we have discussed with the Management and understand that the Management has attempted to seek for debt financing as alternative means of settling the Loan, but the results have not been satisfactory. Given the current financial performance and position of the Group as stated under the section headed "1. Background information of the Group" above in this letter and obtaining bank borrowings may generally involve lengthy due diligence and internal risk assessment by and negotiations with bank and usually requires pledge of assets by the borrower which Group had no suitable assets available to be pledged as collateral, the Directors are of the view, and we concur, that debt financing is relatively uncertain and time-consuming for the Group. Furthermore, even if the Group could obtain bank borrowings, such bank borrowings will inevitably increase interest burden and further deteriorate the gearing level of the Group. Based on the above and the Company's goal to lower the level of the gearing ratio according to the Management, we are of the view and concur with the Directors' view that bearing additional liabilities to settle the Loan is not in the interests of the Group.

As regards equity financing, including rights issue and open offer, the Board considered that the possibilities of raising a sizable amount of fund are low given that securities brokerage firms are unlikely to accept a hard underwriting on the Shares of the Company taking into account that the Group has been loss-making over the years and the prevailing market conditions and sentiment. In light of the abovementioned financial performance of the Group for the recent financial years/period and the thin liquidity of the Shares set out in the section headed "6. Analysis of the Issue Price – (b) Review on trading liquidity of the Shares" in this letter, the Directors are of the view and we concur that it is unlikely for the Group to raise the necessary funds by way of placing or rights issue or open offer of new Shares without a deep discount to the prevailing market price of the Shares so as to attract subscription by the potential investors or Shareholders.

Having considered the above and, in particular that:

(i) the likelihood of success in obtaining a bank borrowing of meaningful loan size to settle the Loan is low. And even if the Group could obtain bank borrowings as an alternative mean of settling the Loan, such bank borrowings will inevitably increase interest burden and further deteriorate the gearing level of the Group which is not aligned with the Company's goal of reducing gearing;

(ii) significant discount to the prevailing closing price of the Shares for an equity fund raising exercise (if any) of the Company is inevitable to encourage participation of shareholders and/or potential investors in view of the historical low trading volume of the Shares. In comparison, the Issue Price represents a premium over the closing price of the Shares as at the date of the Loan Capitalisation Agreement;

(iii) the possibilities of raising a sizable amount of fund are low given that securities brokerage firms are unlikely to accept a hard underwriting on the Shares of the Company taking into account that the Group has been loss-making over the years and the prevailing market conditions and sentiment;

(iv) equity fund raising may involve lengthy discussions with potential commercial underwriters and the entire process of equity fund raising will generally take four to six months or more, if business opportunities arise, it may not be able to keep up with the Group's funding needs;

(v) equity fund raising activities will involve higher amounts of professional fee;

(vi) the Loan is repayable within two years; and the Group's cash position will be reduced if internal resources are used to settle the Loan;

(vii) the Group's gearing will be reduced immediately after Completion;

(viii) Loan Capitalisation demonstrated the controlling shareholder's confidence in the Group's business operation and prospects; and

(ix) analysis of the Issue Price as discussed in the paragraph headed "6. Analysis of the Issue Price" below,

we concur with the Directors' view that the Loan Capitalisation can ease the Group's cashflow position and is in the best interests of the Company and the Shareholders as a whole.

4. Principal terms of the Loan Capitalisation Agreement

The key terms of the Loan Capitalisation Agreement are as follows:

Date

27 December 2024

Parties

(i) The Company;

(ii) Asian Glory; and

(iii) Lovable

Subject Matter

The parties to the Loan Capitalisation Agreement have conditionally agreed that the Loan of HK$100,000,000 from Lovable will be settled through the issuance of Capitalisation Ordinary Shares and Capitalisation Convertible Preference Shares, both at the Issue Price of HK$0.07, to Asian Glory. Among the Loan of HK$100,000,000, HK$21,414,000 will be settled through the issuance of 305,914,286 Capitalisation Ordinary Shares and HK$78,586,000 will be settled through the issuance of 1,122,657,143 Capitalisation Convertible Preference Shares, both at the Issue Price of HK$0.07, to Asian Glory.

Subject to the terms and conditions of the Loan Capitalisation Agreement, Lovable agrees to waive all its rights in the unpaid interest accrued on the Loan from the date of the Loan Capitalisation Agreement to the date of Completion (both dates inclusive) and will release, acquit and discharge the Company (including its successors and assigns) from any and all liability of any nature whatsoever and from any and all claims, demands, causes of actions or liens of any nature whatsoever arising out of or in connection with the unpaid interest accrued on the Loan.

Number of Capitalisation Ordinary Shares to be issued

The 305,914,286 Capitalisation Ordinary Shares represent (i) approximately 38.24% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 27.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Ordinary Shares (assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Ordinary Shares); and (iii) approximately 13.73% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Ordinary Shares and the Conversion Shares (assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Ordinary Shares and the Conversion Shares).

The aggregate nominal value of the Capitalisation Ordinary Shares is HK$3,059,142.86, based on the nominal value of HK$0.01 per Share.

Number of the Capitalisation Convertible Preference Shares to be issued

One Capitalisation Convertible Preference Share is convertible into one Conversion Share (subject to adjustments). Upon full conversion of the 1,122,657,143 Capitalisation Convertible Preference Shares, 1,122,657,143 Conversion Shares will be issued.

The 1,122,657,143 Conversion Shares represent (i) approximately 140.33% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 50.38% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Ordinary Shares and the Conversion Shares (assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Ordinary Shares and the Conversion Shares).

The aggregate nominal value of the Conversion Shares is HK$11,226,571.43, based on the nominal value of HK$0.01 per Share.

The Issue Price

The Issue Price of HK$0.07 per Capitalisation Ordinary Share and Capitalisation Convertible Preference Share represents:

(i) a premium of approximately 40.00% over the closing price of HK$0.05 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 94.44% over the closing price of HK$0.036 per Share as quoted on the Stock Exchange on the date of the Loan Capitalisation Agreement;

(iii) a premium of approximately 101.15% over the average of the closing price of approximately HK$0.0348 per Share quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement and including the date of the Loan Capitalisation Agreement;

(iv) a premium of approximately 97.74% over the average of the closing price of approximately HK$0.0354 per Share quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement and including the date of the Loan Capitalisation Agreement;

(v) a premium of approximately 86.67% over the average of the closing price of approximately HK$0.0375 per Share quoted on the Stock Exchange for the last thirty consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement and including the date of the Loan Capitalisation Agreement; and

(vi) a premium of approximately 84.21% over the Company's unaudited consolidated net asset value per Share as at 30 June 2024 of approximately HK$0.038 (calculated (i) the by total equity attributable to the Shareholders of approximately RMB28,716,000 according to the Company's 2024 interim report; and (ii) 800,000,000 Shares in issue as at 30 June 2024, based on the exchange rate of RMB1:HK$1.064).

The Issue Price was determined after arm's length negotiations among the Company, Asian Glory and Lovable with reference to (i) the prevailing market price of the Shares, including, among other things, (a) the closing price of HK$0.036 per Share on the date of the Loan Capitalisation Agreement; and (b) the range of average closing prices from approximately HK$0.0348 to HK$0.0375 per Share over different periods as set out above; and (ii) the Group's historical performances and present financial position as well as the current market condition, including, among other things, (a) the increase in gearing ratio and decrease in net current assets position of the Group; and (b) the changes in the consumption market, both as further discussed in the section headed "REASONS AND BENEFITS FOR THE LOAN CAPITALISATION" in the Board Letter. The Issue Price of HK$0.07 per Capitalisation Ordinary Share and Capitalisation Convertible Preference Share represents a substantial premium over the recent closing prices of the Shares, which reflects the continuing support and solid confidence given by Asian Glory and its ultimate beneficial owner to the Company towards the long-term and sustainable growth of the Group.

The aggregate Issue Price of all Capitalisation Ordinary Shares and all Capitalisation Convertible Preference Shares payable by Asian Glory shall be satisfied by capitalising and setting off against the Loan upon Completion. In addition, the Group will use its internal resources to settle the professional fees and all related expenses which may be borne by the Company in connection with the Loan Capitalisation.

Ranking of the Capitalisation Ordinary Shares and the Conversion Shares

The Capitalisation Ordinary Shares and the Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with all the other Shares in issue on the date of the allotment and issue of the Capitalisation Ordinary Shares and the Conversion Shares, respectively, including the right to any dividends or distribution declared on or after the date of such issue. The Capitalisation Ordinary Shares and the Conversion Shares will be free from any encumbrances and will be free of restrictions on transfer and will not be subject to any lock-up on subsequent transfer.

Conditions precedent

Completion is subject to the following conditions:

(i) the passing by the Independent Shareholders at the EGM to approve, among other things, the Loan Capitalisation Agreement and the transactions contemplated thereunder (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Capitalisation Ordinary Shares, the Capitalisation Convertible Preference Shares and the Conversion Shares);

(ii) the Stock Exchange having granted the approval for listing of and the permission to deal in the Capitalisation Ordinary Shares and the Conversion Shares, and such approval and granting of permission not having been withdrawn or revoked;

(iii) the passing by the Shareholders of relevant resolution(s) at the EGM to approve, among other things, the Proposed Articles Amendment;

(iv) all approvals which are necessary and required under all applicable laws and all other agreements, instruments or other documents on the part of the Company in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder having been obtained by the Company and remaining in full force and effect; and

(v) the representations and warrants given by the parties under the Loan Capitalisation Agreement being true and accurate and not misleading when made and remaining true and accurate and not misleading until the date of Completion.

Asian Glory may, at its discretion, waive condition (v) set out above. In the event that any of the above conditions is not fulfilled (or waived, as the case may be) on or before the Long Stop Date, the Loan Capitalisation Agreement shall automatically terminate and the parties shall be released from all rights and obligations thereunder, save for liabilities for any antecedent breaches thereof.

As at the Latest Practicable Date, none of the conditions set out above has been fulfilled.

Completion

Completion will take place within three business days upon the fulfilment or waiver (as the case may be) of the conditions precedent set out in the Loan Capitalisation Agreement (or such later date as may be agreed between the Company, Asian Glory and Lovable in writing).

5. Principal Terms of the Capitalisation Convertible Preference Shares

The principal terms of the Capitalisation Convertible Preference Shares are set out below:

Conversion Ratio	One Capitalisation Convertible Preference Share is convertible into one Share. If and whenever the Shares of the Company are consolidated or sub-divided into a different nominal amount, then the same consolidation or sub-division shall be effected on the Capitalisation Convertible Preference Shares, such that the Conversion Ratio shall remain as one Capitalisation Convertible Preference Share for one Share (as consolidated or sub-divided, as the case may be). For the avoidance of doubt, Asian Glory is not required to pay any additional money upon conversion of the Capitalisation Convertible Preference Share(s) to Share(s), other than taxes and stamp, issue and registration duties (if any) arising on conversion.
Conversion rights and conversion period	Conversion can be made at any time within ten (10) years after the first issuance and allotment of the Capitalisation Convertible Preference Shares provided that (i) any conversion of the Capitalisation Convertible Preference Shares does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the Capitalisation Convertible Preference Shares holder(s) and their concert parties who exercised the conversion rights, unless a whitewash waiver is obtained in accordance with the requirement of the Takeovers Code or a general offer is made in accordance with the requirement of the Takeovers Code; and (ii) the public float of the Shares shall not be less than 25% (or any given percentage as required by the Listing Rules) of the Shares at any one time in compliance with the Listing Rules.

Conversion adjustments

The Conversion Rate shall be subject to adjustment upon the occurrence of subdivision or consolidation of Shares and shall be adjusted in accordance with such subdivision or consolidation of Shares and such adjustment shall be effective on the effective date of such subdivision or consolidation.

In such event, the Conversion Rate shall be adjusted in accordance with the following formula such that the Conversion Rate in force immediately prior to such subdivision or consolidation shall be adjusted by multiplying it by the following fraction:

$$\frac{B}{A}$$

where:

A = the number of Shares immediately before such subdivision or consolidation; and

B = the number of Shares immediately after such subdivision or consolidation.

Whenever the Conversion Rate is adjusted, the Company shall give notice to the holder(s) of the Capitalisation Convertible Preference Shares that the Conversion Rate has been adjusted.

Dividend

The Company shall pay the Preferred Dividends (as defined below) to the holder(s) of the Capitalisation Convertible Preference Shares during the conversion period subject to the relevant laws and regulations of the Cayman Islands. For the avoidance of doubt, the holder(s) of the Capitalisation Convertible Preference Share(s) will only be entitled to the Preferred Dividends (as defined below) and will not be entitled to receive any dividends to be declared and distributed to the holder(s) of the Share(s).

As long as the Capitalisation Convertible Preference Shares have not been redeemed, during the conversion period, holder(s) of the Capitalisation Convertible Preference Share(s) shall have the right to receive for each Capitalisation Convertible Preference Share held by it, *pari passu* with the other holder(s) of the Capitalisation Convertible Preference Shares, fixed cumulative preferential cash dividends ("**Preferred Dividends**") at the rate of 2.0% per annum on the Issue Price, payable annually in arrears out of the profits of the Company available for distribution, prior and in preference to, and satisfied before, any dividend or other distribution on any other class or series of equity securities of the Company. If the profits of the Company available for distribution is insufficient to permit the payment of all the Preferred Dividends in full, then the amount legally available for distribution shall be distributed ratably among all holder(s) of the Capitalisation Convertible Preference Shares in proportion to the aggregate Preferred Dividends that each holder of the Capitalisation Convertible Preference Shares would otherwise be entitled to receive pursuant to the preceding sentence. No dividend or distribution may be declared, paid, set aside or made with respect to any equity securities of the Company other than the Capitalisation Convertible Preference Shares at any time unless all accrued but unpaid dividends on the Capitalisation Convertible Preference Shares have been paid in full.

For the avoidance of doubt, without affecting the right of the Preference Shareholders to the Preferred Dividends declared during the Conversion Period, no Preferred Dividends shall be declared and payable to the holder(s) of the Capitalisation Convertible Preference Share(s) after the expiry of the conversion period.

Redemption

The Capitalisation Convertible Preference Shares shall be redeemable at the sole discretion of the Company. For the avoidance of doubt, the holder(s) of the Capitalisation Convertible Preference Shares do not have the right and are not entitled to request for any redemption of the Capitalisation Convertible Preference Shares.

Ranking	The Capitalisation Convertible Preference Shares will rank *pari passu* to any and all current or future preferred equity securities of the Company.
Voting rights	The Capitalisation Convertible Preference Shares have no voting rights save where the resolutions in question relate to a variation or abrogation of the rights attaching to the Capitalisation Convertible Preference Shares in which case the holders of the Capitalisation Convertible Preference Shares will have the same voting rights as those attaching to the Shares on an as-converted basis.
Transferability	The Capitalisation Convertible Preference Shares are transferable provided that any transfer to connected persons (as defined under the Listing Rules) of the Company shall be subject to prior notification to the Company and compliance with the Listing Rules.
Rights at liquidation	Subject to all applicable laws, on a distribution of assets of the Company among its members on a return of capital on liquidation, dissolution or winding-up (whether voluntary or involuntary) of the Company or otherwise of Shares by the Company, the holders of the Capitalisation Convertible Preference Shares shall be entitled, in priority to any holder of any other class of shares in the capital of the Company, to receive in respect of each Capitalisation Convertible Preference Share then held, an amount equal to the Issue Price of the Capitalisation Convertible Preference Share, subject to the availability of assets of the Company for such distribution. The Capitalisation Convertible Preference Shares shall have no right to participate in distribution of surplus after the abovementioned return of capital.

Shares issued on conversion	The relevant Shares shall be credited as fully paid at par and rank *pari passu* in all respects with the Shares then in issue. A maximum of 1,122,657,143 Conversion Shares are issuable upon full conversion of the Capitalisation Convertible Preference Shares, representing approximately 140.33% of the Company's issued Shares as at the Latest Practicable Date and approximately 50.38% of the Company's issued Shares as enlarged by the allotment and issue of the Shares upon full conversion of the Capitalisation Convertible Preference Shares (assuming immediately after the allotment and issuance of the Capitalisation Ordinary Shares and all the Capitalisation Convertible Preference Shares are fully placed and there are no other changes in the issued share capital of the Company).
Listing	No application will be made for the listing of, or permission to deal in, the Capitalisation Convertible Preference Shares on the Stock Exchange or any other stock exchange. Application will be made for the listing of and permission to deal in the Conversion Shares on the Stock Exchange.

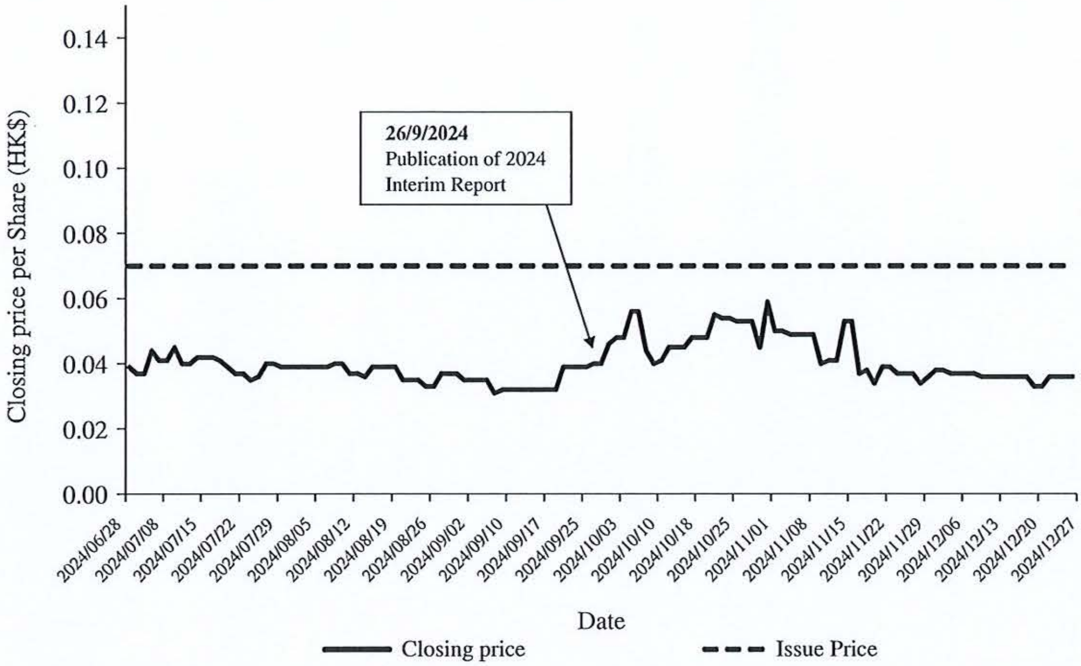
6. Analysis of the Issue Price

In order to assess the fairness and reasonableness of the Issue Price, we have performed a review on the daily closing prices and trading volume of the Shares from 28 June 2024 to 27 December 2024, being a period of six months prior to and including the date of the Loan Capitalisation Agreement (the "**Review Period**") and compared with the Issue Price.

In relation to the six-month Review Period adopted in our analysis, we note that (i) it represents a reasonable period to provide a general overview of the recent price performance of the Shares which has fully reflected relevant information of the Group's performance; (ii) a shorter period (e.g. 3 months) may not sufficiently illustrate a meaningful historical trend for a proper assessment; and (iii) a longer period (e.g. 12 months) may have been too distant in time making such historical trend less relevant with reference to the dynamic financial markets. Accordingly, we consider that the sampling period of six months for the Review Period is appropriate when conducting an analysis on the historical daily closing price of the Shares, trading volume and the Issue Price.

(a) Analysis on historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:



Source: website of the Stock Exchange (www.hkex.com.hk)

As shown in the chart above, during the Review Period, the daily closing prices of the Shares ranged from HK$0.031 per Share (the "**Lowest Closing Price**") recorded on 5 September 2024 to HK$0.059 per Share (the "**Highest Closing Price**") recorded on 31 October 2024, with the average closing price of the Shares amounted to approximately HK$0.040 per Share (the "**Average Closing Price**").

During the Review Period, the Share price fluctuated from HK$0.039 per Share on 28 June 2024 to HK$0.036 per Share on 27 December 2024.

We note that the Issue Price of HK$0.07 per Capitalisation Ordinary Share and Capitalisation Convertible Preference Share represents (i) a premium of approximately 125.8% over the Lowest Closing Price of HK$0.031 per Share; (ii) a premium of approximately 18.6% over the Highest Closing Price of HK$0.059 per Share; and (iii) a premium of approximately 75.0% to the Average Closing Price of approximately HK$0.040 per Share. Taking into consideration that the Issue Price had been above the closing prices of the Shares on all the trading days throughout the Review Period, we are of the view that the Issue Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(b) Review on trading liquidity of the Shares

	Total trading volume of the Shares for the month/period	Number of trading days	Average daily trading volume of the Shares for the month/period *(Note 1)*	Percentage of the average daily trading volume over total number of issued Shares as at the end of the month/period *(Note 2)*
2024				
June (commencing from 28 June 2024)	576,000	1	576,000	0.07%
July	7,536,002	22	342,546	0.04%
August	2,910,000	22	132,273	0.02%
September	2,470,154	19	130,008	0.02%
October	10,478,000	21	498,952	0.06%
November	11,028,800	21	525,181	0.07%
December (up to the date of the Loan Capitalisation Agreement)	3,768,000	18	209,333	0.03%
Maximum			576,000	0.07%
Minimum			130,008	0.02%
Average			337,730	0.04%

Source: website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. It is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.

2. As at the Latest Practicable Date, the total number of issued Shares is 800,000,000.

As illustrated from the table above, the average daily trading volume of the Shares ranged from 130,008 Shares to 576,000 Shares during the Review Period, representing approximately 0.02% to 0.07% of the total number of Shares in issue as at the end of relevant month/period. It illustrates that the trading volume of the Shares was relatively thin during the Review Period. The relatively thin trading liquidity may hinder independent placing agent(s) or underwriter(s) to participate when the Company attempt to conduct an equity fund raising exercise and even if there is such equity fund raising exercise, it is inevitable that significant discount to the current market price of Shares will be required to encourage participation of potential investors.

Having considered that (i) Asian Glory is willing to accept the Issue Price which is much higher than the closing price of the Shares as at the date of the Loan Capitalisation Agreement, this demonstrates his support and confidence to the Group's business operation and prospects; (ii) the thin trading volume and low liquidity of the Shares may hinder the success of an equity fund raising exercise of the Company; and (iii) the Loan Capitalisation will enable the Group to retain cash for general working capital and/or business development when opportunities arise, we are of the view that the Issue Price of HK$0.07 is on normal commercial terms and is fair and reasonable.

(c) Market comparable analysis

OS Comparables (to be defined below)

To further assess the fairness and reasonableness of the Issue Price in relation to the issue of ordinary Shares, we have identified, to the best our knowledge, effort and endeavor, an exhaustive list of 10 comparable transactions (the "**OS Comparables**") based on the following criteria: (i) companies listed on the Stock Exchange; (ii) companies that had published announcements in relation to connected transactions for subscription of new shares (excluding transactions involving (a) issue of new shares for restructuring scheme, emolument or acquisition purposes, or A shares or domestic shares; and (b) whitewash waiver applications or general offer obligations under the Hong Kong Code on Takeovers and Mergers) under specific mandate for cash consideration for the period from 1 July 2024 to 28 December 2024 (being approximately six months prior to and including the date of the Loan Capitalisation Agreement). The six months period was adopted to demonstrate recent market trends with a sufficient number of OS Comparables and thus, we consider the six months period is reasonable and representative.

We also noted that the terms of the relevant transactions of the OS Comparables may vary from companies with different financial standings, business performance and prospects. However, we consider that the OS Comparables represent recent trend of relevant transactions in the prevailing market condition and could provide a general reference. We set out our findings in the table below:

	Date of announcement	Stock code	Company name	Premium/ (Discount) of the subscription price over/to the closing price per share on/prior to the date of agreement	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement	Premium/ (Discount) of the subscription price over/to the net asset value attributable to owners of the company per share
1	12/11/2024	653	Bonjour Holdings Limited	0.00%	(1.00%)	(86.72%)
2	24/10/2024	8337	Directel Holdings Limited	138.10%	138.10%	41.80%
3	23/10/2024	836	China Resources Power Holdings Company Limited	(5.06%)	(3.48%)	4.75%
4	21/10/2024	8370	Zhi Sheng Group Holdings Limited	(60.53%)	(60.63%)	26.14%
5	17/10/2024	8137	Honbridge Holdings Limited	(75.00%)	(77.01%)	(81.63%)
6	10/10/2024	1520	Virtual Mind Holding Company Limited	13.64%	38.89%	56.95%
7	4/10/2024	8051	CircuTech International Holdings Limited *(Note 1)*	(2.60%)	0.30%	(55.27%)
8	4/9/2024	8646	China Hongguang Holdings Limited	(42.80%)	(34.40%)	(63.15%)
9	2/9/2024	8350	Well Link Securities Holdings Limited	65.60%	66.90%	2,961.85% *(Note 2)*
10	8/7/2024	209	Winshine Science Company Limited	(9.10%)	(9.10%)	Net liabilities
			Maximum	**138.10%**	**138.10%**	**56.95%**
			Minimum	**(75.00%)**	**(77.01%)**	**(86.72%)**
			Average	**2.23%**	**5.86%**	**(19.64%)**
			Median	**(3.83%)**	**(2.24%)**	**(25.26%)**
			The Company	94.44%	101.15%	84.21%

Source: hkexnews.hk

Notes:

1. The relevant subscription agreement includes two batches of subscriptions with varying prices and conditions precedent. The subscription that includes a profit guarantee as a condition precedent is excluded from the market comparable analysis, as the determination of its subscription price may be influenced by the existence of the profit guarantee.

2. Well Link Securities Holdings Limited exhibited a significantly high premium on the subscription price compared to the net asset value per share attributable to the company's owners. This discrepancy may distort the overall market comparable analysis of net asset value. As a result, it has been excluded from the analysis on net asset value.

3. The net asset value attributable to owners of the company per share are converted from Renminbi to HK$, where applicable, at the exchange rate of RMB1 = HK$1.064.

As illustrated in the table above, we noted that the subscription prices of the OS Comparables ranged from (i) a discount of approximately 75.00% to a premium of approximately 138.10% to/over the respective closing prices of the shares on the last trading day prior to/on the date of the relevant announcements (the "**OS LTD Range**"), with a median discount of approximately 3.83% (the "**OS LTD Median**") and an average premium of approximately 2.23% (the "**OS LTD Average**"); (ii) a discount of approximately 77.01% to a premium of approximately 138.10% to/over the respective average closing prices of the shares on the last five consecutive days up to and including the date of the relevant announcements (the "**OS Five Days Range**"), with a median discount of approximately 2.24% (the "**OS Five Days Median**") and an average premium of approximately 5.86% (the "**OS Five Days Average**"); and (iii) a discount of approximately 86.72% to a premium of approximately 56.95% to/over their respective net asset value attributable to owners of the company per share (the "**OS NAV Range**"), with a median discount of approximately 25.26% (the "**OS NAV Median**") and an average discount of approximately 19.64% (the "**OS NAV Average**").

We noted that the Issue Price represents premiums of approximately 94.44%, 101.15% and 84.21% over the closing Share price on the date of the Loan Capitalisation Agreement, the average closing Share price for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement and the net asset value attributable to owners of the Company per Share, respectively, which (i) fall within the OS LTD Range, OS Five Days Range and OS NAV Range; (ii) are better than the OS LTD Median, OS LTD Average, OS Five Days Median, OS Five Days Average, OS NAV Median and OS NAV Average.

CPS Comparables (to be defined below)

To further assess the fairness and reasonableness of the Issue Price in relation to the issue of convertible preference shares, we have conducted a search on comparable transactions based on the following criteria: (i) companies listed on the Stock Exchange; (ii) companies that had published announcements in relation to connected transactions which involved the issues of convertible preference shares (excluding transactions involving (a) issuance for restructuring scheme, emolument or acquisition purposes given that such transactions often involve broader financial reorganisation and complex financial maneuvers; and (b) whitewash waiver applications or general offer obligations under the Hong Kong Code on Takeovers and Mergers) under specific mandate for cash consideration (the "**CPS Comparables**") for the period from 1 July 2024 to 27 December 2024 (being approximate six months prior to and including the date of the Loan Capitalisation Agreement). Based on such criteria, we have not identified any CPS Comparables on an exhaustive basis.

Accordingly, given that the limited availability of the CPS Comparables, we extended our research to those issue of convertible preference share(s) to both connected persons and independent third parties. Therefore, we have further extended our research period from 1 December 2019 up to and including the date of the Loan Capitalisation Agreement (being an approximately five-year period up to and including the date of the Loan Capitalisation Agreement). Based on such criteria, we have identified seven CPS Comparables which met the said criteria. To the best of our knowledge, effort and endeavour and based on our search conducted according to the aforesaid criteria, the CPS Comparables is an exhaustive list of issues of convertible preference share(s) meeting the aforesaid criteria. We considered that the comparison period of approximately five years is appropriate since it provided sufficient number of samples for our analysis purpose.

Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as the CPS Comparables and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the CPS Comparable. Nevertheless, given that this analysis is aiming at taking a general reference to the market practice in relation to similar type of transactions, we consider that our comparable analysis on the terms of the convertible preference shares without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders' reference. We set out our findings in the table below:

	Date of announcement	Stock code	Company Name	Preferential dividend rate per annum	Premium/(discount) of issue price of convertible preference shares over/(to) closing price per share on the last trading day prior to/on the date of the respective announcement	Premium/(discount) of issue price of convertible preference shares over/(to) average closing price per share for the last five consecutive trading days up to and including the date of the respective announcement	Connected transactions
1	30/11/2023	809	Global Bio-chem Technology Group Company Limited ("**Global Bio-chem**")	Nil *(Note 1)*	78.60%	78.60%	Yes
2	9/9/2022	286	Aidigong Maternal & Child Health Limited ("**Aidigong**")	4.00% *(Note 2)*	(13.80%)	(10.70%)	No
3	4/8/2022	1831	ShiFang Holding Limited	N/A	(18.57%)	45.04%	Yes
4	27/5/2022	1020	Cybernaut International Holdings Company Limited	N/A	4.17%	2.04%	Yes
5	28/10/2021	1359	China Cinda Asset Management Co., Ltd ("**China Cinda**")	4.40% *(Note 3)*	253.13%	243.99%	No
6	17/9/2020	1398	Industrial and Commercial Bank of China Limited ("**ICBC**")	3.58% *(Note 4)*	35.14%	34.13%	No
7	27/2/2020	3988	Bank of China Limited ("**BOC**")	3.60% *(Note 5)*	4.75%	5.28%	No
			Maximum	**4.40%**	**253.13%**	**243.99%**	
			Minimum	**Nil**	**(18.57%)**	**(10.70%)**	
			Median	**3.60%**	**4.75%**	**34.13%**	
			Average	**3.12%**	**49.06%**	**56.91%**	
		2122	The Company	2%	94.44%	101.15%	Yes

Source: hkexnews.hk

Notes:

1. The preferred distribution is non-fixed and non-cumulative at a rate of not exceeding 5% per annum on the aggregate issue price of the convertible preference shares.

2. The preferential dividend rate is fixed and cumulative.

3. We adopted the initial preferential dividend rate for comparison purpose. The preferential dividend rate, which is fixed and non-cumulative, is subject to adjustment after a period of time and is capped at 8.41%.

4. We adopted the initial preferential dividend rate for comparison purpose. The preferential dividend rate, which is fixed and non-cumulative, is subject to adjustment after a period of time and is capped at 13.42%.

5. We adopted the initial preferential dividend rate for comparison purpose. The preferential dividend rate, which is fixed and non-cumulative, is subject to adjustment after a period of time and is capped at 12.15%.

As shown in the above table, we noted that the issue prices of the CPS Comparables ranged from (i) a discount of approximately 18.57% to a premium of approximately 253.13% to/over the respective closing prices of the shares on the last trading day prior to/on the date of relevant announcements (the "**CPS LTD Range**"), with a median premium of approximately 4.75% (the "**CPS LTD Median**") and an average premium of approximately 49.06% (the "**CPS LTD Average**"); and (ii) a discount of approximately 10.70% to a premium of approximately 243.99% to/over the respective closing prices of the shares on the last five consecutive trading days up to and including the date of the relevant announcements (the "**CPS Five Days Range**"), with a median premium of approximately 34.13% (the "**CPS Five Days Median**") and an average premium of approximately 56.91% (the "**CPS Five Days Average**").

We noted that the Issue Price represents premiums of approximately 94.44% and 101.15% over the closing Share price on the date of the Loan Capitalisation Agreement, the average closing Share price for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement, respectively, which (i) fall within the CPS LTD Range and CPS Five Days Range; and (ii) are better than the CPS LTD Median, CPS Five Days Median, the CPS LTD Average and CPS Five Days Average.

Among the seven CPS Comparables, (i) two of them did not offer the preferential dividends to holders of convertible preference shares; (ii) the preferred distribution of Global Bio-chem is non-fixed and non-cumulative at a rate of not exceeding 5.00% per annum on the aggregate issue price of the convertible preference shares and such term has not imposed contractual obligation on the issuer to pay or accrued preferred distribution to the holders of convertible preference shares; (iii) the preferential dividend rate of Aidigong is fixed and cumulative in nature at 4.00% per annum; and (iiv) the preferential dividend rates of the CPS Comparables conducted by China Cinda, ICBC and BOC are initially set at 4.40%, 3.58% and 3.60% per annum, respectively and are fixed and non-cumulative in nature.

The preferential dividend rate of the CPS Comparables ranged from nil to 4.40% per annum with a median and average preferential dividend rate of approximately 3.60% per annum and 3.12% per annum, respectively, and we noted that the Company shall pay a fixed cumulative preferential cash dividends at the rate of 2.00% per annum in the Issue Price to the holder(s) of the Capitalisation Convertible Preference Shares during the conversion period. As such, the preferential dividend rate of the Capitalisation Convertible Preference Shares falls within the said market range and is lower than both the median and average preferential dividend rate of the CPS Comparables.

(d) Conclusion

After having considered that:

(i) the Issue Price had been above the closing prices of the Shares on all trading days throughout the Review Period;

(ii) the relatively low liquidity of Shares as discussed above;

(iii) for the loan capitalisation regarding the issue of Capitalisation Ordinary Shares:

(a) the Issue Price represents premiums of approximately 94.44% over the closing Share price on the date of the Loan Capitalisation Agreement falls within the OS LTD Range and is better than the OS LTD Median and OS LTD Average;

(b) the Issue Price represents premiums of approximately 101.15% over the closing Share price for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement falls within the OS Five Days Range and is better than the OS Five Days Median and OS Five Days Average;

(c) the Issue Price represents premiums of approximately 84.21% over the net asset value attributable to owners of the Company per Share falls within the OS NAV Range and is better than the OS NAV Median and OS NAV Average; and

(iv) for the loan capitalisation regarding the issue of Capitalisation Convertible Preference Shares:

(a) the Issue Price represents premium of approximately 94.44% over the average closing Share price on the date of the Loan Capitalisation Agreement falls within the CPS LTD Range and is better than the CPS LTD Median and CPS LTD Average;

(b) the Issue Price represents premium of approximately 101.15% over the average closing price for last five consecutive trading days up to and including the date of the Loan Capitalisation Agreement falls within the CPS Five Days Range and is better than the CPS Five Days Median and CPS Five Days Average; and

(c) the preferential dividend rate of the Capitalisation Convertible Preference Shares of 2.00% per annum falls within the market range of the CPS Comparables and is lower than both the median and average preferential dividend rate of the CPS Comparables,

we are of the view that the terms of the Loan Capitalisation Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Group and the Shareholders as a whole.

7. Potential dilution effects of the Loan Capitalisation

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Completion, assuming there will be no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Ordinary Shares; and (iii) immediately after the Completion, assuming that there will be no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Ordinary Shares and the Conversion Shares:

Shareholders	As at the Latest Practicable Date		Immediately after the allotment and issue of the Capitalisation Ordinary Shares only		Immediately after the allotment and issue of the Capitalisation Ordinary Shares and the Conversion Shares *(Note 1)*	
	Number of Shares	*Approximate % (Note 2)*	*Number of Shares*	*Approximate % (Note 2)*	*Number of Shares*	*Approximate % (Note 2)*
Mr. Lee *(Note 3)*	10,000,000	1.25	10,000,000	0.90	10,000,000	0.45
Lovable International *(Note 4)*	17,999	0.00	17,999	0.00	17,999	0.00
Asian Glory *(Note 4)*	425,206,524	53.15	731,120,810	66.11	1,853,777,953	83.18
Sub-total	435,224,523	54.40	741,138,809	67.02	1,863,795,952	83.63
Ms. Zhong Mei (executive Director)	29,999,100	3.75	29,999,100	2.71	29,999,100	1.35
Mr. Du Ping (non-executive Director)	2,999,910	0.37	2,999,910	0.27	2,999,910	0.13
Other public Shareholders	331,776,467	41.47	331,776,467	30.00	331,776,467	14.89
Total	**800,000,000**	**100.00**	**1,105,914,286**	**100.00**	**2,228,571,429**	**100.00**

Notes:

1. The scenario is intended for illustrative purposes only. Asian Glory cannot exercise the conversion rights as to such number of Capitalisation Convertible Preference Share if upon conversion, the percentage of the Shares held by the public will fall below the minimum public float requirement under Rule 8.08 of the Listing Rules.

2. Figures are subject to rounding.

3. Mr. Lee is the sole shareholder of Asian Glory. By virtue of the SFO, Mr. Lee is deemed to be interested in the Shares held by Asian Glory.

4. Asian Glory owns approximately 92% of Lovable International Holdings Limited ("**Lovable International**"). By virtue of the SFO, Asian Glory is deemed to be interested in the Shares held by Lovable International.

As shown in the above table, we noted that shareholding held by public Shareholders in the Company would be diluted from approximately 41.47% as at the Latest Practicable Date to (i) approximately 30.0% immediately after the allotment and issuance of the Capitalisation Ordinary Shares only; and (ii) approximately 14.89% immediately after the allotment and issuance of the Capitalisation Ordinary Shares and the Conversion Shares. And Asian Glory cannot exercise the conversion rights as to such number of Capitalisation Convertible Preference Share if upon conversion, the percentage of the Shares held by the public will fall below the minimum public float requirement under Rule 8.08 of the Listing Rules.

Notwithstanding that the Loan Capitalisation will incur dilution effect on the shareholding of the existing public Shareholders upon completion and conversion, where applicable, after taking into account:

(i) the Loan Capitalisation will not cause any cash outlay of the Group and will enhance net asset value per Share and reduce the gearing ratio as the Loan Capitalisation will enlarge the capital base and offset the liability and in turn, increase the net asset value of the Group and reduce the gearing ratio of the Group;

(ii) the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned as discussed in "6. Analysis of the Issue Price" above;

(iii) the interest expenses arising from the Loan will be reduced after the Loan Capitalisation given that the capitalisation of the Loan through the issuance of the Capitalisation Ordinary Shares will allow the Group to no longer incur such interest expenses arising on that portion of the Loan;

(iv) Loan Capitalisation demonstrated Asian Glory's confidence and support in the Group's business operation and prospects given that (a) the Loan Capitalisation will increase Asian Glory's equity investment in the Company; and (b) Asian Glory is willing to accept the Issue Price which represents a substantial premium over the recent closing price of the Shares; and

(v) the reasons as mentioned in "3. Reasons for and benefits of the Loan Capitalisation" above, in particular the Loan Capitalisation enables the Group to settle its existing liabilities without utilising the existing financial resources and can avoid cash outflows and future interest payments for the Loan and the Group's gearing will be reduced immediately after Completion,

we are of the view that the potential dilution effect on the shareholding interests of other public Shareholders to be acceptable, and the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

8. Financial effects of the Loan Capitalisation

(a) Effects on earnings

The Loan carried interest at a rate of 2.0% per annum. The Loan Capitalisation will enable the Group to save part of such interest expenses going forward, which can improve earnings of the Group.

(b) Effects on net assets

It is expected that upon completion of the Loan Capitalisation, the outstanding balance of the Loan of approximately HK$100,000,000 will be set off by the issuance of the Capitalisation Ordinary Shares and Capitalisation Convertible Preference Shares, hence the liabilities of the Group will be reduced and the financial position of the Group will be considerably enhanced.

(c) Effects on gearing ratio

It is expected that upon completion of the Loan Capitalisation, the liabilities of the Group will be reduced and the equity of the Company will be increased. In view of the reduction of liabilities and increase in equity, the Group's gearing level will be improved.

(d) Effects on liquidity and working capital

It is expected that upon completion of the Loan Capitalisation, the Loan Capitalisation will help to avoid substantial cash outflow of the Group when the Loan falls due. As such, the working capital position and the cash position of the Group will be improved.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Loan Capitalisation.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that although the Loan Capitalisation Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms of the Loan Capitalisation are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolution(s) at the EGM to approve the transactions contemplated under the Loan Capitalisation Agreement.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited

Kevin So	**Florence Ng**
Managing Director – Investment Banking Department	*Associate Director*

Notes:

Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.

Ms. Florence Ng is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Ms. Ng has over 10 years of experience in the corporate finance industry in Hong Kong.