

31 March 2025

*To: The independent board committee and the independent shareholders  
of China ZhengTong Auto Services Holdings Limited*

Dear Sir/Madam,

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

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Connected Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 31 March 2025 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 25 January 2025, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 6,669,060,524 Subscription Shares at the Subscription Price of HK\$0.15 per Subscription Share for a total consideration of HK\$1,000,359,078.60 in cash.

With reference to the Board Letter, as at the Latest Practicable Date, the Subscriber and the parties acting in concert with it hold 842,977,684 Shares, representing approximately 25.19% of the issued share capital of the Company. Upon the Connected Subscription Completion, the shareholding of the Subscriber and the parties acting in concert with it will increase to approximately, and not more than, 75.00% of the issued share capital of the Company.

With reference to the Board Letter, the Connected Subscription constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and is therefore subject to announcement, reporting and the Independent Shareholders' approval requirements.

With reference to the Board Letter, under Rule 26.1 of the Takeovers Code, the allotment and issuance of the Subscription Shares under the Subscription Agreement to the Subscriber will give rise to an obligation on the part of the Subscriber to make a mandatory general offer for all Shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it), unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders. The Subscriber has made an application to the Executive for the Whitewash Waiver from compliance with the obligations to make a mandatory general offer for all Shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it) under Rule 26.1 of the Takeovers Code as a result of the allotment and issuance of the Subscription Shares to the Subscriber. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, amongst others, the approval by at least 75% of the votes cast by the Independent Shareholders by way of poll in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders by way of poll in respect of the Connected Subscription, respectively, at the EGM. As such, the Whitewash Waiver, if granted, will be subject to, among other things, the approval by at least 75% of the votes cast by the Independent Shareholders by way of poll in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders by way of poll in respect of the Connected Subscription, respectively, at the EGM.

The Independent Board Committee comprising of Dr. TSUI Wai Ling Carlye, Mr. SHEN Jinjun and Ms. YU Jianrong (being all the independent non-executive Directors) has been established to advise the Independent Shareholders on the terms of the Connected Subscription and the Whitewash Waiver. We, Gram Capital Limited, have been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## INDEPENDENCE

Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to major and connected transaction of the Company, details of which are set out in the Company's circular dated 22 January 2024. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

## BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Connected Subscription and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix II to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Subscriber or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Connected Subscription and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Connected Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

### I. Connected Subscription

#### 1. Information on the Group

With reference to the Board Letter, the Group is principally engaged in 4S (sales, spare parts, service and survey) dealership business, automotive supply chain business and comprehensive properties business in the PRC.

Set out below are the consolidated financial information of the Group for the three years ended 31 December 2024 as extracted from the Company's annual results announcement for the year ended 31 December 2024 (the "2024 AR Announcement") and the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report"):

	For the year ended 31 December 2024 ("FY2024") (audited) RMB'000	For the year ended 31 December 2023 ("FY2023") (audited) RMB'000	For the year ended 31 December 2022 ("FY2022") (audited) RMB'000	Change from FY2023 to FY2024 %	Change from FY2022 to FY2023 %
Revenue	20,746,774	24,131,975	22,606,790	(14.03)	6.75
— 4S dealership business	20,342,814	23,464,573	21,927,113	(13.30)	7.01
— Supply chain business	378,393	667,402	679,677	(43.30)	(1.81)
— Comprehensive properties business (Note)	25,567	—	—	N/A	N/A
Gross profit	779,069	1,008,593	1,586,878	(22.76)	(36.44)
Other income	737,723	1,327,026	1,506,316	(44.41)	(11.90)
Selling and distribution expenses	(967,410)	(1,082,892)	(1,211,482)	(10.66)	(10.61)
Administrative expenses	(981,633)	(1,084,526)	(1,280,537)	(9.49)	(15.31)
(Impairment losses)/Reversal of impairment losses on goodwill and/or intangible assets	(116,702)	—	232,426	N/A	(100.00)
(Loss)/Profit from operations	(548,953)	168,201	833,601	N/A	(79.82)
Finance costs	(936,721)	(1,054,301)	(1,006,998)	(11.15)	4.70
Share of (loss)/profit of associates and a joint venture	3,666	(500)	43,055	N/A	N/A
Loss before taxation	(1,482,008)	(886,600)	(130,342)	67.16	580.21
Income tax	(47,078)	66,120	(167,079)	N/A	N/A
Loss for the year	(1,529,086)	(820,480)	(297,421)	86.36	175.86
Loss for the year attributable to ordinary shareholders of the Company	(1,708,506)	(890,990)	(296,285)	91.75	200.72

Note: Mainly includes development and sales of properties in the PRC.

	As at 31 December 2024 (audited) RMB'000	As at 31 December 2023 (audited) RMB'000	As at 31 December 2022 (audited) RMB'000	Change from 31 December 2023 to 2024 %	Change from 31 December 2022 to 2023 %
Non-current assets	13,896,931	15,088,521	13,902,668	(7.90)	8.53
Current assets	15,321,305	14,426,280	13,830,091	6.20	4.31
— Cash and cash equivalents	573,088	744,855	734,086	(23.06)	1.47
Non-current liabilities	4,494,295	5,583,349	8,596,839	(19.51)	(35.05)
— Loans and borrowings	2,419,911	3,488,141	6,439,857	(30.62)	(45.84)
Current liabilities	23,654,203	22,644,392	18,911,476	4.46	19.74
— Loans and borrowings	17,550,020	16,272,920	12,234,030	7.85	33.01
Net-current liabilities	(8,332,898)	(8,218,112)	(5,081,385)	1.40	61.73
Total (deficit)/equity attributable to equity shareholders of the Company	(356,683)	361,830	193,389	N/A	87.10

### FY2023

According to the table above, the Group recorded revenue of approximately RMB24.13 billion for FY2023, representing an increase of approximately 6.75% as compared to that for FY2022. With reference to the 2023 Annual Report, such increase was mainly due to the increase in the sales of new automobiles for FY2023. Nevertheless, according to the table above, (i) the Group's gross profit for FY2023 decreased by approximately 36.44% as compared to that for FY2022; and (ii) the loss attributable to ordinary shareholders of the Company for FY2023 increased by approximately 200.72% as compared to that for FY2022. With reference to the 2023 Annual Report, (i) the aforesaid decrease in the Group's gross profit was caused by decrease in the Group's gross profit margin from approximately 7.0% for FY2022 to approximately 4.2% for FY2023, mainly attributable to decrease in the average unit sales price of new automobiles; and (ii) the aforesaid increase in the Group's loss for the year attributable to ordinary shareholders of the Company was mainly due to decrease in the Group's gross profit.

According to the table above, (i) the total equity attributable to equity shareholders of the Company increased by approximately 87.10% from approximately RMB193 million as at 31 December 2022 to approximately RMB362 million as at 31 December 2023; (ii) the Group's net current liabilities increased by approximately 61.73% from approximately RMB5,081 million as at 31 December 2022 to approximately RMB8,218 million as at 31 December 2023; (iii) the Group's cash and cash equivalents increased by approximately 1.47% from approximately RMB734 million as at 31 December 2022 to approximately RMB745 million as at 31 December 2023; and (iv) the Group's total loans and borrowings increased by approximately 5.82% from approximately RMB18.67 billion as at 31 December 2022 to approximately RMB19.76 billion as at 31 December 2023.

#### *FY2024*

According to the table above, the Group recorded revenue of approximately RMB20.75 billion for FY2024, representing a decrease of approximately 14.03% as compared to that for FY2023. With reference to the 2024 AR Announcement, such decrease was mainly due to the decrease in sales volume and the selling price of new automobiles for FY2024. In addition, according to the table above, (i) the Group's gross profit for FY2024 decreased by approximately 22.76% as compared to that for FY2023; and (ii) the loss attributable to ordinary shareholders of the Company for FY2024 increased by approximately 91.75% as compared to that for FY2023. With reference to the 2024 AR Announcement, (i) the aforesaid decrease in the Group's gross profit was caused by decrease in the Group's revenue and gross profit margin (from approximately 4.2% for FY2023 to approximately 3.8% for FY2024, mainly attributable to decrease in the average selling price of new automobiles); and (ii) the aforesaid increase in the Group's loss for the year attributable to ordinary shareholders of the Company was mainly due to (a) the decrease in the Group's gross profit and other income; and (b) the impairment losses on goodwill and intangible assets recognised for the Group's 4S dealership business for FY2024 (FY2023: nil).

According to the table above, (i) the total deficit attributable to equity shareholders of the Company was approximately RMB357 million as at 31 December 2024 (in contrast to total equity attributable to equity shareholders of the Company of approximately RMB362 million as at 31 December 2023); (ii) the Group's net current liabilities increased by approximately 1.40% from approximately RMB8,218 million as at 31 December 2023 to approximately RMB8,333 million as at 31 December 2024; (iii) the Group's cash and cash equivalents decreased by approximately 23.06% from approximately RMB745 million as at 31 December 2023 to approximately RMB573 million as at 31 December 2024; and (iv) the

Group's total loans and borrowings increased by approximately 1.06% from approximately RMB19.76 billion as at 31 December 2023 to approximately RMB19.97 billion as at 31 December 2024.

## **2. *Information on the Subscriber***

With reference to the Board Letter, the Subscriber is a company incorporated in Hong Kong with limited liability, and is principally engaged in investment holding. As at the Latest Practicable Date, the Subscriber is indirectly wholly owned by ITG Holding, a substantial shareholder of the Company, and is therefore a connected person of the Company.

ITG Holding is a Fortune Global 500 Company with operations in commodity trading, circulation automobile trading, logistics business, commodity retail business and other businesses. ITG Holding is a state-owned enterprise directly controlled by Xiamen State-owned Assets Supervision and Administration Commission.

## **3. *Reasons for and benefits of the Connected Subscription and use of proceeds***

With reference to the Board Letter, with the advent of electric vehicles, which has heralded a paradigm shift towards sustainability and environmental consciousness, away from traditional internal combustion engine (ICE) vehicles, the 4S dealership businesses in the PRC are at a crossroads in market development and subject to intense market competition. The Connected Subscription will supplement the Company's working capital requirements, enable to the Company to better meet its operational cash flow needs during such time of market transition, support its plans to optimise its distribution footprint, adjust its brand portfolio, increase its inventory turnover and overall operational efficiency. All these factors will strengthen the Group's core business and better equip it to meet such market challenges. Whilst the Company is reviewing its plans for its non-core businesses, the Company expects to focus more on mergers and acquisitions ("M&A") opportunities in this industry, be it upstream or downstream, and to increase its international presence as it expects market consolidation opportunities to present themselves.

### *Financing alternatives*

As advised by the Directors, in light of the prevailing financial conditions of the Group, the Board considers that the Connected Subscription to be a suitable financial option as compared to other means of financing as it enables the Group to raise capital without increasing interest burden on the Group. The Directors further advised that they also considered other forms of fund-raising methods for the Group, such as other equity financing (i.e. rights issue or open offer) and debt financing, before conducting the Connected Subscription.

In respect of the debt financing, it will incur additional finance costs and increase gearing level of the Group and may be subject to lengthy due diligence and negotiations with lenders. With reference to the 2024 AR Announcement, as at 31 December 2024, the net gearing ratio of the Group was approximately 1,387.8% (calculated as loans and borrowings and lease liabilities less cash and cash equivalents, time deposits and pledged bank deposits divided by total equity). Having also taken into account that the Company intends to apply part of the net proceeds from the Connected Subscription for repayment of existing debts to lower finance costs, the Directors considered that debt financing is not an optimal financing method.

In respect of other equity financing (such as rights issue or open offer), the Directors considered that (i) such fund-raising activities may incur additional costs, including but not limited to underwriting commission (i.e. usually a percentage to the aggregated subscription price of underwritten shares) and other professional fees; (ii) given the Group's loss-making position for FY2022, FY2023 and FY2024, the Group's net current liabilities as at 31 December 2022, 31 December 2023 and 31 December 2024 and high net gearing ratio as at 31 December 2024 as stated above, the Company may have difficulties in seeking underwriter; (iii) if the rights issue or open offer is not underwritten, its results will be uncertain.

In addition, the Connected Subscription demonstrates the Subscriber's confidence in the prospects of the Group. Given (i) the solid background of the Subscriber's holding company, namely ITG Holding which is a Fortune Global 500 Company with operations in various field and a state-owned enterprise directly controlled by Xiamen State-owned Assets Supervision and Administration Commission; and (ii) that the Subscriber is the largest substantial Shareholder, the Subscriber's confidence in the prospects of the Group as demonstrated by the Connected Subscription will promote corporate image of the Group.

Given the above limitations of other financing alternatives, we consider that the Connected Subscription is an appropriate fund-raising method currently available to the Group.

#### *Use of proceeds*

With reference to the Board Letter, the gross proceeds from the Connected Subscription will be HK\$1,000,359,078.60. The net proceeds (after deducting relevant costs and expenses) from the Connected Subscription are expected to be approximately HK\$997.5 million (the "Net Proceeds"). As advised by the Company, the Group's cash and cash equivalents are expected to increase by the same amount of the Net Proceeds immediately upon Connected Subscription Completion.



The Net Proceeds are intended to be used for the following purposes (i) approximately 30% (approximately HK\$299.25 million) to be applied towards increasing working capital and supporting the Group's business operation (the "Net Proceeds for WC"), (ii) approximately 20% (approximately HK\$199.50 million) to be applied towards capitalising on market opportunities for strategic investments or M&A as and when they arise (the "Net Proceeds for Investments"); and (iii) approximately 50% (approximately HK\$498.75 million) to be applied towards repayment of existing debts to lower finance costs and to facilitate the development of the Company's core business (the "Net Proceeds for Repayment"). If no suitable investment targets or M&A opportunities are subsequently identified, subject to compliance with applicable PRC regulations and the Listing Rules, the Company may consider reallocating the Net Proceeds for Investment in whole or in part towards repayment of its existing debts in order to reduce its finance costs and improve its debt profile.

Upon our enquiry, the Directors advised us that Net Proceeds for Repayment will improve the Group's financial position. As illustrated in the section headed "1. Information on the Group" above:

- (i) the Group's net current liabilities increased by approximately 61.73% from approximately RMB5,081 million as at 31 December 2022 to approximately RMB8,218 million as at 31 December 2023, and increased by approximately 1.40% to approximately RMB8,333 million as at 31 December 2024;
- (ii) the Group's total loans and borrowings increased by approximately 5.82% from approximately RMB18.67 billion as at 31 December 2022 to approximately RMB19.76 billion as at 31 December 2023, and increased by approximately 1.06% to approximately RMB19.97 billion as at 31 December 2024;
- (iii) the Group's cash and cash equivalents increased by approximately 1.47% from approximately RMB734 million as at 31 December 2022 to approximately RMB745 million as at 31 December 2023, and decreased by approximately 23.06% to approximately RMB573 million as at 31 December 2024;

- (iv) the Group's profit from operations was approximately RMB834 million for FY2022 and approximately RMB168 million for FY2023 while the Group's loss before taxation was approximately RMB130 million for FY2022 and approximately RMB887 million for FY2023. Such loss before taxation was mainly caused by substantial finance cost of approximately RMB1,007 million for FY2022 and approximately RMB1,054 million for FY2023; and
- (v) the Group's loss from operations was approximately RMB549 million while the Group's loss before taxation was approximately RMB1,482 million for FY2024. Such loss before taxation was mainly caused by substantial finance cost of approximately RMB937 million for FY2024.

With reference to the 2024 AR Announcement, as at 31 December 2024, the net gearing ratio of the Group was approximately 1,387.8% (calculated as loans and borrowings and lease liabilities less cash and cash equivalents, time deposits and pledged bank deposits divided by total equity). The Group will actively improve its operating efficiency and consider various methods to improve its existing financial position and reduce the degree of leverage of the Group.

The above financial conditions of the Group demonstrated its needs to seek for funding to improve its existing financial position. Accordingly, we consider that it is reasonable for the Group to apply the Net Proceeds for Repayment in order to reduce the Group's liabilities and its finance costs.

We understood from the Company that the Net Proceeds for WC may be applied for the Group's daily operation needs, such as administrative expenses, selling and distribution expenses. Given the above financial conditions of the Group (in particular, (i) the Group's net current liabilities as at 31 December 2022, 31 December 2023 and 31 December 2024; and (ii) the Group's cash and cash equivalents decreased substantially from approximately RMB745 million as at 31 December 2023 to approximately RMB573 million as at 31 December 2024), we consider that it is necessary for the Group to apply the Net Proceeds for WC to support the Group's business operation.

Upon our enquiry, the Directors also advised us that the Net Proceeds for Investments is primarily intended for potential M&A opportunities in the automobile industry in the PRC (including upstream or downstream businesses which may have synergy effect with the Group's core business).

To further understand the market conditions of the automobile industry in the PRC, we searched for relevant market statistics as follows:

Set out below are the statistics of domestic retail sales of automobiles in the PRC during the five years ended 31 December 2024, being the latest five full-year statistics published by the National Bureau of Statistics of the PRC:

	2020	2021	2022	2023	2024
Domestic retail sales of automobiles in the PRC (RMB' billion)	3,941.4	4,378.7	4,577.2	4,861.4	5,031.4
Year-on-year change (%)	0.1	11.1	4.5	6.2	3.5

As shown in the above table, the domestic retail sales of automobiles in the PRC increased continuously from approximately RMB3,941.4 billion in 2020 to approximately RMB5,031.4 billion in 2024, representing a compound annual growth rate of approximately 6.3%.

Despite such positive market statistics, the Group's gross profit decreased and loss increased from FY2022 to FY2024. As discussed under the section headed "1. Information on the Group" above, such financial deterioration was mainly caused by decrease in the Group's gross profit margin (which was mainly attributable to decrease in the average unit sales price of new automobiles). As aforementioned, the 4S dealership businesses in the PRC are at a crossroads in market development and subject to intense market competition. As advised by the company, in view of such intense market competition and the decrease in the Group's gross profit margin, the Group needs to seek for strategic investments or M&A opportunities that may arise in the future to improve economies of scale (as at the Latest Practicable Date, the Company has not identified any specific investment target). Accordingly, we consider that the application of the Net Proceeds for Investments is in the interest of the Company as it can support the Group's business development and expansion which may improve economies of scale of the Group and allow the Group to respond to the market trend and development (in particular, the advent of electric vehicles, which has heralded a paradigm shift towards sustainability and environmental consciousness, away from traditional ICE vehicles).

Having considered (i) reasons for and benefits of the Connected Subscription as mentioned above; (ii) that the Connected Subscription is a suitable financing option as compared to other means of financing; and (iii) that the proposed use of the Net Proceeds will improve the Group's financial position and support the Group's business operation, development and expansion (hence, benefit the Group in long term), we are of the view that although the Connected Subscription is not conducted in the ordinary and usual course of business of the Group, it is in the interest of the Company and the Independent Shareholders as a whole.

#### *4. Principal terms of the Connected Subscription*

Set out below is a summary of the principal terms of the Connected Subscription under the Subscription Agreement, details of which are set out in the section headed "II. THE CONNECTED SUBSCRIPTION" of the Board letter.

##### *Date*

25 January 2025 (the "Agreement Date")

##### *Parties involved*

- (i) the Company (as issuer)
- (ii) the Subscriber (as subscriber)

##### *Total subscription consideration*

HK\$1,000,359,078.60

##### *Subscription Price per Subscription Share*

HK\$0.15

##### *The Subscription Shares*

6,669,060,524 Shares will be issued at the Subscription Price per Subscription Share under the Connected Subscription.

##### *The Subscription Price*

The Subscription Price of HK\$0.15 per Subscription Share represents:

- (a) a premium of approximately 45.63% over the closing price of HK\$0.103 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

- (b) a premium of approximately 36.36% over the closing price of HK\$0.1100 per Share as quoted on the Stock Exchange on the Last Trading Day (the “LTD Premium”);
- (c) a premium of approximately 42.59% over the average closing price of HK\$0.1052 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement (the “5 Days Premium”);
- (d) a premium of approximately 83.60% over the average closing price of HK\$0.0817 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days immediately prior to the date of the Subscription Agreement (the “30 Days Premium”);
- (e) a premium of approximately 44.65% over the average closing price of HK\$0.1037 per Share as quoted on the Stock Exchange for the last sixty consecutive trading days immediately prior to the date of the Subscription Agreement; and
- (f) a premium of approximately HK\$0.2646 over the audited net liabilities per Share as at 31 December 2024 of approximately RMB0.1066 (equivalent to approximately HK\$0.1146 (*Note*)) (“Premium Over Net Liabilities”) calculated based on the audited total deficit attributable to the equity Shareholders as at 31 December 2024 of approximately RMB356,683,000 and 3,346,990,420 Shares in issue as at the Latest Practicable Date.

*Note:* based on an exchange rate of RMB1 = HK\$1.0756 as at 24 January 2025 (being the Last Trading Day) extracted from Bloomberg.

#### Analysis on the Subscription Price

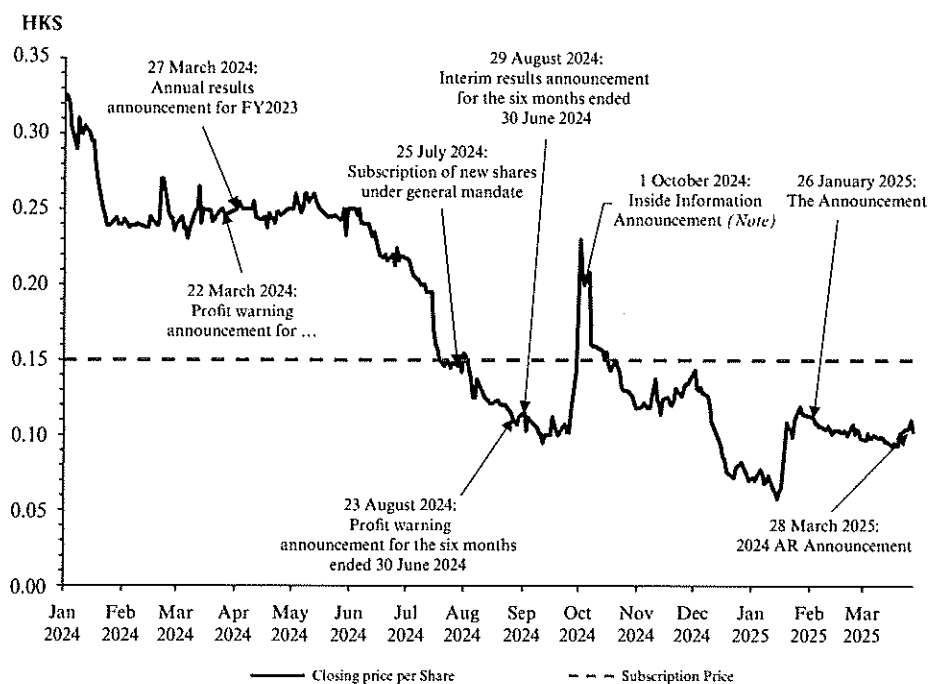
In order to assess the fairness and reasonableness of the Subscription Price, we conducted the following analysis:

a) Share price performance

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 2 January 2024 to the Latest Practicable Date, being approximate one year up to and including the Latest Practicable Date (the “Share Review Period”), which is commonly adopted for analysis, and the number of trading days during the Share Review Period is sufficient for us to perform a thorough analysis on the historical closing prices of Shares with the Subscription Price. Hence, we

consider the duration of the Share Review Period is adequate and appropriate. The comparison of daily closing prices of the Shares and the Subscription Price is illustrated as follows:

### Historical daily closing price per Share



Source: the Stock Exchange's website

Note: According to the Company's announcement dated 1 October 2024 (the "Inside Information Announcement"), the Company noted the increases in the price and trading volume of the shares of the Company. Having made such enquiry with respect to the Company as is reasonable in the circumstances, the Company confirms that, save as the matters mentioned in the Inside Information Announcement regarding a potential disposal that did not proceed, it was not aware of any reasons for those price or volume movements or of any information which must be announced to avoid a false market in the Company's securities or of any inside information that needs to be disclosed under Part XIVA of the SFO.

During the Share Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.325 per Share recorded on 2 January 2024 and 3 January 2024 and HK\$0.058 per Share recorded on 15 January 2025 respectively. The Subscription Price of HK\$0.15 per Subscription Share falls within the closing price range of the Shares during the Share Review Period. In addition, the Subscription Price of HK\$0.15 per Subscription Share is above the daily closing prices of the Shares (i) for 155 trading days out of total 305 trading days during the Share Review Period; and (ii) for 108 consecutive trading days prior to and including the Latest Practicable Date.

As depicted from the above chart, at the beginning of the Share Review Period, the closing price of the Shares decreased sharply from HK\$0.325 per Share on 2 January 2024 to HK\$0.239 per Share on 25 January 2024. As confirmed by the Directors, the Company did not identify any specific reason which caused the aforesaid decrease in the closing price of the Shares. Subsequently, the closing price of the Shares fluctuated up to 6 June 2024 and formed a general downward trend thereafter, decreasing from HK\$0.250 per Share on 6 June 2024 to HK\$0.095 per Share on 12 September 2024. Since then, the closing price of the Shares rebounded and reached HK\$0.230 per Share on 2 October 2024. Thereafter, the closing price of the Shares followed a downward trend and hit the lowest of HK\$0.058 per Share on 15 January 2025. Subsequently, the closing price of the Shares recovered and reached HK\$0.110 on the Last Trading Day. From the Agreement Date and up to the Latest Practicable Date, the closing price of the Shares fluctuated between HK\$0.093 per Share and HK\$0.119 per Share.

b) Comparables

As part of our analysis, we also identified subscription transactions of new ordinary shares under specific mandate for cash consideration (excluding transactions involving restructuring, loan capitalisation and set-off of debt in whole or in part) during the period from 2 October 2024 up to the Last Trading Day (being a period of approximately four months prior to Last Trading Day that demonstrates market practices during a period proximate to Last Trading Day and allows us to identify sufficient samples of comparable transactions for analysis), with the following criteria: (i) the subscription transactions were not lapsed or terminated up to the Latest Practicable Date; (ii) the subscription transactions do not involve the issuance of A shares or domestic shares, as announced by companies listed on the Stock Exchange; and (iii) the trading of shares of the listed issuers were not halted/suspended for over one month prior to the entering into of the subscription agreement (the “Comparable Transactions”). We found nine transactions which met the said criteria and they are exhaustive. Shareholders should note that although the businesses, operations, market capitalisation and prospects of the Company are not the same as the subject companies of the Comparable Transactions and the fund-raising size of the Connected Subscription is different from those of the Comparable Transactions, the Comparable Transactions can demonstrate the recent market practices of subscription transactions under specific mandate conducted by Hong Kong listed companies and thus they are fair and representative for our analysis.

Company name (stock code)	Date of announcement	Principal businesses	Premium/ (discount) of the subscription price over/(to) the average closing price per share for the last five consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions	Premium/ (discount) of the subscription price over/(to) the average closing price per share for the last 30 consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions	Premium/ (discount) of the subscription price over/(to) the average closing price per share for the last 30 consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions	Premium/ (discount) of subscription price over/to the respective then net asset value attributable to owners of the company per share	Amount of funds raised (gross proceeds)	Theoretical dilution effect of the issue (Note 4)
			Approximate %	Approximate %	Approximate %	Approximate %	Approximate HK million	Approximate %
CircuTech International Holdings Limited (8051)	4 October 2024	(i) The sales and distribution of information technology products; and (ii) the provision of repairs and other service support of information technology products	(4.15) (Note 1.3)	0.27 (Note 1.3)	8.81 (Note 1.3)	(55.27)	8	(0.26)
CircuTech International Holdings Limited (8051)	4 October 2024	(i) The sales and distribution of information technology products; and (ii) the provision of repairs and other service support of information technology products	24.60 (Note 2.3)	30.35 (Note 2.3)	41.46 (Note 2.3)	(41.85)	20	No effect
Virtual Mind Holding Company Limited (1520)	10 October 2024	(i) Design, manufacturing and trading of apparels; (ii) provision of money lending business; and (iii) sale of trendy and cultural products business	17.65	38.89	61.29	61.25	10	No effect
Honbridge Holdings Limited (8137)	17 October 2024	(i) Research and development and production of lithium-ion power batteries for new energy vehicles; (ii) provision of online car-hailing services in Europe; and (iii) investment in the field of resources such as iron ore resources and resources exploration and exploitation	(75.00)	(77.01)	(65.81)	(81.63)	376	(24.87)
Zhi Sheng Group Holdings Limited (8370)	21 October 2024	(i) Manufacture and sale of furniture products and sells its products to the domestic PRC market; and (ii) data centre business in the PRC	(60.53)	(60.63)	(60.11)	25.67	14	(20.10)
China Resources Power Holdings Company Limited (836)	23 October 2024	Investment, development, operation and management of power plants in PRC	(5.06)	(3.48)	(2.37)	9.07	3,312	(0.16)
DevGreat Group Limited (755)	3 December 2024	Property development, property rental, and property management and operation businesses by leveraging on its experience in the real estate market in the PRC	(13.33)	(17.72)	(35.64)	(59.10)	39	(3.12)



Company name (stock code)	Date of announcement	Principal businesses	Premium/ (discount) of the subscription price over/(to) the average closing price per share for the last five consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions Approximate %	Premium/ (discount) of the subscription price over/(to) the average closing price per share for the last five consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions Approximate %	Premium/ (discount) of the subscription price over/(to) the average closing price per share for the last 30 consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions Approximate %	Premium/ (discount) of subscription price over/to the respective then net asset value attributable to owners of the company per share Approximate %	Amount of funds raised (gross proceeds) Approximate HK' million	Theoretical dilution effect of the issue (Note 4) Approximate %
MOG Digitech Holdings Limited (1942)	11 December 2024	(i) Digital payment solutions-related business; (ii) sales of optical products; and (iii) franchise and license management	(13.16)	(15.09)	(19.32)	25.13	210	(2.85)
CM Energy Tech Co., Ltd. (206)	30 December 2024	Investment holding with focuses on areas of (i) hydrogen-based fuel equipment production and application; (ii) ocean energy equipment; and (iii) electric power drive and control	29.03	25.79	16.28	(52.83)	324	No effect
	Maximum		29.03	38.89	61.29	61.25	3,312	(0.16)
	Minimum		(75.00)	(77.01)	(65.81)	(81.63)	8	(24.87)
	Average		(11.11)	(8.74)	(6.16)	(18.84)	479	(8.56)
Connected Subscription			36.36	42.59	83.60	The Premium Over Net Liabilities was approximately HK\$0.2646	1,000	No effect

Source: the Stock Exchange's website

Notes:

1. The relevant premium/discount was represented by the subscription price for first subscription of the relevant transaction.
2. The relevant premium was represented by the subscription price for second subscription of the relevant transaction.
3. With reference to the relevant announcement, the relevant transaction entailed two tranches of shares with different subscription prices. The first subscription and second subscription were treated as two separate data samples to form our data analysis.
4. Calculated based on Note 1 to Rule 7.27B of the Listing Rules/Rule 10.44A of the rules governing the listing of securities on GEM operated by the Stock Exchange.

According to the above table:

- (i) The subscription prices of the Comparable Transactions ranged from a discount of approximately 75.00% to a premium of approximately 29.03% to/over the respective closing prices of shares on the last full trading day prior to the date of agreement in relation to the respective subscription transactions.
- (ii) The subscription prices of the Comparable Transactions ranged from a discount of approximately 77.01% to a premium of approximately 38.89% to/over the respective average closing prices of shares for the last five consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions.
- (iii) The subscription prices of the Comparable Transactions ranged from a discount of approximately 65.81% to a premium of approximately 61.29% to/over the respective average closing prices of shares for the last 30 consecutive full trading days immediately prior to the date of agreement in relation to the respective subscription transactions.
- (iv) The subscription prices of the Comparable Transactions ranged from a discount of approximately 81.63% to a premium of approximately 61.25% to/over respective then net asset value attributable to owners of the company per share.

Therefore, the LTD Premium, the 5 Days Premium and the 30 Days Premium are all above the respective range of the Comparable Transactions.

In light of that (i) the LTD Premium, the 5 Days Premium and the 30 Days Premium are all above the respective range of the Comparable Transactions, indicating that the Subscription Price is more favourable than the subscription prices of the Comparable Transactions; (ii) the Subscription Price represented the Premium Over Net Liabilities, while the subscription prices of the Comparable Transactions represented discounts to/premiums over respective then net asset value attributable to owners of the company per share, indicating that the Subscription Price is no less favourable than the subscription prices of the Comparable Transactions; and (iii) the Subscription Price of HK\$0.15 per Subscription Share falls within the closing price range of the Shares during the Share Review Period, we consider the Subscription Price to be fair and reasonable.

*Conditions precedent*

The Connected Subscription Completion is conditional upon satisfaction or (if applicable) waiver of the following conditions:

- (a) the Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Subscription Shares for the Connected Subscription and such approval and permission remaining in full force and effect;
- (b) the approval by more than 50% of the votes cast by the Independent Shareholders at the EGM in respect of the Subscription Agreement and the transactions contemplated thereunder and the related specific mandate to allot and issue Subscription Shares;
- (c) the Subscriber having obtained all necessary approval, consents, filings or registration from applicable regulatory authorities in respect of the Connected Subscription, including the approval, consents, filings or registration from the National Development and Reform Commission, Ministry of Commerce, and State Administration of Foreign Exchange or the respective competent local authorities (as applicable) in the PRC, and such approval, consents, filings or registration remaining in full force and effect;
- (d) there having been no breach of any terms of the Subscription Agreement by the Company in any material respects;
- (e) the representations and warranties given by the Company under the Subscription Agreement remaining true, complete and accurate in all material respects and not misleading as at the Connected Subscription Completion;
- (f) the representations and warranties given by the Subscriber under the Subscription Agreement remaining true, complete and accurate in all material respects and not misleading as at the Connected Subscription Completion;
- (g) there having been no event which may lead to material adverse change to the business, assets, financial conditions and profits of any member of the Group since the date the Subscription Agreement was entered into;

- (h) no regulatory authority having implemented or enacted any legislation, regulations or decrees to prohibit the Connected Subscription, and no courts with competent jurisdiction having issued any order or injunction prohibiting or preventing the Connected Subscription;
- (i) no dividend or other distribution (whether in cash or in kind) having been declared, made or paid by the Company to the Shareholders between the date of the Subscription Agreement and the Connected Subscription Completion Date without prior written consent of the Subscriber; and
- (j) the Whitewash Waiver being granted by the Executive and approved by at least 75% of the votes cast by the Independent Shareholders at the EGM.

The Subscriber shall be entitled to waive any of the conditions as set out in paragraphs (d), (e), (g), (i) and (j) above. The Company shall be entitled to waive the condition as set out in paragraph (f) above. The conditions as set out in paragraphs (a), (b), (c) and (h) are non-waivable.

In the event the Connected Subscription Completion does not take place on or before the Long Stop Date (or such other time and date as may be agreed by the Company and the Subscriber in writing), the Company and the Subscriber shall discuss with a view to agree on a subsequent date for the Connected Subscription Completion. If the Company and the Subscriber are unable to agree on a subsequent date for the Connected Subscription Completion within 30 days after the Long Stop Date, either the Company or the Subscriber shall be entitled to terminate the Subscription Agreement by written notice to the other party, upon which all rights and obligations of the parties to the Subscription Agreement shall terminate, save for any rights and obligations accrued prior to such termination.

#### *Completion of the Connected Subscription*

The Connected Subscription Completion shall take place within 10 Business Days (or such other date and time as may be agreed by the Company and the Subscriber) upon the satisfaction or (if applicable) waiver of the conditions under the Subscription Agreement, upon which the Company shall allot and issue the Subscription Shares to the Subscriber and the Subscriber shall pay to the Company the total consideration for the Subscription Shares.

*Termination of the Subscription Agreement*

The Subscription Agreement may be terminated:

- (a) by any party upon the material breach of the Subscription Agreement by the other party;
- (b) by the Subscriber, if:
  - (i) the trading in the Shares on the Stock Exchange is suspended by any competent regulatory authorities for 10 trading days or more (except for any trading halt or suspension pending the approval of the joint announcement or the circular of the Company in respect of the Subscription Agreement and the Whitewash Waiver) or for any period which extends to the Connected Subscription Completion Date, or the listing status of the Company on the Stock Exchange is revoked;
  - (ii) there exists any material adverse effect on the financial position or operational results of the Group as a result of sanctions imposed by any applicable regulatory authorities on the Company or any senior management members of the Group (other than any senior management members of the Group which were sanctioned prior to the date of the Subscription Agreement), as a result of any material fraudulent or inappropriate behaviour conducted by any member of the Group being discovered or alleged and proven by any applicable regulatory authorities; or
  - (iii) there exists any material adverse effect on the financial position or operational results of the Group as a result of any change in applicable laws since the date of the Subscription Agreement; and
- (c) if the conditions precedent to the Subscription Agreement are not fulfilled or (if applicable) waived as the case may be on or before the Long Stop Date (or such other date as the parties agree).

Having considered the principal terms of the Connected Subscription as set out above (in particular, the Subscription Price is fair and reasonable as concluded above and no abnormal term was observed in the conditions precedent and clauses of completion and termination as set out above), we are of the view that the terms of the Connected Subscription are on normal commercial terms and are fair and reasonable.

*Potential dilution effect*

With reference to the shareholding table in the section headed “Effects on the Shareholding Structure of the Company” of the Board Letter, the shareholding interests of the other public Shareholders (i.e. public Shareholders other than Cheung Mui, who is not considered as a public Shareholder of the Company as at the Latest Practicable Date and will be considered as a public Shareholder of the Company immediately after the Connected Subscription Completion) would be diluted by approximately 42.47 percentage points (the “Dilution Effect”) from approximately 63.78% as at the Latest Practicable Date to approximately 21.31% immediately after the Connected Subscription Completion (assuming no other change in the issued share capital of the Company from the Latest Practicable Date to the Connected Subscription Completion Date). Nevertheless, based on Note 1 to Rule 7.27B of the Listing Rules and that the Subscription Price represented the LTD Premium and the 5 Days Premium, there will be no theoretical dilution effect associated with the Connected Subscription (as compared with the nine Comparable Transactions, three of them had no theoretical dilution effect and theoretical dilution effect associated with the remaining six Comparable Transactions ranged from approximately 0.16% to approximately 24.87%). Taking into account (i) the aforementioned reasons for and benefits of the Connected Subscription; (ii) the proposed use of the Net Proceeds will improve the Group’s financial position and facilitate the Group’s business operation, development and expansion (hence, benefit the Group in long term), whereas the other public Shareholders are not required to further invest into the Company; (iii) the Connected Subscription is in the interest of the Company and the Independent Shareholders as a whole; (iv) the terms of the Connected Subscription are on normal commercial terms and fair and reasonable; and (v) there will be no theoretical dilution effect associated with the Connected Subscription based on Note 1 to Rule 7.27B of the Listing Rules, we are of the view that the aforesaid Dilution Effect is acceptable.

**RECOMMENDATION ON THE CONNECTED SUBSCRIPTION**

Having taken into consideration of the factors and reasons as stated above, in particular:

- (i) the Connected Subscription is an appropriate fund-raising method currently available to the Group as concluded under the sub-section headed “Financing alternatives” above;
- (ii) the proposed use of the Net Proceeds will improve the Group’s financial position and support the Group’s business operation, development and expansion (hence, benefit the Group in long term) as concluded under the section headed “3. Reasons for and benefits of the Connected Subscription and use of proceeds” above;
- (iii) the Subscription Price of HK\$0.15 per Subscription Share falls within the closing price range of the Shares during the Share Review Period;

- (iv) the Subscription Price of HK\$0.15 per Subscription Share is above the daily closing prices of the Shares (a) for 155 trading days out of total 305 trading days during the Share Review Period; and (b) for 108 consecutive trading days prior to and including the Latest Practicable Date;
- (v) the LTD Premium, the 5 Days Premium and the 30 Days Premium are all above the respective range of the Comparable Transactions and the Subscription Price represented the Premium Over Net Liabilities, while the subscription prices of the Comparable Transactions represented discounts to/premiums over respective then net asset value attributable to owners of the company per share; and
- (vi) the Dilution Effect is acceptable as concluded under the section headed "Potential dilution effect" above,

we are of the opinion that (i) the terms of the Connected Subscription are on normal commercial terms and are fair and reasonable; and (ii) although the Connected Subscription is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Connected Subscription, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

## II. Whitewash Waiver

With reference to the Board Letter, as at the Latest Practicable Date, the Subscriber and the parties acting in concert with it hold 842,977,684 Shares, representing approximately 25.19% of the issued share capital of the Company. Upon the Connected Subscription Completion, the shareholding of the Subscriber and the parties acting in concert with it will increase to approximately, and not more than, 75.00% of the issued share capital of the Company.

With reference to the Board Letter, under Rule 26.1 of the Takeovers Code, the allotment and issuance of the Subscription Shares under the Subscription Agreement to the Subscriber will give rise to an obligation on the part of the Subscriber to make a mandatory general offer for all Shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it), unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders. The Subscriber has made an application to the Executive for the Whitewash Waiver from compliance with the obligations to make a mandatory general offer for all Shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it) under Rule 26.1 of the Takeovers Code as a result of the allotment and issuance of the Subscription Shares to the Subscriber.

Where the Connected Subscription is approved by the Independent Shareholders but the Whitewash Waiver is not granted by the Executive and/or is not approved by the Independent Shareholders, the Subscriber reserves the right to waive the condition precedent relating to the Whitewash Waiver. If the Subscriber proceeds to waive such condition precedent, then the Company and the Subscriber will proceed with the completion of the Connected Subscription in accordance with the terms of the Subscription Agreement. If the Subscriber does not waive the condition precedent in these circumstances, then the Connected Subscription will not proceed.

Where (i) the Whitewash Waiver is not granted by the Executive and/or is not approved by the Independent Shareholders; (ii) the Subscriber proceeds to waive the condition precedent relating to the Whitewash Waiver; and (iii) the Connected Subscription Completion takes place, immediately following the Connected Subscription Completion, the Subscriber and the parties acting in concert with it will increase its shareholding in the Company to approximately, and not more than, 75.00% of the issued share capital of the Company. Consequently, the Subscriber will, in those circumstances, comply with Rule 26.1 of the Takeovers Code and make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares agreed to be acquired by the Subscriber and the parties acting in concert with it). Under this circumstance, the Independent Shareholders may have an opportunity to realise its Shares at a price which is no less than the Subscription Price (which is above the daily closing prices of the Shares for 108 consecutive trading days prior to and including the Latest Practicable Date). Nevertheless, if the Subscriber does not waive the condition precedent relating to the Whitewash Waiver, then the Connected Subscription will not proceed (under this circumstance, no unconditional mandatory cash offer obligation triggered and the Group will not be able to obtain the benefits brought by the Connected Subscription).

Where both the Connected Subscription and the Whitewash Waiver are approved by the Independent Shareholders, the Subscriber will proceed with the Connected Subscription without undertaking a mandatory general offer under the Takeovers Code.

In view of (i) the aforesaid reasons for and benefits of the Connected Subscription; (ii) that the Connected Subscription is in the interests of the Company and the Independent Shareholders as a whole; (iii) that the terms of the Connected Subscription are on normal commercial terms and fair and reasonable; and (iv) that the Connected Subscription will not proceed if the Whitewash Waiver is not granted by the Executive and/or is not approved by the Independent Shareholders, and the Subscriber does not waive the condition precedent relating to the Whitewash Waiver, we are of the opinion that the approval of the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Connected Subscription.



## RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into consideration (i) the aforesaid reasons for and benefits of the Connected Subscription; (ii) that the Connected Subscription is in the interests of the Company and the Independent Shareholders as a whole; (iii) that the terms of the Connected Subscription are on normal commercial terms and fair and reasonable; and (iv) that the Connected Subscription will not proceed if the Whitewash Waiver is not granted by the Executive and/or is not approved by the Independent Shareholders, and the Subscriber does not waive the condition precedent relating to the Whitewash Waiver, we consider that the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
Gram Capital Limited



**Graham Lam**  
*Managing Director*

*Notes: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.*