Gram Capital Limited
嘉林資本有限公司

13 May 2025

*To: The Independent Board Committee and the Independent Shareholders
of Baiying Holdings Group Limited*

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF THE DISPOSAL TARGET GROUP**

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 Disposal, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 13 May 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 27 March 2025 (after market close), the Vendor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which, among other things, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Shares (representing the entire equity interest of the Disposal Target) at the Consideration of RMB13,450,000 in cash. Upon Completion, the Disposal Target will cease to be a subsidiary of the Group. In addition, the Purchaser shall, or shall procure the Disposal Target to, repay the Vendor in full the Outstanding Indebtedness in the aggregate amount of approximately RMB55,436,000 owing by the Disposal Target to the Vendor within 90 days after the Completion.

With reference to the Board Letter, the Disposal constitutes a major and connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Chapter 19 and Chapter 20 of the GEM Listing Rules.

The Independent Board Committee comprising Mr. Li Yao, Mr. Tu Liandong and Mr. Xie Mianbi, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Disposal are on normal commercial terms and are fair and reasonable; (ii) whether the Disposal is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Disposal at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

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 Disposal. 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 17.92 of the GEM Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Disposal Target, and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Report in relation to the valuation of the Disposal Target as at 31 December 2024 (i.e. the Valuation) prepared by the Independent Valuer. Since we are not experts in the valuation of assets or business, we have relied solely upon the Valuation of the Disposal Target as at 31 December 2024.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. 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.

香港中环干诺道中88号/德辅道中173号南丰大厦12楼1209室
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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 Vendor, the Purchaser, the Disposal Target, their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal. 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. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. 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 Disposal, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Group is principally engaged in providing equipment based financing solutions and factoring services (i.e. the Financial Services Business) to customers, packaging and paper products trading (the "**Packaging and Paper Products Trading Business**"), and manufacturing and sales of vinegar and other condiment products (i.e. the Vinegar Business) in the PRC.

香港中环干诺道中88号/德辅道中173号南丰大厦12楼1209室
Room 1209, 12th Floor, Nan Fung Tower, 88 Connaught Road Central / 173 Des Voeux Road Central, Hong Kong

Set out below is a summary of the audited consolidated financial information of the Group for the three years ended 31 December 2024, as extracted from the Company's annual reports for the year ended 31 December 2023 (the "**2023 Annual Report**") and 31 December 2024 (the "**2024 Annual Report**"):

	For the year ended 31 December 2024 ("FY2024") *RMB*	**For the year ended 31 December 2023 ("FY2023")** *RMB*	**For the year ended 31 December 2022 ("FY2022")** *RMB*	**Change from FY2023 to FY2024** *%*	**Change from FY2022 to FY2023** *%*
Revenue	33,719,265	36,026,774	28,172,434	(6.40)	27.88
– from Financial Services Business	*7,440,131*	*7,484,302*	*14,387,841*	*(0.59)*	*(47.98)*
– from Packaging and Paper Products Trading Business	*14,967,388*	*20,975,826*	*13,190,527*	*(28.64)*	*59.02*
– from Vinegar Business	*11,311,746*	*7,566,646*	*594,066*	*49.49*	*1,173.70*
Profit/(loss) for the year	(17,341,769)	(16,132,937)	(26,321,263)	7.32	(38.60)
– from Financial Services Business	*12,351,249*	*4,908,800*	*(13,965,586)*	*151.61*	*N/A*
– from Packaging and Paper Products Trading Business	*107,975*	*159,127*	*172,925*	*(32.15)*	*(7.98)*
– from Vinegar Business	*(27,319,260)*	*(18,189,302)*	*(11,149,886)*	*50.19*	*63.13*
– from head office and corporate expenses	*(2,481,733)*	*(3,011,562)*	*(1,378,716)*	*(17.59)*	*118.43*

With reference to the Board Letter, the 2023 Annual Report and 2024 Annual Report, while the Group has been principally engaged in the Financial Services Business since its listing on the GEM in 2018, the Group had commenced the Packaging and Paper Products Trading Business and the Vinegar Business in January 2021 and January 2022 respectively to expand the Group's business portfolio.

As illustrated in the above table, the Group's revenue increased from approximately RMB28.2 million for FY2022 to approximately RMB36.0 million for FY2023, and slightly decreased to approximately RMB33.7 million for FY2024. While the Packaging and Paper Products Trading Business had been a significant revenue contributor for each of the three years ended 31 December 2024, it recorded minimal profit due to its thin gross profit margin (ranged from approximately 2.4% to 3.0% during the three years ended 31 December 2024 as noted from the 2023 Annual Report and 2024 Annual Report).

The Group's revenue from the Financial Services Business decreased from approximately RMB14.4 million for FY2022 to approximately RMB7.5 million for FY2023, and further decreased to approximately RMB7.4 million for FY2024. As noted from the 2023 Annual Report and 2024 Annual Report, (i) the decrease in the Group's revenue from Financial Services Business was primarily due to the significant decrease in the size of the Group's factoring receivables and the fluctuation in the size of the

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Group's receivables from sale-leaseback transactions; and (ii) the fluctuation in profit/(loss) from Financial Services Business was primarily due to the decrease in revenue as aforementioned and the impairment loss charged or reversed over the years.

The Group's revenue from the Vinegar Business recorded year-on-year increase for each of FY2023 and FY2024. Despite the continuous revenue growth, the Vinegar Business has been loss-making for each of FY2022, FY2023 and FY2024, with net losses ranged from approximately RMB11.1 million to RMB27.3 million.

As at 31 December 2024, the Group's cash and cash equivalents and net assets were approximately RMB19.7 million and RMB221.5 million respectively.

Information on the Disposal Target Group

The Disposal Target is a limited liability company established by the Vendor in the PRC in April 2020, which is principally engaged in the manufacturing and sale of vinegar and other condiment products (i.e. the Group's Vinegar Business). As at the Latest Practicable Date, the Disposal Target is an indirect wholly-owned subsidiary of the Company.

Set out below is the unaudited consolidated financial information of the Disposal Target Group for the two years ended 31 December 2024, as extracted from its unaudited consolidated management account provided by the Company:

	For the year ended 31 December 2024 *RMB*	**For the year ended 31 December 2023** *RMB*
Revenue	11,311,746	7,566,646
Loss before income tax	(27,315,063)	(18,533,356)
Loss after income tax	(27,319,260)	(18,189,302)
	As at 31 December 2024 *RMB*	**As at 31 December 2023** *RMB*
Non-current assets	114,823,518	91,123,309
Current assets	42,199,917	34,049,544
Including:		
– Inventories	15,969,792	16,580,910
– Trade receivables	4,993,811	4,073,885
– Other receivables	10,760,870	8,811,186
– Cash and bank balances	6,757,305	185,937
Current liabilities	134,564,108	99,430,732
Non-current liabilities	32,134,780	8,097,640
Net current liabilities	(92,364,191)	(65,381,188)
Net assets/(liabilities)	(9,675,451)	17,644,481

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As at 31 December 2024, the unaudited consolidated net current liabilities and unaudited consolidated net liabilities of the Disposal Target Group amounted to approximately RMB92.4 million and RMB9.7 million respectively.

With reference to the Board Letter, the losses recorded by the Disposal Target Group in 2022 and 2023 was mainly due to the costs of preparation for the Vinegar Business. Since 2023, the losses from the Vinegar Business were mainly due to brand promotion and channel building costs in the early stage of brand building, the production costs and promotional expenses, and the various distribution networks established according to market needs.

Information on the Purchaser

With reference to the Board Letter, the Purchaser is a limited liability company established in the PRC and is principally engaged in the manufacture and sales of basic condiments, compound seasonings and vegetable-based seasonings. As at the Latest Practicable Date, the Purchaser is 92.06% owned by Xiamen Huishangcheng, which was in turn approximately 78.95% owned by Fujian Septwolves Group, a company approximately 37.82%, 31.09% and 31.09% owned by Mr. Zhou Yongwei (周永偉), Mr. Zhou Shaoxiong (周少雄) and Mr. Zhou Shaoming (周少明), the three ultimate individual Controlling Shareholders. The Purchaser is a connected person of the Company.

Reasons for and benefits of the Disposal

With reference to the Board Letter, faced with complex business environment and uncertainty surrounding the global pandemic, with a view to diversifying its business, the Group founded the Disposal Target in 2020 with a view to engaging in the Vinegar Business. Following the completion of the construction of the First Phase Factory in the fourth quarter of 2022, the First Phase Factory commenced production in 2023. The Vinegar Business demonstrated a good sign of development and its revenue increased from approximately RMB7.57 million in 2023 to approximately RMB11.31 million in 2024, representing a significant growth of approximately 49.49%. Nevertheless, the Company incurred net losses from the Vinegar Business mainly because (1) the sales amount from the Vinegar Business was less than that expected by the Company and as a result, the scale of sales could not efficiently absorb the overhead costs; and (2) as the Disposal Target commenced the Vinegar Business by building its own factory only in 2020 and commenced commercial operation in 2022, and as the consumer market in Mainland China is competitive, it requires continuous marketing spending on brand building, promotion, advertising and channel expenses. In addition, the Vinegar Business requires further investment from the Company because, among other things, (i) the First Phase Factory does not have sufficient space, and it is crucial for the Vinegar Business to have more production and warehouse areas in order to meet its current and future sales and development needs, (ii) the latest local requirements on pollutant discharge limits the production capacity of the First Phase Factory, and the Vinegar Business needs additional production facilities to satisfy its subsequent sales plan, and (iii) the next stage of development of the production plant requires further capital expenditure. Such further investment by the Company would unavoidably expose the Company to uncertainty of investment payback period and burden of further capital expenditure.

Taking into account:

(i) the Vinegar Business has been loss-making since its commencement of operation and such losses had significantly offset the Group's profit from Financial Services Business;

(ii) the further investment from the Company required to further develop the Vinegar Business, which may divert the Group's financial resources for the development of the other two businesses;

(iii) in addition to the Disposal at a consideration higher than the Disposal Target Group's appraised value as at 31 December 2024, the Group is able to recover part of its investment in the Disposal Target through the repayment of the Outstanding Indebtedness by either the Purchaser or the Disposal Target; and

(iv) the net proceeds from the Disposal are intended to be applied to the development of the Financial Service Business, which has a proven track record of profitability,

we concur with the Directors that the Disposal would provide an opportunity for the Company to exit the Vinegar Business and apply the proceeds to focus on developing the Financial Services Business as its principal business.

Having considered the above, we are of the view that although the Disposal is not conducted in the ordinary and usual course of business of the Group, it is in the interest of the Company and the Shareholders as a whole.

Principal terms of the Disposal

Summarised below are the principal terms of the Sale and Purchase Agreement, details of which are set out under the section headed "Sale and Purchase Agreement" of the Board Letter.

Date

27 March 2025

Parties

(1) Xiamen Baiying Leasing Co., Ltd. (廈門百應融資租賃有限責任公司), the Vendor

(2) Sichuan Qingxiangyuan Condiment Co., Ltd. (四川清香園調味品股份有限公司), the Purchaser

Assets to be disposed of

The Sale Shares (with all rights attaching thereto), representing the entire equity interest of the Disposal Target.

Consideration

The Consideration for the Sale Shares is RMB13,450,000.

香港中环干诺道中88号/德辅道中173号南丰大厦12楼1209室
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With reference to the Board Letter, the Consideration was arrived at between the Vendor and the Purchaser on an arm's length basis, taking into account the Valuation of the Disposal Target as at 31 December 2024 conducted by the Independent Valuer.

Valuation

To assess the fairness and reasonableness of the Consideration, we obtained the Valuation Report prepared by the Independent Valuer and noted that the Valuation as at 31 December 2024 was approximately RMB12,909,500.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer for preparing the Valuation Report. As confirmed by the Independent Valuer, (i) it is registered as asset appraisal institution with the China Appraisal Society, with the approval from the Ministry of Finance of the PRC and the China Securities Regulatory Commission to carry out securities and futures-related appraisal activities; and (ii) the signatories of the Valuation Report had over 10 years of experience in providing enterprise valuation services to listed companies in the PRC. From the mandate letter and other relevant information provided by the Independent Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Independent Valuer as well as their qualification for preparation of the Valuation Report. The Independent Valuer also confirmed that they are independent to the Group and the Purchaser.

We noted from the Asset Appraisal Reports that the Asset Appraisal Reports were prepared in accordance with various requirements and standards, including the Asset Evaluation Standards – Basic Standards* (《資產評估基本準則》) (the "**Valuation Standards**") issued by the Ministry of Finance of the PRC. According to the Valuation Standards, the applicability of each fundamental valuation approaches of assets valuation, namely income approach, market approach and asset-based approach, should be analysed and selected by the asset appraiser.

In preparing the Valuation Report, the Independent Valuer concluded the Valuation using asset-based approach. We noted from the Valuation Report that in conducting the Valuation, the Independent Valuer considered each of the fundamental valuation approaches and we understood that:

- Under market approach, the value of the subject company is compared to assets, equity interests, or securities that are similar to the Disposal Target with available market transaction data. The use of market approach requires an active public market with sufficient comparable companies or transactions. As the Independent Valuer is unable to identify sufficient samples of comparable listed companies or comparable transaction, market approach is not applicable for the Valuation.

- Under income approach, the value of the subject company is estimated based on the present value of future expected earnings or cash flows. It reflects the subject asset's earning potential and risks associated with the specific operation. As the Disposal Target is a newly established company that is still at a startup phase, the future earnings of the Disposal Target cannot be reliably estimated by the management of the Disposal Target and the Independent Valuer is unable to assess, estimate and quantify its future earnings and operational risks, income approach is not applicable for the Valuation.

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- Under asset-based approach, the value of the subject company is estimated by summing up the fair value of its assets minus liabilities on the assumption that the business is a going concern, and it requires the use of historical financial information of the subject company. As the assets and liabilities of the Disposal Target can be reasonably identified based on its applicable accounting policies and business operation, the Independent Valuer is able to select appropriate and specific assessment methods based on the characteristics of each individual assets and liabilities. Therefore, asset-based method is applicable for the Valuation.

Based on the aforesaid, we concur with the Independent Valuer on the inapplicability of market approach and income approach for the Valuation and we are of the view that the use of asset-based approach to conclude the Valuation is appropriate.

Set out below is the comparison of book value and appraised value of the assets and liabilities of the Disposal Target as at 31 December 2024:

	Appraised value	**Book value**	**Appreciation/ (depreciation)**
	RMB'000	*RMB'000*	*RMB'000*
Current assets	48,682	46,092	2,590
Non-current assets	127,779	117,396	10,383
– Long-term equity investment	*(1,003)*	*5,600*	*(6,603)*
– Fixed assets	*72,787*	*63,763*	*9,024*
– Construction in progress	*27,164*	*25,991*	*1,173*
– Intangible assets	*28,831*	*22,042*	*6,789*
Total assets	176,461	163,488	12,973
Current liabilities	120,237	120,237	Nil
Non-current liabilities	43,314	43,393	(79)
Total liabilities	163,551	163,630	(79)
Net assets/(liabilities)	12,910	(142)	13,052

1. Current assets

As noted from the Valuation Report, the Disposal Target's current assets primarily consist of cash and bank balances, trade and other receivables, prepayment and inventories. In arriving at the appraised value of the current assets, the Independent Valuer had (a) conducted physical inspection of current assets physically held by the Disposal Target; (b) reviewed the underlying transaction documents and obtained confirmation from counterparty; and (c) performed aging analysis, to verify the existence of the relevant current assets, the accuracy of relevant books and accounting records, and the recoverability of relevant current assets.

香港中环干诺道中88号/德辅道中173号南丰大厦12楼1209室
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We noted that the appreciation of current assets primarily attributable to the appreciation in value of work-in-progress inventories. For our due diligence purpose, we obtained a valuation illustration of work-in-progress inventories from the Independent Valuer and noted the appraised unit value of such inventories was arrived at after taking into account (1) estimated selling price; (2) gross profit margin; (3) selling expenses; and (4) relevant tax and surcharge.

2. *Long-term equity investment*

As noted from the Valuation Report, the Disposal Target's long-term equity investment represents the entire equity interest of Qiaoxin Food held by the Disposal Target, the appraised value of which was determined by the Independent Valuer using asset-based approach on the basis that Qiaoxin Food is a newly established company with no substantial business operation, and thus income approach and market approach is not applicable for the valuation of Qiaoxin Food.

While the book value of the Disposal Target's long-term equity investment represents its initial investment amount in Qiaoxin Food, Qiaoxin Food recorded net liabilities of approximately RMB1.05 million as at 31 December 2024 and the difference between its net liabilities and its appraised value of approximately negative RMB1.00 million represents the appreciation in its motor vehicles. We obtained a valuation illustration for Qiaoxin Food's motor vehicles from the Independent Valuer and noted that the Independent Valuer had adopted replacement cost method by (i) identifying the selling price for the same type of motor vehicle in the open market and the associated costs for replacing such vehicle; and (ii) determining its newness rate with reference to its milage, year in use and physical conditions.

3. *Fixed assets*

As noted from the Valuation Report, the Disposal Target's fixed assets primarily comprised of (i) buildings; (ii) machineries; (iii) motor vehicles; and (iv) office equipment, the appraised value of which were determined by the Independent Valuer using replacement cost method.

For our due diligence purpose, we obtained a valuation illustration for each category of fixed assets and we noted that:

- For buildings, the Independent Valuer had (1) obtained the reconstruction and installation costs based on the relevant project information, project completion statements and the latest price information as at 31 December 2024; (2) obtained the associated costs such as the preliminary and engineering costs with reference to the industry-specific standard costs as published by the national or local government bodies; (3) determined the cost of fund based on the estimated reconstruction duration and the prevailing loan prime rate as at 31 December 2024 as published by the National Interbank Funding Centre of the PRC; and (4) determined the reasonable development profit with reference to the average profit margin of food manufacturing industry.

- For machineries, the Independent Valuer had (1) obtained the replacement costs through enquiring the original manufacturer on the price of acquiring the relevant machinery with the same production capacity; (2) obtained the associated costs such as the preliminary and engineering costs with reference to the industry-specific standard costs as published by the national or local government bodies; (3) determined the cost of fund based on the estimated reconstruction duration and the prevailing loan prime rate as at 31 December 2024 as

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published by the National Interbank Funding Centre of the PRC; and (4) determined the reasonable investment profit with reference to the average profit margin of food manufacturing industry.

- For motor vehicles and office equipment, the Independent Valuer had obtained the replacement costs by identifying the selling price for the same or similar assets in the open market and the associated costs for replacing such assets (where applicable).

Having arrived at the replacement or reconstruction costs of the fixed assets, the Independent Valuer had determined its newness rate with reference to, where applicable, its year in use, physical conditions, structural integrity, functionality and milage.

4. *Construction in progress*

We noted from the Valuation Report that in arriving at the appraised value of the construction in progress, the Independent Valuer had (1) examined the relevant construction contracts and payment records to verify the book value; (2) performed physical inspection to verify the construction progress and quality; and (3) determined the cost of fund based on the estimated reconstruction duration and the prevailing loan prime rate as at 31 December 2024 as published by the National Interbank Funding Centre of the PRC.

5. *Intangible assets*

As noted from the Valuation Report, the Disposal Target's intangible assets primarily comprised of land use rights (being a parcel of industrial land), the appraised value of which represent the weighted average of the results using both benchmark price coefficient correction method and market comparison method.

Under benchmark price coefficient correction method, the benchmark price of the subject land was determined with reference to the benchmark price of industrial land with the same usage and tier as published by the relevant local government authority, adjusted based on factors such as accessibility, infrastructure readiness, environmental conditions, planning restrictions, land condition and the remaining useful life of the land use rights, and took into account the relevant taxes and surcharge of occupying the subject land.

Under market comparison method, the Independent Valuer had (1) adopted the gross floor area of the subject land in formulating the appraised value of the land use rights; (2) identified transactions of industrial lands located in the county as the subject land (the "**Comparable Lands**") and obtained their unit price (i.e. price per square meter); (3) assess the comparability of the Comparable Lands based on factors such as size, accessibility, infrastructure readiness, environmental conditions, planning restrictions, land condition, remaining useful lives and time of the transactions; and (4) calculated the appraised value of the subject land based on factors (1) to (3) as aforementioned.

6. *Liabilities*

As noted from the Valuation Report, the Disposal Target's liabilities primarily consist of trade and other payables, long-term borrowings and deferred income. In arriving at the appraised value of the liabilities, the Independent Valuer had reviewed the underlying transaction documents and obtained confirmation from counterparty.

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We noted that the depreciation of liabilities primarily attributable to the depreciation in value of government subsidies under deferred income. The Independent Valuer had reviewed the relevant subsidies documents and confirmed that the Disposal Target would have no future repayment obligation in this respect.

Based on our independent work performed on the Valuation and during our discussion with the Independent Valuer, in particular (i) our review of the relevant documents and our discussions with the Valuer in respect of their qualification and independence to perform the Valuation; (ii) our enquiry to the Independent Valuer as to the applicability of each fundamental valuation approaches and their underlying rationale; (iii) our enquiry on the due diligence steps performed by the Independent Valuer in ascertaining the scope of assets and liabilities; and (iv) our review on the valuation procedures and the relevant input on each category of assets and liabilities, we are satisfied with the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

Having considered that, among the three commonly adopted valuation approaches (i.e. income approach, market approach and cost approach), there are limitations in income approach and cost approach as mentioned above (which we concurred with the Independent Valuer in this respect), we did not cross-check the Valuation with other valuation approaches.

Having considered our independent work performed on the Valuation Report and that the Consideration RMB13,450,000 of is higher than the Valuation of RMB12,909,500 as at 31 December 2024, we are of the view that the Consideration is fair and reasonable.

Repayment of Outstanding Indebtedness

The Purchaser shall, or shall procure the Disposal Target to, repay the Vendor the Outstanding Indebtedness (i.e. RMB55,436,000) owing by the Disposal Target as to (i) RMB27,718,000 within 60 days after the Completion, and (ii) the remaining RMB27,718,000 within 90 days after the Completion.

We noted from the unaudited consolidated financial statements of the Disposal Target Group that as at 31 December 2024, (i) majority of the Disposal Target Group's assets were non-current assets which are illiquid in nature; and (ii) majority of the Disposal Target Group's current assets comprised of (a) inventories of approximately RMB16.0 million (the Disposal Target Group's inventory turnovers are over 800 days based on its financial information); (b) other receivables of approximately RMB10.8 million primarily comprised of pre-paid value-added tax which would be applied to offset against value-added tax payable); and (c) cash and bank balances of approximately RMB6.8 million which was insufficient to settle the Outstanding Indebtedness.

Having considered the above financial position of the Disposal Target Group, particularly its cash and bank balances as at 31 December 2024, we consider the repayment arrangement would (i) involve the Purchaser as an additional party to assume the repayment obligation of the Outstanding Indebtedness; and (ii) allow the Group to recover part of its investment in the Disposal Target and thus it is beneficial to the Company.

Our conclusion on the terms of the Disposal

Having reviewed and consider the principal terms of the Disposal as listed above, in particular, that the Consideration is fair and reasonable and the Repayment of Outstanding Indebtedness is beneficial to the Company, we are of the view that the terms of the Disposal are on normal commercial terms and are fair and reasonable.

香港中环干诺道中88号/德辅道中173号南丰大厦12楼1209室
Room 1209, 12th Floor, Nan Fung Tower, 88 Connaught Road Central / 173 Des Voeux Road Central, Hong Kong

Possible financial effects of the Disposal

With reference to the Board Letter, all members of the Disposal Target Group shall cease to be subsidiaries of the Company upon completion of the Disposal and their financial results, assets and liabilities will no longer be consolidated into the Group's financial statements. In addition, it is estimated that the Group will recognise a gain of approximately RMB23,126,000 as a result of the Disposal, which is calculated based on the difference between the Consideration and the amount of unaudited consolidated net liabilities of the Disposal Target Group as at 31 December 2024.

It should be noted that the above analysis is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Disposal are on normal commercial terms and are fair and reasonable; and (ii) although the Disposal is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal 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

Note: 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.

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