



28 January 2025

*To the Independent Board Committee and  
the Independent Shareholders of  
China NT Pharma Group Company Limited*

Dear Sirs,

**(1) CONNECTED TRANSACTION IN RELATION TO  
LOAN CAPITALIZATION INVOLVING SUBSCRIPTION OF  
SHARES UNDER SPECIFIC MANDATE;  
AND  
(2) APPLICATION FOR WHITEWASH WAIVER**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to make recommendations to the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (the “**Independent Shareholders**”) of China NT Pharma Group Company Limited (the “**Company**”) in relation to the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate and the Whitewash Waiver. The details of which are disclosed in the announcement of the Company dated 28 November 2024 (the “**Announcement**”) and in the letter from the board (the “**Letter from the Board**”) set out on pages 6 to 24 of the circular of the Company dated 28 January 2025 (the “**Circular**”) to its shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, the Company was indebted to (i) Subscriber A in the aggregate outstanding principal amount of approximately HK\$82.10 million and the accrued interest of approximately HK\$15.69 million under the Loan Agreement A entered into on 1

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January 2023. The shareholder's loans under the Loan Agreement A are unsecured and bear interest at the rate of 12% per annum without any fixed repayment date. Such shareholder's loans were provided to the Group by Subscriber A for the purpose of the Group's general working capital requirement; and (ii) Subscriber B in the aggregate outstanding principal amount of approximately RMB45.00 million (equivalent to approximately HK\$49.45 million) and the accrued interest of approximately RMB1.31 million (equivalent to approximately HK\$1.44 million) under the Loan Agreement B and the Restructuring of Suzhou First Pharma, a former subsidiary of the Company. The loans under the Loan Agreement B are secured by certain assets of Suzhou First Pharma and one of its subsidiaries and bear interest at the rate of 15% per annum and were due on 16 June 2022. Such loans were provided by Subscriber B to NT (China) Investment Co., Ltd., being a subsidiary of the Company and a fellow subsidiary of Suzhou First Pharma prior to the completion of the Restructuring and the repayment obligations were assumed by the Company upon the disposal of NT (China) Investment Co., Ltd. by the Company to an Independent Third Party in December 2023. Based on (i) the Restructuring relating to Suzhou First Pharma approved by the Court; (ii) the outstanding principal amount of the relevant loans and accrued interest thereon as at 27 April 2023 confirmed by the administrator appointed by the Court of the Restructuring; (iii) the subsequent repayment amount received by Subscriber B from the Court; and (iv) the amount to be repaid to Subscriber B from the sale of relevant assets under the Restructuring as estimated by the Directors based on (a) the proposed selling price of such assets on an independent auction platform; and (b) the estimated proceeds to be allocated to Subscriber B on a pro rata basis among all the creditors under the Restructuring, the remaining outstanding amount of loan that the Company is liable to Subscriber B as at the Latest Practicable Date was approximately RMB44.00 million (equivalent to approximately HK\$48.35 million).

On 28 November 2024 (after trading hours), the Company entered into the Subscription Agreement with Subscriber A and Subscriber B, pursuant to which the Company has conditionally agreed to allot and issue to (i) Subscriber A, and Subscriber A has conditionally agreed to subscribe for, 263,636,363 new Shares at the Subscription Price of HK\$0.33 per Subscription Share for a total consideration of HK\$86,999,999.79, which shall be satisfied by way of offsetting HK\$87.00 million in the outstanding principal amount and the accrued interest of the shareholder's loans under the Loan Agreement A; and (ii) Subscriber B, and Subscriber B has conditionally agreed to subscribe for, 146,520,146 new Shares at the Subscription Price of HK\$0.33 per Subscription Share for a total consideration of HK\$48,351,648.18, which shall be satisfied by way of offsetting HK\$48,351,648.35 in the outstanding principal amount and the accrued interest of the loans under the Loan Agreement B.

Upon Completion, HK\$87.00 million and HK\$48,351,648.35 in the outstanding principal amount and the accrued interest (if any) of the loans under the Loan Agreement A and the Loan Agreement B, respectively, shall be deemed to have been repaid. The respective remaining balance, including any interest accrued thereunder, as at the Latest Practicable Date shall be HK\$10,787,752.37 under the Loan Agreement A, and HK\$2,537,547.43 under the Loan Agreement B, which Subscriber B has undertaken in the Subscription Agreement not to claim against the Company in any event.

According to the Letter from the Board, Subscriber A is a substantial shareholder of the Company and an associate of Mr. Ng Tit (“Mr. Ng”) and Ms. Chin Yu, who are Directors of the Company, and is therefore a connected person of the Company. In addition, Subscriber B is the son of two substantial shareholders of the Company and is therefore a deemed connected person of the Company. Accordingly, the Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to announcement, reporting and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Subscriber A and Subscriber B were parties acting in concert. Subscriber A and Subscriber B, together with their respective concert parties held 95,494,833 Shares in aggregate, representing approximately 36.16% of the issued share capital of the Company. The shareholding of Subscriber A, Subscriber B and parties acting in concert with each of them will increase to approximately 75.00% of the issued share capital of the Company immediately after completion of the Subscription and assuming there is no change in the issued share capital of the Company other than issue of the Subscription Shares, thereby triggering an obligation on Subscriber A and Subscriber B under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all issued Shares and other securities of the Company not already owned or agreed to be acquired by Subscriber A, Subscriber B or parties acting in concert with each of them, unless the Whitewash Waiver is granted by the Executive.

Subscriber A together with Subscriber B have made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, which, if granted, will be subject to the approval by at least 75% and more than 50% respectively of the votes cast by the Independent Shareholders in person or by proxy by way of poll in respect of the Whitewash Waiver and the underlying transactions (i.e. the Subscription, the Loan Capitalization and the Specific Mandate), at the EGM. If the Whitewash Waiver is granted by the Executive and is approved by the Independent Shareholders and completion of the Subscription having taken place, each of Subscriber A (together with parties acting in concert with it) and Subscriber B (together with parties acting in concert with it) will be interested in approximately 45.12% and 29.88% in the Company respectively. As such, each of them remains subject to the restrictions under Rule 26 of the Takeovers Code on an individual basis including, in respect of Subscriber A and parties acting in concert with it, the 2% creeper rule under Rule 26.1 of the Takeovers Code.

Each of Subscriber A and Subscriber B, their respective associates, any parties acting in concert with each of them, and the Shareholders who are involved in or interested in the Whitewash Waiver and/or the underlying transactions, will be required to abstain from voting in respect of the resolutions to approve the Whitewash Waiver and the underlying transactions (i.e. the Subscription, the Loan Capitalization and the Specific Mandate) at the EGM. As at the Latest Practicable Date, save for Subscriber A, Subscriber B, Ms. Chin Yu, Mr. Jeong Chong Mang and Annie Investment Co., Ltd., there were no other Shareholders who are involved in or interested in the Whitewash Waiver or the underlying transactions and are therefore required to abstain from voting in relation to such resolutions at the EGM.

## **THE INDEPENDENT BOARD COMMITTEE**

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee (comprising all the independent non-executive Directors who have no direct or indirect interest and are not involved in the Whitewash Waiver and the underlying transactions, namely Mr. Yu Tze Shan Hailson, Mr. Ng Ming Kwan and Dr. Zhao Yubiao) has been formed to advise the Independent Shareholders on whether the Whitewash Waiver and the underlying transactions are fair and reasonable, and as to voting from the perspective of the Takeovers Code. As Ms. Chin Yu, being a non-executive Director, is the ultimate beneficial owner of 50% equity interest of Subscriber A, and Dr. Qian Wei, also being a non-executive Director, is the brother of Ms. Chin Yu, they are not included in the Independent Board Committee for the purpose of giving advice or recommendations to the Independent Shareholders.

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors who have no direct or indirect interest in the Subscription, namely Mr. Yu Tze Shan Hailson, Mr. Ng Ming Kwan and Dr. Zhao Yubiao), which has been formed, would advise the Independent Shareholders on whether the Subscription by the Subscribers is fair and reasonable and as to voting from the perspective of the Listing Rules.

We, Astrum Capital Management Limited, have been appointed as the independent financial adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **INDEPENDENCE DECLARATION**

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Subscriber A, Mr. Ng, Ms. Chin Yu, Ms. Ng Anna Ching Mei, Dr. Qian Wei, Subscriber B, Mr. Ieong Chong Mang, Ms. Shum Ning, Annie Investment Co., Ltd. and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, we were not aware of any relationships between Astrum Capital Management Limited and the Company, and there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate and the Whitewash Waiver, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under the Listing Rules and the Takeovers Code to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate and the Whitewash Waiver.

## **BASIS OF OUR OPINION**

In formulating our opinion and recommendations, we have reviewed the Announcement, the Circular, the Loan Agreement A, the Loan Agreement B (as supplemented by two supplemental loan agreements dated 25 September 2020 and 1 June 2021, respectively), the respective drawdown records of the loans under the Loan Agreements, the civil judgment issued by the Court dated 27 May 2024 relating to the Restructuring, the Subscription Agreement, the annual reports of the Company for the seven financial years ended 31 December 2023, the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”) and the profit warning announcement of the Company dated 8 January 2025 (the “**Profit Warning Announcement**”). We have also (i) considered the historical trading prices and trading volume of the Shares; and (ii) conducted discussions with the management of the Company (the “**Management**”) regarding the Subscription Agreement and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver, as well as the existing financial status, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate and the Whitewash Waiver, and to justify our reliance on the information provided so as to provide a reasonable basis of opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. Pursuant to Rule 9.1 of the Takeovers Code, the Company is required to notify the Shareholders of any material changes to information contained in the Circular as soon as possible subsequent to the Latest Practicable Date and prior to the EGM. If we become aware of any such material change, we will notify the Shareholders of the potential impact on our opinion and/or recommendation set out in this letter as soon as possible.

This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate and the Whitewash Waiver. Except for the inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

*For illustration purpose, the conversion of HK\$ and RMB in this letter was based on an exchange rate of HK\$1 = RMB0.91.*

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In considering whether the terms of the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

### **1. Information on the Company**

According to the Letter from the Board, the Group is principally engaged in two main areas, namely investment and physical pharmaceutical business. The investment business focuses on investing in internationally leading innovative targeted drugs and pharmaceutical companies' equity. At the same time, the Group is digitizing and diversifying its existing physical pharmaceutical assets and business, with the aim of creating a specialized digital pharmaceutical group focused on bone health. The Group principally operates in Hong Kong and Mainland China.

## 2. Financial information of the Group

The following table sets out (i) the audited financial information of the Group for the two financial years ended 31 December 2022 and 31 December 2023 (“FY2022” and “FY2023”, respectively) as extracted from the annual report of the Company for FY2023 (the “2023 Annual Report”); and (ii) the unaudited financial information of the Group for the six months ended 30 June 2023 and 30 June 2024 (“1H2023” and “1H2024”, respectively) as extracted from the 2024 Interim Report:

**Table 1: Financial information of the Group**

	<b>FY2022</b>	<b>FY2023</b>	<b>1H2023</b>	<b>1H2024</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
	(Restated)	(Note)	(Restated)	
	(Note)		(Note)	
<b>Revenue from continuing operations</b>	–	7,366	7,366	31,297
<b>Gross profit from continuing operations</b>	–	7,366	7,366	5,706
<b>(Loss)/Profit for the year/period from continuing operations</b>	(50,040)	(33,491)	(4,796)	661
<b>(Loss) for the year/period from discontinued operations (Note)</b>	(16,365)	(110,099)	(816)	–
<b>(Loss)/Profit for the year/period attributable to the owners of the Company</b>	(66,405)	(143,590)	(5,612)	661

	As at 31 December 2022 RMB'000 (audited)	As at 31 December 2023 RMB'000 (audited)	As at 30 June 2024 RMB'000 (unaudited)
<b>Non-current assets</b>	932,284	316,845	324,360
<b>Current assets</b>	73,434	12,277	14,404
<b>Current (liabilities)</b>	(1,169,693)	(665,087)	(681,615)
<b>Net current (liabilities)</b>	(1,096,259)	(652,810)	(667,211)
<b>Non-current (liabilities)</b>	(77,683)	(3,600)	(3,564)
<b>Net (liabilities) attributable to the owners of the Company</b>	(241,658)	(339,565)	(346,415)

Source: the 2023 Annual Report and the 2024 Interim Report

*Note:* In August 2023, as part of the Restructuring, an equity transfer agreement was entered into with the Investors (as defined in the section headed “3. Background of the Restructuring” below) in relation to the transfer (the “Equity Transfer”) of the entire interest in Suzhou First Pharma, the then wholly-owned subsidiary of the Company, to the Investors. The Equity Transfer was deemed to be completed in August 2023 and Suzhou First Pharma was no longer a subsidiary of the Company since then. Prior to the Equity Transfer, Suzhou First Pharma was principally engaged in manufacturing and sale of proprietary pharmaceutical products (the “Disposed Business”), and contributed significant portion of revenue to the Group during FY2023 and the entire revenue during FY2022. Accordingly, the Disposed Business has been treated and presented as discontinued operations in the consolidated financial statements of the Company for FY2022 and FY2023, respectively. Please refer to the section headed “3. Background of the Restructuring” below for further details of the Equity Transfer and the Restructuring.

**(i) For the year ended 31 December 2023 (i.e. FY2023)**

In FY2022, the Disposed Business operated by Suzhou First Pharma served as the sole business segment of the Group, contributing revenue of approximately RMB207.1 million. As mentioned in the section headed “3. Background of the Restructuring” below, the Equity Transfer was deemed to be completed in August 2023 and Suzhou First Pharma was no longer a subsidiary of the Company since then. During the period commencing from 1 January 2023 and up to 1 August 2023 (i.e. the completion date of the Equity Transfer), Suzhou First Pharma generated revenue of approximately RMB88.6 million to the Group. As a result of the Equity Transfer in August 2023, the Disposed Business has been treated and presented as discontinued operations in the consolidated financial statements of the Company for FY2022 and FY2023, respectively.



As all revenue of the Group in FY2022 was derived from the Disposed Business, no revenue from continuing operations was recorded. The Group recorded loss from continuing operations of approximately RMB50.0 million in FY2022. Such loss was mainly attributable to (i) finance costs of approximately RMB39.4 million; and (ii) general and administrative expenses of approximately RMB22.6 million.

Starting from 2023, the Group has innovatively created a bone health 4M (Medicine, Multinational E-Health, Medical Device and Medical Digital Platform) model by focusing on the Company's core capabilities and resources. It has also established Fuaimeng's "Specialist Orthopedic Health Platform" and vigorously developed business modules covering the supply and promotion of bone disease drugs and health products, bone disease rehabilitation management and digital medical full-process closed-loop treatment and management platform.

In FY2023, the Group recorded revenue of approximately RMB7.4 million from continuing operations, as compared to nil in FY2022. Revenue from continuing operations in FY2023 was all generated from agency services for sales of proprietary pharmaceutical products. The Group recorded loss from continuing operations of approximately RMB33.5 million in FY2023, representing a decrease of approximately 33.1%, as compared to approximately RMB50.0 million in FY2022. Such decrease was mainly attributable to (i) the increase in share of results of associates from approximately RMB9.0 million in FY2022 to approximately RMB37.0 million in FY2023; (ii) the recognition of gain on disposal of subsidiaries of approximately RMB12.3 million in FY2023 (FY2022: nil); (iii) the decrease in finance costs of approximately RMB10.5 million; and (iv) the increase in revenue from continuing operations of approximately RMB7.4 million, which was partially offset by the increase in general and administrative expenses of approximately RMB41.0 million due to the recognition of the consultation fees (the "**Consultation Fees**") of approximately RMB37.7 million for the provision of consultancy services by two consultants, namely Dr. Wang Minzhi and Mr. Gao Gui (collectively, the "**Consultants**"), for overseeing technology and product registration searches and development, crafting research plans for clinical trials, and submitting clinical applications to regulatory bodies for the Group's projects. Both the Consultants were Independent Third Parties as at the date of the consultancy agreements entered into between the Company and the Consultants. Upon the issuance of the consideration shares by the Company to the Consultants for the settlement of the Consultation Fees, Dr. Wang Minzhi became a substantial shareholder of the Company, holding 46,372,286 Shares (after the adjustment of the Share Consolidation (*as defined below*)) (representing approximately 17.6% of the issued share capital of the Company as at the Latest Practicable Date), while Mr. Gao Gui remained as an Independent Third Party, holding 946,373 Shares (after the adjustment of the Share Consolidation (*as defined below*)) (representing approximately 0.4% of the issued share capital of the Company as at the Latest Practicable Date).

In FY2023, the Group recorded loss attributable to owners of the Company of approximately RMB143.6 million, representing an increase of approximately 116.2% as compared to approximately RMB66.4 million in FY2022. Such deterioration was mainly due to the increase in loss for the year from discontinued operations from approximately RMB16.4 million in FY2022 to approximately RMB110.1 million in FY2023, which was, in turn, principally due to the recognition of loss on the Restructuring of approximately RMB86.7 million in FY2023 (FY2022: nil). The effect of the increase in loss from discontinued operations was partially offset by the decrease in loss from continuing operations of approximately RMB16.5 million.

As at 31 December 2023, the Group's total assets and total liabilities amounted to approximately RMB329.1 million (31 December 2022: approximately RMB1,005.7 million) and approximately RMB668.7 million (31 December 2022: approximately RMB1,247.4 million), respectively. The Group recorded net liabilities attributable to the owners of the Company of approximately RMB339.6 million as at 31 December 2023 (31 December 2022: approximately RMB241.7 million). Such deterioration was mainly due to the loss attributable to the owners of the Company for FY2023 of approximately RMB143.6 million, which was partially offset by (i) issuance of new shares to the Consultants for the settlement of the Consultation Fees of approximately RMB37.7 million in FY2023; and (ii) placing of new shares of approximately RMB9.4 million in FY2023.

*(ii) For the six months ended 30 June 2024 (i.e. 1H2024)*

In 1H2023, the Group's revenue from continuing operations of approximately RMB7.4 million was all derived from the agency services for sales of proprietary pharmaceutical products. As advised by the Management, no cost of sales were recorded in 1H2023 pursuant to Hong Kong Financial Reporting Standard 15 "Revenue from Contracts with Customers" issued by the Hong Kong Institute of Certified Public Accountants as the proprietary pharmaceutical products were directly transferred from suppliers to customers and the Group had no controls of the products before the products were transferred directly to its customers.

In 1H2024, the Group recorded revenue of approximately RMB31.3 million from continuing operations, representing a substantial increase of approximately 3.2 times as compared to approximately RMB7.4 million in 1H2023. Most of the Group's revenue in 1H2024 was derived from the newly established agency digital healthcare service business. The Group's digital healthcare service platform targets to provide digital promotion services to bone health product manufacturers and distributors, clinical healthcare institutions, and bone health consumers, including the provision of the following services for industry companies: (i) medical news update; (ii) creating medical videos and articles, (iii) medical conference content and reports; and (iv) market research and promotional activities. In 1H2024, the Group recorded cost of sales of approximately RMB25.6 million, which was attributable to the cost incurred from the operation of the newly established digital healthcare service platform during

1H2024, mainly comprising the maintenance cost of the digital platform and the service fee for the preparation of medical videos, articles, conference content and reports. Accordingly, the Group's gross profit decreased from approximately RMB7.4 million in 1H2023 to approximately RMB5.7 million in 1H2024.

In 1H2024, the Group made a turnaround from loss making position to profit making position. The Group recorded profit attributable to the owners of the Company of approximately RMB0.7 million in 1H2024, as compared to loss of approximately RMB5.6 million in 1H2023. Such improvement was mainly attributable to (i) the decrease in finance costs of approximately RMB7.1 million; (ii) the decrease in general and administrative expenses of approximately RMB3.1 million; and (iii) the absence of the recognition of loss from discontinued operations in 1H2024 (1H2023: loss of approximately RMB0.8 million), which was partially offset by (a) the decrease of share of results of associates of approximately RMB3.1 million; and (b) the decrease of gross profit from continuing operations of approximately RMB1.7 million.

As at 30 June 2024, the Group's total assets and total liabilities amounted to approximately RMB338.8 million (31 December 2023: approximately RMB329.1 million) and approximately RMB685.2 million (31 December 2023: approximately RMB668.7 million), respectively. As a result of the loss on exchange differences on translation of financial statements of entities within the Group outside the PRC of approximately RMB7.5 million in 1H2024, and the effect of which was partially offset by the profit attributable to the owners of the Company of approximately RMB0.7 million in 1H2024, the net liabilities attributable to the owners of the Company further increased from approximately RMB339.6 million as at 31 December 2023 to approximately RMB346.4 million as at 30 June 2024.

*(iii) Going concern*

As disclosed in the 2023 Annual Report, the following conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern: (i) the Group incurred a net loss of approximately RMB33.5 million from its continuing operations for FY2023; (ii) as at 31 December 2023, the Group had net current liabilities and net liabilities of approximately RMB652.8 million and approximately RMB339.6 million, respectively; and (iii) as at 31 December 2023, the Group's total borrowings amounted to approximately RMB343.9 million, of which approximately RMB21.7 million, approximately RMB286.1 million and approximately RMB32.9 million were overdue for repayment, repayable on demand and would be due for repayment within next twelve months from 31 December 2023, respectively, while the Group's total cash and bank balances amounted to approximately RMB1.5 million as at 31 December 2023 (the "Going Concern Issue").

The Going Concern Issue remained outstanding as at 30 June 2024. As mentioned in the 2024 Interim Report, in view of the facts that (i) as at 30 June 2024, the Group had net current liabilities and net liabilities of approximately RMB667.2 million and RMB346.4 million, respectively; and (ii) as at 30 June 2024, the Group's total borrowings amounted to approximately RMB356.1 million, of which approximately RMB352.9 million will be due for repayment within next twelve months from 30 June 2024, while its unrestricted cash and bank balances merely amounted to approximately RMB5.8 million as at 30 June 2024, there were material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of these circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve the Group's financial position, including but not limited to: (i) actively negotiating with lenders for renewal and extension of other borrowings; (ii) developing the Group into an integrated platform enterprise that covers Full Management of Osteopathic Diagnosis and Treatment; (iii) taking active measures to control administrative costs through various channels including human resources optimization and containment of capital expenditures; and (iv) actively negotiating with external parties to obtain new sources of financing or strategic capital investments. The Directors were of the opinion that, taking into account the abovementioned plans and measures, the Group would have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the next twelve months from the date of approval for the consolidated financial statements.

With the existence of the Going Concern Issue, it would be difficult for the Group to raise fund of significant amount through equity or debt financing. We are of the view that it is critically important for the Group to reduce its gearing level thereby strengthening the financial position of the Group and alleviating the Going Concern Issue, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary.

*(iv) Profit warning for the ten months ended 31 October 2024*

As disclosed in the Profit Warning Announcement, based on the preliminary assessment of the Group's unaudited consolidated management accounts for the ten months ended 31 October 2024 ( "**10M2024**") and the information currently available to the Board, the Group is expected to record a net loss attributable to owners of the Company in the range between RMB35.0 million and RMB37.0 million for 10M2024, as compared to a net loss of approximately RMB152.9 million for the ten months ended 31 October 2023 ("**10M2023**"). Such expected decrease in net loss for 10M2024 was mainly attributable to (a) the absence of loss from the Disposed Business in 10M2024 (10M2023: loss of approximately RMB110.1 million); and (b) one-off Consultation Fees of RMB37.7 million for the provision of consultancy services by the Consultants was paid by the Group in 10M2023, while no consultancy fee was paid by the Group in 10M2024.

**3. Background of the Restructuring**

On 29 August 2022, a PRC commercial bank filed a lawsuit against Suzhou First Pharma, a former wholly-owned subsidiary of the Company, through the Court for its non-compliance with the terms and conditions of a loan agreement. According to the statement of claim, the bank was pursuing claims against Suzhou First Pharma for the repayment of all outstanding loan principal amounts of approximately RMB160 million and the relevant interest.

In June 2023, the creditors of Suzhou First Pharma have approved a plan for the Restructuring (the "**Restructuring Plan**") during the first creditors' meeting, which was subsequently approved by the Court in July 2023. Pursuant to the Restructuring Plan and the judgment by the Court, the investors (the "**Investors**") solicited by the administrator appointed by the Court (the "**Administrator**") shall acquire the entire equity interests in Suzhou First Pharma, and the corresponding properties (other than those to be excluded), equipment and other fixed assets, intangible assets, production permits and operation permits, etc. for a total consideration of RMB1. The Investors shall also provide RMB355 million (the "**Settlement Amount**") to Suzhou First Pharma for settlement of, among others, the outstanding debts of Suzhou First Pharma. As such, in August 2023, an equity transfer agreement was entered into with the Investors. The Equity Transfer was deemed to be completed in August 2023 and Suzhou First Pharma was no longer a subsidiary of the Company since then. The Investors are Independent Third Parties and have no other relationship with the Company, any of its directors or substantial shareholders.

The loans provided by Subscriber B under the Loan Agreement B were secured by certain assets of Suzhou First Pharma and one of its subsidiaries. Thus, Subscriber B was entitled to and received certain repayment as a result of the Restructuring. Nevertheless, the Settlement Amount was merely a sum of money provided by the Investors, as part of the Restructuring, to settle the outstanding debts of Suzhou First Pharma, and was not correlated with the subject of the Loan Capitalization relating to the Loan Agreement B, which was the outstanding amount owed by the Company (in substitution of NT (China) Investment Co., Ltd. upon its disposal) to Subscriber B.

For more details on the Restructuring, please refer to the announcements of the Company dated 2 May 2023, 25 July 2023, 21 August 2023 and 14 September 2023.

#### **4. Background of and reasons for the entering into of the Subscription Agreement**

As mentioned in the section headed “2. *Financial information of the Group*” above, the financial performance and position of the Group was unsatisfactory. The Group recorded loss attributable to the owners of the Company of approximately RMB66.4 million and approximately RMB143.6 million for FY2022 and FY2023, respectively. Indeed, before making a turnaround to profit-making position in 1H2024, the Group had maintained a loss-making position for a consecutive six years since 2018, accumulating an aggregate loss of approximately RMB2,278.2 million. As advised by the Management, the disappointing financial performance of the Group was mainly due to (i) the tough and adverse business environment of the PRC’s pharmaceutical industry led by the introduction and aggressive implementation of a series of policies, including the “medical treatment + medical insurance + pharmacy” (「三醫聯動」); and (ii) the restructuring undergone by the Group during the past few years, which occupied substantial financial and human resources of the Group. According to the annual report of the Company for the year ended 31 December 2018 and as advised by the Management, the introduction and aggressive implementation of a series of policies regarding the PRC’s pharmaceutical industry (the “**PRC Healthcare Reform**”) brought a significant impact on the Group’s business. During the centralized procurement of drugs in “4+7” pilot cities<sup>1</sup>, which was implemented under the leadership of the PRC’s National Healthcare Security Administration (中國國家醫療保障局), the winning drugs showed a sharp drop in prices, indicating that the market size and the profitability of expired innovator drugs and common generic drugs be gradually shrinking. In addition, the policies such as local tender for centralized procurement of GPO (Group Purchasing Organization) drugs also imposed continuous downward pressure on the prices of drugs. Hospitals are required to cap the percentage of revenue from drugs in their total revenues and “Healthcare-in-Levels” (「分級診療」)<sup>2</sup> is introduced, bringing more difficulties in increasing the sales of products of hospitals. Separately, under the full implementation of

1. “4+7” pilot cities include four municipalities (including Beijing, Tianjin, Shanghai and Chongqing) and seven major cities (including Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu and Xi’an) in the PRC.
2. In regard to the prevention-oriented healthcare strategies, “Healthcare-in-Levels” (「分級診療」) is proposed to emphasize community primary healthcare service unit as the first level of contact, to triage preventive and curative care, chronic and acute care and co-ordinate the different levels of healthcare.

the “dual invoicing system” (「兩票制」), only up to two invoices are issued along the chain of pharmaceutical product procurement, with one issued by the pharmaceutical manufacturer and the other one issued by the distributor to the medical service providers. As compared with the previous procurement model prior to the PRC Healthcare Reform, the “dual invoicing system” eliminated multiple layers of distributors and significantly streamlined the procurement process, and further enhanced the competition among the industry players in the PRC’s pharmaceutical industry. In addition, the filing system of pharmaceutical representatives (「醫藥代表登記備案制度」) was introduced, where pharmaceutical representatives can only engage in academic promotion, technical consulting and other activities, and shall no longer undertake the task of drug sales. As a result of the implementation of the filing system of pharmaceutical representatives, the Group (being a pharmaceutical manufacturer) shall separately engage other employees, as salespersons, to take charge of the sales of pharmaceutical products, leading to the increase in cost to the sales and operations of the Group. The accelerated implementation of regulatory changes have intensified competition in all aspects of the PRC’s pharmaceutical industry, putting tremendous pressure on the Group’s results.

The tremendous loss of approximately RMB2,278.2 million accumulated during the six years ended 31 December 2023 led to a deterioration in the Group’s financial position. The Group changed from net assets position of RMB1,428.8 million as at 31 December 2017 to net liabilities position of approximately RMB339.6 million as at 31 December 2023. According to the section headed “2. *Indebtedness*” in Appendix I to the Circular, the indebtedness of the Group amounted to approximately RMB652.4 million (equivalent to approximately HK\$716.9 million) as at 31 October 2024, including (i) secured other borrowings of approximately RMB30.3 million (equivalent to approximately HK\$33.3 million); (ii) unsecured other borrowings of approximately RMB305.8 million (equivalent to approximately HK\$336.1 million) (including the aggregate outstanding principal amount of approximately HK\$81.1 million under the Loan Agreement A); (iii) unsecured corporate bonds of approximately RMB20.7 million (equivalent to approximately HK\$22.7 million); (iv) interest payables included in other payables and accruals of approximately RMB118.2 million (equivalent to approximately HK\$129.9 million) (including the accrued interest of approximately HK\$13.4 million under the Loan Agreement A); (v) lease liabilities of approximately RMB373,000 (equivalent to approximately HK\$410,000); and (vi) financial guarantee contracts of approximately RMB177.0 million (equivalent to approximately HK\$194.5 million) (including the aggregate outstanding amount of principal and accrued interest which the Company was liable of approximately RMB44.0 million (equivalent to approximately HK\$48.4 million) under the Loan Agreement B and the Restructuring of Suzhou First Pharma, a former subsidiary of the Company). Among which, approximately RMB644.5 million (equivalent to approximately HK\$708.2 million) will be due for repayment within next twelve months from 31 October 2024. However, the total assets and cash and bank balances of the Group as at 31 October 2024 merely amounted to approximately RMB332.8 million (equivalent to approximately HK\$365.7 million) and approximately RMB7.4 million (equivalent to approximately HK\$8.1 million), respectively. It is anticipated that, without conducting any equity/debt fund raising activities by the

Company, the Group would not have sufficient financial resources to settle the debt that will be due for repayment within next twelve months from 31 October 2024.

Moreover, as mentioned in the paragraph headed “(iii) *Going concern*” under the section headed “2. *Financial information of the Group*” above, in view of the facts that (i) as at 30 June 2024, the Group had net current liabilities and net liabilities of approximately RMB667.2 million and RMB346.4 million, respectively; and (ii) as at 30 June 2024, the Group’s total borrowings amounted to approximately RMB356.1 million, of which approximately RMB352.9 million will be due for repayment within next twelve months from 30 June 2024, while its unrestricted cash and bank balances merely amounted to approximately RMB5.8 million as at 30 June 2024, there were material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern. Certain measures have been taken by the Group to mitigate the liquidity pressure and to improve the Group’s financial position, including but not limited to actively negotiating with lenders for renewal and extension of other borrowings. Notwithstanding the above, it was stated in the 2024 Interim Report that significant uncertainties exist as to whether the Management will be able to implement the measures successfully.

According to the Letter from the Board, as at the Latest Practicable Date, the Company was indebted to:

- (i) Subscriber A in the aggregate outstanding principal amount of approximately HK\$82.10 million and accrued interest of approximately HK\$15.69 million under the Loan Agreement A entered into on 1 January 2023. The shareholder’s loans under the Loan Agreement A are unsecured and bear interest at the rate of 12% per annum without any fixed repayment date; and
- (ii) Subscriber B in the aggregate outstanding principal amount of approximately RMB45.00 million (equivalent to approximately HK\$49.45 million) and accrued interest of approximately RMB1.31 million (equivalent to approximately HK\$1.44 million) under the Loan Agreement B and the Restructuring of Suzhou First Pharma, a former subsidiary of the Company. The loans under the Loan Agreement B are secured by certain assets of Suzhou First Pharma and one of its subsidiaries and bear interest at the rate of 15% per annum and were due on 16 June 2022. Such loans were provided by Subscriber B to NT (China) Investment Co., Ltd., being a subsidiary of the Company and a fellow subsidiary of Suzhou First Pharma prior to the completion of the Restructuring and the repayment obligations were assumed by the Company upon the disposal of NT (China) Investment Co., Ltd. by the Company to an Independent Third Party in December 2023. Based on (a) the Restructuring relating to Suzhou First Pharma approved by the Court; (b) the outstanding principal amount of the relevant loans and accrued interest thereon as at 27 April 2023 confirmed by the administrator appointed by the Court of the Restructuring; (c) the subsequent repayment amount received by Subscriber B from the Court; and (d) the amount to be repaid to Subscriber B from the sale of relevant assets under the Restructuring as



estimated by the Directors based on (A) the proposed selling price of such assets on an independent auction platform; and (B) the estimated proceeds to be allocated to Subscriber B on a pro rata basis among all the creditors under the Restructuring, the remaining outstanding amount of loan that the Company is liable to Subscriber B as at the Latest Practicable Date was approximately RMB44.00 million (equivalent to approximately HK\$48.35 million), as further illustrated below:

*RMB*

The outstanding principal amount and accrued interest as at 27 April 2023 confirmed by the administrator appointed by the Court of the Restructuring	60,788,761.26
– The subsequent repayment amounts received by Subscriber B from the Court	14,479,593.10
– The estimated amount to be repaid to Subscriber B from the sale of relevant assets under the Restructuring	<u>2,309,168.16</u>
<b>The remaining outstanding amount of loan that the Company is liable to Subscriber B</b>	<b><u>44,000,000.00</u></b>

The outstanding amount of loan that the Company is liable to Subscriber B as at the Latest Practicable Date, i.e. the subject of the loan capitalization in relation to the Loan Agreement B, is deduced based on an estimation of a further repayment from the Court to Subscriber B, which represents the remaining balance of the loans. Subscriber B expects to receive further repayment from the Court for the remaining balance of the loans. Subscriber B has undertaken in the Subscription Agreement that it will not make any further claim against the Company for the remaining balance of approximately RMB2.31 million (equivalent to approximately HK\$2.54 million) (which was calculated based on RMB46.31 million (the approximate total outstanding principal amount and accrued interest) – RMB44.00 million (the approximate outstanding amount of loan for which the Company is liable to Subscriber B as at the Latest Practicable Date)), regardless of whether there will be sufficient repayment amount from the Court, or at all.

We concur with the Directors' view that the Loan Capitalization will, on one hand, alleviate the repayment pressure of the majority portion of the outstanding loans amount under the Loan Agreements on the Group without cash outlay and, on the other hand, moderate the Group's debt level thereby strengthening the Group's financial position and alleviating the Going Concern Issue, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary. In addition, the Loan Capitalization will also lower the finance cost of the Group by HK\$10.44 million per annum, which was calculated based on (i) the aggregated loan amount to be capitalized under the Loan Capitalization in respect of the Loan Agreement A of HK\$87.00 million; and (ii) the interest rate of the Loan Agreement A of 12% per annum. The aggregated loan amount to be capitalized under the Loan Capitalization is approximately HK\$135.4 million (equivalent to approximately RMB123.2 million), representing approximately 18.9% of the indebtedness of the Group of approximately RMB652.4 million (equivalent to approximately HK\$716.9 million) as at 31 October 2024. Assuming the Completion took place on 31 October 2024, the indebtedness of the Group as at 31 October 2024 would be reduced to approximately RMB529.2 million (equivalent to approximately HK\$581.6 million).

Upon enquiry, the Management advised us that they have considered alternative financing methods (such as by way of debt financing and equity financing) other than the Loan Capitalization. The Company has discussed with various financial institutions with a view to obtaining debt financing. However, the Company either received no feedback from, or was rejected by, the financial institutions in view of the unsatisfactory financial performance and position of the Group. Having considered that (i) before making a turnaround to profit-making position in 1H2024, the Group had maintained a loss-making position for a consecutive six years since 2018; (ii) according to the Profit Warning Announcement, the Group is expected to record a net loss attributable to owners of the Company in the range between RMB35.0 million and RMB37.0 million for 10M2024; (iii) as at 30 June 2024, the Group had net current liabilities and net liabilities of approximately RMB667.2 million and approximately RMB346.4 million, respectively; (iv) the Going Concern Issue existed as at 31 December 2023 and 30 June 2024; and (v) the Group lacks valuable assets as collaterals for debt financing, we concur with the Management's view that it would be difficult for the Group to obtain new borrowings on terms satisfactory to the Group. Given that unlike debt financing, the Loan Capitalization would not incur extra interest burden to the Group, we are of the view that the Loan Capitalization is a more favorable option to the Group when comparing with debt financing.

In respect of equity financing (such as placing of Shares, open offer and rights issue), the Management is of the view that (i) it would be difficult for the Group to secure placing agent or underwriter for placing of Shares, open offer or rights issue without offering deep discount to the issue price to attract the Shareholders' subscription in light of the Group's current unfavorable financial performance and position; (ii) the success of equity financing is highly dependent on the then market condition and sentiment; (iii) time taken for completion of open offer or rights issue is considerably long; and (iv) cost for documentation works, administrative and professional fees for equity financing is relatively high as compared to the Loan Capitalization. We noted from the announcement of the Company dated 1 September 2023 that the Company has entered into a placing agreement with an independent placing agent on 1 September 2023, pursuant to which the placing agent has conditionally agreed to place, or procure the placing of, up to 475,560,000 placing shares (the "Placing Shares") at the placing price of HK\$0.05 per Placing Share on a best effort basis (the "Placing"). As disclosed in the announcement of the Company dated 21 September 2023, only 263,073,000 Placing Shares (representing approximately 55.3% of the maximum number of the Placing Shares) were successfully placed by the placing agent and the gross proceeds from the Placing merely amounted to approximately HK\$13.2 million. Having considered the facts that (i) there was no significant improvement on the Group's financial performance and position since the completion of the Placing; (ii) the Group had net current liabilities and net liabilities of approximately RMB667.2 million and approximately RMB346.4 million, respectively, as at 30 June 2024; (iii) the Going Concern Issue existed as at 31 December 2023 and 30 June 2024; and (iv) the proceeds from equity fund-raising are for repayment of the outstanding loans amount under the Loan Agreements but not for the development or expansion of the existing or new business of the Group, we are of the view that it would be difficult for the Company to attract new investors to participate in the equity fund-raising exercise and thus, equity financing is currently not a feasible and favorable financing alternative to the Company to raise sufficient fund.

On the contrary, the Loan Capitalization will (i) alleviate the repayment pressure of the majority portion of the outstanding loans amount under the Loan Agreements on the Group without cash outlay; and (ii) moderate the Group's debt level. As such, we concur with the Directors' view that the Loan Capitalization is the most desirable means available for the Group to settle the outstanding loans amount under the Loan Agreements, which is repayable on demand or has been due.

According to the Letter from the Board and the financial reports of the Company, (i) Subscriber A, namely Golden Base Investment Limited, is a substantial shareholder of the Company, and together with its parties acting in concert, holding 40,562,533 Shares as at the Latest Practicable Date (representing approximately 15.4% of the issued share capital of the Company). As at the Latest Practicable Date, Subscriber A was legally and beneficially owned as to 50% by Mr. Ng, the Chairman and an executive Director of the Company, and 50% by Ms. Chin Yu, a non-executive Director of the Company and the spouse of Mr. Ng; (ii) Mr. Ng is a co-founder of the Group and has been the Chairman of the Board and Chief Executive Officer of the Company since 1995. Mr. Ng was appointed as an executive Director on 1 March 2010, responsible for the overall strategic planning and management

of the Group; (iii) Subscriber B, namely Mr. Jeong Iat, is the son of Mr. Jeong Chong Mang and Ms. Shum Ning. Mr. Jeong Chong Mang and Annie Investment Co., Ltd., a company legally and beneficially and wholly owned by Ms. Shum Ning, are substantial shareholders of the Company, which were, in aggregate, interested in 54,932,300 Shares as at the Latest Practicable Date (representing approximately 20.8% of the issued share capital of the Company); and (iv) Subscriber B and its parties acting in concert became substantial shareholders of the Company since 2017. Notwithstanding that the Group maintained a loss-making position for a consecutive six years since 2018, accumulating an aggregate loss of approximately RMB2,278.2 million, under the leadership of the Subscribers and parties acting in concert with them, the disappointing financial performance of the Group was mainly due to (i) the tough and adverse business environment of the PRC's pharmaceutical industry led by the PRC Healthcare Reform, which was out of control of the Management; and (ii) the restructuring undergone by the Group during the past few years, which occupied substantial financial and human resources of the Group. Indeed, in view of the intensifying competition of the pharmaceutical industry led by the accelerated implementation of regulatory changes, the Management (including the Subscribers and parties acting in concert with them) has taken proactive measures and determined to transform the Group from a pharmaceutical manufacturer into an innovative digital pharmaceutical company. As mentioned in the section headed "2. *Financial information of the Group*" above, the Group has innovatively created a bone health 4M (Medicine, Multinational E-Health, Medical Device and Medical Digital Platform) model by focusing on the Company's core capabilities and resources in 2023, and subsequently established a digital healthcare service business in 1H2024. With the continuous efforts of the Management, the Group successfully made a turnaround from loss making position to profit making position in 1H2024, and recorded profit attributable to the owners of the Company of approximately RMB0.7 million in 1H2024, as compared to loss of approximately RMB5.6 million in 1H2023. We noted from the Profit Warning Announcement that the Group is expected to record a net loss attributable to owners of the Company in the range between RMB35.0 million and RMB37.0 million for 10M2024, as compared to a net loss of approximately RMB152.9 million for 10M2023. We have enquired, and were advised by, the Management that the expected loss in 10M2024 was mainly attributable to (i) the finance cost of approximately RMB26.2 million, which is expected to be decreased substantially after completion of the Loan Capitalization; (ii) loss on disposal of subsidiaries of approximately RMB7.0 million, which is non-recurring and one-off in nature; and (iii) fair value change on financial guarantee contracts of approximately RMB6.3 million, which is non-recurring and one-off in nature. As at the Latest Practicable Date, Subscriber A (together with parties acting in concert with it) and Subscriber B (together with parties acting in concert with it) were interested in approximately 15.4% and approximately 20.8% of the issued share capital of the Company, respectively. Upon Completion, each of Subscriber A (together with parties acting in concert with it) and Subscriber B (together with parties acting in concert with it) will be interested in approximately 45.1% and approximately 29.9% of the issued share capital of the Company, respectively. We are of the view that the acquisition of the controlling stake in the Company by the Subscribers and their parties acting in concert would facilitate the

implementation of the business plans and strategies of the Group, which is beneficial to the development of the Group.

Notwithstanding that the Loan Capitalization will incur dilution effect on the shareholding of the existing Shareholders as discussed in the section headed “6. *Potential dilution effect on the interests of the Independent Shareholders*” below, after taking into consideration the facts that (i) it is anticipated that, without conducting any equity/debt fund raising activities by the Company, the Group would not have sufficient financial resources to settle the debt that will be due for repayment within next twelve months from 31 October 2024; (ii) the outstanding loan amount under the Loan Agreement A is repayable on demand, while the outstanding loan amount under the Loan Agreement B has been due on 16 June 2022; (iii) the Loan Capitalization will, on one hand, alleviate the repayment pressure of the majority portion of the outstanding loans amount under the Loan Agreements on the Group without cash outlay and, on the other hand, moderate the Group’s debt level thereby strengthening the Group’s financial position and alleviating the Going Concern Issue, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary; (iv) the Loan Capitalization will lower the finance cost of the Group by HK\$10.44 million per annum; (v) the Loan Capitalization, to a certain extent, reflects the commitment and confidence of Subscriber A (being the existing substantial Shareholder) and the Subscriber B (being the concert party of the existing substantial Shareholder) on the long-term prosperity of the Group; (vi) the Loan Capitalization is the most desirable means available for the Group to settle the outstanding loans amount under the Loan Agreements; and (vii) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned (please refer to the section headed “5. *Principal terms of the Subscription Agreement*” below for our relevant analysis), we are of the view that the Loan Capitalization is in the interests of the Company and the Shareholders as a whole.

## **5. Principal terms of the Subscription Agreement**

Date: 28 November 2024

Parties: (a) the Company as issuer;  
(b) Subscriber A as subscriber; and  
(c) Subscriber B as subscriber;

As stated in the Letter from the Board, Subscriber A is Golden Base Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company, holding 40,562,533 Shares, representing approximately 15.36% of the issued share capital of the Company as at the Latest Practicable Date. Subscriber A is principally engaged in investment holding and has no other significant investment, assets or business operation as at the Latest Practicable Date. As at the Latest Practicable Date, Subscriber A was legally and beneficially owned as to 50% by Mr. Ng, the Chairman of the Company and an executive Director, and 50% by Ms. Chin Yu, a non-executive Director and the spouse of Mr. Ng.

Subscriber B is Mr. Jeong Iat, son of Mr. Jeong Chong Mang and Ms. Shum Ning. Mr. Jeong Chong Mang and Annie Investment Co., Ltd., a company legally and beneficially wholly-owned by Ms. Shum Ning, are substantial shareholders of the Company, which were, in aggregate, interested in 54,932,300 Shares, representing approximately 20.8% of the issued share capital of the Company as at the Latest Practicable Date.

Subscriber A, its ultimate beneficial owners and parties acting in concert with it on one hand, are presumed to be parties acting in concert with Subscriber B and parties acting in concert with him, on the other hand.

Total consideration:	An aggregate sum of HK\$135,351,647.97, comprising (i) HK\$86,999,999.79 which shall be satisfied by way of offsetting the outstanding loan amount of HK\$87.00 million under the Loan Agreement A; and (ii) HK\$48,351,648.18 which shall be satisfied by way of offsetting the outstanding loan amount of HK\$48,351,648.35 under the Loan Agreement B
Number of Subscription Shares to be issued:	Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and Subscriber A and Subscriber B have conditionally agreed to subscribe for, 263,636,363 and 146,520,146 new Shares, respectively.

The 410,156,509 Subscription Shares represent (a) approximately 155.31% of the existing issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 60.83% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares immediately after the Completion assuming there is no change in the issued share capital of the Company from the date of the Subscription Agreement and up to the Completion other than the issue of the Subscription Shares.

The 410,156,509 Subscription Shares shall be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

Subscription Price: HK\$0.33 per Subscription Share

*(i) Analysis on the Subscription Price*

The Subscription Price of HK\$0.33 per Subscription Share represents:

- (a) a discount of approximately 17.50% to the closing price of HK\$0.40 per Share as quoted on the Stock Exchange on 4 October 2024, being the last trading day prior to the announcement made pursuant to Rule 3.7 of the Takeovers Code dated 9 October 2024;
- (b) a premium of approximately 6.45% over the closing price of HK\$0.31 per Share as quoted on the Stock Exchange on 27 November 2024, being the Last Trading Day;
- (c) a premium of approximately 13.79% over the average closing price of HK\$0.290 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement;
- (d) a premium of approximately 10.92% over the average closing price of approximately HK\$0.298 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement;
- (e) a premium of approximately 29.41% over the closing price of HK\$0.255 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (f) no theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by the theoretical diluted price of approximately HK\$0.318 per Share to the benchmarked price of HK\$0.30 per Share (as defined under Rule 7.27B of

the Listing Rules, taking into account the higher of (i) the closing price of the Shares as quoted on the Stock Exchange on the date of the Subscription Agreement of HK\$0.30 per Share; and (ii) the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Subscription Agreement of HK\$0.290 per Share);

- (g) a premium of approximately HK\$1.77 over the unaudited net liabilities per Share of approximately HK\$1.44 (equivalent to approximately RMB1.31) as at 30 June 2024 based on (aa) unaudited net liabilities of the Group of RMB346,415,000 (equivalent to approximately HK\$380,675,824); and (bb) 264,089,506 Shares (after adjustment for the share consolidation of every ten (10) existing shares in the share capital of the Company into one (1) consolidated share in the share capital of the Company becoming effective on 3 July 2024 (the “**Share Consolidation**”)) in issue as at 30 June 2024; and
- (h) a premium of approximately HK\$1.74 over the audited net liabilities per Share of approximately HK\$1.41 (equivalent to approximately RMB1.28) as at 31 December 2023 based on (aa) audited net liabilities of the Group of RMB339,565,000 (equivalent to approximately HK\$373,148,352); and (bb) 264,089,506 Shares (after the adjustment of the Share Consolidation) in issue as at 31 December 2023.

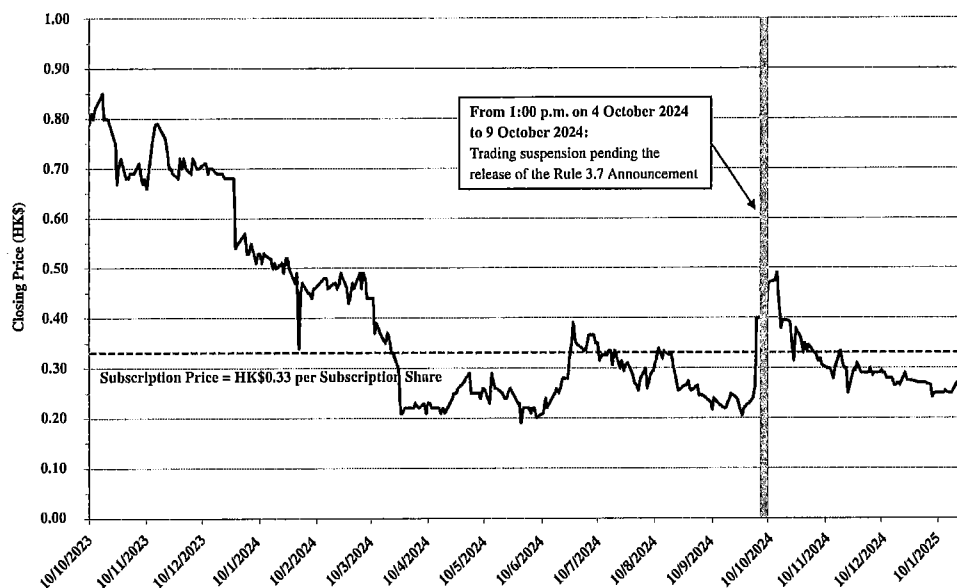
As stated in the Letter from the Board, the Subscription Price was arrived at after arm’s length negotiations between the Company and the Subscribers with reference to (i) the recent and historical market prices of the Shares, in particular, the closing prices of the Shares for the last 30 trading days prior to the date of the Subscription Agreement were within the range of HK\$0.250 to HK\$0.395 per Share, with an average of approximately HK\$0.327 per Share; (ii) the outstanding amount of the loans under the respective Loan Agreements amounting to approximately HK\$135.35 million in aggregate, which is significantly higher (i.e. approximately 70.84% higher) than the market capitalization of the Company (being approximately HK\$79.23 million on the date of the Subscription Agreement); (iii) the relatively low trading volume of the Shares when compared to the number of Shares to be issued under the Loan Capitalization (being 410,156,509 Shares), and the average daily trading volume of the Shares for the one year period from 28 November 2023 to 27 November 2024 (being approximately 856,165 Shares) was approximately 479.06 times of the average daily trading volume mentioned above; and (iv) the poor financial position of the Group, having considered that the unaudited net liabilities of the Group of approximately RMB346,415,000 as at 30 June 2024 and total comprehensive loss attributable to the owners of the Company from continuing operations for the year ended 31 December 2023 of approximately RMB36.3 million, which suggested that it would be difficult for the Company to pursue sizeable equity financing alternative in the stock market.



(a) *Review on historical trading price*

To assess the fairness and reasonableness of the Subscription Price, we have compared the Subscription Price with the historical trading price of the Shares. The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 10 October 2023 (being the first trading day of the 12-month period prior to the announcement of the Company dated 9 October 2024 made pursuant to Rule 3.7 of the Takeovers Code (the “**Rule 3.7 Announcement**”)) until the publication of the Announcement (the “**Pre-announcement Period**”), and subsequently up to and including the Latest Practicable Date (the “**Post-announcement Period**”) (collectively, the “**Review Period**”). We are of the view that a period of approximately one year is fair, adequate and representative to illustrate the recent price movements of the Shares, which reflect (i) the market and investors’ reaction towards the latest developments of the Group, including its financial performance and position, outlook, and prospects; and (ii) the prevailing market sentiment.

**Chart 1: Share price performance during the Review Period**



Source: the website of the Stock Exchange

Note: All the closing prices of the Shares prior to 3 July 2024 were adjusted as a result of the Share Consolidation, which became effective from 3 July 2024.

As illustrated in Chart 1 above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK\$0.190 per Share as recorded on 30 May 2024 to the highest closing price of HK\$0.850 per Share as recorded on 17 October 2023, with an average price of approximately HK\$0.391 per Share. The Subscription Price represents (i) a premium of approximately 73.68% over the lowest closing price of the Shares; (ii) a discount of approximately 61.18% to the highest closing price of the Shares; and (iii) a discount of approximately 15.51% to the average closing price of the Shares during the Review Period, respectively.

During the period from 10 October 2023 to 30 May 2024, the closing price of the Shares generally exhibited a downward trend and hit the lowest point of HK\$0.190 per Share on 30 May 2024. We have discussed with the Management regarding the downward trend of the Share price and were advised that save for the publication of (i) the announcement of the Company dated 15 January 2024 in relation to change of Directors; and (ii) the annual results announcement of the Company for FY2023 (the “**2023 Annual Results Announcement**”) on 28 March 2024, they are not aware of other particular reason that led to the downward trend of the price of the Shares. The closing prices of the Shares then fluctuated within the range of HK\$0.200 to HK\$0.390 per Share during the period from 31 May 2024 to 3 October 2024. In the morning trading session on 4 October 2024, the trading price of the Shares exhibited a substantial increase of approximately 50.9% from the closing price of HK\$0.265 per Share on 3 October 2024 to HK\$0.400 per Share. At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 1:00 p.m. on 4 October 2024 to 9 October 2024 pending the release of the Rule 3.7 Announcement. According to the Rule 3.7 Announcement, the Company was contemplating to issue certain new Shares under specific mandates to four creditors (including Subscriber A and Subscriber B) (the “**Potential Subscribers**”) for the purpose of capitalizing the outstanding principal amount of existing loans and interest owed by the Group to the Potential Subscribers (the “**Possible Subscriptions**”). In the event that any Possible Subscriptions, if materialized, will lead to any Potential Subscribers holding over 30% of the issued share capital of the Company, such Potential Subscribers will apply to the Executive for a whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the mandatory general offer obligation under Rule 26.1 of the Takeovers Code as a result of the proposed allotment and issue of the new Shares. The Board also confirmed that, having made all such enquiries with respect to the Company as is reasonable in the circumstances, it is not aware of any other reasons for the unusual price movements on 4 October 2024, save for the Possible Subscriptions. Following the resumption of trading on 10 October 2024, the closing price of the Shares surged to HK\$0.470 per Share, representing an increase of 17.5% as compared to that of HK\$0.400 per Share on 4 October 2024 (being the last trading day before the publication of the Rule 3.7 Announcement). We reckon that such increase in the closing price of the Shares was likely due to the market reaction to the Rule 3.7 Announcement.

The closing prices of the Shares then exhibited, in general, a decreasing trend and closed at HK\$0.300 per Share on 28 November 2024. On 28 November 2024 (after trading hours), the Company entered into the Subscription Agreement with Subscriber A and Subscriber B. Following the date of the Subscription Agreement, the closing price of the Shares were relatively stable, ranging from HK\$0.242 per Share to HK\$0.300 per Share. As at the Latest Practicable Date, the closing price of the Shares was HK\$0.255 per Share.

*(b) Review on historical trading volume*

The following table sets out the trading volume of the Shares during the Review Period:

**Table 2: Trading volume of the Shares during the Review Period**

Month/Period	Total trading volume	Number of trading days	Average daily trading volume of the Shares	Average daily trading volume as a percentage of the total number of Shares in issue (Note 2)	Average daily trading volume as a percentage of the number of Shares held by public Shareholders (Note 3)
	(No. of Shares)		(No. of Shares)		
October 2023 (From 10 October 2023)	26,825,050	15	1,788,337	0.677%	1.463%
November 2023	8,635,450	22	392,520	0.149%	0.321%
December 2023	13,311,650	19	700,613	0.265%	0.573%
January 2024	10,385,700	22	472,077	0.179%	0.386%
February 2024	3,591,100	19	189,005	0.072%	0.155%
March 2024	35,184,950	20	1,759,248	0.666%	1.440%
April 2024	6,373,750	20	318,688	0.121%	0.261%
May 2024	17,459,900	21	831,424	0.315%	0.680%
June 2024	47,890,200	19	2,520,537	0.954%	2.063%
July 2024	8,329,050	22	378,593	0.143%	0.310%
August 2024	8,286,810	22	376,673	0.143%	0.308%
September 2024	5,039,800	19	265,253	0.100%	0.217%
October 2024 (Note 1)	44,694,950	21	2,128,331	0.806%	1.742%
November 2024	8,878,850	21	422,802	0.160%	0.346%
December 2024	1,330,250	20	66,513	0.025%	0.054%
January 2025 (up to the Latest Practicable Date)	1,249,200	17	73,482	0.028%	0.060%

*Notes:*

1. Trading in the Shares was suspended from 1:00 p.m. on 4 October 2024 to 9 October 2024 pending the release of the Rule 3.7 Announcement.
2. The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company as at the Latest Practicable Date (i.e. 264,089,506 Shares).
3. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by the public Shareholders as at the Latest Practicable Date (i.e. 122,207,387 Shares).

As illustrated in Table 2 above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately 66,513 Shares to approximately 2,520,537 Shares, representing approximately 0.025% to approximately 0.954% of the total number of issued Shares as at the Latest Practicable Date, or approximately 0.054% to approximately 2.063% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date.

During the Pre-announcement Period, we noted that the average daily trading volume of the Shares in October 2023, March 2024, June 2024 and October 2024 ranging from approximately 1,759,248 Shares to approximately 2,520,537 Shares (representing approximately 1.440% to approximately 2.063% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date) were relatively high, as compared to that of other month/period during the Pre-announcement Period (all of which were below 1% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date). In view of the above, we further reviewed and noted that there were approximately 84.3% of the trading days during the Pre-announcement Period (i.e. 237 out of the total 281 trading days) on which the trading volume was below 1% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date, while there were only six trading days during the Pre-announcement Period on which the trading volume was over 5% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date (the “**Active Trading Days**”). We have discussed with the Management regarding the high daily trading volume on the Active Trading Days and were advised that save for the publication of the Rule 3.7 Announcement on 9 October 2024, they are not aware of other particular reason that led to the relatively high trading volume of the Shares.

During the Post-announcement Period, the average daily trading volume of the Shares remained thin and amounted to approximately 73,407 Shares (representing approximately 0.060% of the total number of issued Shares held by public Shareholders as at the Latest Practicable Date).

In view of the above, the average daily trading volume of the Shares during the Review Period (including the Pre-announcement Period and the Post-announcement Period), in general, were thin.

*(c) Comparable analysis*

In assessing the fairness and reasonableness of the Subscription Price, we attempted to compare the Subscription Price against the market valuation of other comparable companies using the price-to-earnings ratio (“**PE ratio**”) and the price-to-book ratio (“**PB ratio**”), which are commonly used valuation multiples. However, since the Company recorded loss attributable to the owners of the Company in FY2023 and was in a net liabilities position as at 30 June 2024, therefore, the comparison by using the PE ratio and the PB ratio are not applicable.

Given that (i) the Group is principally engaged in research and development, manufacturing, sales and distribution of pharmaceutical products and the provision of marketing and promotion services to suppliers in the PRC (the “**Relevant Business**”); (ii) the Subscription constitutes a connected transaction; and (iii) the issue and allotment of the Subscription Shares will trigger mandatory offer obligation under Rule 26 of the Takeovers Code (the “**Mandatory Offer Obligation**”), we have attempted to identify comparable companies with the following selection criteria: (a) companies listed on the Stock Exchange (other than those with multiple classes of shares, whose share and capital structure may be different from that of the Company (which only has a single class of shares in trading)); (b) companies principally engaged in the Relevant Business; and (c) companies announced subscription of new shares by connected person(s) involving the Mandatory Offer Obligation during the 12-month period immediately before the date of Subscription Agreement. Nevertheless, we were unable to identify suitable comparable companies that met the aforementioned selection criteria.

In this regard, we have relaxed the selection criteria to all subscription of new shares by connected person(s) involving the Mandatory Offer Obligation which were announced by companies listed on the Stock Exchange (other than those with multiple classes of shares) during the 12-month period immediately before the date of the Subscription Agreement. Based on the information available from the website of the Stock Exchange, we have identified an exhaustive list of 3 comparable subscriptions (the “**Comparables**”) which met the said criteria and had been completed as at the Latest Practicable Date.

Shareholders should note that the businesses, operations and prospects of the Company are not the same as the relevant issuers of the Comparables and thus the comparison of the terms between the Comparables and the Subscription Price may not represent an identical comparison. We, however, consider that such comparison could be treated as an indication as to the reasonableness and fairness of the terms of the Subscription Price. The relevant details of the Comparables are set forth in Table 3 below:

**Table 3: Details of the Comparables**

Date of relevant announcement	Company name	Stock code	Fund raising size (HK\$ million)	Subscription size as a percentage of the issued shares (%)	Premium/ (discount) of issue price over/to the average share price for the last five consecutive trading days prior to the date of the announcement/	Premium/ (discount) of issue price over/to the average share price for the last ten consecutive trading days prior to the date of the announcement/	Premium/ (discount) of issue price over/to the average share price for the last ten consecutive trading days prior to the date of the announcement/	Premium/ (discount) of issue price over/ to the latest consolidated net assets attributable to shareholders of the Company
					("Premium/ (Discount) - Last Day") (%)	("Premium/ (Discount) - 5 Days") (%)	("Premium/ (Discount) - 10 Days") (%)	("Premium/ (Discount) - NAV") (%)
18 Mar 2024	China Qidian Guofeng Holdings Limited	1280	185.5	201.4	(31.37)	(31.64)	(30.97)	N/A (Note)
14 Jun 2024	Sinopharm Tech Holdings Limited	8156	45.0	245.0	(18.70)	(18.70)	(17.70)	N/A (Note)
27 Sep 2024	Sunway International Holdings Limited	58	3.6	20.0	96.08	96.08	86.57	(84.28)
	Maximum:				96.08	96.08	86.57	(84.28)
	Minimum:				(31.37)	(31.64)	(30.97)	(84.28)
	Median:				(18.70)	(18.70)	(17.70)	(84.28)
	Average:				15.34	15.25	12.64	(84.28)
	The Subscription:		135.4	155.3	6.45	13.79	10.92	N/A (Note)

Source: the website of the Stock Exchange

Note: Premium/(Discount) – NAV are not available as those companies recorded deficit attributable to owners of the company based on their then respective latest financial reports.

As shown in Table 3 above, we noted that (i) the Premium/(Discount) – Last Day represented by the issue prices of the Comparables ranged from a discount of approximately 31.37% to a premium of approximately 96.08%, with a median of a discount of approximately 18.70% and an average of a premium of approximately 15.34%; (ii) the Premium/(Discount) – 5 Days represented by the issue prices of the Comparables ranged from a discount of approximately 31.64% to a premium of approximately 96.08%, with a median of a discount of approximately 18.70% and an average of a premium of approximately 15.25%; and (iii) the Premium/(Discount) – 10 Days represented by the issue prices of the Comparables ranged from a discount of approximately 30.97% to a premium of approximately 86.57%, with a median of a discount of approximately 17.70% and an average of a premium of approximately 12.64%. The Premium/(Discount) – Last Day, the Premium/(Discount) – 5 Days and the Premium/(Discount) – 10 Days represented by the Subscription Price are within the range and higher than the median of the Premium/(Discount) – Last Day, the Premium/(Discount) – 5 Days and the Premium/(Discount) – 10 Days represented by the issue prices of the Comparables, respectively. Although the range of the Premium/(Discount) – Last Day, the Premium/(Discount) – 5 Days and the Premium/(Discount) – 10 Days represented by the issue prices of the Comparables are considerably wide, we noted that all the Premium/(Discount) – Last Day, the Premium/(Discount) – 5 Days and the Premium/(Discount) – 10 Days represented by the issue prices of the Comparables do not exceed two standard deviations from the respective average and we, therefore, consider it reasonable and appropriate to retain all Comparables for our analysis.

In addition, two out of three Comparables recorded deficit attributable to owners of the company based on their then respective latest financial reports. As at 30 June 2024, the Group recorded unaudited net liabilities of approximately RMB346.4 million (equivalent to approximately HK\$380.7 million). The Subscription Price represents an excess of approximately HK\$1.77 over the unaudited net liabilities per Share of approximately HK\$1.44 as at 30 June 2024, which is in the interests of the Company and the Shareholders as a whole.

Having taken into account that (i) the Subscription Price represents (a) a premium of approximately 6.45% over the closing price of HK\$0.31 per Share as quoted on the Stock Exchange on the Last Trading Day; (b) a premium of approximately 13.79% over the average closing price of HK\$0.290 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement; (c) a premium of approximately 10.92% over the average closing price of approximately HK\$0.298 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement; and (d) an excess of approximately HK\$1.77 over the unaudited net liabilities per Share of approximately HK\$1.44 as at 30 June 2024; and (ii) the Premium/(Discount) – Last Day, the Premium/(Discount) – 5 Days and the Premium/(Discount) – 10 Days represented by the Subscription Price are within the range and higher than the median of the Premium/(Discount) – Last Day, the Premium/(Discount) – 5 Days and the Premium/(Discount) – 10 Days represented by the issue prices of the Comparables, respectively, we consider that the Subscription Price is fair and reasonable.

***(ii) Lock-up period***

Pursuant to the Subscription Agreement, the Subscription Shares are subject to a lock-up period of six months commencing from the date of Completion.

Given the fact that the Subscribers and their parties acting in concert comprise of the two executive Directors (namely, Mr. Ng and his daughter, Ms. Ng Anna Ching Mei) who have been playing an indispensable role in the development and management of the Group, any disposal of the Subscription Shares by the Subscribers after issue of the Subscription Shares might trigger an instant fluctuation on the Share price. We consider that the arrangement of the lock-up period could effectively prevent any unfavorable and unusual price movement of the Shares provoked by the disposal of the Subscription Shares by the Subscribers during the six-month period upon Completion, and at the same time, procure and ensure the commitment of the Subscribers and their parties acting in concert to the Group's development. As such, we are of the view that the arrangement of the lock-up period is in the interests of the Company and the Shareholders as a whole.

***(iii) Other major terms of the Subscription Agreement***

In addition to the Subscription Price and the lock-up period, we have also reviewed other major terms of the Subscription Agreement (including the settlement terms, the conditions of the Subscription Agreement (details of which are set out in the Letter from the Board) and the termination of the Subscription Agreement). After comparing with the subscription agreements of the Comparables, we are not aware of any term of the Subscription Agreement which is unusual.

***(iv) Conclusion***

In view of the above, we concur that the view of the Directors that the terms of the Subscription Agreement (including the Subscription Price) are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned.

**6. Potential dilution effect on the interests of the Independent Shareholders**

The change in shareholding structure of the Company arising from the Subscription is set out in the paragraph headed "*EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY*" in the Letter from the Board. The shareholding interest of other public Shareholders would reduce by approximately 28.14 percentage points from approximately 46.27% as at the Latest Practicable Date to approximately 18.13% immediately upon Completion (assuming that there is no other change in the issued share capital of the Company from the Latest Practicable Date and up to the date of Completion).



Taking into account (i) the reasons for and benefits of the Subscription as described under the section headed “4. Background of and reasons for the entering into of the Subscription Agreement” above; (ii) the terms of the Subscription Agreement are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole (please refer to our analysis as set out in the section headed “5. Principal terms of the Subscription Agreement” above), we consider that the possible dilution effect on the shareholding interests of the other public Shareholders is acceptable.

## **7. Financial effect of the Subscription**

### ***(a) Effect on total liabilities***

According to the 2024 Interim Report, the unaudited total liabilities of the Group as at 30 June 2024 amounted to approximately RMB685.2 million (equivalent to approximately HK\$752.9 million). Pursuant to the Subscription Agreement, the aggregate Subscription Price of approximately HK\$135.4 million shall be satisfied by way of (i) offsetting HK\$87.00 million in the outstanding principal amount and the accrued interest of the shareholder’s loans under the Loan Agreement A; and (ii) offsetting HK\$48,351,648.35 in the outstanding principal amount and the accrued interest of the loans under the Loan Agreement B. Accordingly, upon Completion, the Group’s total liabilities will be decreased by approximately HK\$135.4 million (equivalent to approximately RMB\$123.2 million), assuming that there will be no other repayments of the Group’s liabilities or new borrowings.

### ***(b) Effect on net liabilities***

According to the 2024 Interim Report, the unaudited net liabilities of the Group as at 30 June 2024 was approximately RMB346.4 million (equivalent to approximately HK\$380.7 million). Upon Completion and without taking into account the costs and expenses incidental to the Subscription, the Loan Capitalization and the Whitewash Waiver, the net liabilities of the Group would be decreased by approximately RMB123.2 million (equivalent to approximately HK\$135.4 million) to approximately RMB223.2 million (equivalent to approximately HK\$245.3 million), representing an improvement of approximately 35.6%. Given the fact that the Subscription Price represents a premium of approximately HK\$1.77 over the unaudited net liabilities per Share of approximately HK\$1.44 (equivalent to approximately RMB1.31) as at 30 June 2024, it is expected that the Subscription will have positive impact on the net asset value of the Company.

*(c) Effect on working capital*

As the majority portion of the outstanding loans amount under the Loan Agreements will be settled by the allotment and issue of the Subscription Shares without cash outlay by the Group (save and except the costs and expenses incidental to the Subscription, the Loan Capitalization and the Whitewash Waiver), the Loan Capitalization would enable the Company to free the cash flow on its general working capital, for repayment of other borrowings and/or development of its business without affecting the working capital of the Company. Accordingly, the cash and liquidity positions of the Group are expected to improve upon Completion.

Although the above analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon Completion, based on the above analyses, the Subscription and the Loan Capitalization would have a positive impact on the Group's total liabilities, net asset value and working capital. On such bases, we are of the view that the entering into of the Subscription Agreement is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

**8. Whitewash Waiver**

As at the Latest Practicable Date, Subscriber A and Subscriber B were parties acting in concert. Subscriber A and Subscriber B, together with their respective concert parties hold 95,494,833 Shares in aggregate, representing approximately 36.16% of the issued share capital of the Company. The shareholding of Subscriber A, Subscriber B and parties acting in concert with each of them will increase to approximately 75.00% of the issued share capital of the Company immediately after Completion and assuming there is no change in the issued share capital of the Company other than issue of the Subscription Shares. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Subscriber A and Subscriber B will be required to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by Subscriber A, Subscriber B or parties acting in concert with each of them, unless the Whitewash Waiver has been obtained from the Executive.

Subscriber A together with Subscriber B have made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted, will be subject to, among other things, the approval of the Independent Shareholders taken by way of a poll at the EGM. The resolution in relation to the Whitewash Waiver shall be approved by at least 75% and more than 50% respectively of the votes cast by the Independent Shareholders in person or by proxy by way of poll in respect of the Whitewash Waiver and the underlying transactions (i.e. the Subscription, the Loan Capitalization, and the Specific Mandate) at the EGM. If the Whitewash Waiver is granted by the Executive and is approved by the Independent Shareholders and Completion having taken place, each of Subscriber A (together with parties acting in concert with it) and Subscriber B (together with parties acting in concert with it) will be interested in approximately 45.12% and 29.88% in the

Company respectively. As such, each of them remains subject to the restrictions under Rule 26 of the Takeovers Code on an individual basis including, in respect of Subscriber A and parties acting in concert with it, the 2% creeper rule under Rule 26.1 of the Takeovers Code.

Pursuant to the Subscription Agreement, Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. Furthermore, if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription Agreement will lapse. Accordingly, the Company will lose all the benefits that are expected to be brought by the Subscription as discussed in the section headed “4. *Background of and reasons for the entering into of the Subscription Agreement*” above.

In view of the above, we are of the opinion that the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole.

## **RECOMMENDATION**

Notwithstanding that the Loan Capitalization will incur dilution effect on the shareholding of the existing Shareholders as discussed in the section headed “6. *Potential dilution effect on the interests of the Independent Shareholders*” above, having taken into account the above principal factors and reasons, in particular the facts that:

- (i) it is anticipated that, without conducting any equity/debt fund raising activities by the Company, the Group would not have sufficient financial resources to settle the debt that will be due for repayment within next twelve months from 31 October 2024;
- (ii) the outstanding loan amount under the Loan Agreement A is repayable on demand, while the outstanding loan amount under the Loan Agreement B has been due on 16 June 2022;
- (iii) the Loan Capitalization will, on one hand, alleviate the repayment pressure of the majority portion of the outstanding loans amount under the Loan Agreements on the Group without cash outlay and, on the other hand, moderate the Group’s debt level thereby strengthening the Group’s financial position and alleviating the Going Concern Issue, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary;
- (iv) the Loan Capitalization will lower the finance cost of the Group by HK\$10.44 million per annum;

- (v) the Loan Capitalization, to a certain extent, reflects the commitment and confidence of Subscriber A (being the existing substantial Shareholder) and the Subscriber B (being the concert party of the existing substantial Shareholder) on the long-term prosperity of the Group;
- (vi) the Loan Capitalization is the most desirable means available for the Group to settle the outstanding loans amount under the Loan Agreements; and
- (vii) the terms of the Subscription Agreement (including the Subscription Price) are fair and reasonable so far as the Independent Shareholders are concerned,

we consider that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Group, the Subscription Agreement are on normal commercial terms, and the Subscription and the grant of the Specific Mandate are fair and reasonable, and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Having taken into account the facts that (i) Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders; (ii) if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Subscription Agreement will lapse and the Subscription will not proceed, and accordingly, the Company will lose all the benefits that are expected to be brought by the Subscription as discussed in the section headed “*4. Background of and reasons for the entering into of the Subscription Agreement*”, we consider that the Whitewash Waiver is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the relevant resolutions at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate and the Whitewash Waiver.

Yours faithfully,

For and on behalf of

**Astrum Capital Management Limited**



**Hidulf Kwan**  
*Managing Director*



**Alfred Wong**  
*Managing Director*

*Note: Mr. Hidulf Kwan is a responsible officer to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and he has over 25 years of experience in the corporate finance industry.*

*Mr. Alfred Wong is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 25 years of experience in the corporate finance industry.*