

14 March 2025

To: *Independent Board Committee and Independent Shareholders of
EPS Creative Health Technology Group Limited*

Dear Sirs/Madams,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF
THE TARGET COMPANY AND SALE LOANS**

INTRODUCTION

We refer to our appointment as the independent financial adviser (the “**Independent Financial Adviser**”) to advise the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter of the Board (the “**Board Letter**”) contained in the circular of the Company to the Shareholders dated 14 March 2025 (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise specifies.

On 19 February 2025 (after trading hours of the Stock Exchange), the Company, as vendor, entered into the Sale and Purchase Agreement with the Purchaser (the controlling shareholder of the Company), pursuant to which the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire the Sale Shares and the Sale Loans at an aggregate consideration of JPY1,250,000,001 (equivalent to approximately HK\$61,365,000).

As at the Latest Practicable Date, the Purchaser, being the controlling shareholder of the Company, beneficially holds 375,000,000 Shares representing approximately 71.8% of the existing issued share capital of the Company, it is therefore a connected person of the Company under Rule 14A.07 of the Listing Rules. Accordingly, the Disposal constitutes connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Disposal exceeds 25% but is less than 75%, the Disposal also constitutes a major transaction for the Company and is therefore subject to the notification, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. Save for the Purchaser who shall abstain from voting on the relevant resolution, to the best knowledge, information and belief of the Directors having made all reasonable enquiry, no other Shareholder has any material interest in the Disposal and would be required to abstain from voting at the EGM.

The Independent Board Committee comprising all four independent non-executive Directors has been established to consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. We, Veda Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we do not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Save for the appointments as the independent financial advisers in respect of (a) the sale and purchase agreement dated 28 March 2023 and the transactions contemplated thereunder; (b) the framework purchase agreement dated 27 July 2023 (and supplemented by a supplemental agreement dated 5 September 2023) and the transactions contemplated; and (c) this appointment as the Independent Financial Adviser in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, there was no other engagement between us and the Group in the past two years that could reasonably be regarded as relevant to our independence. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion and advice, we have relied upon the accuracy of the information and representations contained in the Circular and information provided to us by the Directors and the management of the Company (collectively, the "**Management**"). We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading. The

Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

As the Independent Financial Adviser, we take no responsibility for the contents of any part of the Circular, save and except for this letter. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. In rendering our opinion in the Circular, we have also researched, analyzed and relied on (i) the Circular; (ii) published information of the Group, including but not limited to, the financial reports of the Company for the two financial years ended 31 March 2023 and 2024 and the interim report of the Company for the six months ended 30 September 2024; (iii) information provided by the Management; and (iv) information provided by the Valuer and the relevant disclosure in the Valuation Report.

In light of the above, we consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules (including the notes thereto) to formulate our opinion and recommendation. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Management.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Business and financial information of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the garment business (“**Garment**”), health product business (“**HCP**”), provision of innovation research organization business with specialized contract research organization services and in-house research and development business (“**IRO/CRO and In-House R&D**”).

Financial performance for the six months ended 30 September 2023 and 2024

Set out below a summary of the financial information of the Group for the six months ended 30 September 2023 and 2024 respectively.

	For the six months ended	
	30 September 2023	30 September 2024
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	357,829	346,878
– Garment	274,964	244,981
– HCP	65,060	73,408
– IRO/CRO and In-House R&D	17,805	28,489
Gross profit	48,831	49,551
Other income and loss	15,170	29,731
Expenses (note)	(69,032)	(55,234)
Finance costs	(3,151)	(4,746)
(Loss)/Profit attributable to owners of the Company	(5,235)	14,684
	As at	
	31 March 2024	30 September 2024
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	429,885	474,950
Total liabilities	291,703	298,752
Net assets	138,182	176,198

Note: including administrative expenses, research and development expenses and selling and distribution expenses

The Group recorded a revenue of approximately HK\$346.88 million for the six months ended 30 September 2024, representing a slight decrease of approximately 3.06% as compared to that of approximately HK\$357.83 million for the six months ended 30 September 2023.

Breakdown of the segment contribution to the Group's revenues for the six months ended 30 September 2023 and 2024 are as follows,

	For the six months ended	
	30 September 2023	30 September 2024
Garment	76.84%	70.63%
HCP	18.18%	21.16%
IRO/CRO and In-House R&D	4.98%	8.21%
Total	100%	100%

Furthermore, the Group recorded a profit attributable to owners of the Company of approximately HK\$14.68 million for the six months ended 30 September 2024, representing a turnaround from a loss attributable to owners of the Company of approximately HK\$5.24 million for the six months ended 30 September 2023. As advised by the Company, the turnaround was mainly attributable to, among other things, the decrease in administrative, selling and distribution expenses of the Group and an increase in other income and loss that include (i) government grants of approximately HK\$4.71 million received by the Group; and (ii) gain from exchange difference with approximately HK\$3.43 million during the period for the six months ended 30 September 2024.

Financial performance for the years ended 31 March 2022, 2023 and 2024

Set out below a summary of the financial information of the Group for the three financial years ended 31 March 2022, 2023 and 2024.

	For the financial years ended		
	31 March 2022	31 March 2023	31 March 2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	519,947	452,906	644,615
– Garment	424,638	381,500	466,978
– HCP	79,518	55,844	139,488
– IRO/CRO and In-House R&D	15,791	15,562	38,149
Gross profit	76,781	67,847	99,257
Other income, gains and (losses)	(3,702)	(261)	11,883
Expenses (note)	(91,209)	(109,952)	(128,122)
Finance costs	(4,614)	(5,795)	(7,070)
Profit/(Loss) attributable to owners of the Company	(22,600)	(45,737)	(22,066)

		As at	
	31 March 2022	31 March 2023	31 March 2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	296,560	227,494	429,885
Total liabilities	156,696	135,850	291,703
Net assets	139,864	91,644	138,182

Note: including administrative expenses, research and development expenses and selling and distribution expenses

As set out in the table above, the Group's revenues have been relatively stable throughout the three years ended 31 March 2024 as driven by its Garment business and HCP business. The Group recorded a revenue of approximately HK\$644.62 million for the year ended 31 March 2024, representing an increase of approximately 42.33% as compared to that of approximately HK\$452.91 million for the year ended 31 March 2023. As advised by the Company, the increase in the revenue was due to the Group's expansion in its HCP business after acquiring, and also recognizing full year results into the Group from, EP Trading Co., Ltd. that provides leasing of medical devices service for preclinical trials and R&E Corporation Limited that distributes popular Japanese food products to the PRC. For the year ended 31 March 2024, the Group's revenue was generated as to approximately 72.44% from the Garment business, approximately 21.64% from the HCP business and approximately 5.92% from the IRO/CRO and In-House R&D business.

Breakdown of the segment contribution to the Group's revenues for the financial years ended 31 March 2023 and 2024 are as follows,

	For the years ended	
	31 March 2023	31 March 2024
Garment	84.23%	72.44%
HCP	12.33%	21.64%
IRO/CRO and In-House R&D	3.44%	5.92%
Total	100%	100%

On the other hand, as the Group had been incurring substantial expenses (i.e. more than HK\$90 million per year over the three years ended 31 March 2022, 2023 and 2024) for the purposes of, including, increasing competitiveness and market shares of, and achieving long-term benefits for, the Group, it recorded losses attributable to owners of the Company of approximately HK\$22.07 million for the year ended 31 March 2024, approximately HK\$45.74 million for the year ended 31 March 2023 and approximately HK\$22.60 million for the year ended 31 March 2022.

The above financial information illustrated to us that (i) the stable contribution from Garment business and the increasing contribution from the HCP business attributed most of the Group's revenue in the recent years; and (ii) the Group's performance may be improving as it has turned around from loss makings for the three years ended 31 March 2024 to profit making for the six months ended 30 September 2024 as it has, among other things, recorded more revenue while cut down its expenses.

2. Information of the Purchaser

The Purchaser is a controlling shareholder (as defined under the Listing Rules) of the Company which beneficially holds 375,000,000 Shares, representing approximately 71.8% of the existing issued share capital of the Company, as at the Latest Practicable Date. The Purchaser is incorporated in Japan with limited liability and principally engaged in the services of CRO, SMO (Site Management Organization), CSO (Contract Sales Organization).

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, based on the information made available to the Company, the Purchaser is owned as to (i) approximately 2.32% by Mr. Yan Hao; (ii) approximately 67.26% by Y&G Limited which is wholly-owned by Mr. Yan Hao; (iii) approximately 20.00% by Suzuken; (iv) approximately 2.11% by Mr. Yu Huanrang; and (v) the remaining 89 individual shareholders each of whom owned less than 2.00% equity interest as at the date of the Sale and Purchase Agreement. Mr. Miyano Tsumoru, Mr. Chiu Chun Tak and Mr. Yan Ping, being Directors, hold in aggregate less than 1% of the issued share capital of the Purchaser.

Suzuken is a company listed on Prime Markets of the Tokyo and Nagoya Stock Exchanges, and the Sapporo Securities Exchange in Japan (stock code: 9987). Based on publicly available information, Suzuken and its subsidiaries are principally engaged in (i) pharmaceutical distribution; (ii) community healthcare and nursing care support; (iii) healthcare product development; and (iv) healthcare-related services businesses.

3. Information of the Target Group

The Target Company, EPS Innovative Medicine (Hong Kong) Limited, is incorporated in Hong Kong with limited liability and is principally engaged in investment holding in other members of the Target Group, and the holding of certain limited partnership units in a limited partnership established under the laws of Japan. The Target Group is principally engaged in the research and development of regenerative medicine and search for functional foods, the development of new drugs, the development of new medical devices and the promotion of in-house researches.

As extracted from the Board Letter, the table below sets out the principal business activities carried on by the members of the Target Group (other than the Target Company).

Company name	Principal business activities
EPD HK	Investment holding
Inomed JP	Promotion of in-house researches and investment holding
FEF	Development of new drugs
EPD KK	Research and development of regenerative medicine and search for functional foods
Biotube	Development of new medical devices

Set out below is the key unaudited consolidated financial information of the Target Group for the two financial years ended 31 December 2023 and 2024:

	For the years ended 31 December	
	2023	2024
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	—	—
Loss before taxation	23,016	55,090
Loss after taxation	23,056	51,892

As advised by the Company, the increase in loss of approximately HK\$51.89 million for the year ended 31 December 2024, from approximately HK\$23.06 million for the year ended 31 December 2023 was primarily due to the increase in research and development expenses for the development of new drugs.

As at 31 December 2024, the unaudited consolidated net liability value of the Target Group was approximately HK\$3,285,000.

The original investment cost of the Company in the Target Company was approximately HK\$116,446,000 which comprised (i) capital injection of approximately HK\$77,039,000; and (ii) cost of acquisition of Biotube of approximately HK\$39,407,000.

4. Reasons for and benefits of the Disposal

With reference to the Board Letter, the Management has been actively assessing the impact of the global economic backdrop on the Group's financial performance and business operations, and closely monitors the Group's exposure to the market uncertainties and associated business risks. To mitigate these and ensure sustainable growth for the Group, the Management has implemented various stringent cost control measures.

From our inquiries with the Management in relation to the reasons for and benefits of the Disposal, we understood that the Management considered the operations and financial performances of the members of the Target Group under the segment of IRO/CRO and In-House R&D were less satisfactory than expected. The Group recorded consecutive losses of approximately HK\$34.3 million and HK\$36.4 million for the years ended 31 March 2023 and 2024 for its IRO/CRO and In-House R&D business. The Target Group recorded unaudited loss of approximately HK\$51.9 million for the year ended 31 December 2024. Moreover, it is estimated that the ongoing operation and research and development efforts by members of the Target Group will result in additional and continuous costs, time, and resources being incurred to bring to market the biotechnology products which have faced delays in their launch. This may necessitate additional investments in time and resources by the Group in the Target Group without guaranteed returns. Accordingly, the Board is of the view that the Disposal represents a good opportunity for the Company to avert additional costs incurred by the Target Group while replenishing the Group's financial resources to improve the Group's liquidity and strengthen the Group's financial position.

As mentioned in the previous section, the Company has injected investment amounts not less than HK\$77.04 million for the researches and the development of the products for the members of the Target Group, including Inomed JP, FEF, EDP HK and EDP KK. We were given to understand that the timing for the researching results and products under these subsidiaries (i.e. completion of products development) are longer than initially expected and are still in their respective beginning phases that will not enable the Management to properly assess for the remaining completion time and costs they needed. Accordingly, should the Group carry on to engage the business development of the members of the Target Group (more information of Biotube will be further described in the paragraphs below), it is likely that the Group will have to incur notable expenses and losses in its IRO/CRO and In-House R&D business in the upcoming years. We were also given to understand that although Biotube is facing similar concerns as described in the above, the development of the products under Biotube are comparatively more advanced and notable progress has been achieved which will be further discussed below.

With reference to the Company's announcements dated 29 November 2023, 18 December 2023 and 29 January 2024 (the "**Biotube Announcements**"), the Group acquired Biotube in late 2023 and early 2024 after considered that, among others, (i) the resources and innovative research technology controlled by Biotube are of high quality; and (ii) the operations of Biotube may improve the development the Group's innovative research sector and thus create synergy effect with the Group's HCP business. Biotube principally engages in in-house research and development in relation to the projects of autologous sheet tissue for autograft by in-body tissue architecture for the patients of Refractory diabetic foot ulcer (the "**Biosheet Products**") and autologous tubular tissue for autograft by in-body tissue architecture for the patients of lower extremity peripheral arterial disease (the

“Biotube Products”). As mentioned in the Biotube Announcements, at the time of the acquisition of Biotube, the clinical trials for Biosheet Products and Biotube Products have already been initiated after careful review for the procedure by Pharmaceuticals and Medical Devices Agency of Japan (**“PMDA”**) without any quality matters. The Management expected that after the completions of the clinical trials required for the Biosheet Products and Biotube Products, the Group will be able to enjoy favorable returns by December 2025. However, as advised by the Management, the progress of research and development of Biosheet Products and Biotube Products suffered from substantial delay for the follow reasons,

Products	Reasons for the delay
Biosheet Products	Outstanding confirmatory clinical trials to be completed before launching and the process can be time consuming
Biotube Products	Its exploratory clinical trial is still on-going but it was previously halted as the study protocol was modified according to suggestions from PDMA

In light of the above, it is re-estimated that the completions of the development of the Biosheet Products and Biotube Products will have to be delayed for around two more years while such development process will require the Group to continue to allocate time, costs and resources before any commercial returns may be generated. With reference to the Valuation, an aggregated of JPY 430 million (equivalent to approximately HK\$21.3 million) based on present value of free cash outflow for the four years ending 31 December 2029 will be used to finance the researches of Biotube. We were given to understand by the Management that further trials and/or more modification suggestions from PMDA may or may not be required and cannot be certain as at the moment and are subject to the then results and circumstances. Accordingly, the said completion time of around two more years is estimated based on best effort basis, subject to be altered with variables that may not be under the Group’s control such as, having sufficient and satisfying confirmatory clinical trials and obtaining approvals from relevant regulatory bodies.

Given the uncertainty surrounding the completion date of research and development and the subsequent launch of the biotechnology products, the Disposal presents an opportunity to divest the Target Group from the Group which will enable the Group to more effectively deploy and allocate its resources, both time and financial, to other profitable core segments of the Group as well as meeting the Group’s general working capital requirements and financial obligations. Unlike the IRO/CRO and In-House business of the Group, the performance of the HCP business of the Group, where the Group involves in (i) sourcing and distributing large and medium-sized healthcare products for preclinical trials and added services of leasing medical devices; and (ii) exporting and distributing Japanese health food (brands such as 北陸製菓, 東京香蕉, 龍角散, 伊藤園 and etc.) to the PRC market, has improved from approximately HK\$5.4 million segment loss for the year ended 31 March 2023 to a segment profit of approximately HK\$7.7 million for the year ended 31 March 2024. As the current Management’s development focus on the Group is on the HCP business, taking advantages of its well-established suppliers and customers network, the Management believes that the Group will be able to respond to market demand more actively and efficiently and thus generate more profits to the Group, it was considered that the businesses of the Target Group, which are of a long-term pre-

investment type, do not align as well with the Management's focus, and has therefore sought for the Disposal. The Company expects that, upon Completion, the IRO/CRO and In-House business of the Group will cease to be considered as one of the core business segments of the Group.

We noted from the section above headed "3. Information of the Target Group", the Target Group has been recording losses over time and as advised by the Management, the losses were mainly due to, among other things, the relatively high costs and resources utilized by the Group for the continuing operation of the business to develop new drugs and that more commercial benefits are expected to be recognized in the long term when the development of such new drugs are completed successfully.

With reference to the annual report of the Company for the year ended 31 March 2024, the Group has recorded research and development expenses of approximately HK\$24.31 million and approximately HK\$13.04 million for the years ended 31 March 2024 and 31 March 2023 respectively, that, as advised by the Management, were incurred by the members of the Target Group to, among others, complete the research and development of new drugs for the Group. Based on our understanding with the Management, the developments of certain new drugs from the Target Group are yet to be completed and therefore, unless giving up on its previous investments and/or without the Disposal, it is expected that additional costs and time will be required from the Group to continue to complete these products until they can obtain the relevant regulatory approvals and begin to recognize revenue for the Group. However, in view of the circumstances that, including but not limited to, (i) the Group has been loss-making for the three consecutive years ended 31 March 2022, 2023 and 2024; (ii) the Target Group has also been loss-making and is expected to require more investment from the Group; and (iii) the ongoing unstable economic environment, it is the Group's intentions to minimize the risks and cut costs in order to create more financial flexibility and to improve its financial position.

As mentioned in the Board Letter, the Company has attempted to identify other potential independent buyers to acquire the Target Company but has also encountered certain challenges (the "Challenges"). As advised by the Management, it is difficult to identify potential buyers due to the facts that (i) the completion and the effectiveness of the developing products of the Target Group as such products have yet to produce persuasive data or results that could demonstrate their respective values; (ii) the Group's reluctance to provide full relevant information (i.e. trial results and methodologies applied etc) of the developing products of the Target Group as they are considered to be highly confidential; and (iii) the required pharmaceutical related knowledge, costs and efforts to be incurred to take-over and run the business of the Target Group. We were also given to understand that, after the relevant research results may be completely shared to such new purchaser(s), if any, that agree to acquire the Target Group, there will likely be a setback or time required for the new purchaser(s), if any, and/or the new developing team, to have to revisit, understand and agree with the existing results (i.e. research steps, methodologies and clinic results) which may or may not require more time for the completion of development. The Challenges therefore, require interested buyers to be understanding of the circumstances of the Target Group and have imposed inevitable limitations to and barriers for the Management to identify willing buyers with interests to participate in the Target Group's development projects.

Further to the above-mentioned, the Company also explained that the Management had attempted to obtain external fundings from banks and/or other financial investors as investments from other investors and potential buyers are uneasy to be identified as explained in the previous paragraph, but

fundings are not as easy to be obtained to support the operations of the Target Group given most of the products' development are yet to be approved and/or proven to be able to generate commercial benefits in the near future particularly under the current slow-recovering economy. The Group entered into subscription agreements with two subscribers on 9 April 2024, the completions of which took place on 22 April 2024 and raised a total gross proceed of HK\$22.0 million for the Group to fund its working capital. Other than the subscriptions as mentioned, the Group did not conduct other fund-raising activities in the past twelve months immediately preceding the date of the Sale and Purchase Agreement. As at 30 September 2024, the Group recorded a bank and cash balances of HK\$91.29 million that will be used for the Group's Garment and HCP businesses and the continuations of notable research and development expenses will further tighten up the Group's financial liquidity and operations. Accordingly, taking into account (i) the developments of the HCP business and Garment business of the Group are with less uncertainties and are more likely to generate immediate commercial returns to the Group; (ii) the Group's IRO/CRO and In-House R&D business is considered to be riskier and will require the Group to allocate more resources; and (iii) the financial liquidity of the Group under the recent slow-recovering economy, we are of the opinion that it is reasonable for the Group to shift its focus, efforts and resources to other segments that will be able to generate immediate returns to the Group such as its HCP business to establish a stronger financial position.

Given that (i) the Target Group has been utilizing the Group's resources but did not generate returns; (ii) it would be more beneficial to the Group if the Group could make use of the proceeds from the Disposal on developing more profitable and core healthcare products business as against the development of new drugs, which requires the Group to endure relatively higher costs and risks; (iii) the uncertainties and Challenges associated with the development of the products of the Target Group imposed high difficulties for the Company to identify other purchasers and/or obtain funds to run the business of the Target Group; and (iv) the Target Group is at a net liabilities position and the Group's intentions to minimize the risks and cut costs in order to create more financial flexibility and to improve its financial position, we believe the net consideration of RMB1 for the Target Group to be reasonable and acceptable.

Meanwhile, the Disposal will also allow the Group to diversify the operations of the Target Group (i.e. in-house research and development business under its IRO/CRO segment) with funds that will enable the Group to reallocate resources towards its other core businesses that possess of less risks such as the Garment and HCP businesses that contributed more than 90% of the Group's revenue for the years ended 31 March 2022 and 2023. As mentioned in the Board Letter and confirmed by the Management, the net proceeds from the Disposal of approximately HK\$60.3 million are expected to be used as to (i) approximately HK\$35.0 million for the repayment of outstanding payables of the Group including a partial payment of promissory notes; (ii) approximately HK\$20.0 million for the operation and development of the HCP business of the Group; and (iii) approximately HK\$5.3 million for the general working capital of the Group, such as salary, rental, operating expenses and professional fees. We also noted from the section headed "Possible Financial Effects of the Disposal" in the Board Letter, the consideration of the Disposal, after comparing with the unaudited consolidated net liability value of the Target Group as at 31 December 2024 and the related expenses to the Disposal, subject to audit, is expected to provide the Group a gain on disposal of approximately HK\$29.1 million.

Having considered the above reasons and benefits, we concur with the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Sale and Purchase Agreement

Date 19 February 2025 (after trading hours of Stock Exchange)

Parties (i) The Company; and
(ii) The Purchaser

Subject matter

Pursuant to the Sale and Purchase Agreement, (i) the Company conditionally agreed to sell, and the Purchaser conditionally agreed to acquire the Sale Shares, i.e. the entire issued share capital of the Target Company, at a consideration of JPY1.00 (equivalent to approximately HK\$0.049092); and (ii) the Company also conditionally agreed to sell and/or procure to sell, and the Purchaser conditionally agreed to purchase the Sale Loans, i.e. certain loans in the aggregate amount of JPY1,250,000,000 (equivalent to approximately HK\$61,365,000) owed by the Target Company and EPD HK to the Company, EPS Healthcare and EPS Medical as at the date of the Sale and Purchase Agreement, at face value, for a consideration of JPY1,250,000,000 (equivalent to approximately HK\$61,365,000).

Completion

Upon Completion, the Company will cease to hold any interest in the Target Company, and accordingly, members of the Target Group will cease to be subsidiaries of the Company and their financial results thereafter will no longer be consolidated into the consolidated financial statements of the Company.

Consideration

The aggregate consideration for the Sale Shares and the Sale Loans shall be the sum of JPY1,250,000,001 (equivalent to approximately HK\$61,365,000), of which, as to JPY1.00 (equivalent to approximately HK\$0.049092) is the consideration for the Sale Shares; and as to JPY1,250,000,000 (equivalent to approximately HK\$61,365,000) is the consideration for the Sale Loans, which shall be payable by the Purchaser in cash at Completion.

The consideration was arrived at after arm's length negotiations between the Company and the Purchaser having taken into account, among others, (i) the unaudited net liabilities value of the Target Group as at 31 December 2024 of HK\$3,285,000; (ii) the appraised fair value of the 51% equity interest in Biotube (in which the Company indirectly holds approximately 51% effective equity interest) of approximately HK\$615,215,000 (equivalent to approximately HK\$30,202,000 as at 31 December 2024 based on the Valuation Report prepared by Peak Vision Appraisals Limited, an independent valuer, using the income approach; (iii) the recent financial performance and business prospects of the Target Group; (iv) having considered that EPD KK, FEF and Inomed JP who engaged in research or development have incurred expenses exceeding JPY1 billion in aggregate,

while no substantial breakthroughs and estimated cash flow are anticipated in the foreseeable future, the Company is of the view that EPD KK, FEF and Inomed JP, as elaborated in the section headed “4. Reasons and benefits of the Disposal”, are cash-burning enterprises and would increase financial burden to the Company in general, therefore the Directors considered their relevant net book values as their valuations; (v) the Target Company and EPD HK are engaged in investment holding only; (vi) the uncertainty of future prospects of the Target Group’s operations, results and performance; (vii) the carrying amount of the Sale Loans as at the date of the Sale and Purchase Agreement of JPY1,250,000,000 (equivalent to approximately HK\$61,365,000) on a dollar-to-dollar basis; and (viii) the benefits of the Disposal to the Group as discussed in the section headed “Reasons for and benefits of the Disposal” in the Board Letter.

As advised by the Management, among the members of the Target Group, since (i) EPD HK and Inomed JP are intermediate holdings with minimal business operations; (ii) the drugs being developed by FEF and EPD KK are still in its first phase (i.e. mainly in researching stages and recruiting patients for clinic trials without reliable sufficient results etc.) and at such preliminary phases, they are not expected to generate revenue for the Group in the foreseeable future; and (iii) the products being developed by Biotube had successfully completed first phase development and are at second phase (i.e. products are proven effective, safe-dosing and are expected to be applied to a small number of patients), with notable development, may be able to generate commercial values given time, a business valuation was conducted to appraise the fair value of Biotube and then assessed together with the financial and operation condition of the Disposal Group as a whole in arriving the consideration of the Disposal.

Based on the financial information provided by the Management, we noted that, as at 31 December 2024, the unaudited consolidated net liability value of the Target Group of HK\$3,285,000 comprised of the followings,

Company name	Net assets/ (liabilities) value (HK\$'000)
The Target Company	21,375
Inomed JP	(10,376)
EPD HK and its subsidiaries	(9,867)
FEF	(22,181)
Biotube (<i>Note</i>)	<u>17,764</u>
Total	<u>(3,285)</u>
<i>Non-controlling interests of the Target Group</i>	<i>(23,301)</i>
Adjusted net liability value of the Target Group	(26,586)

Note: Net asset value of 100% equity interests of Biotube after taking into account of the revaluation of the Valuation

It is understood that the characteristics of products like the Biosheet Products and the Biotube Products may be considered to be high risks with high returns and once successfully developed and launched to the market may in fact generate substantial returns to the Group. However, taking into consideration of (i) our analysis as discussed in the section headed “4. Reasons for and benefits of the Disposal” including the current status of the products development; (ii) the Target Group were loss-making and the completion of the product developments to generate sufficient commercial returns are not guaranteed at current stage; (iii) the businesses of the Target Group require further investment to carry on; and (iv) the unaudited consolidated net liability position of the Target Group, we are of the view that the consideration of the Sale Shares at JPY1 is fair and reasonable and together with the Sale Loans which were determined on dollar-to-dollar basis, the Total Consideration is also fair and reasonable so far as the Shareholders are concerned.

6. Valuation of the 51% equity interests of Biotube (the “Valuation”)

The Company has engaged Peak Vision Appraisals Limited (the “Valuer”) as the independent valuer to appraise the market value of 51% of equity interest in Biotube as at 31 December 2024. As stated in the Valuation Report in relation to the Valuation as set out in appendix II to the circular, the market value of 51% of equity interest in Biotube as at 31 December 2024 was JPY615,215,000 (equivalent to HK\$30,202,000).

Qualification and experience of the Valuer

In assessing the expertise and independence of the Valuer, we have (i) reviewed the engagement letter between the Company and the Valuer; and (ii) conducted an interview with the Valuer to discuss, among other things, its experience on valuations on companies engaged in the biotechnology and medical research segment and relationships with the Group and the Purchaser.

Based on the above, we understand that the Valuer (i) is an established appraisal firm with extensive experience in undertaking appraisals and had conducted various projects in the biotechnology segment. Moreover, after having reviewed the terms of its engagement (including the scope of work), we consider that the scope of work is appropriate.

The Valuation is led by Mr. Nick C. L. Kung, who is a member of the Royal Institution of Chartered Surveyors, Hong Kong Institute of Surveyors, China Institute of Real Estate Appraisers and an RICS Registered Valuer who possess over 20 years of valuation in Hong Kong, the PRC and Asia-Pacific countries and territories. He has extensive experience in the valuation of tangible assets, intangible assets and business enterprises in Hong Kong and overseas.

Valuation methodologies and assumptions

We have reviewed with the Valuer the valuation methodologies stated in the Valuation Report and are advised that they have considered the income approach, market approach and cost approach in assessing the market value of 51% of equity interest in Biotube. Among the three valuation methods, income approach is adopted as such approach can take into account of the projected income that can be derived from the biotechnology business of Biotube; whereas, the Valuer considers that (i) the market approach is less representative than the income approach since there are limited guideline

public companies and comparable transactions with similar stage of development, portfolio risks and rewards to form a reliable basis for its opinion; and (ii) the asset approach is not appropriate as it ignores the future economic benefits of the business as a whole. Having considered the future earning potential of Biotube and the above limitations from the market approach and asset approach as suggested in the above, we concur with the Valuer that the adoption of the income approach for the Valuation is fair and reasonable.

We have also discussed with the Valuer in respect of the key assumptions adopted for performing the Valuation and we understand from the Valuer that it has assumed that the products of the Biotube will be developed and commercialized according to the timetable of the estimated development plan as provided by the Company, and such estimation was based on best-effort basis and may require more time, such that the risk of undervaluing Biotube will be relatively low given the Valuer applied the earliest completion time for Biotube's products in conducting the Valuation. Additional to the above, we also understand and consider the other assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Valuation. Accordingly, we considered the assumptions adopted in the Valuation Report are general in nature and are not aware of any material fact which led us to doubt the assumptions adopted by the Valuer.

Given that (i) the Valuer is independent from the Company and the Purchaser and is competent for the preparation of the Valuation; and (ii) the valuation methodology, the principal basis and assumptions adopted in the Valuation are justifiable, we are of the view that the Valuation is fair and reasonable.

The Valuation

Based on our discussions with the Valuer that the Valuation is derived from the discounted cash flow forecast (the “**DCF**”) during the period from the year ended 31 December 2025 to the year ended 31 December 2030 (the “**Forecast Period**”). We have also obtained the relevant worksheet (the “**Worksheet**”) in relation to the Valuation and discussed with the Valuer the key bases and variables adopted in the income approach for the Valuation. With reference to the comfort letters included in appendix II to the circular, we understand that Confucius International CPA Limited checked the arithmetical accuracy of the calculations of the discounted cash flow forecast while Red Sun Capital Limited reviewed and confirmed that the cash flow forecast has been prepared by the Directors after due and careful enquiry, who are solely responsible for the cash flow forecast.

Nevertheless, in our discussion with the Valuer and our review of the Worksheet, we noted that the market value of equity interest of Biotube is derived at by calculating (i) determining the free cash flows for the Forecast Period after taking into account the operational information including revenue, cost of goods sold, operating expenses, corporate tax rates in Japan, the available assets (excluding available cash) to keep operations going (i.e. non-cash working capital), the success rate of products of Biotube that were estimated and provided by the Management and the discount rate (the “**Discount Rate**”) calculated based on the weighted average cost of capital formula in order to arrive the present value of Biotube; (ii) a terminal growth rate of 2% with reference to the projected inflation rate sourced from International Monetary Fund; (iii) adjusted with cash and non-operating assets and liabilities provided by the Management; and (iv) adjusted with the discount for lack of marketability

(“**DLOM**”) considering that Biotube is a private company, in order to arrive with the equity value of Biotube. Please also refer to the full details of the calculations of the Valuation as set out in appendix II to the Circular.

The Discount Rate

As set out in the Valuation Report, a 15.1% discount rate was adopted by the Valuer in the Valuation based on the weighted average cost of capital which is calculated taking into account of the relative weights of each component of the capital structure follows the formula below:

$$\text{Discount rate} = W_e \times R_e + W_d \times R_d \times (1 - T)$$

in which,

Re = Cost of equity	15.80%
Rd = Cost of debt	1.90%
We = Portion of equity value to enterprise value	95%
Wd = Portion of debt value to enterprise value	5%
T = Corporate tax rate	30.62%

approximately 15.10%

The cost of equity which account for the risk premium and calculated with the use of capital asset pricing model is a widely accepted model used to determine theoretically appropriate required rate of return of an asset. Considering the specific risk of Biotube in its development require for relevant trials and experiments, the Valuer has applied an additional risk premium to the cost of equity in arriving the cost of equity.

The cost of debt represents the estimated required return of debt financing for Biotube when borrowing or issue debt (such as corporate bonds).

The weight of equity and debt and were derived from analysis of debt to equity ratios of the industry comparable companies. In this regard, we have requested for the workings for the Valuation from the Valuer for our review and upon review, we consider that the industry comparable companies chosen in the Valuation similar to the business of Biotube and are reasonable and representative as they were also engaged in the biotechnology and medical research industry according to The Refinitiv Business Classification and are listed for not less than two years.

The corporate tax rate was referred to the corporate income tax rate in Japan.

From our discussions with the Valuer, we understood that the above measures were referenced from, including but not limited to, government sources, Refinitiv, Kroll Cost of Capital Navigator and Damodaran Online which are commonly adopted in conducting business valuations from our discussions with the Valuer.

Inflation rate

We noted from the website of the IMF and based on its information for world economic outlook (October 2024) (<https://www.imf.org/external/datamapper/profile/JPN>), Japan is estimated to have an annual inflation rate of 2% from 2025 to 2029 which is in line with the inflation rate adopted by the Valuer in the Valuation.

Discount for lack of marketability

As advised by the Valuer, DLOM is commonly considered in the valuations of privately held companies as they are not readily marketable and would face more difficulty in converting their shares into cash as compared with publicly held companies. The DLOM of 20.4% was adopted in the Valuation that was determined with reference to Stout Restricted Stock Study Companion Guide (2024 Edition). We have obtained a copy of the report and understood that the DLOM of 20.4% was arrived after reviewing 779 private placement transactions of unregistered common stock issued by publicly traded companies from July 1980 through March 2024.

Conclusion

Taking into account the above work and steps we have conducted in relation to the relevant Valuation Report, including but not limited to (i) interviewing the Valuer as to its expertise and its independence; (ii) reviewing the terms of engagement of the Valuer and assessing the appropriateness of its scope of work; and (iii) our review and cross-checking of the methodologies, key bases and key assumptions as set out in the Valuation Reports and Worksheet prepared by the Valuer, together with the comfort letters from Confucius International CPA Limited and Red Sun Capital Limited in respect of the calculations of the forecast cashflow of Biotube, we consider that the Valuation is fair and reasonable so far as the Shareholders are concerned.

Accordingly, having considered (i) the unaudited net liabilities value of the Target Group as at 31 December 2024 of HK\$3,285,000; (ii) the aggregated amount of the Sale Loans; and the (iii) value of Biotube with reference to the Valuation, we are of the view that the consideration of the Disposal is in the interests of the Company and the Shareholders as a whole.

7. Financial effects of the Disposal

Upon Completion, the Company will cease to have any interest in the Target Company, and accordingly, members of the Target Group will cease to be subsidiaries of the Company and their financial results thereafter will no longer be consolidated in the financial statements of the Group.

Based on (i) the consideration of the Disposal; (ii) the unaudited consolidated net liability value of the Target Group as at 31 December 2024; (iii) the related expenses of approximately HK\$1.0 million for the Disposal, the Group expects to record a gain of disposal of approximately HK\$29.1 million from the Disposal. Details of the estimated gain from the Disposal are as follows:

	<i>HK\$</i>
Consideration received from the Disposal	1
Net liabilities of the Target Group	3,285,494
Non-controlling interests of the Target Group (“NCI”) (<i>Note 1</i>)	23,301,502
Reclassification of cumulative translation reserve of the Target Group to profit or loss of the Target Group (<i>Note 2</i>)	3,545,584
Estimated professional fees of the Disposal	<u>(1,020,000)</u>
Estimated gain on disposal	<u>29,112,581</u>

Notes:

1. The carrying amount of NCI as at 31 December 2024 was HK\$23,301,502. Companies in the Target Group have NCI included EPD HK, EPD KK and Biotube and the carrying amount of NCI will be derecognized upon the Disposal.
2. The carrying amount of cumulative translation reserve of the Target Group as at 31 December 2024 was HK\$3,545,584. Certain companies in the Target Group undertake transactions denominated in Japanese Yen and therefore, the financial statements of such companies need to be translated to the currency presented in the consolidated financial statements of the Company in Hong Kong dollars. Assets and liabilities are translated at the closing rate, and income and expenses are translated at the average rate for the relevant year. All resulting exchange differences would be recognized initially in other comprehensive income and reclassified from equity to profit or loss on the Disposal.

In terms of assets and liabilities, upon Completion, the unaudited total assets of the Group will be decreased by approximately HK\$97,047,000 and the unaudited total liabilities of the Group will be decreased by approximately HK\$100,334,000.

The actual financial impact of the Disposal on the Group is subject to audit and therefore may be different from the amount mentioned above.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that although the Disposal is not in the ordinary and usual course of business of the Group, (i) the Sale and Purchase Agreement and the transactions contemplated thereunder is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Disposal is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders to vote in favour of the relevant resolution(s) for approving the Disposal.

Yours Faithfully,
For and on behalf of
Veda Capital Limited

A handwritten signature in black ink, appearing to be 'Julisa Fong', written over a horizontal line.

Julisa Fong
Managing Director

Ms. Julisa Fong is a licensed person registered with the SFC and a responsible officer of Veda Capital Limited which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity and has over 28 years of experience in corporate finance industry.