The following is the full text of a letter of advice from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Debt Capitalisation Agreements, the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver, which has been prepared for the purpose of inclusion in this Circular.

MERDEKA 領智

Room 1108-1110, 11/F.
Wing On Centre
111 Connaught Road Central
Hong Kong

19 June 2025

To: The Independent Board Committee and the Independent Shareholders of Zhongzheng International Company Limited

Dear Sirs or Madams,

(1) PROPOSED SHARE CONSOLIDATION, SHARE PREMIUM REDUCTION AND CHANGE IN BOARD LOT SIZE; (2) CONNECTED TRANSACTION IN RELATION TO ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE FOR DEBT CAPITALISATION; (3) APPLICATION FOR WHITEWASH WAIVER; (4) PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY TWO (2) CONSOLIDATED SHARES HELD ON THE RECORD DATE; AND (5) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Debt Capitalisation Agreements, the Rights Issue, the Underwriting Agreement and the respective transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver (collectively, the "**Transactions**"), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 19 June 2025 (the "**Circular**") issued by Zhongzheng International Company Limited (the "**Company**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Completion of the Debt Capitalisation Agreements is conditional upon, amongst other things, the Share Consolidation having taken effect, the approval of the Debt Capitalisation Agreements, the Specific Mandate, the Underwriting Agreement and the Whitewash Waiver.

The Rights Issue on the other hand will be conditional upon completion of the Debt Capitalisation Agreements and obtaining the Independent Shareholders' approval of the Underwriting Agreement and the Underwriting Agreement becoming unconditional.

Reference is made to the Announcement in relation to, among other things, the Share Consolidation, the Share Premium Reduction, the Change in Board Lot Size, the Debt Capitalisation, the Whitewash Waiver and the Rights Issue. The Board proposed the Proposals which aim to improve the financial position of the Group, enhance the attractiveness of investing in the Shares and raise capital for the future business development of the Group. Upon completion of the Proposals, it is expected that the liabilities of the Group will be reduced through the Debt Capitalisation while new capital will be raised through the Rights Issue, the overall effect is that the financial position of the Group will be enhanced. It is also expected that following the Share Consolidation and the Change in Board Lot Size, the trading price of the Shares and value of the board lot will be increased, which will enable the Company to comply with the trading requirements under the Listing Rules.

After trading hours of the Stock Exchange on 15 May 2025, (i) the Company and Subscriber I entered into the Debt Capitalisation Agreement I, pursuant to which, the Company has agreed to allot and issue, and Subscriber I has agreed to subscribe for, 289,574,140 Capitalisation Shares at the Capitalisation Issue Price of HK$0.20 per Capitalisation Share; and (ii) the Company and Subscriber II entered into the Debt Capitalisation Agreement II, pursuant to which, the Company has agreed to allot and issue, and Subscriber II has agreed to subscribe for, 215,000,000 Capitalisation Shares at the Capitalisation Issue Price of HK$0.20 per Capitalisation Share, upon the Share Consolidation becoming effective. The amount of the total Capitalisation Issue Price will be set off against all of the shareholder's loans owing by the Company to Subscriber I and part of the shareholder's loans owing by the Company to Subscriber II, on a dollar-to-dollar basis.

Following the completion of the Debt Capitalisation, the Company proposed to implement the Rights Issue on the basis of one (1) Rights Share for every two (2) Consolidated Shares (including the Capitalisation Shares to be allotted and issued pursuant to the Debt Capitalisation) held on the Record Date at the Rights Issue Price of HK$0.20 per Rights Share, to raise gross proceeds of up to approximately HK$114.6 million by issuing 572,899,170 Rights Shares (assuming there will be no issue of other new Shares from the Latest Practicable Date up to the Record Date save for the allotment and issue of the Capitalisation Shares) to the Qualifying Shareholders. The net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK$112.0 million. The Rights Issue will not be extended to the Non-Qualifying Shareholders.

TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, the Subscribers and parties acting in concert with any of them were interested in 3,776,171,315 Existing Shares, representing approximately 29.4% of the issued share capital of the Company. As illustrated in the table under the section headed "Effect on the shareholding structure of the Company" in the Circular, immediately upon the allotment and issue of the Capitalisation Shares, the aggregate shareholding of the Subscribers and parties acting in concert with any of them in the Company will be increased from approximately 29.4% to approximately 60.5%.

Under Rule 26.1 of the Takeovers Code, the allotment and issue of the Capitalisation Shares to the Subscribers will give rise to an obligation on Subscriber I and Subscriber II to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscribers and their respective concert parties), unless the Whitewash Waiver is granted by the Executive.

If the Whitewash Waiver is granted by the Executive and is approved by the Independent Shareholders and completion of the Debt Capitalisation Agreements having taken place, the aggregate shareholding of the Subscribers and parties acting in concert with any of them in the Company will exceed 50% of the issued share capital of the Company as enlarged by the Capitalisation Shares. The Subscribers and parties acting in concert with any of them as a concert group may further increase its shareholding in the Company without incurring any further obligation to make a general offer under Rule 26 of the Takeovers Code.

An application has been made by the Subscribers to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy at the SGM by way of poll in respect of the Debt Capitalisation Agreements and the transactions contemplated thereunder (including the Share Consolidation, the Debt Capitalisation and the Specific Mandate) and the Underwriting Agreement, in which the Subscribers and their respective concert parties will abstain from voting on the relevant resolution(s).

The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Debt Capitalisation will not proceed.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, (i) Subscriber I is a Substantial Shareholder interested in approximately 17.2% of the issued share capital of the Company; and (ii) Subscriber II is a non-executive Director and a Substantial Shareholder interested in approximately 12.2% of the issued share capital of the Company. As such, both of the Subscribers are connected persons of the Company. Accordingly, the Debt Capitalisation constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to announcement, reporting and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The granting of the Specific Mandate for the allotment and issue of the Capitalisation Shares is also subject to the approval by more than 50% of the votes cast by the Independent Shareholders at the SGM.

As (i) the Company has not conducted any rights issue or open offer within the twelve month period immediately prior to the Latest Practicable Date; and (ii) the Rights Issue will not increase the number of issued Shares or the market capitalisation of the Company by more than 50%, the Rights Issue is not subject to the Shareholders' approval requirement under Chapter 7 of the Listing Rules. As the Rights Issue will be underwritten by Subscriber I who is a Substantial Shareholder, the Underwriting Agreement and the transactions contemplated thereunder constitutes a connected transaction of the Company and is subject to the Independent Shareholders' approval under Chapter 14A of the Listing Rules.

As the Capitalisation Issue Price and the Rights Issue Price are the same as the benchmarked price (as defined under Rule 7.27B of the Listing Rules), there will not be any theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules).

As Subscriber II, a non-executive Director, has a material interest in the Debt Capitalisation Agreements, he has abstained from voting at the meeting of the Board convened to consider the Proposals. Other than Subscriber II, no other Directors were involved in and/or interested in the Share Consolidation, the Debt Capitalisation and the transactions contemplated thereunder (including the granting of the Special Mandate), the Whitewash Waiver, the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Hau Chi Kit, Mr. Leung Chi Hung, Mr. Li Hon Kuen and Ms. Yang Yan Tung Doris, who have no direct or indirect interest in the transactions contemplated under the Proposals, the Debt Capitalisation and the Specific Mandate, the Underwriting Agreement and the Whitewash Waiver, has been established to advise and give a recommendation to the Independent Shareholders as to whether the Debt Capitalisation Agreements, the Rights Issue, the Underwriting Agreement and the respective transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver are fair and reasonable and to advise the Independent Shareholders on how to vote at the SGM. Subscriber II, being a non-executive Director, has a material interest in the Debt Capitalisation Agreements and therefore has not been included as a member of the Independent Board Committee. We, Merdeka Corporate Finance, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not associated or connected financially or otherwise with the Company, the Subscribers, the Company's substantial Shareholders, their respective financial or professional advisers (including a stockbroker), or any party acting, or presumed to be acting, in concert with any of them. In the last two years before the publication of the Announcement, there was no engagement or connection between the Group or Mr. Yang or the Subscribers on the one hand and us on the other hand. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Subscribers, the Company's substantial Shareholders, their respective financial or other professional advisers, or any party acting, or presumed to be acting, in concert with any of them. As such, we are qualified to give independent advice to the Independent Board Committee in respect of the Debt Capitalisation Agreements, the Rights Issue, the Underwriting Agreement and the respective transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the statements, information, opinions, and representations contained in or referred to the Circular and the information and representations as provided to us by the Directors and the management of the Group (the "**Management**"). Our review procedures include, among other things, review of the annual report of the Group for the year ended 30 June 2024 (the "**Annual Report 2023/24**"), the interim report of the Group for the six months ended 31 December 2024 (the "**Interim Report 2024/25**"), the information and opinions provided by the Directors and the Management; and the relevant public information.

We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Circular were true, accurate and complete in all material respects as at the Latest Practicable Date. We have also assumed that all statements contained and representations made or referred to in this Circular are true in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in this Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all material respects at the time they were made and continued to be so until the Latest Practicable Date.

Shareholders will be informed by the Group and us as soon as possible if there is any material change to the information disclosed in this Circular during the period from the Latest Practicable Date up to the date of the SGM, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Underwriter or any of their respective subsidiaries and associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Debt Capitalisation Agreements, the Rights Issue, the Underwriting Agreement and the respective transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Debt Capitalisation Agreements, the Rights Issue, the Underwriting Agreement and the respective transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver, we have considered the principal factors and reasons as set out below:

1. The Group

1.1 Background information of the Group

The Group is principally engaged in the business of manufacturing and sale of healthcare and household products, coal mining business and money lending business. The Group also has a 35% interest in an associate, Pacific Memory Sdn Bhd ("**Pacific Memory**"), which is principally engaged in a property development project in Malaysia (the "**Malaysia Project**"). As noted from the Interim Report 2024/25, the development plan for the Malaysia Project has been submitted for approval to the relevant government agencies and part of the plan relating to the construction of berths has already been approved and completed. Currently, the management of the associate company of the Group is in the process of finalizing the sales and marketing plans in collaboration with a business consultant specifically for the berths facilities area. As a result, no revenue has been recorded for the Malaysia Project. As further advised by the Management, the Group commenced the manufacturing and sale of healthcare and household products business in July 1976, the coal production in April 2024 with the first coal sales in May 2024, and the money lending business in September 2014. In relation to coal production business, as understood from the Annual Report 2024/25, PT Bara Utama Persada Raya ("**PT Bara**"), a 99.98%-owned subsidiary of the Company, holds the mining license in respect of the coal mine ("**PT Bara Mine**") in the Indonesia. On 7 September 2023, PT Bara entered into an exclusive cooperation agreement with PT Nusantara Energi Thermal ("**PT NET**"), pursuant to which PT Bara has given PT NET exclusive responsibility for all pre-production, production, sales and post-production work at the PT Bara Mine and PT NET pays PT Bara a royalty fee under the agreement.

The Group started its PRC real estate business in January 2019 and discontinued this segment in July 2024. As referred to the Interim Report 2024/25, on 6 May 2024, the Group and Mr. Lim Kim Chai (being the Subscriber II), a substantial shareholder of the Company, entered into a disposal agreement (the "**Disposal Agreement**") for the disposal of the entire equity interest in Hong Kong Zhongzheng City Investment Limited, which held the Group's entire properties development and primary land development projects in the PRC, and the shareholder's loans due from Shenzhen Zhongzheng Ruifeng Management Co., Ltd. The disposal consideration shall be satisfied by offsetting against the outstanding interest accrued on the shareholder's loans owed by the Company to Mr. Lim Kim Chai up to the date of the Disposal Agreement. On 22 July 2024, the Group completed the disposal and the Group discontinued its property development and primary land development businesses in the PRC (the "**Discontinued Operations**").

The following table sets out (i) the audited financial information of the Group for the years ended 30 June 2024 ("**FY2023/24**") and 30 June 2023 ("**FY2022/23**") as extracted from the Annual Report 2023/24; and (ii) the unaudited financial information of the Group for the six months ended 31 December 2024 ("**HY2024/25**") and 31 December 2023 ("**HY2023/24**") as extracted from the Interim Report 2024/25. Please refer to the sections headed "Appendix I-Financial Information of the Group" to the Circular for the details of the qualified opinions (the "**Qualified Opinions**") issued by the Group's independent auditor for the eighteen months ended 30 June 2022, for the years ended 30 June 2023 and 30 June 2024.

(i) Consolidated statement of profit or loss

	For the six months ended 31 December		For the year ended 30 June	
	2024	**2023**	**2024**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
Revenue				
– Property development	–	36,495	46,664	697,216
– Manufacture and sales of healthcare and household products	62,575	47,291	100,278	172,421
– Royalty income on coal mining	1,447	–	300	–
	64,022	47,291	147,242	869,637
Interest income from money lending business	510	284	1,257	3,273
Total revenue	**64,532**	**47,575**	**148,499**	**872,910**
Cost of sales	(48,232)	(33,415)	(125,510)	(619,223)
Gross profit	**16,300**	**14,160**	**22,989**	**253,687**
Gross profit margin	**25.3%**	**29.8%**	**15.5%**	**29.1%**
(Loss)/profit from operations	(10,466)	(12,831)	(38,719)	405,192
(Loss)/profit for the period/year attributable to owners of the Company	**(89,153)**	**(694,210)**	**(699,345)**	**69,131**

HY2024/25 and HY2023/24

Revenue of the Group for HY2024/25 amounted to approximately HK$64.53 million, which increased by approximately 35.6% as compared to approximately HK$47.6 million for HY2023/24. The increase mainly represented a recovery of sales orders of the Group's healthcare and household business segment in late 2024.

The consolidated loss for HY2024/25 attributable to owners of the Company was approximately HK$89.2 million, as compared with the consolidated loss attributable to the owners of the Company of approximately HK$694.2 million for HY2023/24. The loss comprised loss attributable to owners of the Company from continuing operations of approximately HK$37.0 million in comparison to loss of approximately HK$20.5 million for HY2023/24, and loss attributable to owners of the Company from the Discontinued Operations of approximately HK$52.2 million in comparison to approximately HK$673.7 million for HY2023/24.

The loss attributable to owners of the Company from continuing operations for HY2024/25 has increased mainly due to the recognition of an impairment loss on other receivables and an impairment of loan and interest receivables, amounting to approximately HK$16.1 million (HY2023/24: nil) and HK$2.6 million (HY2023/24: nil), respectively. These impairments were non-cash items and were determined based on the assessment of expected credit loss conducted by an independent valuer engaged by the Company. Save for the aforesaid impairments, improvement was seen in the Group's continuing operations for HY2024/25, with an increased revenue as mentioned above and a higher gross profit of approximately HK$16.3 million (HY2023/24: HK$14.2 million).

For FY2023/24 and FY2022/23

Total revenue of the Group for FY2023/24 amounted to approximately HK$148.5 million, which represented a decrease of approximately 83.0% as compared to HK$872.9 million for FY2022/23 as there was a decline in revenue from the property development and healthcare and household products businesses. During FY2022/23, the majority of the residential units of the property development project in Dongguan city had been delivered to buyers in July 2022, which had contributed approximately HK$697.2 million to the revenue for FY2022/23. In the meantime, there was also a decline in revenue from the healthcare and household products business to approximately HK$100.3 million (FY2022/23: approximately HK$172.4 million). The decrease was primarily due to a destocking process of certain customers.

The gross profit margin decreased to approximately 15.5% for FY2023/24 from approximately 29.1% for FY2022/23, which was mainly due to promotion campaign of the Group's property development project located in Dongguan city during the first half of FY2023/24 and the continuous decline of the housing sales prices under the current stagnant Chinese real estate market.

The consolidated loss attributable to the owners of the Company for FY2023/24 amounted to approximately HK$699.4 million as compared to the consolidated profit attributable to the owners of the Company of approximately HK$69.1 million for FY2022/23. The loss recorded for FY2023/24 was mainly attributable to (i) the decline in gross profit to approximately HK$23.0 million (FY2022/23: approximately HK$253.7 million) due to the decline in revenue from the property development and healthcare and household products businesses; (ii) an impairment loss on interest in an associate, namely Chengde CITIC Securities Jinyu Investment Development Co., Ltd ("**Chengde Jinyu**") with a principal business in primary land development in the PRC, of approximately HK$288.8 million (FY2022/23: approximately HK$75.9 million); (iii) an impairment loss on the amount due from Chengde Jinyu of approximately HK$68.2 million (FY2022/23: Nil); (iv) a written down of the properties under development for sales of a development project located in Nanjing City of approximately HK$196.4 million (FY2022/23: Nil); (v) finance costs of approximately HK$191.7 million (FY2022/23: approximately HK$84.6 million) mainly due to the overdue bank loan for the Nanjing project; (vi) an impairment of consideration receivables for the Group's disposal of 100% equity interest in its subsidiary of approximately HK$65.9 million raised by the purchaser's default in settlement for consideration after taking into account the expected credit loss measured by an independent valuer, in comparison to nil impairment for consideration receivables for FY2022/23; and (vii) share of losses of associates related to the property development in PRC of approximately HK$67.5 million in comparison to approximately HK$38.2 million for FY2022/23. The effects of the above were partially offset by the reversal of impairment loss on exploration and evaluation assets of approximately HK$31.8 million due to reinstatement of the coal mining license and a reduction in administrative expenses of approximately HK$9.1 million due to decrease in staff costs during the year.

(ii) Consolidated statement of financial position

	31 December 2024	**30 June 2024**
	HK$'000	*HK$'000*
	(unaudited)	*(audited)*
TOTAL ASSETS	**733,796**	**2,293,705**
Non-current assets	649,085	628,002
Current assets	84,711	1,665,703
– Bank and cash balances	*2,339*	*20,135*
TOTAL LIABILITIES	**(451,916)**	**(2,178,656)**
Current liabilities	(187,861)	(2,139,421)
– Borrowings	*(28,963)*	*(1,037,595)*
– Shareholders loans	*(48,100)*	*(285,600)*
Non-current liabilities	(264,055)	(39,235)
– Shareholders loans	*(250,000)*	–
NET CURRENT LIABILITIES	**(103,150)**	**(473,718)**
NET ASSETS	**281,880**	**115,049**
Gearing ratio	**116.0%**	**1,168.5%**

Total assets of the Group decreased from approximately HK$2,293.7 million as at 30 June 2024 to approximately HK$733.8 million as at 31 December 2024, which was mainly due to the decrease in properties under development for sales of approximately HK$1,049.6 million and property held for sales of approximately HK$154.8 million, as the Group completed the disposal of the entire equity interest in Hong Kong Zhongzheng City Investment Limited (together with its subsidiaries) including but not limited to all the properties under development for sales for the property development project in Nanjing City and the properties held for sales in Dongguan on 22 July 2024. As at 31 December 2024, the bank and cash balances of the Group amounted to approximately HK$2.3 million only.

The total liabilities of the Group decreased from approximately HK$2,178.7 million as at 30 June 2024 to approximately RMB451.9 million as at 31 December 2024, which was mainly due to the decrease in borrowings of approximately HK$1,008.6 million under current liabilities. As noted from the Interim Report 2024/25, the borrowings as at 31 December 2024 mainly consist of the secured bank loans of approximately HK$26.6 million and the unsecured other loans of approximately HK$2.4 million.

The Group incurred net current liabilities of approximately HK$103.2 million as at 31 December 2024. As at 31 December 2024, the Group's current portion of bank and other borrowings amounted to approximately HK$29.0 million, while its cash and bank balances and cash equivalents amounted to approximately HK$2.3 million. The gearing ratio of the Group, which is calculated by total debt (consisting of shareholder's loan from Subscriber I of approximately HK$48.1 million and shareholder's loan from Subscriber II of approximately HK$250.0 million) and borrowings of approximately HK$28.9 million over total equity of approximately HK$281.9 million, amounted to approximately 116.0% as at 31 December 2024 (30 June 2024: 1,168.5%).

2. Background information of the Subscribers

Subscriber I was a Substantial Shareholder as at the Latest Practicable Date and will be a Controlling Shareholder upon the allotment and issue of the Capitalisation Shares. Subscriber II was a Substantial Shareholder as at the Latest Practicable Date and will continue to be a Substantial Shareholder upon the allotment and issue of the Capitalisation Shares. As at the Latest Practicable Date, it is the intention of the Subscribers to continue the existing businesses of the Group, and they have no intention to introduce any major changes to the businesses of the Group (including any redeployment of the fixed assets of the Group) or terminate the continued employment of the employees of the Group.

Subscriber I, aged 64, is a businessman and has over 20 years of experience in investment and property development business. He is the co-founder and vice-chairman of Yuk Tung Group, which focuses on property development in Malaysia. Since the founding of Yuk Tung Group in 2005, Subscriber I has been the director of each of Yuk Tung Properties Sdn. Bhd., Yuk Tung Development Sdn. Bhd., Yuk Tung Land Sdn. Bhd., Yuk Tung Construction Sdn. Bhd., Home Marketing Sdn. Bhd. and Pacific Memory Sdn. Bhd., respectively, primarily responsible for the overall management and strategic development of Yuk Tung Group.

Subscriber II, aged 57, was appointed as a non-executive Director on 20 December 2019. He is a businessman and has over 19 years of experience in investment and property development business. He is the co-founder and chairman of Yuk Tung Group. Since 2005, Subscriber II has been the director of each of Yuk Tung Properties Sdn. Bhd., Yuk Tung Development Sdn. Bhd., Yuk Tung Land Sdn. Bhd., Yuk Tung Construction Sdn. Bhd., Home Marketing Sdn. Bhd. and Pacific Memory Sdn. Bhd., respectively, primarily responsible for the overall management and strategic development of Yuk Tung Group. Subscriber II was also appointed as Justice of the Peace (JP) in Malaysia in 2007.

3. Reasons and benefits for the Proposals and use of proceeds

Debt Capitalisation

As set out in the sub-section headed "1.1 Background information of the Group", the Group recorded borrowings of approximately HK$29.0 million and the shareholder's loans in the aggregate amount of approximately HK$298.1 million. We noted from the Board Letter that the shareholder's loans owing to the Subscribers comprise loans' principal of approximately HK$298.1 million in aggregate and accrued interest of approximately HK$20.8 million in aggregate. On the other hand, the Group only had bank and cash balances of approximately HK$2.3 million as at 31 December 2024, which is insufficient to cover the shareholders' loans. Additionally, as understood from the Qualified Opinions for FY2023/24, the circumstances, including but not limited to net current liabilities, the net operating cash outflow and the level of the Group's bank and other borrowings, indicate material uncertainty related to going concern of the Group. Therefore, we concur with the Group's view that the Group is in substantial financial leverage.

Subscriber I acquired the loan in the amount of approximately HK$32.6 million together with the 17.2% shareholding interest in the Company from a former shareholder of the Company in December 2023. This loan is unsecured and interest-bearing at 2.2% per annum. He granted four further unsecured loans to the Company in May 2024, July 2024, September 2024 and November 2024, respectively, which are interest-bearing at 5% per annum. As at 30 April 2025, shareholder's loans from Subscriber I amounted to approximately HK$57.9 million in aggregate, comprising loan principal of HK$48.1 million and accrued interest of approximately HK$9.8 million, and are repayable by 31 December 2025.

Subscriber II granted two unsecured loans to the Company in August 2019 and November 2019, which are interest-bearing at the rate of 2.2% per annum and 5% per annum, respectively. As at 30 April 2025, shareholder's loans from Subscriber II amounted to approximately HK$261.7 million in aggregate, comprising loan principal of HK$250.0 million and accrued interest of approximately HK$11.7 million, and are repayable by 31 December 2027.

As noted in the Interim Report 2024/25, as at 31 December 2024, the Group's floating interest rates for secured bank loans range from 4.65% to 6.90% per annum, and unsecured loans bear no interest rate and are repayable on demand. Despite the interest rates of the loans granted by Subscribers of 2.2% per annum and 5% per annum being lower than the interest rates of secured bank loans, having considered that (a) the bank and cash balances of the Group amounted to only HK$2.3 million as at 31 December 2024, which is insufficient to cover the aggregate amount of total borrowings and the shareholder's loans of the Group of approximately HK$327.1 million as at 31 December 2024; (b) the Debt Capitalisation will not trigger significant cash outflows and allow the Group to reduce its interest expenses; and (c) the reasons and benefits as mentioned below, we consider the Debt Capitalisation to be justifiable.

In addition, despite that the shareholder's loans from Subscriber II are repayable by 31 December 2027, we are of the view that the Debt Capitalisation between the Company and Subscriber II is reasonable given that it can (i) immediately improves the Company's capital structure by lowering its overall debt level (as elaborated further below), as well as reducing the monthly interest expenses payable to Subscriber II from approximately HK$981,000 to approximately HK$898,000, without incurring any capital outflows by the Group; and (ii) signal to Shareholders and potential investors that the Group is actively addressing its existing financial challenges. In particular, the willingness of Subscriber II, as a substantial Shareholder, to convert his debt into equity demonstrates his commitment to the Group and further aligns his interests with those of other Shareholders; and (iii) enable the Company to reduce its future cash flow pressure and focus its resources on strengthening business operations and pursuing growth opportunities.

We have discussed with the Management and noted that the monthly interest payable under the shareholder's loans to Subscriber I and Subscriber II amounted to approximately HK$1,104,000 in aggregate, the loans to be capitalised under the Debt Capitalisation represent approximately 30.9% of the total outstanding borrowings of the Group as at 31 December 2024 (i.e. HK$100.9 million out of total outstanding borrowings of the Group of approximately HK$327.1 million) and the gearing of the Group would be reduced from approximately 116.0% to approximately 74.0% upon completion of the Debt Capitalisation. Having considered the Group's liquidity constraints and financial position, in particular the lack of working capital, the net current liabilities position, and the high gearing ratio, we concur with the Directors' view that the Debt Capitalisation will reduce finance costs, alleviating the Group's ongoing financial burden, improving the Group's profitability and cash flow despite that the repayment dates of the shareholder's loans have not yet been due.

Recognising that the shareholder's loans were originally extended by the Subscribers to fund the Group's operations, the Company therefore proposed, and the Subscribers agreed, to capitalise all of the shareholder's loans owing to Subscriber I and part of their respective shareholder's loans owing to Subscriber II. This approach will remove Mr. Low Thiam Herr (the Subscriber I) as a creditor of the Group and settle a large portion of the Group's outstanding debts without depleting its existing financial resources or triggering significant cash outflows, particularly having considered the Group's limited liquidity. It will also convert the Subscribers' funding support into permanent capital of the Company.

The Board further considers that, through conducting the Debt Capitalisation, the financial position of the Group will be improved, making it more viable for future fund-raising efforts, including the impending Rights Issue. The willingness of the Subscribers to capitalise their debts into equity also demonstrates their long-term commitment to the Group's development. Following the Debt Capitalisation, the Subscribers will further support the Group by contributing additional funding through the Rights Issue.

The Board had assessed other alternative methods to repay the shareholder's loans but considered that they would not be feasible and practical to resolve the Group's needs. Based on our discussion with the Management, we understood that it is infeasible and difficult for the Company to obtain such a substantial amount to repay the shareholder's loans at acceptable financial costs with affordable terms and conditions given the Group's current financial position. Moreover, repaying the existing shareholder's loans with new borrowings or extending their maturity dates would not enhance the Group's financial position. In addition, the Group's weak financial position makes it impractical to conduct a rights issue or other equity fund raising before its financial position improves. Therefore, we concur with the Company's view that the Debt Capitalisation is more favourable to the Company as compared to other alternative methods.

It is noted that the allotment and issue of the Capitalisation Shares would dilute the shareholding of other Shareholders (other than the Subscribers) from approximately 70.6% to 39.5%. However, considering that the Share price has been very low at or close to the extremity of HK$0.01 for a prolonged period of time, without improving the continuous weak financial position and liquidity issues, the future development of the Group would continue to be hindered, and the improvement in the value of the Shares would be difficult. As the improvement in the long-term investment value of the Shares is considered to be beneficial to all of the Shareholders, the Company thus proposed the Debt Capitalisation followed by the Rights Issue despite the dilution effect.

There will be no cash proceeds arising from the allotment and issue of the Capitalisation Shares as the amount of the total Capitalisation Issue Price will be fully set off against the shareholder's loans owing by the Company to the Subscribers on a dollar-to-dollar basis.

Notwithstanding that (a) there is no immediate need to repay the shareholder's loans given the maturity date thereof is 31 December 2025 and 31 December 2027 respectively; and (b) the allotment and issue of the Capitalisation Shares will have a dilution effect on the shareholding interest of the existing Shareholders, taking into account that (i) the aforementioned current financial performance and position of the Group; (ii) the Qualified Opinions as indicated in the Annual Report 2023/24 that the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern; (iii) Mr. Low Thiam Herr (the Subscriber I) will no longer be a creditor of the Group after the Debt Capitalisation and thereby the number of creditors of the Group will decrease to five; (iv) the Debt Capitalisation will reduce approximately 30.9% of the Group's total outstanding debts as at 31 December 2024 without depleting its existing financial resources or triggering significant cash outflows or obtaining additional bank borrowing with additional finance costs incurred, while retaining cash and existing financial resources of the Group which could in lieu be retained for general working capital and business development; (v) the Debt Capitalisation will reduce the monthly interest expense of the Group; (vi) the Debt Capitalisation is more favourable to the Company as compared to other alternative methods; (vii) the Capitalisation Shares, when allotted and issued, will be recognized entirely as equity of the Company which in turn will enlarge the capital base, and accordingly strengthen the financial position of the Group; and (viii) Independent Shareholders are offered a chance to express their views on the terms of the Debt Capitalisation through their votes at the SGM; we are of the view that the Debt Capitalisation is fair and reasonable, and in the interest of the Company and the Independent Shareholders as a whole.

Rights Issue

As set out in the Board Letter, while the Debt Capitalisation would alleviate debt obligations and financial burden of the Group, it would not fully resolve its structural financial challenges, particularly the net current liabilities position and insufficient working capital for business development. As mentioned earlier, as at 31 December 2024, the Group only had bank and cash balances of approximately HK$2.3 million and had net current liabilities of approximately HK$103.2 million. Upon completion of the Debt Capitalisation, while the consolidated net assets of the Group would be improved, the Group would remain in a net current liabilities position as only part of the current liabilities in the amount of approximately HK$57.9 million attributable to the shareholder's loans and accrued interest thereof owing to Mr. Low Thiam Herr (the Subscriber I) would have been capitalised. The remaining current liabilities mainly comprised trade and other payables and borrowings. Given the bank and cash balances, without additional funding, the Group would not be having sufficient working capital to meet its financial needs. To strengthen the Group's financial position, replenish the working capital and raise funding to improve the Group's liquidity, and thereby provide the Group with the financial flexibility necessary for support the Group's continuous business development particularly under the challenging market conditions amidst the China-United States trade war, the Company thus proposes the Rights Issue. This initiative would establish a permanent equity base, reduce reliance on debt financing and establish a more sustainable capital structure for the Group. Upon completion of the Rights Issue, the Group will raise net proceeds of approximately HK$112.0 million which will provide the Group with sufficient working capital to meet its financial obligations, provide the cashflow to align the timing and amounts of payments to suppliers with receivables from customers and fund its operations. As at the Latest Practicable Date, the Company had no intention to conduct further equity fund raising activities in addition to the Rights Issue.

The gross proceeds from the Rights Issue will be approximately HK$114.6 million and the net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK$112.0 million. The Company intends to apply the entire amount of the net proceeds from the Rights Issue as follows:

(i) approximately HK$48.0 million, or 43% of the net proceeds, be applied towards repayment of the outstanding debt of the Group, of which:

(a) by August 2025, approximately HK$15.1 million, or 13% of the net proceeds, be applied towards repayment of an outstanding loan facility and the accrued interest thereof owing to Sky Treasure Group (Development) Limited, which is an investment holding company and is an Independent Third Party and is not a Shareholder, and has no other relationship (business or otherwise) with the Company and its connected persons. The loan facility is unsecured, carries interest rate of 6% per annum and will be due in July 2025 (the "**Second Loan**"); and

(b) by December 2025, approximately HK$32.9 million, or 30% of the net proceeds, be applied towards repayment of an outstanding bank loan and the accrued interest thereof relating to the healthcare and household business (the "**First Loan**"). The bank loan is secured by the land use rights and the factory buildings owned by the Group, carries interest rate of 3% per annum and will be due in January 2028. While the bank loan is not yet due, having considered the challenging business environment amidst the China-United States trade war, the Company takes the initiative to minimise the costs for the Group's operations;

(ii) approximately HK$40.0 million, or 35% of the net proceeds, be applied towards strategic adjustment and business transformation for the Group's business of manufacturing and sale of healthcare and household products, of which:

(a) by December 2025, approximately HK$6.0 million, or 5% of the net proceeds, be applied towards the development of diversified markets by establishing sales and marketing teams, with a focus on expanding into the Mainland China, the Middle East, Europe and/or the Southeast Asia;

(b) by December 2025, approximately HK$6.0 million, or 5% of the net proceeds, be applied towards expanding domestic and/or cross-border e-commerce channels to establish direct sales pathways within the Mainland China and/or the overseas market; and

(c) by June 2026, approximately HK$28.0 million, or 25% of the net proceeds, be applied towards optimising the products lines, trimming down low margin and loss-making products and developing higher margin products such as shavers or beauty instruments for the healthcare and household business; and

(iii) the remaining amount of approximately HK$24.0 million, or 22% of the net proceeds, be used for general working purposes, of which:

(a) approximately HK$12.0 million, or 11.0% of the net proceeds, be applied towards the faster payments to suppliers for discounted purchase price of materials; and

(b) approximately HK$12.0 million, or 11.0% of the net proceeds, be used for payment for administrative expenses.

Taking into account the Debt Capitalisation and proceeds from the Rights Issue, the Company would have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the next twelve months.

As advised by the Management, the Group plans to reduce labor and material costs in its healthcare and household business in the U.S., seek cost-effective suppliers, and strategically allocate resources to develop other markets (principally being Mainland China) and sales channels. Additionally, the First Loan was utilized as capital expenditures associated with the factory including but not limited to the payments to suppliers, utilities costs and other daily operating expenses, while the Second Loan is designated as working capital for the Group's operational needs.

As an aggregate of 43% of the net proceeds from the Rights Issue is intended to be applied toward the repayment of a portion of the Group's outstanding borrowings, we have conducted inquiries with the Management and obtained a summary of the Group's existing loan portfolio as at 30 April 2025 with interest rates ranging from 2.2% per annum to 6.0% annum. Based on our review, we noted that the interest rates of the loans proposed to be repaid using the net proceeds from the Rights Issue range from 3.0% per annum to 6.0% per annum. In this regard, we are of the view that the application of the net proceeds for the partial repayment of these borrowings would enable the Group to reduce its interest expenses, improve its gearing ratio, and further strengthen its overall financial position.

As the Group will also apply an aggregate of 35% of the net proceeds from the Rights Issue towards the development of the Group's healthcare and household products business which accounts for approximately 67.53% of the total revenue of the Group for FY2023/24, we discussed with the Management on the future development plan of the Group and noted that the Group plans to diversified its household and healthcare products portfolio with a primary focus on the Mainland China market. In this regard, we conducted relevant research in the consumer market in the Mainland China.

According to official statistics from the National Bureau of Statistics of China (a deputy-ministerial level agency directly under the State Council of China), the country's domestic consumption environment has demonstrated robust growth in recent years, which is favorable for healthcare and household products businesses seeking to expand into the Chinese market. In 2024, China's nationwide per capita consumption expenditure reached RMB28,227, reflecting a nominal increase of 5.3% year-on-year (and 5.1% in real terms after adjusting for price factors). Urban residents recorded per capita consumption of RMB34,557, while rural residents reached RMB19,280, both showing healthy annual growth. Notably, per capita expenditure on healthcare and medical services rose to RMB2,547, representing a 3.6% increase from the previous year, while household facilities and services spending amounted to RMB1,547 per capita, up 1.4% year-on-year. Furthermore, service consumption accounted for 46.1% of total household expenditure, with a per capita value of RMB13,016 and a notable 7.4% increase.

China's government has actively implemented initiatives to stimulate domestic consumption, including the allocation of RMB300 billion (approximately US$42 billion) for consumer subsidies, particularly targeting household appliances and healthcare-related products. Policies promoting urbanization and rising household incomes are also expected to further drive demand in the healthcare and household sectors. Given these positive consumption trends, it is recommended that companies entering the PRC market localize their products to address the preferences of Chinese consumers, leverage government subsidy programs, and focus on urban centers where disposable incomes are higher. These measures will support a successful market entry and expansion in China's rapidly growing healthcare and household products sector.

Given the robust growth in per capita consumption expenditure in the PRC and the favourable government initiatives to stimulate domestic consumption, we believe the use of part of the net proceeds from the Rights Issue for healthcare and household business would enable the Group to capture the business opportunities in the PRC market.

Having considered that (a) the repayment of certain outstanding borrowings by the net proceeds of the Rights Issue will allow the Group to decrease its financial burden; and (b) using the net proceeds for the development in the household products business aligns with the Company's business strategy objectives and is anticipated to enhance the Company's revenue streams, we consider that the Rights Issue and the proposed use of the net proceeds of Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We further understood from the Board Letter that, given the Company's objective is to improve its capital structure, additional debt financing would not support deleveraging efforts. Consequently, the Company believes equity fundraising would be the preferable approach. Compared to a private placement, which the Company may face difficulties in identifying suitable placees for fund raising due to the low trading liquidity of the Shares, the Group's current net liabilities position, and the going concern issue, whereas, the Rights Issue would offer the Qualifying Shareholders an opportunity to maintain their proportional interests and participate in the Group's future development. The Irrevocable Undertakings from the Substantial Shareholders, alongside the underwriting commitment from Subscriber I, further demonstrate their confidence in and support for the Group's future development. Additionally, the Rights Issue allows the Qualifying Shareholders who choose not to take up their entitlements to benefit by selling their nil-paid rights.

We discussed with the Management and noted that, in respect of debt financing, it would result in higher finance costs, increase the Group's gearing ratio, and may involve extensive due diligence and prolonged negotiations with lenders. Given that the Company intends to apply part of the net proceeds from the Rights Issue to repay certain interest-bearing loans, debt financing is not considered the most suitable option. Regarding equity financing, we understand from the Company that placing new shares is not preferred, as it is expected that the Company may face difficulties in identifying suitable placees for fund raising due to the low trading liquidity of the Shares, the Group's current net liabilities position, and the going concern issue. As opposed to an open offer, the Rights Issue enables the Shareholders to sell the nil-paid rights in the market. The Rights Issue will allow the Qualifying Shareholders to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Group.

Taking into account the feasibility of various fund-raising methods, the reasons for selecting the Rights Issue over other methods as discussed above, the Irrevocable Undertakings as provided by the Substantial Shareholders and the underwriting commitment from Subscriber I, we consider the Rights Issue to be the most suitable fund-raising method for the Group under the current circumstances.

Our view

Having considered that (i) the Group recorded current net liabilities position of approximately HK$103.15 million as at 31 December 2024; (ii) the cash balances of the Group are insufficient to repay the Subscribers for shareholder's loans and the proceeds from the Debt Capitalisation will be set against the shareholders loans on a dollar-to-dollar basis; (iii) part of the total net proceeds from the Rights Issue will be applied to repay the outstanding borrowings of the Group, allowing the Group to further reduce its financial burden; (iv) part of the total net proceeds from the Rights Issue will be allocated to developing the Group's household products business, which aligns with the Company's business strategy objectives and is anticipated to enhance the Company's revenue streams; (v) the Irrevocable Undertakings as provided by the Substantial Shareholders and the underwriting commitment from Subscriber I demonstrate the Controlling Shareholder's confidence in the Group's future development; (vi) the Debt Capitalisation and the Rights Issue allows the Company to strengthen its capital base and liquidity without incurring interest costs; (vii) despite that the Debt Capitalisation will result in a dilution effect on the existing shareholding of the Company, the Debt Capitalisation is subject to Independent Shareholders' approval and will allow the Group to reduce its gearing ratio; (viii) the Rights Issue offers all the Qualifying Shareholders equal opportunity to subscribe for their pro-rata provisional allotments of the Rights Shares without diluting their shareholding interests and allows the Qualifying Shareholders to participate in the future development of the Company; (ix) the Rights Issue allows the Qualifying Shareholders who decide not to take up their entitlements under the Rights Issue to sell the nil-paid Rights Shares in the market for economic benefits and allows others to acquire these nil-paid Rights Shares; (x) the Share Consolidation enables the Company to comply with the trading requirements under the Listing Rules as mentioned in the section headed "4. Proposed Share Consolidation" below; and (xi) our analysis of the Capitalisation Issue Price and Rights Issue Price as discussed in the paragraph headed "5.3 Assessment on the Capitalisation Issue Price" and "6.2 Assessment on Rights Issue Price" respectively, we concur with the Directors' view that the Debt Capitalisation and the Rights Issue are in the interests of the Company and the Independent Shareholders as a whole.

4. Proposed Share Consolidation

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK$0.01 or HK$9,995, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities. Moreover, pursuant to the "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and updated on 1 October 2020, it stated that (i) market price of the shares at a level less than HK$0.1 will be considered as trading at extremity as referred to under Rule 13.64 of the Listing Rules; and (ii) the expected board lot value per board lot should be greater than HK$2,000 after taking into account the minimum transaction costs for a securities trade.

In view of the prevailing trading price of the Existing Shares of HK$0.01 and the board lot value of HK$80, the Company proposes to implement the Share Consolidation and the Change in Board Lot Size. It is expected that the proposed Share Consolidation and the Change in Board Lot Size will bring about a corresponding upward adjustment in the trading price and the board lot value of the Consolidated Shares on the Stock Exchange. As a result, the proposed Share Consolidation and the Change in Board Lot Size would enable the Company to comply with the trading requirements under the Listing Rules. We concur with the Company's view that that these measures will ensure the Company's ongoing compliance with the Listing Rules and, by increasing the price per Consolidated Share, will improve the market perception of the Company's Shares. This is expected to enhance the shares' appeal and instill greater confidence in potential investors.

Effects of the Share Consolidation

The Board proposes that every twenty (20) issued and unissued Existing Shares of par value of HK$0.00004 each will be consolidated into one (1) Consolidated Share of par value of HK$0.0008 each.

As at the Latest Practicable Date, the authorised share capital of the Company is HK$1,000,000,000 divided into 25,000,000,000,000 Existing Shares of par value of HK$0.00004 each, of which 12,824,484,010 Existing Shares are issued and credited as fully paid.

Assuming no further Existing Shares will be issued or repurchased between the Latest Practicable Date and the date of the SGM, immediately after the Share Consolidation becoming effective but before completion of the Debt Capitalisation and the Rights Issue, the authorised share capital of the Company will be HK$1,000,000,000 divided into 1,250,000,000,000 Consolidated Shares of par value of HK$0.0008 each, of which 641,224,200 Consolidated Shares will be in issue.

The Consolidated Shares will be identical and rank *pari passu* in all respects with each other.

Other than the expenses to be incurred in relation to the Share Consolidation, the implementation of the Share Consolidation will not alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests or rights of the Shareholders. The Directors believe that the Share Consolidation will not have any material adverse effect on the financial position of the Company.

Conditions of the Share Consolidation

The implementation of the Share Consolidation is conditional upon:

(i) the Share Consolidation (including the elimination of any residual fraction of a Consolidated Share in the issued share capital of the Company arising therefrom) having been approved by more than 75% of the Independent Shareholders at the SGM by way of poll;

(ii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consolidated Shares; and

(iii) the compliance with all relevant procedures and requirements under the applicable laws of Bermuda and the Listing Rules to effect the Share Consolidation.

The Share Consolidation is not conditional on the Debt Capitalisation and the Rights Issue.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

Having considered that the Share Consolidation enables the Company to comply with the trading requirements under the Listing Rule, we are of the view that the Share Consolidation is in the interests of the Company and the Shareholders as a whole.

5. Proposed Debt Capitalisation

5.1 Principal terms of the Debt Capitalisation Agreement I

Date

15 May 2025

Parties

(i) The Company, as issuer; and

(ii) Subscriber I, as subscriber.

Subscriber I was a Substantial Shareholder interested in 2,206,750,364 Existing Shares, representing approximately 17.2% of the total issued share capital of the Company as at the Latest Practicable Date. As such, Subscriber I is a connected person of the Company.

Subject matter

As at 30 April 2025, the aggregate amount owing by the Company to Subscriber I was approximately HK$57.9 million, comprising loan principal of HK$48.1 million and accrued interests of approximately HK$9.8 million, and are repayable by 31 December 2025.

Pursuant to the Debt Capitalisation Agreement I, the Company will allot and issue, and Subscriber I will subscribe for, 289,574,140 Capitalisation Shares at the Capitalisation Issue Price, which will be set-off against the entire amount of the outstanding shareholder's loan owing by the Company to Subscriber I of approximately HK$57.9 million on a dollar-to-dollar basis by execution of a deed of set-off upon completion of the Debt Capitalisation Agreement I. Subscriber I will waive all other interest that may be accrued during the period from 1 May 2025 to the date of completion of the Debt Capitalisation Agreement I, which would amount to approximately HK$321,000 assuming that completion of the Debt Capitalisation Agreements takes place on 15 July 2025.

5.2 Principal terms of the Debt Capitalisation Agreement II

Date

15 May 2025

Parties

(iii) The Company, as issuer; and

(iv) Subscriber II, as subscriber.

Subscriber II was a non-executive Director and a Substantial Shareholder interested in 1,569,420,951 Existing Shares, representing approximately 12.2% of the total issued share capital of the Company as at the Latest Practicable Date. As such, Subscriber II is a connected person of the Company.

Subject matter

As at 30 April 2025, the aggregate amount owing by the Company to Subscriber II was approximately HK$261.7 million, comprising loan principal of HK$250.0 million and accrued interests of approximately HK$11.7 million, and are repayable by 31 December 2027.

Pursuant to the Debt Capitalisation Agreement II, the Company will allot and issue, and Subscriber II will subscribe for, 215,000,000 Capitalisation Shares at the Capitalisation Issue Price, which will be set-off against part of the outstanding shareholder's loan owing by the Company to Subscriber II of HK$43.0 million on a dollar-to-dollar basis by execution of a deed of set-off upon completion of the Debt Capitalisation Agreement II. Subscriber II will waive all other interest that may be accrued on such amount of loan which will be capitalised pursuant to the Debt Capitalisation Agreement II during the period from 1 May 2025 to the date of completion of the Debt Capitalisation Agreement II, which would amount to approximately HK$215,000 assuming that completion of the Debt Capitalisation Agreements takes place on 15 July 2025.

Upon completion of the Debt Capitalisation Agreement II, the remaining shareholder's loan owing by the Company to Subscriber II will be reduced to approximately HK$218.7 million.

Based on the current expected timetable, the expected completion date of the Debt Capitalisation will be on 15 July 2025.

5.3 Assessment of the Capitalisation Issue Price

5.3.1 The Capitalisation Issue Price

The Capitalisation Issue Price of HK$0.20 per Capitalisation Share represents:

(i) the same price as the theoretical closing price of the Consolidated Shares of HK$0.20 based on the closing price of the Existing Shares of HK$0.01 quoted on the Stock Exchange on the Latest Practicable Date;

(ii) the same price as the theoretical closing price of the Consolidated Shares of HK$0.20 based on the closing price of the Existing Shares of HK$0.01 quoted on the Stock Exchange on the Last Trading Day (the "**LTD Zero Discount Rate**");

(iii) the same price as the average of the theoretical closing prices of the Consolidated Shares of HK$0.20 based on the average of the closing prices of the Existing Shares quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day of HK$0.01 (the "**Average 5 LTD Zero Discount Rate**");

(iv) a discount of approximately 1.0% to the theoretical closing prices of the Consolidated Shares of HK$0.202 based on the average of the closing prices of the Existing Shares quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of HK$0.0101;

(v) a discount of approximately 0.7% to the average of the theoretical closing prices of the Consolidated Shares of approximately HK$0.201 based on the average of the closing prices of the Existing Shares quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK$0.01007;

(vi) a discount of approximately 56.2% to the net asset value of the Company per Consolidated Share as at 30 June 2024 of approximately HK$0.457 calculated based on the audited consolidated net asset value attributable to the Shareholders as at 30 June 2024 of approximately HK$293.1 million and 641,224,200 Consolidated Shares;

(vii) a discount of approximately 54.5% to the net asset value of the Company per Consolidated Share as at 31 December 2024 of approximately HK$0.440 calculated based on the unaudited consolidated net asset value attributable to the Shareholders as at 31 December 2024 of approximately HK$281.9 million and 641,224,200 Consolidated Shares (the "**NAV Discount Rate**"); and

(viii) the same price as the benchmarked price (as defined under Rule 7.27B of the Listing Rules) of HK$0.20 calculated based on the theoretical closing prices of the Consolidated Shares for the last five consecutive trading days up to and including the Last Trading Day, and there will be no theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules).

The Capitalisation Issue Price was arrived at after arm's length negotiation between the Company and the Subscribers taking into account the prevailing market prices, the thin trading volume of the Shares, as well as the current market conditions.

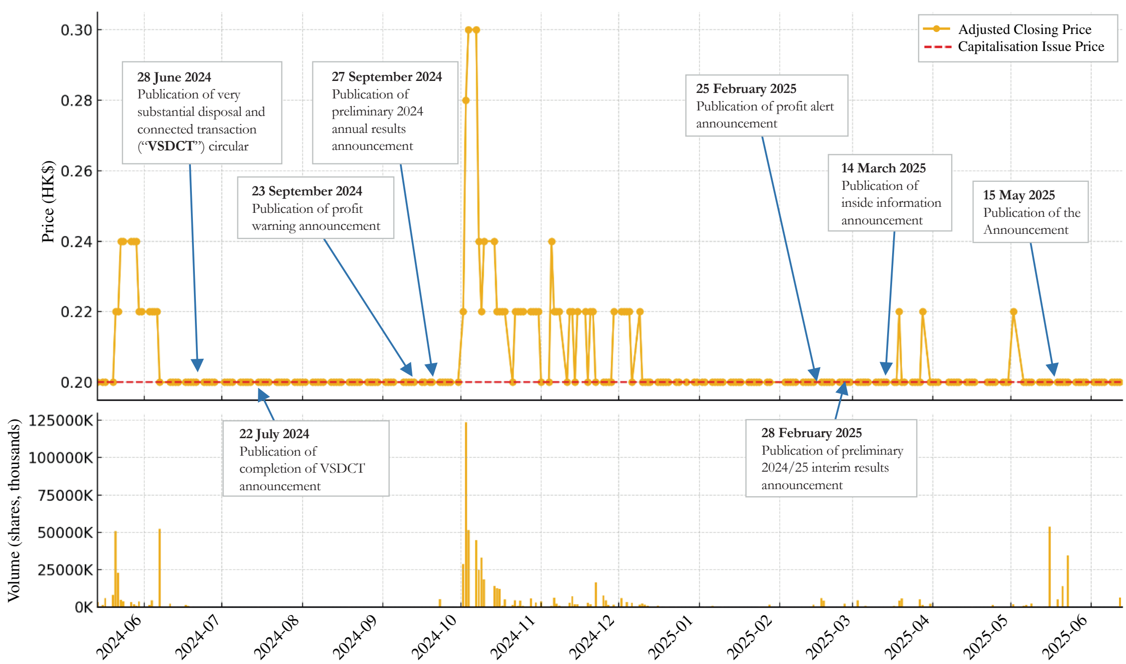
The Company notes that the Capitalisation Issue Price represents a relatively large discount of approximately 54.5% to the net asset value attributable to the Shareholders per Consolidated Share as at 31 December 2024. However, the Shares have been trading very low at or close to the extremity of HK$0.01 for a prolong period of time. The average of the closing prices of the Shares during the two years immediately prior to the Last Trading Day was also approximately HK$0.01023, and the discounts of the average closing price of the Shares to the net asset value attributable to the Shareholders during this two-year period ranged between approximately 53.4% and 88.7%. The Company is of the view that this may indicate that investors might not have valued the Shares based on the underlying value of the Group's assets. Accordingly, having considered the business development of the Group and prevailing market conditions, and taking into account the positive impact on the financial position of the Group upon implementation of the Debt Capitalisation as disclosed in the section headed "3. Reasons and benefits for the Proposals and use of proceeds" in this letter above, we concur with the Directors that, despite the relatively large discount of the Capitalisation Issue Price as compared to the net asset value attributable to the Shareholders per Consolidated Share as at 31 December 2024, the terms of the Debt Capitalisation Agreements (including the Capitalisation Issue Price) are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Please refer to the Board Letter for more details on the Debt Capitalisation Agreements.

5.3.2 Historical performance of the Shares

Set out below is a chart illustrating the theoretical closing price of Consolidated Shares (the "**Adjusted Closing Price**") (after taking into account the effect of the Share Consolidation) during the period from 15 May 2024 to the Latest Practicable Date (the "**Share Price Review Period**") and compared with the Capitalisation Issue Price. We consider the Share Price Review Period to be adequate, fair, and representative to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the Adjusted Closing Price, which can reflect the correlation between the recent business performance of the Group and the latest market reaction in the closing prices of the Shares.

Share price chart during the Share Price Review Period



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

As illustrated in the above chart, during the Share Price Review Period, the Adjusted Closing Prices ranged from the lowest of HK$0.20 as recorded at a total of 216 trading days under the Share Price Review Period to the highest of HK$0.30 as recorded on 4 October 2024 and 7 October 2024 with an average Adjusted Closing Price of approximately HK$0.205 and a median Adjusted Closing Price of HK$0.20. The Capitalisation Issue Price represents (i) a discount of approximately 33.33% to the highest Adjusted Closing Price of the Shares; (ii) same price of the lowest Adjusted Closing Price of the Shares and the median Average Closing Price; and (iii) a discount of approximately 2.62% to the average Adjusted Closing Price of the Shares during the Share Price Review Period, respectively.

During the Share Price Review Period, the Adjusted Closing Prices remained relatively stable at HK$0.20 for 216 trading days out of 268 trading days of the Share Price Review Period, with minor fluctuations observed between September and December 2024. A notable spike occurred in late September 2024, with the Adjusted Closing Price reaching the peak of HK$0.30 on 4 October 2024 and 7 October 2024 before declining and entering a short period of volatility from October to December 2024. From mid-December 2024 onwards, the Adjusted Closing Price gradually stabilised and returned to its earlier level of HK$0.20 with minimal movement recorded in late March 2025. We have discussed with the Management regarding the fluctuations of the Adjusted Closing Prices and were advised that save for the publication of (i) the Announcement; (ii) the announcement of the Company dated 14 March 2025 in relation to the entering of the settlement deed; (iii) the announcement of the Company dated 28 February 2025 regarding the preliminary interim results of the Group for the six months ended 31 December 2024; (iv) the profit alert announcement of the Company dated 25 February 2025; (v) the announcement of the Company dated 27 September 2024 regarding the preliminary annual results of the Group for the year ended 30 June 2024; (vi) the profit warning announcement of the Company dated 23 September 2024; and (vii) the announcement of the Company dated 22 July 2024 regarding completion of very substantial disposal and connected transaction in relation to disposal of a subsidiary and shareholders loan to the connected person. Other than the aforesaid, the Management confirmed that they were not aware of any other reasons for the fluctuations in the Adjusted Closing Prices during the Share Price Review Period.

With reference to the sub-paragraph headed "5.3.4. Comparable debt capitalisation transactions" below, the nil discount or premium rate as represented by the Capitalisation Issue Price to the Adjusted Closing Price as at the Last Trading Day and the discount represented by the Capitalisation Issue Price to the net asset value of the Group per Consolidated Share as at 31 December 2024 are within the respective range of the Capitalisation Comparable Transactions. In addition, based on the aforementioned financial performance and position of the Group, we noted that the Group is insufficient to repay the amount due to the Subscribers as analysed in the section headed "3. Reasons and benefits for the Proposals and use of proceeds" above. In this regard, we concur with the Directors' view that the Capitalisation Issue Price is in line with the general market practice and is acceptable.

5.3.3 Historical trading volume of the Shares

The following table sets out (i) the average daily trading volume of the Shares; and (ii) the percentage of the average daily trading volume of the Shares to total number of issued Shares as at the end of the month/period during the Share Price Review Period.

	Total trading volume of the Shares for the month/period	Number of trading days in the month/period	Average daily trading volume of the Shares in the month/period *(note 1)*	Percentage of the average daily trading volume over total number of issued Shares as at the end of the month/period *(note 2)*	Percentage of average daily trading volume over total number of the Shares held by public Shareholders as at the Latest Practicable Date *(note 3)*
2024					
14 – 31 May	110,160,478	13	8,473,883	0.0661%	0.1220%
June	61,697,012	19	3,247,211	0.0253%	0.0468%
July	558,740	22	25,397	0.0002%	0.0004%
August	408,000	22	18,545	0.0001%	0.0003%
September	5,665,050	19	298,161	0.0023%	0.0043%
October	388,784,050	21	18,513,526	0.1444%	0.2666%
November	62,703,114	21	2,985,863	0.0233%	0.0430%
December	19,902,315	20	995,116	0.0078%	0.0143%
2025					
January	3,444,000	19	181,263	0.0014%	0.0026%
February	14,337,000	20	716,850	0.0056%	0.0103%
March	23,627,105	21	1,125,100	0.0088%	0.0162%
April	1,536,254	19	80,855	0.0006%	0.0012%
May	113,249,060	20	5,662,453	0.0442%	0.0815%
June (up to and including the Latest Practicable Date	2,656,000	12	221,333	0.0017%	0.0032%
		Maximum	18,513,526	0.1444%	0.2666%
		Minimum	18,545	0.0001%	0.0003%
		Average	3,038,968	0.0237%	0.0438%
		Median	855,983	0.0067%	0.0123%

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

Notes:

(1) Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.

(2) Calculation is based on the average daily trading volume of Shares divided by the total issued Shares of the Company at the end of each respective month.

(3) Based on 6,945,495,517 Shares held by public Shareholders as at the Latest Practicable Date.

As illustrated in the table above, (i) the percentage of average daily trading volume of Shares during the Share Price Review Period ranged from 0.0001% to approximately 0.1444% of the total number of issued Shares for each of their respective month/period, with an average percentage of approximately 0.0237% and a median percentage of approximately 0.0067%; and (ii) the percentage of average daily trading volume of Shares ranged from 0.0003% to approximately 0.2666% of the total number of the Shares held by the public Shareholders as at the Latest Practicable Date, with an average percentage of approximately 0.0438% and a median percentage of approximately 0.0123%. Considering that the trading liquidity of the Shares were in general thin during the Share Price Review Period, we consider that the Company is unlikely to be able to raise equity funds from third parties without a substantial discount on the prevailing Share prices. Taking into account the low trading liquidity of the Shares, we are of the view that, from the perspective of trading liquidity of the Shares, Debt Capitalisation is an appropriate equity financing method for the Group and the Capitalisation Issue Price thereunder is fair and reasonable.

5.3.4 Comparable debt capitalisation transactions

In order to further assess the fairness and reasonableness of the Capitalisation Issue Price, we have reviewed the recent market practices which (i) involved subscription of new shares for debt capitalisation under specific mandate; (ii) were announced by the companies listed on the Main Board of the Stock Exchange for the period from 14 May 2024 up to the Last Trading Day (being approximately one year prior to and including the date of the Debt Capitalisation Agreements); and (iii) the subscription of new shares has not been terminated as at the Last Trading Day. We have identified an exhaustive list of 7 transactions (the "**Capitalisation Comparable Transactions**").

Independent Shareholders should note that the businesses, operations, financial positions and prospects of the Company are not the same as those of the Capitalisation Comparable Transactions. We have not conducted any independent investigation with regard to the businesses, operations, financial positions, and prospects of the companies. Despite the subject companies under the Capitalisation Comparable Transactions may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, we would still consider, in light of our selection criteria, capturing recent issues of new shares under specific mandate by companies listed in Main Board for debt capitalisation under similar market conditions and sentiments can provide us with a general reference on the recent practices of the premium/discount of issue prices of new shares over/to the market prices of the relevant shares for this type of transaction on the equity capital market in Hong Kong.

Date of announcement	Company name (stock code)	Fundraising amount under share subscription	Connected Transaction	Specific Mandate or General Mandate	% of the subscription shares to the issued shares as at the date of the respective announcement (%)	Premium/ (discount) of the subscription price to the closing price on the last trading day (%)	Premium/ (discount) of the subscription price to average closing price for the last five (5) trading days (%)	Premium/ (discount) of the subscription price to the net asset value per share	Financial position	Percentage of Disinterested Shareholders voted in the extraordinary meeting	Percentage of the disinterested shareholders in the extraordinary meeting voted for
29-Apr-2025	GoFintech Quantum Innovation Limited (stock code: 290)	HK$587.22 million	Yes	Specific Mandate	5.97%	4.92%	2.56%	848.15% *(note 1)*	Net asset	79.98%	N/A *(note 4)*
17-Apr-2025	China HK Power Smart Energy Group Limited (stock code: 931)	HK$140.00 million	Yes	Specific Mandate	10.76%	0.00%	(0.51%)	344.19% *(note 2)*	Net asset	40.98%	100.0%
7-Apr-2025	Regent Pacific Group Limited (stock code: 575)	HK$30.74 million	Yes	Specific Mandate	27.74%	0.00%	16.00%	N/A *(note 3)*	Net liabilities	40.20%	N/A *(note 4)*
17-Jan-2025	CHK Oil Limited (stock code: 632)	HK$5.00 million	Yes	Specific Mandate	1.43%	5.06%	(5.03%)	49.82%	Net asset	32.33%	100.0%
27-Dec-2024	Kidsland International Holdings Limited (stock code: 2122)	HK$21.41 million	Yes	Specific Mandate	38.24%	94.44%	101.15%	84.21%	Net asset	45.60%	100.0%
12-Nov-2024	Bonjour Holdings Limited (stock code: 653)	HK$33.18 million	Yes	Specific Mandate	88.34%	0.00%	(1.00%)	(86.72%)	Net asset	47.29%	100.0%
17-Jun-2024	Zhuaguang Holdings Group Company Limited (Stock code: 1176)	HK$325.00 million	Yes	Specific Mandate	22.49%	21.21%	18.34%	(77.09%)	Net asset	46.36%	99.93%
				Maximum	88.34%	94.44%	101.15%	84.21%			
				Minimum	1.43%	0.00%	(5.03%)	(86.72%)			
				Average	27.85%	17.95%	18.79%	(7.45)%			
				Median	22.49%	4.92%	2.56%	(13.64)%			
	The Company	HK$100.91 million	Yes		78.70%	0.00%	0.00%	(54.50%)	Net asset		

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

Notes

1. GoFintech Quantum Innovation Limited (stock code: 290) ("**GoFintech Quantum**") is a cross-border, cross-industry investment platform based in Hong Kong, backed by the Greater Bay Area and focused on the international market. As at the Latest Practicable Date, GoFintech Quantum's market capitalisation is approximately HK$11.1 billion, whereas its consolidated net assets are only approximately HK$1,041.9 million, as disclosed in its latest interim report. This demonstrates that GoFintech Quantum's market capitalisation is significantly higher than its net asset value, and accordingly, the underlying issue price in its debt capitalisation transaction represents a substantial premium.

2. China HK Power Smart Energy Group Limited (stock code: 931) ("**China HK Power Smart Energy**") principally engaged in the sales and distribution of natural gas, the development and production of new energy technology products and integrated solutions in PRC and the provision of financial services business. As at the Latest Practicable Date, China HK Power Smart Energy's market capitalisation is approximately HK$1.7 billion, whereas its equity attributable to the shareholders are only approximately HK$293.1 million, as disclosed in its latest interim report. This demonstrates that China HK Power Smart Energy's market capitalisation is significantly higher than its net asset value, and accordingly, the underlying issue price in its debt capitalisation transaction represents a substantial premium.

3. Regent Pacific Group Limited (stock code: 575) recorded net liabilities of approximately US$5.90 million as at 31 December 2024.

4. The extraordinary meeting has not been held as at the Latest Practicable Date.

As set out in the table above, we noted that:

(i) the percentage of the subscription shares to the issued shares as at the date of the respective announcement compared to the total issued number of shares as at the respective announcement ranged from 1.43% to 88.34%, with an average percentage of 27.85% and a median percentage of 22.49%. The aggregate number of Capitalisation Shares to be issued under the Debt Capitalisation Agreements represents 78.70% of the total issued number of Shares (after taking into account the Share Consolidation), which is within the range of Capitalisation Comparable Transactions;

(ii) the subscription price to the closing price on the respective last trading day immediately prior to the publication of the announcement in respect of the respective debt capitalisation announcement of the Capitalisation Comparable Transactions ranged from nil to a premium of approximately 94.44%, with a median premium of approximately 4.92% and an average premium of approximately 17.95%. The zero discount rate as represented by the Capitalisation Issue Price to the Adjusted Closing Price as at the Last Trading Day is within the range of the Capitalisation Comparable Transactions and is below the median and average premium of the Capitalisation Comparable Transactions;

(iii) the subscription price to the average closing price for the last five (5) consecutive trading days prior to/up to and including the respective last trading day immediately prior to the publication of the announcement in respect of the respective debt capitalisation announcement of the Capitalisation Comparable Transactions ranges from a discount of approximately 5.03% to a premium of 101.15% with a median premium of approximately 2.56% and an average premium of approximately 18.79%. The zero discount rate as represented by the Capitalisation Issue Price to the average Adjusted Closing Price for the last 5 consecutive trading days up to and including the Last Trading Day is within the range of the Capitalisation Comparable Transactions and lower than the relevant median and the average; and

(iv) the subscription price to the net asset value of the Capitalisation Comparable Transactions ranged from a discount of approximately 86.72% to a premium of approximately 84.21%, with a median discount of approximately 13.64% and an average discount of approximately 7.45%. The NAV Discount Rate is within the range of the Capitalisation Comparable Transactions and higher than the relevant median and the average. Despite the NAV Discount Rate is higher than the relevant median and the average of the Capitalisation Comparable Transactions, having considered that the Adjusted Closing Price recorded at HK$0.2 per Consolidated Share for a total of 203 trading days over 256 trading days during the Share Price Review Period, which means the Shares have been trading below the net asset value of the Company for a prolonged period at the discount rate of approximately 56.2% and 54.5% based on net asset value of the Group as at 30 June 2024 and 31 December 2024. For our further assessment, we reviewed the closing prices of the Group since June 2023 and the recent net asset values of the Group as disclosed in its annual and interim reports. Despite the net asset values of the Group amounted to approximately HK$0.0909, HK$0.0229 and HK$0.0220 as at 30 June 2023, 30 June 2024 and 31 December 2024, having considered that (a) the Shares were traded at HK$0.01 for a substantial period i.e. 415 trading days over 494 trading days since June 2023 and up to the Latest Practicable Date, representing approximately 83.84% of the period; and (b) given the Group's interests in associates of approximately HK$557.02 million accounts for approximately 75.91% of its total assets as at 31 December 2024, which relates to Pacific Memory which the Company does not have control of, therefore, net asset value is not a good indicator to assess the value of the Company, we concur with the Directors' view that the investors might not value the Shares based on the financial position of the Group, such that we consider NAV Discount Rate to be fair and reasonable.

In view of the above recent market trend reference and given that the Capitalisation Issue Price is equal to the Adjusted Closing Price during the majority of the Share Price Review Period, we consider the Capitalisation Issue Price to be fair and reasonable.

6. The Proposed Rights Issue

6.1 Principal terms of the proposed Rights Issue

Basis of the Rights Issue	:	One (1) Rights Share for every two (2) Consolidated Shares held on the Record Date
Rights Issue Price	:	HK$0.20 per Rights Share
Number of Existing Shares in issue as at the Latest Practicable Date:	:	12,824,484,010 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective and upon the allotment and issue of the Capitalisation Shares:	:	1,145,798,340 Consolidated Shares
Number of Rights Shares to be issued pursuant to the Rights Issue	:	572,899,170 Rights Shares
Aggregate nominal value of the Rights Shares	:	Approximately HK$458,319
Total number of Shares in issue as enlarged by the allotment and issue of the Rights Shares	:	1,718,697,510 Consolidated Shares
Number of Rights Shares subject to the Irrevocable Undertakings	:	Each of Subscriber I, Subscriber II and Mr. Yang has irrevocably undertaken to the Company that each of them will take up the 199,955,829 Rights Shares, the 146,735,523 Rights Shares and the 52,570,429 Rights Shares, respectively, under each of their entitlement pursuant to the terms of the Rights Issue.
Number of Underwritten Shares	:	173,637,389 Rights Shares, being the total of 572,899,170 Rights Shares minus the aggregate of 399,261,781 Rights Shares subject to the Irrevocable Undertakings
Underwriter	:	Subscriber I
Gross proceeds from the Rights Issue	:	Approximately HK$114.6 million
Net proceeds from the Rights Issue (after deducting expenses)	:	Approximately HK$112.0 million

As at the Latest Practicable Date, the conditions of the Rights Issue had not been fulfilled.

Based on the current expected timetable, the expected date of commencement of dealings in fully-paid Rights Shares will be on Thursday, 21 August 2025.

Please refer to the Board Letter for more details on the Rights Issue.

6.2 Assessment of the Rights Issue Price

6.2.1 Rights Issue Price

As set out in the Board Letter, the Rights Issue Price is HK$0.20 per Rights Share, which is the same as the Capitalisation Issue Price, and is payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The price comparison of the Rights Issue Price with the prevailing market prices of the Shares and the net asset value attributable to the Shareholders is the same as that for the Capitalisation Issue Price as discussed in the Board Letter. The equal pricing for the Rights Issue can ensure that the Qualifying Shareholders have the opportunity to participate in the Group's future development at the same price as the Subscribers. The theoretical ex-rights price will also be the same as the benchmarked price (as defined under Rule 7.27B of the Listing Rules) of HK$0.20, and there will be no theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules).

The net Rights Issue Price per Rights Share (after deducting expenses) is estimated to be approximately HK$0.196 per Rights Share. The Rights Issue Price and the subscription ratio was determined by the Company with reference to the prevailing market prices of the Shares, the current market conditions, the financial condition of the Group and the fund-raising size intended by the Company.

As the Rights Issue Price is the same as the Capitalisation Issue Price, please refer to our analysis on the Capitalisation Issue Price as set out above in this letter for more details.

Having considered the above and taking into account (i) the reasons for the Rights Issue as disclosed in the section headed "Reasons for and benefits of the Proposals and use of proceeds" above; (ii) our analysis regarding the Capitalisation Issue Price which is same as the Rights Issue Price as set out in the section headed "5.3 Assessment of the Capitalisation Issue Price" above; and (iii) our analysis on "6.2.2 Comparable rights issue transactions" below, we concur with the Directors' view that the terms of the Rights Issue are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6.2.2 Comparable rights issue transactions

With a view to assess the fairness and reasonableness of the terms of the Rights Issue, we have also conducted market research on recent proposed rights issue transactions based on the following selection criteria: (i) the shares of the company are listed on the Main Board of the Stock Exchange; and (ii) the proposed rights issue transaction was announced during the 3-month period commencing on 14 February 2025 up to and including the Last Trading Day (i.e. 14 May 2025) ("**Rights Comparable Review Period**"), which we considered to be an appropriate timeframe to identify a representative sample set for the purpose of our analysis.

Based on the aforesaid criteria, we have identified an exhaustive list of 13 rights issues (the "**Rights Comparable Transactions**"). Despite that (a) the Rights Comparable Transactions may have different principal business activities, market capitalisation, profitability, financial positions, and future prospects as compared to those of the Company; and (b) the range of the discount / premium of the Rights Comparable Transactions as shown below is wide, having considered that (i) all of the Rights Comparable Transactions and the Company are listed on the Main Board of the Stock Exchange; (ii) all the Rights Comparable Transactions were not lapsed or terminated as at the Latest Practicable Date; (iii) the respective subscription price was determined by the underlying company of the Rights Comparable Transactions with reference to the latest market sentiment up to the respective last trading day and there is no alternation on the subscription price of the Rights Comparable Transactions as at the Latest Practicable Date; and (iv) the Rights Comparable Period of 3-month has resulted in the generation of reasonable sample size, we consider that the Rights Comparable Transactions can provide a reasonable reference to how the market generally perceives rights issues, and fair and representative for assessing the Rights Issue. We also consider that the Rights Comparable Review Period is adequate, fair and reasonable to capture the prevailing market conditions of companies listed on the Stock Exchange conducting a rights issue. It should be noted that, in forming our opinion, we have taken into account the results of the analysis below together with all other factors stated in this letter as a whole. The table below provides a summary of our findings.

Date of announcement	Company name (stock code)	Basis of provisional allotment	Premium/ (Discount) of the Subscription Price over/to the closing price per share on the last trading day	Premium/ (Discount) of the Subscription Price over/to for the last five (5) consecutive trading days up to and including the last trading day	Premium/ (Discount) of the subscription price over/to the theoretical ex-right price per share based on the closing price per share on the last trading day	Premium/ (discount) of subscription price per rights issue share over/to the latest published consolidated net asset value per share	Theoretical dilution effect	Excess application/ Placing	Placing commission *(note 1)*	Underwriting arrangement *(note 2)*	Underwriting commission *(note 2)*	Maximum dilution on the shareholding
13-May-2025	Shougang Century Holdings Limited (stock code: 103)	3 for 20	12.30%	14.30%	10.60%	(40.10%)	0.00%	Excess application	N/A	N/A	N/A	13.04%
13-May-2025	Capital Realm Financial Holdings Group Limited (stock code: 204)	3 for 1	4.17%	21.36%	1.01%	(86.28%)	0.00%	Placing	3.00%	N/A	N/A	75.00%
9-May-2025	China Sci-Tech Industrial Investment Group Limited (stock code: 339)	1 for 2	(43.10%)	(47.40%)	(38.60%)	N/A *(note 3)*	16.20%	Placing	1.50%	N/A	N/A	33.33%
7-May-2025	SEEC Media Group Limited (stock code: 205)	1 for 2	(23.61%)	(26.17%)	(17.29%)	(51.54%)	0.00%	Placing	3.00% or HK$100,000 *(note 7)*	N/A	N/A	33.33%
29-Apr-2025	C Cheng Holdings Limited (stock code: 1486)	1 for 2	(67.21%)	(66.44%)	(57.75%)	(92.75%)	22.40%	Placing	3.00%	N/A	N/A	33.33%
25-Apr-2025	Melco International Development Limited (stock code: 200)	1 for 2	(72.93%)	(71.03%)	(64.28%)	3328.67% *(note 4)*	24.31%	Excess application	N/A	N/A	N/A	33.33%
16-Apr-2025	Bonjour Holdings Limited (stock code: 653)	3 for 1	(25.93%)	(27.93%)	(8.05%)	(75.91%)	20.95%	Excess application & Placing	2.00%	N/A	N/A	75.00%
16-Apr-2025	AustAsia Group Ltd. (stock code: 2425)	2 for 5	(29.11%)	(29.11%)	(22.76%)	(80.95%)	8.23%	Excess application	N/A	N/A	N/A	28.57%
11-Apr-2025	ISP Holdings Limited (stock code: 2340)	1 for 2	(74.50%)	(73.38%)	(66.07%)	(85.59%)	24.85	Excess application	N/A	N/A	N/A	33.33%
7-Mar-2025	Volcano Spring International Holdings Limited (stock code: 1715)	3 for 1	47.06%	47.06%	8.70%	(21.59%)	0.00%	Placing	1.00%	N/A	N/A	66.67%
3-Mar-2025	China Zenith Chemical Group Limited (stock code: 362)	2 for 1	(17.90%)	(18.40%)	(7.10%)	n/a *(note 5)*	13.05%	Excess application	N/A	Non-fully underwritten	1.00%	66.67%
18-Feb-2025	China Baoli Technologies Holdings Limited (stock code: 164)	4 for 1	6.67%	2.30%	1.27%	n/a *(note 6)*	0.00%	Excess application & Placing	1.00%	N/A	N/A	80.00%
14-Feb-2025	Yues International Holdings Group Limited (stock code: 1529)	4 for 1	(7.14%)	(20.25%)	(1.52%)	(88.68%)	21.47%	Placing	1.00% or HK$100,000 *(note 8)*	N/A	N/A	80.00%
		Maximum	47.06%	47.06%	10.60%	(21.59%)	24.85%		3.00%			80.00%
		Minimum	(74.50%)	(73.38%)	(66.07%)	(92.75%)	0.00%		1.00%			13.04%
		Average	(22.40%)	(22.70%)	(20.14%)	(69.27%)	11.65%		1.60%			50.12%
		Median	(23.61%)	(26.17%)	(8.05%)	(80.95%)	13.05%		1.00%			33.33%
	The Company	1 for 2	0.00%	0.00%	0.00%	(54.5%)	0.00%		2.00%	Fully-underwritten	Nil	33.33%

Notes:

(1) "N/A" denotes that the subject rights issue was conducted without the involvement of any placing.

(2) "N/A" denotes that the subject rights issue was conducted on a non-underwritten basis.

(3) China Sci-Tech Industrial Investment Group Limited (stock code: 339) recorded net asset liabilities of approximately HK$742,061,000 as at 31 December 2024.

(4) Melco International Development Limited ("**Melco**", stock code: 200) is principally engaged in the casino and hospitality segment. As noted from the annual reports of Melco, Melco has recorded losses attributable to owners of the company in recent years and as a result, the equity attributable to owners of Melco was significantly reduced from approximately HK$664,998,000 as at 31 December 2022 to only approximately HK$45,930,000 as at 31 December 2024, reflecting the cumulative impact of these losses on Melco's consolidated financial position. Therefore, the figure has been excluded from the computations as it appears to be abnormally high compared to the remaining Rights Comparable Transactions and is considered an outlier, which may skew the overall results.

(5) China Zenith Chemical Group Limited (stock code: 362) recorded an unaudited net asset liabilities of HK$1,078,794,000 as at 31 December 2024.

(6) China Baoli Technologies Holdings Limited (stock code: 164) recorded an unaudited net asset liability of HK$370,914,000 as at 30 September 2024.

(7) The placing commission is the higher of HK$100,000 or 3% of the gross proceeds from successful placement.

(8) The placing commission is the higher of HK$100,000 or 1% of the gross proceeds from successful placement.

As shown by the above table, the discount as represented by the subscription prices of the Rights Comparable Transactions to (i) the respective closing price per share on last trading day immediately prior to publication of announcement in relation to the respective rights issue ranged from a discount of approximately 74.50% to a premium of approximately 47.06% with an average discount of approximately 22.40% and a median discount of approximately 23.61%; (ii) the respective average closing price per share for the last five (5) consecutive trading days immediately prior to publication of announcement in relation to the respective rights issue ranged from a discount of approximately 73.38% to a premium of approximately 47.06% with an average discount of approximately 22.70% and a median discount of approximately 26.17%; and (iii) the respective theoretical ex-right price per share based on the closing price per share on the last trading day ranged from a discount of approximately 66.07% to a premium of approximately 10.60% with an average discount of approximately 20.14% and a median discount of approximately 8.05%. The premium/discount as represented by the subscription prices of the Rights Comparable Transactions to the net asset attributable to owners of the subject company per share ranged from a discount of approximately 92.75% to a discount of approximately 21.59% with an average discount of approximately 69.27% and a median discount of approximately 80.95%. The theoretical dilution effect of the Rights Comparable Transactions ranged from nil to 24.85% with an average dilution effect of 11.65% and a median dilution effect of 13.05%.

Therefore, the LTD Zero Discount Rate, the Average 5 LTD Zero Discount Rate, the theoretical ex-right price of the Company, and the NAV Discount Rate are within the relevant range and above the median and average of the Rights Comparable Transactions. Hence, we consider the terms of the Right Issue Price is within the prevailing market norm and is justifiable.

Having considered the above and that the generally thin liquidity of the Shares during the Share Price Review Period and the Adjusted Closing Price remains at HK$0.20 during the majority of the Share Price Review Period, we are of the view that it is reasonable to set the Capitalisation Price and the Rights Issue Price at the same price as the Adjusted Closing Price as at the Last Trading Day and hence, we consider the Capitalisation Issue Price and the Right Issue Price is fair and reasonable.

6.3 The Compensatory Arrangements and Placing

Regarding the Board Letter, the Company will make arrangements to dispose of the Unsubscribed Rights Shares, comprising the Rights Shares that are not subscribed by the Qualifying Shareholders and the NQS Unsold Rights Shares, by offering the Unsubscribed Rights Shares to independent placees, who and whose ultimate beneficial owner(s) are Independent Third Party(ies) and are not acting in concert with the Subscribers and their respective concert parties, for the benefit of the relevant No Action Shareholders to whom they were offered under the Rights Issue. As the Compensatory Arrangements are in place, there will be no excess application arrangements in relation to the Rights Issue.

After trading hours of the Stock Exchange on 15 May 2025, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares. Principal terms of the Placing Agreement are set out below.

Set out below is a summary of the principal terms of the Placing Agreement as extracted from the Board Letter:

Date	:	15 May 2025
Placing Agent	:	VC Brokerage Limited, a licensed corporation carrying out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO The Placing Agent and its ultimate beneficial owner(s) are Independent Third Parties, and are independent and not connected with and not acting in concert with the Subscribers and their respective concert parties.
Placing commission	:	2.0% of the gross proceeds from the successful placement of the Unsubscribed Rights Shares (the "**VC Placing Commission**")
Placing price of the Unsubscribed Rights Shares	:	The placing price of the Unsubscribed Rights Shares shall be not less than the Rights Issue Price (the "**Placing Price**"). The final price will be determined based on the demand for and market conditions of the Unsubscribed Rights Shares at the time of placement.

For detailed terms of the Placing Agreement, please refer to the section headed "The Placing Agreement" in the Board Letter.

6.3.1 Placing Price

Pursuant to the Placing Agreement, the Placing Price of the Unsubscribed Rights Shares shall be not less than the Rights Issue Price. The final price will be determined based on the demand for and market conditions of the Unsubscribed Rights Shares at the time of placement.

Given that (i) the Placing Price shall be not less than the Rights Issue Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Rights Issue Price is fair and reasonable as discussed in the paragraph headed "6.2.2. Comparable rights issue transactions" above, we consider that the Placing Price (which shall be not less than the Rights Issue Price) is fair and reasonable so far as the Independent Shareholders are concerned.

6.3.2 VC Placing Commission

The terms of the Placing Agreement (including the placing commission thereof) were determined after arm's length negotiation between the Company and the Placing Agent with reference to the size of the Rights Issue and the prevailing market rate of commission and are on normal commercial terms.

Based on the Rights Comparable Transactions table as set out in the section headed "6.2.2 Comparable rights issue transactions" above, we noted that 8 out of 13 Rights Comparable Transactions involve placing arrangements (the "**Placing Comparable Transactions**") and the commission rates payable to placing agent(s) of the Placing Comparable Transactions ranged from 1.00% to 3.00% with an average of approximately 1.60% and a median of 1.00%. The VC Placing Commission of 2.00% is within the range of the Placing Comparable Transactions and above the average and median commissions of the Placing Comparable Transactions.

Having considered that the respective placing commission of the Placing Comparable Transactions was determined based on the arm's length negotiations between the underlying company of the Placing Comparable Transactions and the respective placing agent regarding, among others, the prevailing market situations, which is similar to the basis of the VC Placing Commission, we are of the opinion that the VC Placing Commission of 2.00% is fair and reasonable.

6.4 The Underwriting Agreement

After trading hours of the Stock Exchange on 15 May 2025, the Company and the Underwriter entered into the Underwriting Agreement, pursuant to which the Rights Shares (other than those Rights Shares subject to the Irrevocable Undertakings) will be fully underwritten by the Underwriter in accordance with the terms of the Underwriting Agreement. Principal terms of the Underwriting Agreement are set out below.

Date	:	15 May 2025
Underwriter	:	Subscriber I, who is a Substantial Shareholder as at the Latest Practicable Date. As such, Subscriber I complies with Rule 7.19(1)(b) of the Listing Rule. It is not in the ordinary course of business of Subscriber I to underwrite securities.
Number of Rights Shares to be underwritten by the Underwriter	:	173,637,389 Rights Shares (assuming there will be no issue of other new Shares from the Latest Practicable Date up to the Record Date save for the allotment and issue of the Capitalisation Shares)
Underwriting commission	:	Nil

For detailed terms of the Underwriting Agreement, please refer to the section headed "The Underwriting Agreement" in the Board Letter.

We consider that the aforesaid underwriting arrangement secured the Company's fund-raising through the Rights Issue to a certain extent and that Subscriber I will not receive any underwriting commission, the arrangement of which is favourable to the Company.

Taking into account the principal terms of the Rights Issue as highlighted above, we consider that the terms of the Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

7. Possible financial effects of the Rights Issue

The unaudited pro forma statement of consolidated net tangible assets of the Group (the "**Pro Forma Statement**") adjusted for the effect of the Share Consolidation, the Debt Capitalisation and the Rights Issue as at 31 December 2024, which is prepared as if the Share Consolidation, the Debt Capitalisation and the Rights Issue had taken place on 31 December 2024, is set out under Appendix II to the Circular.

According to the Pro Forma Statement, the unaudited consolidated net tangible assets of the Group as at 31 December 2024 shall increase from approximately HK$250.45 million (i) to approximately HK$351.39 million immediately after completion of the Debt Capitalisation had taken place on 31 December 2024; and (ii) to approximately HK$463.28 million immediately after completion of the Debt Capitalisation and Rights Issue had taken place on 31 December 2024.

The unaudited net tangible assets per Existing Share before implementations of the Share Consolidation, the Debt Capitalisation and the Rights Issue is approximately HK$0.02 per Share (which is equivalent to the Capitalisation Issue Price and the Rights Issue Price and shall either be same or lower than the Placing Price). The unaudited consolidated net tangible assets per Consolidated Share immediately after (i) the implementation of the Share Consolidation only is approximately HK$0.39; (ii) the implementation of Share Consolidation and completion of the Debt Capitalisation only is approximately HK$0.31; and (iii) the implementation of Share Consolidation and immediately after the completion of the Debt Capitalisation and Rights Issue is HK$0.27.

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

8. Possible dilution effect on the shareholding of the Company

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon the Share Consolidation having taken effect; (ii) upon the allotment and issue of the Capitalisation Shares; and (iv) upon completion of the Rights Issue in different scenarios as follows:

(a) full acceptance of the Rights shares by all Qualifying Shareholders (the "**Scenario 1**");

(b) nil acceptance of the Rights Shares by the Qualifying Shareholders (other than Subscriber I, Subscriber II and Mr. Yang pursuant to the Irrevocable Undertakings) and all of the Unsubscribed Rights Shares are fully placed to the Placees under the Compensatory Arrangements (the "**Scenario 2**"); and

(c) nil acceptance of the Rights Shares by the Qualifying Shareholders (other than Subscriber I, Subscriber II and Mr. Yang pursuant to the Irrevocable Undertakings) and all of the Untaken Rights Shares are taken up by the Underwriter (the "**Scenario 3**").

Name of Shareholders	(i) As at the Latest Practicable Date		(ii) Upon the Share Consolidation having taken effect		(iii) Upon the allotment and issue of the Capitalisation Shares		(iv) Upon completion of the Rights Issue, assuming					
							(a) Full acceptance of the Rights Shares by all Qualifying Shareholders		(b) Nil acceptance of the Rights Shares by the Qualifying Shareholders (other than Subscriber I, Subscriber II and Mr. Yang pursuant to the Irrevocable Undertakings) and all of the Unsubscribed Rights Shares are placed to the Placees under the Compensatory Arrangements		(c) Nil acceptance of the Rights Shares by the Qualifying Shareholders (other than Subscriber I, Subscriber II and Mr. Yang pursuant to the Irrevocable Undertakings), and all of the Untaken Rights Shares are taken up by the Underwriter	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Subscriber I	2,206,750,364	17.2%	110,337,518	17.2%	399,911,658	34.9%	599,867,487	34.9%	599,867,487	34.9%	773,504,876	45.0%
Subscriber II	1,569,420,951	12.2%	78,471,047	12.2%	293,471,047	25.6%	440,206,570	25.6%	440,206,570	25.6%	440,206,570	25.6%
Sub-total of the Subscribers and parties acting in concert with any of them	3,776,171,315	29.4%	188,808,565	29.4%	693,382,705	60.5%	1,040,074,057	60.5%	1,040,074,057	60.5%	1,213,711,444	70.6%
Mr. Yang	2,102,817,178	16.4%	105,140,858	16.4%	105,140,858	9.2%	157,711,287	9.2%	157,711,287	9.2%	157,711,287	9.2%
Independent Placees	–	–	–	–	–	–	–	–	173,637,389	10.1%	–	–
Public Shareholders	6,945,495,517	54.2%	347,274,777	54.2%	347,274,777	30.3%	520,912,166	30.3%	347,274,777	20.2%	347,274,777	20.2%
Total	12,824,484,010	100%	641,224,200*	100%	1,145,798,340	100%	1,718,697,510	100%	1,718,697,510	100%	1,718,697,510	100%

Notes:

1. Certain figures and percentage included in the above tables have been subject to rounding adjustments.

2. As at the Latest Practicable Date, save for Subscriber II, none of the Directors hold any Shares or other relevant securities in the Company.

3. The percentage of shareholding in the above table is for illustrative purpose only. The Company will take all appropriate steps to ensure that sufficient public float is maintained in compliance with Rule 8.08 of the Listing Rules.

4. *fractional number of shares is disregarded for illustration purposes.

As shown in the above table, we noted that the shareholding in the Company held by the existing public Shareholders would be diluted from approximately 54.20% as at the Latest Practicable Date to approximately 20.20% under each of Scenarios 2 and 3, representing a dilution of approximately 34.00%. We are aware that the Debt Capitalisation and the Rights Issue will incur a dilution effect on the shareholding of the existing public Shareholders.

Nonetheless, having considered that (i) the Debt Capitalisation and the Rights Issue would allow the Group to relieve part of the Group's existing borrowings without depleting its existing financial resources; (ii) the Capitalisation Shares and the Rights Shares, when allotted and issued, will be recognised entirely as equity of the Company which in turn will reduce the gearing ratio, enlarge the capital base and enhance the net asset position of the Group; (iii) the terms of the Debt Capitalisation Agreements and the Rights Issue (together with the Underwriting Agreement and the Placing Agreement) are fair and reasonable so far as the Independent Shareholders are concerned; (iv) Independent Shareholders are offered a chance to express their views on the terms of the Underwriting Agreement and the Debt Capitalisation through their votes at the SGM; (v) Qualifying Shareholders have their choice of whether to accept the Rights Issue or not; (vi) all Qualifying Shareholders are provided an equal opportunity to subscribe for their assured entitlements under the Rights Issue for the purpose of maintaining their respective existing shareholding interests in the Company; (vii) the Qualifying Shareholders have the opportunity to sell their nil-paid Rights Shares in the market if they do not wish to take up the Rights Issue entitlements; and (viii) the placing agreement adopted under the Compensatory Arrangements constitutes an integral component of the Rights Issue, is in compliance with the Listing Rules, and will be executed by an independent Placing Agent. By allotting any unsubscribed Rights Shares to independent placees, the mechanism preserves equitable treatment for all Shareholders, including those who are unable or unwilling to exercise their entitlements under Rights Issue, hence we are of the view that the potential dilution effect on the shareholding interests of the public Shareholders to be acceptable.

9. The Whitewash Waiver

As at the Latest Practicable Date, the Subscribers and parties acting in concert with any of them are interested in 3,776,171,315 Existing Shares, representing approximately 29.4% of the issued share capital of the Company. As illustrated in the table under the section headed "8. Possible dilution effect on the shareholding of the Company" above, immediately upon the allotment and issue of the Capitalisation Shares, the aggregate shareholding of the Subscribers and parties acting in concert with any of them in the Company will be increased from approximately 29.4% to approximately 60.5%.

Under Rule 26.1 of the Takeovers Code, the allotment and issue of the Capitalisation Shares to the Subscribers will give rise to an obligation on Subscriber I and Subscriber II to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscribers and their respective concert parties), unless the Whitewash Waiver is granted by the Executive.

If the Whitewash Waiver is granted by the Executive and is approved by the Independent Shareholders and completion of the Debt Capitalisation Agreements having taken place, the aggregate shareholding of the Subscribers and parties acting in concert with any of them in the Company will exceed 50% of the issued share capital of the Company as enlarged by the Capitalisation Shares. The Subscribers and parties acting in concert with any of them as a concert group may further increase its shareholding in the Company without incurring any further obligation to make a general offer under Rule 26 of the Takeovers Code.

An application has been made by the Subscribers to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy at the SGM by way of poll in respect of the Debt Capitalisation Agreements and the transactions contemplated thereunder (including the Share Consolidation, the Debt Capitalisation and the Specific Mandate) and the Underwriting Agreement, in which the Subscribers and their respective concert parties will abstain from voting on the relevant resolution(s).

The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Debt Capitalisation will not proceed.

In view that (i) it is in the interests of the Company and the Shareholders as a whole to settle shareholder's loans by the Debt Capitalisation given the current financial position and financial performance of the Group and the Qualified Opinions; (ii) the terms of the Debt Capitalisation Agreement are fair and reasonable so far as the Independent Shareholders are concerned as analysed in the above section headed "5.3 Assessment of the Capitalisation Issue Price" above in this letter; and (iii) the Debt Capitalisation is conditional on the conditions precedent (including the Whitewash Waiver and the satisfaction of all condition (if any) attached to the Whitewash Waiver) with most of the core conditions (including the grant of the Whitewash Waiver and the satisfaction of all conditions (if any) attached to the Whitewash Waiver) cannot be waived, we are of the opinion that the Whitewash Waiver, is fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following:

(i) despite that the Capitalisation Issue Price and Rights Issue Price represent an approximately 54.5% NAV Discount Rate, the investors might not value the Shares based on the financial position of the Group, and net asset value is not a good indicator given the Group's interests in associates of approximately HK$557.02 million accounts for approximately 75.91% of its total assets as at 31 December 2024, which relates to Pacific Memory which the Company does not have control of, as explained in the section "5.3.4 Comparable debt capitalisation transactions" in this letter. In addition, the Group recorded net current liabilities of approximately HK$103.15 million as at 31 December 2024, indicating the Group does not have sufficient cash and bank balances to cover its outstanding loans; and the Qualified Opinions as indicated in the Annual Report 2023/24 states that the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern;

(ii) the Capitalisation Issue Price and the Rights Issue Price (i) are the same price as the theoretical closing price of the Consolidated Shares as at the Last Trading Day; (ii) are the same price as the theoretical average closing price for the last five consecutive trading days up to and including the Last Trading Day; (iii) represent a discount of approximately 54.5% to the net asset value of the Company per Consolidated Share as at 31 December 2024; and (iv) the Capitalisation Issue Price and the Rights Issue Price equal to the Adjusted Closing Price during the majority of the Share Price Review Period;

(iii) partial net proceeds from the Rights Issue will be applied to repay the outstanding borrowings of the Group, allowing the Group to reduce its financial burden; and partial net proceeds from the Rights Issue will be allocated to developing the Group's household products business, which aligns with the Company's business strategy objectives and is anticipated to enhance the Company's revenue streams;

(iv) the Rights Issue is the most preferable option over other financing alternatives such as debt financing, placing of new Shares and open offer, as it will not result in a deterioration of the Group's gearing and allows all Qualifying Shareholders to participate in the fund-raising exercise for the future development of the Group with the flexibility of trading of rights entitlements in the market;

(v) the Irrevocable Undertakings as provided by the Substantial Shareholders and the underwriting commitment from Subscriber I demonstrate the Controlling Shareholder's confidence in the Group's future development, and there is no underwriting commission will be charged by Subscriber I for the commitment under the Underwriting Agreement;

(vi) the Compensatory Arrangements under the Placing Agreement, being part of the Rights Issue, are in compliance with the Listing Rules, which are managed by the Placing Agent who is an Independent Third Party and is independent and not connected with and not acting in concert with the Subscribers and their respective concert parties. The placing price will not be less than the Subscription Price, which is fair and reasonable as mentioned above, and the VC Placing Commission payable to the Placing Agent is in line with those charged in the Placing Comparable Transactions;

(vii) the dilution effect on the shareholding interests of public Shareholders, which will be potentially diluted by up to a maximum of approximately 34.0% following completion of the Rights Issue and the Debt Capitalisation, is considered to be acceptable given the current financial position of the Group, the Qualified Opinions, and that the terms of the Rights Issue and the Debt Capitalisation (including the Capitalisation Issue Price and the Rights Issue Price) are fair and reasonable as mentioned above; and

(viii) Subscriber I will no longer be one of the creditors of the Group after the Debt Capitalisation and thereby the number of creditors of the Group will reduce to five and the Debt Capitalisation will settle approximately 30.9% of the Group's outstanding debts as at 31 December 2024 without depleting its existing financial resources or triggering significant cash outflows or obtaining additional bank borrowing with additional finance costs incurred, and the Rights Issue allow the Company to strengthen its capital base and liquidity without incurring interest costs, both of which are in line with the interests of the Shareholders;

we are of the opinion that the terms of the Debt Capitalisation Agreements, the Rights Issue, the Underwriting Agreement and the respective transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver, although not in the ordinary and usual course of business of the Group, are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) proposed at the SGM thereby approving the Debt Capitalisation Agreements, the Underwriting Agreement and the respective transactions contemplated thereunder including the Share Consolidation, the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver.

Yours Faithfully,
For and on behalf of
Merdeka Corporate Finance Limited

Wallace So
Managing Director

Mr. Wallace So is a licensed person registered with the Securities and Futures Commission of Hong Kong, a responsible officer of Merdeka Corporate Finance Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and a licensed representative of Merdeka Investment Management Limited to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. Mr. Wallace So has over 13 years of experience in corporate finance industry.