



SBI China Capital

軟庫中華

25 July 2025

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

Dear Sir or Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS
SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD
DATE ON A NON-UNDERWRITTEN BASIS;
(II) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE; AND
(III) CONNECTED TRANSACTIONS IN RELATION TO
THE POSSIBLE SUBSCRIPTION AND THE SET-OFF ARRANGEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Placing, the Possible Subscription and the Set-off Arrangement, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular of the Company to the Shareholders dated 25 July 2025 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Rights Issue and the Undertaking

On 16 April 2025, the Company proposed to raise up to approximately HK\$107.45 million, before the Set-off Arrangement and the expenses by way of the issue to the Qualifying Shareholders of a maximum of 1,343,147,397 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date) at the Subscription Price of HK\$0.080 per Rights Share on the basis of three (3) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date. The Rights Issue is available only to the Qualifying Shareholders and will not be extended to the Excluded Shareholders. As at the Latest Practicable Date, the Company has outstanding Warrants to subscribe for 29,078,947 Shares. Save as aforesaid, the Company does not have any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date. The Company has no intention to issue or grant any Shares, convertible securities, warranties and/or options on or before the Record Date.

Subject to the fulfilment and/or waiver (where applicable) of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares, and the level of subscription of the excess Rights Shares. Any unsold entitlements of the Excluded Shareholders to the Rights Shares, and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares, will be made available for excess applications by the Qualifying Shareholders under the EAF(s).

On 16 April 2025, Mr. Chen has given the Undertaking in favour of the Company, that (i) he will not dispose of any of the 225,097,293 Shares comprising the current shareholding in the Company owned by himself, and such Shares will remain beneficially owned by him up to and including the Record Date; (ii) he will lodge his acceptance of the 675,291,879 Rights Shares, which will be the number of Rights Shares provisionally allotted to him nil-paid under the Rights Issue, with the Share Registrar or the Company, with payment in full therefor, by no later than the Latest Time for Acceptance or otherwise in accordance with the instructions set out in the Prospectus Documents and will not apply for excess Rights Shares; and (iii) he consents that, in the event of an under-subscription of the Rights Issue, the Company has power and authority to apply adjustments to such number of Rights Shares to be offered to himself such that the minimum public float requirement under the Listing Rules, i.e. at least 25% of the Shares are held by the public at all times, is satisfied immediately after completion of the Rights Issue. As a result of the situation as mentioned in (iii) pursuant to the Undertaking, the number of Rights Shares to be offered to Mr. Chen may have to be scaled down in order for the Company to maintain the minimum public float requirement under the Listing Rules (immediately after the Rights Issue but before the Placing). Subject to the situation that the Placing may result in a notable dilution on Mr. Chen's shareholding's percentage to under 50.28% in the Company, Mr. Chen will also be able to subscribe for and be allotted a maximum of 233,589,172 Placing Shares so that Mr. Chen will retain 50.28% of the enlarged issued Shares upon the completions of the Rights Issue and the Placing assuming none of the Warrants will be exercised.

Given that the Rights Issue will increase the issued share capital of the Company by more than 50%, under Rules 7.19A and 7.27A of the Listing Rules, the Rights Issue is subject to the approval of the Independent Shareholders by way of poll at the EGM at which any controlling shareholders and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue. As such, the controlling shareholder of the Company, namely Mr. Chen and his associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue at the EGM.

The Placing and the Possible Subscription

After the trading hours of the Stock Exchange on 16 April 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 Placing Shares. The Placing will be subject to the granting of the Specific Mandate by the Independent Shareholders at the EGM for the allotment and issue of the Placing Shares to be placed by the Placing Agent under the Placing Agreement.

The Possible Subscription refers to the possible subscription of the Placing Shares by Mr. Chen from the Placing to retain his shareholding as described above.

The Set-off Arrangement

As disclosed in the Letter from the Board, as at the Latest Practicable Date, the Company was indebted to Mr. Chen an aggregate amount of approximately HK\$54.86 million in outstanding principal amount and accrued interest under the Shareholder's Loans. Pursuant to the Undertaking, Mr. Chen conditionally agreed to the Set-off whereby approximately HK\$54.02 million required to be paid by Mr. Chen for the subscription of 675,291,879 Rights Shares provisionally allotted to him pursuant to the Rights Issue (and pursuant to the Placing Agreement, when applicable) would be set-off against the Shareholder's Loans of approximately HK\$54.86 million on a dollar-for-dollar basis.

As at the Latest Practicable Date, Mr. Chen is a controlling Shareholder holding 225,097,293 Shares, representing approximately 50.28% of the issued share capital of the Company. As Mr. Chen may be able to subscribe for the Placing Shares under the Placing, the Possible Subscription and the Set-off Arrangement would therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are therefore subject to the reporting and announcement requirements and the approval of the Independent Shareholders at the EGM under the Listing Rules.

Mr. Chen and his associates will abstain from voting of the Placing, the Possible Subscription and the Set-off Arrangement at the EGM. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for Mr. Chen, no other Shareholder is required or indicated his intention to abstain from voting on the Placing, the Possible Subscription and the Set-off Arrangement at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kwok Chi Shing, Mr. Lee Kwun Kwan and Mr. Yan Sherman Chuek-ning has been established to advise the Independent Shareholders as to (i) whether the terms of the Rights Issue, the Placing, the Possible Subscription and the Set-off Arrangement are fair and reasonable and in the interests of the Shareholders and the Company as a whole; and (ii) how to vote on the resolution(s) relating to the Rights Issue, the Placing, the Possible Subscription and the Set-off Arrangement.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether (i) the terms of the Rights Issue, the Placing, the Possible Subscription and the Set-off Arrangement are fair and reasonable so far as the Independent Shareholders are concerned; and whether they are in the interests of the Shareholders and the Company as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolutions relating to the Rights Issue, the Placing, the Possible Subscription and the Set-off Arrangement at the EGM. Our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Rights Issue has been approved by the Independent Board Committee.

During the past two years, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the information and facts supplied and opinions expressed by the management of the Group. We have assumed that all information and representations provided by the management of the Group, for which they are solely responsible, were true and accurate at the time they were prepared or made and will continue to be so up to the Latest Practicable Date. Should there be any subsequent material changes which occurred during the period from the date of the Circular up to the date of the EGM and would affect or alter our opinion, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible. We have no reason to doubt the truth, accuracy or completeness of the information and representations made to us by the management of the Group. We have been advised that no material facts have been omitted from the information supplied and opinions expressed. As such, we have no reason to suspect that any relevant information has been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided by the management of the Group to us, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information provided by the management of the Group.

All Directors jointly and severally accept full responsibility for the accuracy of information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Rights Issue, we have taken into consideration the following principal factors and reasons:

(1) Background information of the Company

The Company is an investment holding company and the Group is principally engaged in the retail and wholesale of beauty, health-care and lifestyle products in Hong Kong, Macau and the PRC, and through the e-Commerce platform HKMALL.

Financial performance

On 27 December 2024, the Company announced the change of the financial year end date from 31 December to 30 June. The next financial year end date of the Company will be 30 June 2025. As disclosed in the announcement of the Company dated 27 December 2024, the Board considers that the change of financial year end date to 30 June will enable the Group to mobilise its resources more efficiently and effectively for the preparation of results announcement as well as reports.

It is mentioned in the 2024 Second Interim Report (as defined below) that the condensed consolidated financial statements for the twelve months ended 31 December 2024 have been prepared on a going concern basis. The Directors after making due inquiries and considering the basis of cash flow forecast and taking into account the following measures (the “**Liquidity Improvement Measures**”), conclude the Group will have sufficient financial resources to meet in full of its working capital requirements and financial obligations as and when they fall due in the foreseeable future:

- (a) Mr. Chen has agreed and committed to continue to support financially the operations of the Group to meet all third-party obligations for at least the ensuing twelve-month period after 31 December 2024;
- (b) the Group has taken various cost control measures to tighten the costs of operations;
- (c) the Group is actively negotiating with external parties and banks to obtain new sources of financing to finance the Group’s working capital and improve the Group’s liquidity position; and
- (d) the Group will continue to maintain its relationship with the parties providing facilities to the Group and comply with any covenant requirements.

The following table summarises the financial performance of the Group for the two financial years ended 31 December 2023 and the twelve months ended 31 December 2024 as extracted from the annual report of the Company for the financial year ended 31 December 2023 (“**2023 Annual Report**”) and the second interim report of the Company for the twelve months ended 31 December 2024 (“**2024 Second Interim Report**”), respectively.

	Twelve months ended 31 December 2024 HK\$'000 (Unaudited)	For the financial year ended 31 December 2023 HK\$'000 (Audited)	2022 HK\$'000 (Audited)
Turnover	80,546	950,271	185,662
– Wholesaling and retailing of beauty, healthcare and lifestyle products	51,079	64,824	75,481
– Wholesaling of technology products	29,467	885,447	110,181
Cost of goods sold	(47,751)	(887,219)	(151,908)
Gross profit	32,795	63,052	33,754
Gross profit margin	40.7%	6.6%	18.2%
(Loss)/Profit for the period/year	(134,367)	53,971	167,221

For the twelve months ended 31 December 2024

Turnover amounted to approximately HK\$80.5 million for the twelve months ended 31 December 2024, representing a decrease of approximately HK\$869.7 million (or approximately 91.5%) as compared to approximately HK\$950.3 million for the financial year ended 31 December 2023 due to (i) the decrease in turnover from wholesaling and retailing of beauty, healthcare and lifestyle products segment from approximately HK\$64.8 million to approximately HK\$51.1 million for the twelve months ended 31 December 2024; and (ii) the decrease in turnover from wholesaling of technology products segment from approximately HK\$885.4 million to approximately HK\$29.5 million for the twelve months ended 31 December 2024. We understand from the 2024 Second Interim Report that during the twelve months ended 31 December 2024, the decline in turnover of the Group was mainly due to (i) the slowing global economic growth, inflationary pressures, and fluctuating exchange rates dampened consumer spending; (ii) the Group's strategic move to digital retail. Total number of retail stores of the Group in Hong Kong and Macau reduced from six for the financial year ended 31 December 2023 to three for the twelve months ended 31 December 2024; and (iii) the Group's strategic investment in bonded operations. Overall business performance of the Group was temporarily affected as a significant portion of resources was channelled to building bonded warehouse operation in the PRC and deploying bonded cross-border vending machines in rail station for enhancing cross-border e-commerce capabilities and improving supply chain efficiency.

Despite the substantial decrease in turnover, the gross profit margin improved remarkably from approximately 6.6% for the financial year ended 31 December 2023 to approximately 40.7% for the twelve months ended 31 December 2024 mainly because of (i) sales to customers in wholesaling of technology products contributed larger portion of the turnover for the financial year ended 31 December 2023. Two customers in wholesaling of technology products in aggregate, contributed turnover of approximately HK\$591.9 million to the Group, representing approximately 62.3% of the total turnover of the Group for the financial year ended 31 December 2023. The Group's overall gross profit margin improved for the twelve months ended 31 December 2024 in the absence of substantial wholesaling of technology products to these two customers; and (ii) as advised by the management of the Group, more sales of private label products of the Group for the twelve months ended 31 December 2024, which carried higher profit margin than other products of the Group.

The Group turned from the net profit of approximately HK\$54.0 million for the financial year ended 31 December 2023 to the net loss of approximately HK\$134.4 million for the twelve months ended 31 December 2024. This was mainly attributable to (i) the decrease in turnover as discussed above; and (ii) the absence of gain on deconsolidation of a subsidiary of the Company, namely Hop Fung Lung Limited (formerly known as Bonjour Cosmetic Wholesale Centre Limited, which was primarily engaged in wholesaling and retailing of beauty, healthcare and lifestyle products in Hong Kong), of approximately HK\$103.0 million for the twelve months ended 31 December 2024. On 9 January 2023, the Group has lost control over Hop Fung Lung Limited due to a winding-up order made by the High Court; and (iii) the share of loss of a joint venture, namely CR Business Innovation Investment Fund L.P. (which principally engaged in property investment and the Company held 75% of ownership interest) of approximately HK\$66.9 million for twelve months ended 31 December 2024 as compared to the share of profit of approximately HK\$24.8 million for the financial year ended 31 December 2023. In short, the net loss for the twelve months ended 31 December 2024 was mainly because the gross profit of approximately HK\$32.8 million generated unable to cover the total distribution costs and administrative expenses of approximately HK\$88.1 million and the share of result of a joint venture of approximately HK\$66.9 million as explained above.

For the financial year ended 31 December 2023

Turnover amounted to approximately HK\$950.3 million for the financial year ended 31 December 2023, representing an increase of approximately HK\$764.6 million (or approximately 411.7%) as compared to approximately HK\$185.7 million for the financial year ended 31 December 2022. The increase in turnover was mainly due to the increase in turnover in the wholesaling of technology products segment, which was partially offset by the decrease in turnover in the wholesaling and retailing of beauty, healthcare and lifestyle products segment. Turnover of the wholesaling of technology products segment increased from approximately HK\$110.2 million for the financial year ended 31 December 2022 to approximately HK\$885.4 million for the financial year ended 31 December 2023; while the turnover of the wholesaling and retailing of beauty, healthcare and lifestyle products segment decreased from approximately HK\$75.5 million for the financial year ended 31 December 2022 to approximately HK\$64.8 million for the financial year ended 31 December 2023.

As shown in the 2023 Annual Report, despite the sales of beauty, healthcare and lifestyle products declined by approximately 14.1%, the sales of technology products increased by seven times than 2022. For the financial year ended 31 December 2023, there were two customers, each of them contributed more than 10% of the Group's total turnover and the aggregated turnover contributed by them was approximately HK\$591.9 million, representing approximately 62.3% of the Group's total turnover. Since 2021, the Group made a strategic move to capture the growth potentials of 3C product through expanding its market reach in trading technology products. The 3C product business uses a cost-plus pricing strategy for B2B business model. The robust revenue growth in 2023 strives the Group's confidence on continuous exploration of new business model in the substantial growth of selling new products.

Despite the substantial increase in turnover, the gross profit margin decreased largely from approximately 18.2% for the financial year ended 31 December 2022 to approximately 6.6% for the financial year ended 31 December 2023 mainly because sales of technology products accounted for approximately 93.2% of total turnover of the Group for the twelve months ended 31 December 2023 whereas sales of technology products only accounted for approximately 59.3% for the financial year ended 31 December 2022. As advised by the management of the Group, wholesaling of technology products in general carried low profit margin as compared to other products of the Group.

The Group's net profit decreased by approximately HK\$113.2 million (or approximately 67.7%) from approximately HK\$167.2 million for the financial year ended 31 December 2022 to approximately HK\$54.0 million for the financial year ended 31 December 2023. Such decrease was mainly attributable to the absence of the net of gain on disposal of subsidiaries which was approximately HK\$350.0 million for the financial year ended 31 December 2022, partially offset by the newly incurred gain on deconsolidation of Hop Fung Lung Limited of approximately HK\$103.0 million for the financial year ended 31 December 2023.

As disclosed in the 2023 Annual Report, on 9 January 2023, a winding-up order was made by the High Court against Hop Fung Lung Limited at the hearing pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). An official receiver was appointed as a provisional liquidator of Hop Fung Lung Limited to liquidate the company. As a result, the Group has lost control over Hop Fung Lung Limited and ceased to be a subsidiary of the Company on the same date. As disclosed in the announcement of the Company dated 9 January 2023 and 17 January 2023, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the winding-up of Hop Fung Lung Limited has no material impact on the current core business operation and financial position of the Company and its other subsidiaries.

Financial position

	As at 31 December		
	2024	2023	2022
	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Audited)
Total assets	421,694	504,108	505,407
Bank and cash balances	6,448	16,109	17,929
Total liabilities	273,040	221,872	350,019
Bank and other borrowings	64,033	47,513	41,763
Net assets	148,654	282,236	155,388

Comparison between 31 December 2024 and 31 December 2023

Total assets decreased from approximately HK\$504.1 million as at 31 December 2023 to approximately HK\$421.7 million as at 31 December 2024. Such decrease was mainly attributable to decrease in investment in a joint venture (i.e. CR Business Innovation Investment Fund LP.) of approximately HK\$66.9 million mainly because the result from such joint venture turned from a gain of approximately HK\$24.8 million for the financial year ended 31 December 2023 to a loss of approximately HK\$66.9 million for the financial year ended 31 December 2024. Bank and cash balances decreased from approximately HK\$16.1 million as at 31 December 2023 to approximately HK\$6.4 million as at 31 December 2024.

Total liabilities increased by approximately HK\$51.1 million from approximately HK\$221.9 million as at 31 December 2023 to approximately HK\$273.0 million as at 31 December 2024. Such increase was mainly due to increase in amount due to controlling shareholder by approximately HK\$48.0 million; and the increase in bank and other borrowings by approximately HK\$16.5 million; which was partially offset by the decrease in lease liabilities by approximately HK\$5.2 million, the decrease in other payables, deposits received and accrued charges by approximately HK\$5.1 million and the decrease in contract liabilities by approximately HK\$3.3 million.

It is mentioned in the 2024 Second Interim Report that in view of the Group's bank and cash balances of approximately HK\$6.4 million, net cash outflow from operating activities of approximately HK\$64.8 million and net current liabilities of approximately HK\$133.9 million as at 31 December 2024, the Directors have been continuously implementing the Liquidity Improvement Measures to improve and maintain the Group's liquidity and the condensed consolidated financial statements have been prepared on a going concern basis.

Comparison between 31 December 2023 and 31 December 2022

Total assets remained at a similar level of approximately HK\$505.4 million and HK\$504.1 million as at 31 December 2022 and as at 31 December 2023, respectively. Bank and cash balances maintained at a similar level of approximately HK\$17.9 million as at 31 December 2022 and HK\$16.1 million as at 31 December 2023.

Total liabilities decreased by approximately HK\$128.1 million from approximately HK\$350.0 million as at 31 December 2022 to approximately HK\$221.9 million as at 31 December 2023. Such decrease was mainly due to (i) the decrease in other payables, deposits received and accrued charges by approximately HK\$68.9 million; (ii) the absence of amounts due to former related parties which was approximately HK\$35.5 million as at 31 December 2022; and (iii) the decrease in lease liabilities by approximately HK\$27.5 million.

(2) Reasons for the Rights Issue, the Placing and the Set-off Arrangement

The Rights Issue

With reference to the Letter from the Board, assuming full subscription under the Rights Issue (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to the Record Date given the Warrants are far out of money), the gross proceeds from the Rights Issue will be approximately HK\$107.45 million and the estimated net proceeds of the Rights Issue after the Set-off Arrangement and deducting the related expenses will be approximately HK\$52.0 million. The Company intends to use the net proceeds from the Rights Issue for the followings:

- (i) as to approximately HK\$20.0 million will be used for repayment of indebtedness which are due in the period to September 2025, comprising of bonds of the Company in the amount of HK\$15.0 million with annual interest of 9% and a loan of HK\$5.0 million carrying annual interest of 23.4% obtained from a financial institution;
- (ii) as to approximately HK\$18.0 million will be allocated to upgrade its existing cross border e-Commerce platform HKMALL, which will facilitate the retail and wholesale of the Group's beauty, healthcare and lifestyle products across international markets. The platform will support bidirectional trade – both introducing global products to the PRC and distributing PRC products overseas – enhancing the Group's global reach;

- (iii) as to approximately HK\$8.0 million will be used for investment in enhancing the Group's business model of products wholesaling, encompassing strategic partnerships in bonded warehousing, O2O (online-to-offline) commerce, and enhanced supply chain operations; and
- (iv) as to the remaining of approximately HK\$6.0 million will be used as general working capital of the Group, including day-to-day salaries, office administrative overheads and selling and distribution expenses.

Bond repayment and loan settlement

Despite the substantial increase in Shareholder's Loans from approximately HK\$32.1 million as at 31 December 2023 to approximately HK\$80.1 million as at 31 December 2024, the Group's bank and other borrowings kept increasing from approximately HK\$47.5 million as at 31 December 2023 to approximately HK\$64.0 million as at 31 December 2024. Debt ratio (being calculated based on the Group's bank and other borrowings and lease liabilities divided by the total equity) increased more than double from approximately 0.4 as at 31 December 2023 to approximately 0.86 as at 31 December 2024. As mentioned in the 2024 Second Interim Report, the loan capitalisation for the shareholder's loan in the amount of HK\$33,180,000 announced by the Company on 12 November 2024 was completed on 13 January 2025. As such, the impact of the loan capitalization had not yet been taken into account in calculating the debt ratio as at 31 December 2024.

As mentioned in the Letter from the Board, on 2 August 2021, the Company engaged a placing agent to procure placees who are independent third parties to the Company to subscribe in cash for the bonds of the Company with an aggregate principal amount of up to HK\$50.0 million with a 9% per annum interest on a best effort basis (the "**Bond Placing**"). Although the bonds issued by the Company under the Bond Placing had a maturity date of 2 years, some of the respective holders of the bonds had agreed on rollover arrangements with the Company and the Company has yet to settle the principal amount of these bonds. As at the Latest Practicable Date, the Company still has an aggregated amount of HK\$27.0 million of bond payables in relation to the Bond Placing. The Company intends to settle bonds in the amount of HK\$15.0 million that are expected to be matured and will be due in the period to September 2025 and a loan in the amount of HK\$5.0 million on the respective due dates with a portion of funds to be raised from the Rights Issue. We have reviewed (i) the bond certificates provided by the Company and noted that the bonds were issued to two individuals in August or September 2023 with aggregate amount of HK\$15.0 million and coupon rate of 9% per annum and the due dates will be in August or September 2025; and (ii) the loan facilities letter dated 13 May 2025 issued by a financial institution to the Company and noted that the Company has obtained a fixed loan in the amount of HK\$5.0 million with interest rate of 23.4% per annum (payable monthly from drawdown) and a term of three months from the drawdown on or before 23 May 2025. We are of the view that the use of proceeds from the Rights Issue for settlement of bonds and loan is in the interest of the Shareholders having considered that (i) it will reduce indebtedness level of the Group and will lower the Group's interest burden; and (ii) given the Group's rising debt ratio, current business challenges and net current liabilities position, taking proactive measures for repayment of bonds and loan that are coming due is necessary for financial stability.

Upgrade existing cross-border e-Commerce platform HKMALL

As disclosed in the 2024 Second Interim Report, since 2020, the Group has proactively shifted its business model from a single-category beauty retailer into a digital ecosystem integrating cross-border e-commerce, smart logistics and artificial intelligence marketing through the platform HKMALL. In 2024, the Group has further streamlined its operation by taking a bold strategic decision to terminate the traditional physical retail shop operations and focuses on enhancement on HKMALL e-Commerce operations. The Group's retail division is spearheaded by HKMALL. Total number of retail stores of the Group in Hong Kong and Macau has been reduced from six for the financial year ended 31 December 2023 to three for the twelve months ended 31 December 2024.

The 2024 Second Interim Report mentioned that HKMALL is a global e-commerce platform that supports Hong Kong merchants and overseas brands across 34 countries and 41 market platforms, and has created an ecosystem to assist Hong Kong small and medium enterprises in digitally transforming their traditional business models. As of 31 December 2024, there are over 370,000 stock keeping units and 3,600 suppliers on HKMALL.

Popularisation of technology applications, diverse means of electronic payment method and the Covid-19 pandemic have shifted consumer behaviour globally. Retail consumers are more adapted to place orders and perform transactions via online platform. According to the Census and Statistics Department of Hong Kong (please refer to the link: https://www.censtatd.gov.hk/en/web_table.html?id=620-67031#), the value of online retail sales as percentage of total retail sales was on an increasing trend from approximately 6.3% in the year 2020 to approximately 8.4% in the year 2024. Online platform for retail sales has become more popular over the years. We understand from the management of the Group that in light of the general market trend of using online platform for retail sales and lower costs involved in digital retails as compared to the operation of traditional retail stores which incur more overheads and rental costs, HKMALL (i.e. an online retail sales platform) will be an effective way to promote products to customers and encourage cross-border sales. It is expected that the upgrade of e-Commerce platform HKMALL will support the introduction of global products to the PRC and the distribution of the PRC products overseas. This is in line with the Company's business strategy of focusing resources on "Technology + Consumption". As mentioned in the 2024 Second Interim Report, HKMALL is the cross-border hub and it is one of the core businesses of the Group. By leveraging its advanced infrastructure and localised expertise, HKMALL empowers Hong Kong retailers to access both the Greater Bay Area's affluent consumer base and global markets. While the Group's traditional retail segment faced subdued recovery in 2024, strategic investments in new retail technologies and cross-border expansions, particularly in the Greater Bay Area and emerging Chinese markets lay the foundation for a revitalised business growth in 2025.

We understand from the management of the Group that to facilitate global expansion, HKMALL 2.0 will broaden its reach to include merchants from more countries, particularly targeting B2B sellers looking to enter the lucrative Chinese market, with localised support for cross-border logistics, payments, and compliance. Furthermore, the development of the platform would involve developing overseas warehouses to help merchants reducing shipping times and costs, enabling smoother inventory management and faster delivery to international customers. These upgrades collectively position HKMALL 2.0 as a more intelligent, efficient, and globally accessible e-commerce solution.

We understand from the Letter of the Board that approximately HK\$18.0 million to be raised under the Rights Issue will be allocated for the upgrade of the Group's existing cross-border e-Commerce platform HKMALL with breakdown as follows:

Use of proceeds	Aim	Amount <i>Approximately</i>
To strengthen consumer behaviors analysis by developing and adopting AI solutions, including but not limited to, building large language models and predictive models emphasizing on consumer behaviors and optimizing search behaviors to enrich its customer relationship management	To cater breakdown in details of the current and upcoming market trends	up to HK\$8.0 million
To develop enhancing user experience related solutions involving the uses of AI-powered features including but not limited to, intelligent chatbot, automated tools as well as upgrading HKMall's cyber security	To reduce the relevant risks in e-transactions and data transferring over the internet and across e-commerce platforms	up to HK\$5.0 million
To increase overseas marketing efforts, placing advertisements at seller's countries and offering promotional campaigns on social medias in the PRC such as Rednote and WeChat applications	To attract business-to-business sellers to enter into and commence businesses in the PRC market	up to HK\$5.0 million

Having considered that (i) the Group has been shifting business model from a single-category beauty retailer into a digital ecosystem since 2020. Over the years, it terminated certain traditional physical retail shop operations and focuses on enhancement on HKMALL e-Commerce operations. Deployment of resources for the development of HKMALL is in line with the Group's business strategy; (ii) HKMALL is considered effective for reaching customers and promoting products outside Hong Kong as compared to the traditional retail stores, which saves time, overheads and rental costs; and (iii) consumer behaviour to place orders and conduct transactions through online platform is a market trend, we concur with the Directors' view that the upgrade of cross border e-Commerce platform HKMALL is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Expand the Group's business model of product wholesaling

As disclosed in the 2024 Second Interim Report, the Group has conducted strategic investments in bonded operations by channelling a significant portion of its resources into building bonded warehouse operations in the PRC and deployed bonded cross-border vending machines across high-traffic transit hubs, creating an integrated O2O (online-to-offline) ecosystem. The Group has launched two bonded warehouses in the PRC, namely Guangzhou Huangpu Bonded Warehouse and Hainan Bonded Warehouse.

The Company has entered into memorandum of understandings with local business partners in the PRC to promote and develop supply chain and cross-border e-commerce business. In 2024, the Group and GDD Investment Group Company Limited (廣州開發區投資集團有限公司) has entered into a signed a non-binding memorandum of understanding to promote, among other things, cross-border e-commerce. On 19 January 2025, the Company and MIXMAX e-Commerce Hainan Limited (海南豐和匯電商有限公司) ("MIXMAX") has entered into a non-binding memorandum of cooperation in relation to a potential strategic cooperation plan, pursuant to which, both parties agreed to, among other things, cooperate in the development of supply chain, cross-border e-commerce and logistics management business.

As advised by the management of the Group, in general, bonded warehouse is a storage facility where shippers can store their imported and dutiable goods without paying import taxes and duties immediately. These warehouses are operated under the relevant customs guidelines where the bonded warehouses are located. There are many advantages for businesses using bonded warehouses, but the most significant benefit is the deferral of import taxes and duties. It enables a business to manage inventory in a more strategic and cost-effective way, ultimately resulting in being able to get the right products to the right market at the right time. When a company is marketing a number of popular and high demand products and is planning to import to the PRC, these products can be shipped to and stored in bonded warehouses in the PRC in large volume without paying the applicable taxes and duties immediately. This allows the relevant company to manage inventory and logistic in a more efficient and flexible way. Taxes and duties are paid when the products leave the bonded warehouses and being imported into the PRC (i.e. the products are sold to a PRC buyer). As the products are already located in the PRC, the Company can process the last mile delivery in a timely manner, greatly reducing the time for delivery. Compared with handling the cross-border logistics every time when order is received, such arrangement greatly reduced the overheads, processing and shipping time. Moreover, as the products stored in the bonded warehouses are not subject to the applicable taxes and duties, the Company also enjoys the flexibility to re-export them back to Hong Kong or any other countries when demand is higher.

The business model of product wholesaling can be supported by the bonded warehousing as described above; as well as the market opportunities deriving from cross-border e-commerce. According to an article titled “Unleashing the Lucrative Potential of Cross-border E-commerce for Hong Kong Traders (Company survey and expert opinion)” dated 27 November 2024 published online by The Hong Kong Trade Development Council (please refer to the link: <https://research.hktdc.com/en/article/MTg1OTQ2Mzk3Mw>), a survey of Hong Kong companies carried out during the period from June to August 2024 revealed, among others, the following opportunities in cross-border e-commerce:

- (i) expand sales channels and enhance brand awareness – the surveyed companies in general indicated that cross-border e-commerce offers positive impacts for expansion, whether via broader sales channels (69.0%), new market opportunities (50.3%), or enhanced brand awareness (48.9%); and
- (ii) drive significant sales growth in two years – an overwhelming 90.0% anticipated that cross-border e-commerce could raise their total sales revenue in the next two years. On average, “companies that have developed e-commerce” believed that cross-border e-commerce could result in some 14.6% increase in their total sales.

As advised by the management of the Group, the allocated proceeds will be strategically invested to enhance the Group’s wholesale business model by strengthening key operational pillars, including (i) strategic partnerships in bonded warehousing, enabling cost-efficient storage, streamlined customs clearance, and smoother cross-border trade; (ii) the expansion of O2O (online-to-offline) commerce, integrating digital storefronts with physical distribution networks to improve customer reach and order fulfilment; and (iii) the upgrade of supply chain operations, incorporating advanced logistics technologies, automation, and data analytics to optimize inventory management, reduce lead times, and enhance overall efficiency. The Directors believe that these initiatives will solidify the Group’s competitive edge in wholesale distribution, ensuring scalability, agility, and a seamless omnichannel experience for both B2B and B2C customers.

We understand from the Letter of the Board that approximately HK\$8.0 million to be raised under the Rights Issue will be allocated for the investment in enhancing the Group's business model of product wholesaling with breakdown as follows:

Use of proceeds	Aim	Amount <i>Approximately</i>
To purchase up to 300 bonded vending machines that is expected to be installed into different areas of the PRC	To enable cost efficient storage, streamline customs clearance, and smoothen cross-border trade	around HK\$4.5 million
To develop systems and software that will be applied to these bonded vending machines to gap between O2O experience providing various features	To support the expansion of O2O commerce to improve customer reach and order fulfillment, including input/output transactions, fulfillment operations, promotion and advertisement functions on machines displays and applications	around HK\$3.5 million

Provide additional general working capital to the Group

As disclosed in the 2024 Second Interim Report, the Group recorded net loss of approximately HK\$134.4 million and net cash outflow from operating activities of HK\$64.8 million for the twelve months ended 31 December 2024. We obtained management accounts for the as of 31 May 2025 of the Group, and noted that the Group had bank and cash balances less than the amount as at 31 December 2024. In view of total distribution costs and administrative expense of the Group amounted to approximately HK\$88.1 million in total for the twelve months ended 31 December 2024, the Group's bank and cash balances will not be sufficient to support its business operation and long-term business development. Currently, the Group mainly relies on the controlling shareholder and the bank and other borrowings for financing, which amounted to approximately HK\$80.1 million and approximately HK\$64.0 million respectively, as at 31 December 2024. Based on our review of a loan schedule as at 31 December 2024 provided by the Company, we noted that such bank and other borrowings carried interest rates ranging from 4% to 24% per annum. Under the current marking conditions, the Directors considered that it is inevitable that additional bank and/or other borrowings would incur higher interest expenses; whereas the Rights Issue will provide the Group with a reasonable amount of funds to meet its working capital requirements without additional interest burden.

According to the Census and Statistics Department of Hong Kong (please refer to the link: https://www.censtatd.gov.hk/en/web_table.html?id=620-67001#), the value of retail sales in the year 2024 has dropped by approximately 7.3% when compared with the year 2023. For the first two months of the year 2025 taken together, it is estimated that the value of total retail sales decreased by approximately 7.8% when compared with the same period in the year 2024. The retail market in Hong Kong is still under pressure and the weak performance of retail sales may persist in view of global economic uncertainties, geopolitical tensions, and underperformance in Hong Kong's equity and real estate markets. As such, the Group's financial performance shows no sign of recovery and it is not expected that the liquidity position of the Group can be largely improved in the near term.

Based on the above, we concur with the Director's view that funding raising activity is necessary, in particular (i) the Group experienced decrease in cash position and increase in gearing ratio. The Group's bank and cash balances reduced from approximately HK\$16.1 million as at 31 December 2023 to approximately HK\$6.4 million as at 31 December 2024 and further to a lower level as at 31 May 2025. On the other hand, the Group's gearing ratio (represented by the bank and other borrowings divided by the total equity) increased from approximately 16.8% as at 31 December 2023 to approximately 43.1% as at 31 December 2024. The amount due to the controlling shareholder amounted to approximately HK\$80.1 million as at 31 December 2024 and such amount will be substantially reduced immediately after the Set-off Arrangement; (ii) it is essential to maintain healthy cash level to allow flexibility for the Group's business operation and development; and (iii) the net proceeds from the Rights Issue could strengthen the Group's cashflow position while could also enhance its equity base. Meanwhile, the Set-off Arrangement and the repayment of bonds and loan due in the second half of the year 2025 will reduce the Group's short-term liabilities. The Rights Issue is expected to have an overall impact of reducing the Group's gearing ratio and improving its cashflow position.

Imminent need and reasonableness of the proposed use of proceeds

The Group's imminent need and rationale for applying the proposed proceeds on the repayment of bonds and loan has been discussed in the paragraphs under "Bond repayment and loan settlement" above. It is worth mentioned that the loan obtained by the Company in May 2025 is short term in nature and involves high interest rate. It is not expected that the Group would be able to obtain better terms for other debt financing in a timely manner, in particular, having considered its net current liabilities position. The Group's total distribution costs and administrative expenses amounted to approximately HK\$88.1 million for the twelve months ended 31 December 2024 while it recorded bank and cash balances less than the amount as at 31 December 2024 (i.e. less than approximately HK\$6.4 million) which indicated that the Group is in urgent need of additional working capital.

It is mentioned in the Letter from the Board that the Board would expect to commence the plans set out in the respective tables under "Upgrade existing cross-border e-Commerce platform HKMALL" and "Expand the Group's business model of product wholesaling" above upon completion of the Rights Issue, which is expected to be around third quarter or fourth quarter of 2025. Currently, the Group's representatives have been in discussions with different service providers for potential solutions and cost estimation for implementation of the plans.

We concurred with the management of the Group that as at the Latest Practicable Date, the budget available for the implementation of the relevant plans is not known. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders and the Placing Shares not placed under the Placing Agreement will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. Given the Group's low bank and cash balances, the net current liabilities position and the net operating cash outflow, it is more prudent for the Group not to enter into any contracts or confirm any concrete plans until the Rights Issue is completed and the actual amount of proceeds from the Rights Issue can be confirmed. We understood that the respective amount of proceeds for the proposed uses is estimated by the management of the Group based on their experience and/or knowledge after making reasonable enquiries with the relevant service providers and taking into account the Group's possible order requirements. We also understood from the management of the Group that shortly after the completion of the Rights Issue is completed, the Group will use the actual proceeds from the Rights Issue to implement the plans. We concurred with the management of the Group that the proposed uses are imminent and reasonable in light of the ever-changing consumer market. With the upgrade of its e-commerce platform and/or investment in its business model and supply chain operations, it is expected that the Group will be able to strengthen its sales platform, improve its supply chain efficiency and enhance cost effectiveness, which in turn may alleviate its business performance and/or to avoid losing market share to other market players; thus, it is critical to deploy resources to the development of such plans as quickly as possible.

Based on our independent analysis above, we believe that the Group is in imminent need of additional funds and the implementation schedule for the proposed use of proceeds is fair and reasonable.

Suitable source of financing among other financing alternatives

As disclosed in the Letter from the Board, the Directors have considered other financing alternatives including (i) additional debt financing; and (ii) equity fund raising such as sole placement of the Shares and open offer. We concur that additional debt financing will increase the total borrowings of the Group while the Group's equity base will remain no change; therefore, the gearing ratio will be increased to further level. In addition, debt financing from third parties will inevitably incur interest expenses; and the management of the Group understand that under the current economic conditions, debt financing will involve very high interest expenses or collaterals which may not be beneficial to the Company. Given the Group's net current liabilities position, the possibility of its success in obtaining debt financing would be relatively low. Even if it is feasible, the debt financing application approval process may take a long time.

We have discussed with the management of the Group to understand whether the Company has ever attempted to seek brokerage companies as an underwriter to the Rights Issue; and were told that the Company chose not to seek underwriter(s) having considered that it will offer the Qualifying Shareholders with an option to apply excess Rights Shares, if any.

As for equity fund raising, such as sole placement of the Shares, it is a common market practice to conduct such activity on a best-effort basis and accordingly the amount to be raised would be uncertain and subject to the then market conditions. In addition, for placement of new Shares, it would lead to immediate dilution in the shareholding interest of the existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company. Substantial amount of securities must be issued and usually the subscriber(s) may ask for a relatively deep discount to the trading price of the Shares in view of the substantial amount of securities involved. As for open offer, similar to a rights issue, it also offers qualifying shareholders with the opportunity to participate in, but it does not allow the trading of rights entitlements in the open market.

It is mentioned in the Letter from the Board that apart from the Placing Agent, the Group approached two other financial institutions and brokerage firms and did not receive positive responses. The failure in obtaining bank borrowings and/or other financing alternatives of comparable size to the Rights Issue may due to the Group's net current liabilities position, slow recovery of market for retail business in Hong Kong, significant size of proposed fund raising as compared with the Company's market capitalisation and the absence of acceptable collaterals can be offered by the Group. We noted from the minutes of the management meeting of the Company held on 31 March 2025 that the Company had approached several financial institutions for potential financing including bond issuance and bank financing. It was discussed in the management meeting that a financial institution requested pledge of Shares in certain value from the Company as collateral for bond issuance, which exceeded the total value of Shares held by Mr. Chen; thus, rendered issuance of bond by such financial institution impossible. A few other financial institutions requested additional mortgage on the Company's head office, Bonjour Tower, which has already been mortgaged to a bank; and secondary mortgage of Bonjour Tower is practically difficult. Nevertheless, the Company obtained a loan in the amount of HK\$5.0 million with the personal guarantee from Mr. Chen for a term of three months in May 2025, which incurred interest rate of 23.4% per annum as discussed in the paragraphs under "Bond repayment and loan settlement" and "Imminent need and reasonableness of the proposed use of proceeds" above. It is not expected that the Group would be able to obtain better terms for other debt financing in a timely manner.

We concurred that the proposed Rights Issue and the Placing are more favourable than debt financing despite the theoretical dilutions to the Shareholders having considered that (i) debt financing and bank borrowings will inevitably increase the gearing ratio of the Group; (ii) under the prevailing market conditions, lenders usually require pledge of assets from the borrower; and the Group's net current liabilities position and small amount of property, plant and equipment (which only amounted to approximately HK\$1.8 million as at 31 December 2024) would make it difficult to obtain debt financing; and (iii) even if debt financing is granted, it may not be achievable on favourable terms in a timely manner and it may also be subject to lengthy due diligence and negotiations with financial institutions, which may not be able to meet the Group's imminent funding needs discussed above.

Compared with other fund-raising alternatives, the Rights Issue will provide each and every Qualifying Shareholders with the opportunity to participate in the future business development of the Group without material dilution of their interest in the Company. On the other hand, the Rights Issue also allows the Qualifying Shareholders the flexibility to sell off some or all of their rights entitlements in the open market (subject to the market demand) and realise the cash value therefrom.

We concur with the Directors' view that (i) in comparison with loan capitalisation by issuing Shares to Mr. Chen as a form of repayment to Mr. Chen, the proposed Rights Issue will offer the existing Shareholders with the opportunity to participate in the enlarged capital base of the Company without causing immediate dilution to their respective shareholding interests; and would enable the Company to raise additional funds; and (ii) the Set-off Arrangement would reduce the Group's short-term liabilities and interest expenses, which will improve its and financial performance and cash outflows in the long run. Therefore, raising funds by way of the Rights Issue is considered to be more attractive and feasible under the current market condition, and thus, in the interests of the Company and the Shareholders as a whole.

The Placing

In conjunction with the Rights Issue, on 16 April 2025, the Company has appointed the Placing Agent to procure independent placee(s) (other than Mr. Chen), on a best-effort basis, to subscribe for the Placing Shares, which are the Rights Shares that are not subscribed by the Qualifying Shareholders (and after excess applications) under the Rights Issue, under the Specific Mandate. Having considered that (i) the Placing is only for the Placing Shares, it provides an opportunity for the Company to maximise the funds raised for the repayment of bonds and loan, for the implementation of business development plans and for additional general working capital; and (ii) the Placing provides a distribution channel of the Placing Shares to the Company and a channel of participation for the independent investors, the Directors consider that the Placing Agreement is fair and reasonable and would provide adequate safeguard to protect the interest of minority Shareholders.

Subject to the situation that the Placing may result in a notable dilution on Mr. Chen's shareholding's percentage to under 50.28% in the Company, Mr. Chen will also be able to subscribe for and be allotted a maximum of 233,589,172 Placing Shares so that Mr. Chen will retain and be interested in up to 900,389,172 Shares (i.e. the Possible Subscription), representing approximately 50.28% of the enlarged issued Shares upon the completions of the Rights Issue and the Placing assuming none of the Warrants will be exercised.

In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders and the Placing Shares not placed under the Placing Agreement will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. The Group may or may not be able to raise sufficient net proceeds to serve the purposes as described in the section headed "Use of Proceeds" in the Letter from the Board. The Possible Subscription is an effective way to raise fund given the fact that Mr. Chen is the controlling Shareholder as at the Latest Practicable Date, whereby the Possible Subscription demonstrates his continuous support to the Group. For the avoidance of doubt, the Possible Subscription will be offset by the Shareholder's Loans and will not raise any proceeds to the Group.

In addition to the above, having considered that (a) the Subscription Price is same for the Possible Subscription and for the placing of Placing Shares to independent placee(s); and the Subscription Price is considered acceptable as discussed in the paragraphs under “Comparison with other rights issue transactions” in the section headed “(3) Principal terms of the Rights Issue” in this letter; (b) the scale down of the number of Rights Shares to be offered to Mr. Chen in the event of an under-subscription of the Rights Shares is solely for the purpose of satisfying the minimum public float requirement under the Listing Rules. As Mr. Chen has no intention to reduce his shareholding in the Company, the Possible Subscription will enable him to maintain shareholding at the existing level; and (c) the Possible Subscription will not increase the number of Shares to be held by Mr. Chen to a level exceeding his entitlement under the Rights Issue, we consider that the Possible Subscription is fair and reasonable and in the interest of the Shareholders and the Company as a whole.

The Set-off Arrangement

As mentioned in the Letter from the Board, as at the Latest Practicable Date, the Company was indebted to Mr. Chen an aggregate amount of approximately HK\$54.86 million in outstanding principal amount and accrued interest under the Shareholder’s Loans. Pursuant to the Master Loan Agreement entered into between the Company (as borrower) and Mr. Chen (as lender) dated 1 September 2023 (as supplemented on 31 March 2025), Mr. Chen agreed to provide the Shareholder’s Loans to the Group from time to time for the purpose of financing its general working capital requirement, such as selling and distribution expenses, office administrative overheads and salaries, subject to a limit of HK\$100,000,000, with the maturity date being 31 March 2026. The Shareholder’s Loans are unsecured and bear interest of 2.75% per annum. The Shareholder’s Loans were partially repaid following the completion of loan capitalisation involving issue of new shares of the Company pursuant to a subscription agreement entered into with Mr. Chen on 12 November 2024.

Pursuant to the Undertaking, Mr. Chen conditionally agreed to the Set-off whereby approximately HK\$54.02 million required to be paid by Mr. Chen for the subscription of 675,291,879 Rights Shares provisionally allotted to him pursuant to the Rights Issue and the Placing Agreement (where applicable) would be set-off against the Shareholder’s Loans of approximately HK\$54.86 million on a dollar-for-dollar basis.

We consider that the Set-off Arrangement is fair and reasonable as far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole on the basis that (i) the outstanding Shareholder’s Loans will become due shortly within twelve months and the Group is currently in a tight liquidity position in view of its relatively low level of bank and cash balances, the net current liabilities position and the net operating cash outflow; (ii) the relevant amount from the subscription of Rights Shares under the Undertaking is approximately HK\$54.02 million; and under the Set-off Arrangement, the Shareholder’s Loans of approximately HK\$54.86 million can be substantially set off; (iii) the Group will be able to save interest expenses immediately after the Set-off and the completion of the Rights Issue; and (iv) the financial position of the Group will be strengthened by the Set-off Arrangement with the reduction in indebtedness and the increase in equity base. Mr. Chen will, through the subscription of the Rights Shares and the Possible Subscription under the Placing, largely change from a creditor of the Shareholder’s Loans to a Shareholder by extinguishment of the Shareholder’s Loans and increase his equity interests in the Company. The Set-off Arrangement also signifies the continuous support of Mr. Chen to the Company.

(3) Principal terms of the Rights Issue

Set out below are the principal terms for the Rights Issue:

Basis of the Rights Issue	:	Three (3) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK\$0.080 per Rights Share
Number of Shares in issue	:	447,715,799 Shares
Number of Rights Shares	:	Up to 1,343,147,397 Rights Shares (assuming no change in the number of Shares in issue on or before the Record Date)
Aggregate nominal value of the Rights Shares	:	Up to HK\$13,431,473.97 (assuming no change in the share capital of the Company on or before the Record Date)
Number of Shares as enlarged by the allotment and issue of the Rights Shares	:	Up to 1,790,863,196 Shares (assuming no change in the number of Shares in issue on or before the Record Date and that no new Shares (other than the Rights Shares) will be allotted and issued)
Number of Rights Shares being undertaken by Mr. Chen	:	Up to 675,291,879 Rights Shares (the actual amount of Rights Shares to be taken up by Mr. Chen will depend on the level of subscription taken up by the Qualifying Shareholders such that the minimum public float requirement under the Listing Rules is satisfied immediately after completion of the Rights Issue)
Gross proceeds to be raised from the Rights Issue	:	Up to approximately HK\$107.45 million before the expenses and the Set-off Arrangement

As at the Latest Practicable Date, the Company has outstanding Warrants to subscribe for 29,078,947 Shares. Save as aforesaid, the Company does not have any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date. The Company has no intention to issue or grant any Shares, convertible securities, warranties and/or options on or before the Record Date. In accordance with the terms of the instrument for Warrants, the Independent Financial Adviser will certify in writing as to the adjustments (if any) required to be made in respect of the Warrants as a result of the Rights Issue. The Company will make further announcements about the adjustments in due course.

The Subscription Price

The Subscription Price is HK\$0.080 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 25.93% to the closing price of HK\$0.1080 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 27.93% to the average of the closing prices of approximately HK\$0.1110 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day;
- (iii) a discount of approximately 25.93% to the closing price of HK\$0.108 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (iv) a discount of approximately 8.05% to the theoretical ex-rights price of HK\$0.0870 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.1080 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (v) a discount of approximately 75.91% to the unaudited consolidated net asset value per Share of approximately HK\$0.332 (based on the latest published unaudited consolidated net asset value of approximately HK\$148,654,000 as at 31 December 2024 and the total number of issued Shares as at the Latest Practicable Date). The Directors were aware of the fact that the Subscription Price represents a discount of approximately 75.91% to the latest published unaudited consolidated net asset value of approximately HK\$0.332 per Share as at 31 December 2024. However, the Directors also note that the Shares had been traded on the Stock Exchange at an average trading price of around HK\$0.1644 per Share during the six months immediately preceding the Last Trading Day and at an average trading price of around HK\$0.1568 for the three months immediately preceding the Last Trading Day, representing an average discount of approximately 50.50% and 52.79% to the latest published unaudited consolidated net asset value of approximately HK\$0.332 per Share as at 31 December 2024, respectively. Considering that the Shares had been consistently traded at a substantial discount to the consolidated net asset value per Share in the recent months preceding the Last Trading Day, the Directors were of the view that, when determining the Subscription Price, it would be more appropriate to make reference to the prevailing market price of the Shares which reflected the fair market value of the Shares traded on the Stock Exchange, instead of making reference to the net asset value per Share. Moreover, the Directors also consider that the willingness of the Shareholders to participate in the Rights Issue would be significantly reduced if the Subscription Price was made with reference to the consolidated net asset value per Share, and that would not be favorable to the Company and the Shareholders as a whole; and

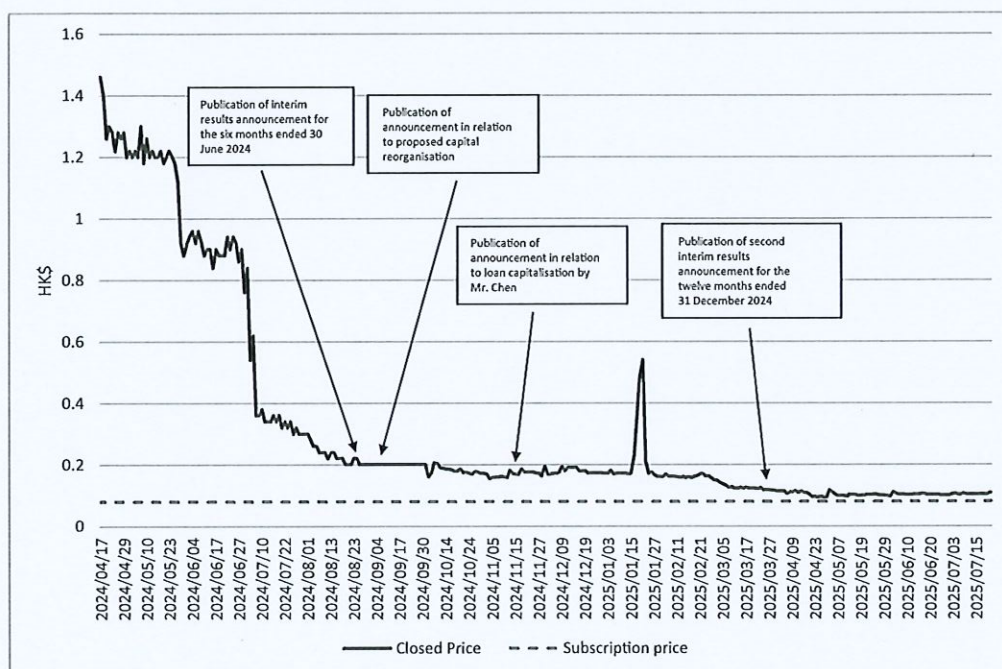
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of (a) approximately 20.95% on a standalone basis, represented by the theoretical diluted price of approximately HK\$0.088 per Share to the benchmarked price (as defined under Rule 7.27B of the Listing Rules, taking into account of the higher of (i) the closing price on the Last Trading Day of HK\$0.1080 per Share; and (ii) the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of the Announcement of approximately HK\$0.1110 per Share) of approximately HK\$0.1110 per Share; and (b) approximately 21.06% on an accumulative basis taking into account of the theoretical dilution effect of the loan capitalisation of the Company announced in November 2024.

As disclosed in the Letter from the Board, the Subscription Price was determined with reference to, among others, (i) the market price of the Shares under the prevailing market conditions and the relevant discount to the closing prices; (ii) the prevailing market conditions of the capital market in Hong Kong taking into consideration the rather cautions investment sentiment of the general public investors in Hong Kong and economic uncertainties; (iii) the latest business performance and financial position of the Group as the Group turnaround from a net profit of approximately HK\$157.22 million for the year ended 31 December 2022 to a net loss of approximately HK\$134.37 million for the twelve months ended 31 December 2024 as well as recorded a net current liability position with a relatively low cash and bank balances as at 31 December 2024, the majority of which has been utilised for day-to-day operations; and (iv) the reasons for the Rights Issue as discussed in the section headed “Reasons for the Rights Issue, the Placing and the Set-Off Arrangement” in Letter from the Board.

The Directors consider that, despite any potential dilution impact of the proposed Rights Issue on the shareholding interests of the Shareholders, the terms of the Rights Issue, including the Subscription Price which has been set as a discount to the recent closing prices of the Shares with an objective of encouraging existing Shareholders to take up their provisional allotments and to participate in the potential growth of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account that (i) the Qualifying Shareholders who do not wish to take up their provisional entitlements under the Rights Issue can sell the nil-paid rights in the market; (ii) the Rights Issue allows the Qualifying Shareholders to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company; and (iii) the proceeds from the Rights Issue can fulfil the funding needs of the Group.

Share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we reviewed the daily closing price of the Shares (adjusted for the Company's share consolidation effective on 3 October 2024) as quoted on the Stock Exchange from 17 April 2024 up to and including the Latest Practicable Date (the "Review Period"), being a period of approximately 15 months up to and including the Latest Practicable Date.



Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

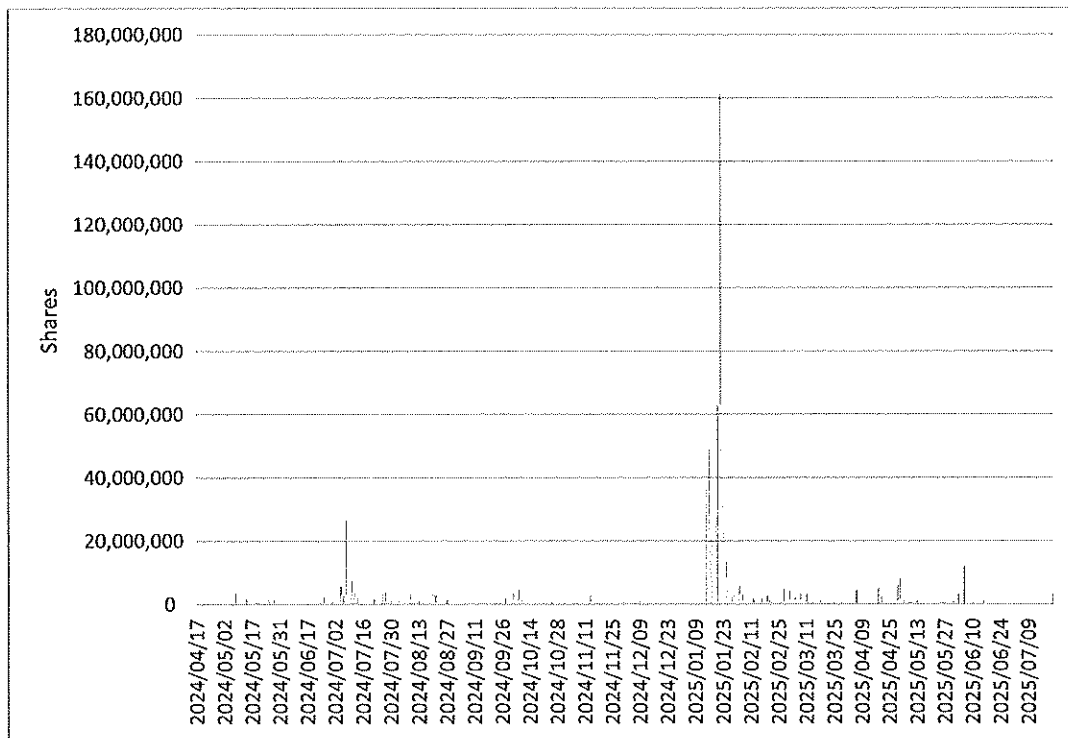
During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.093 recorded on 24, 28 and 29 April 2025 and HK\$1.46 (adjusted for share consolidation) recorded on 17 April 2024, respectively.

From 17 April 2024 to 20 August 2024, the closing price of the Shares dropped substantially from HK\$1.46 (adjusted for share consolidation) to HK\$0.2. The Directors confirmed that they are not aware of any reasons for the decreasing trend in the closing price of the Shares. The closing price of the Shares remained at around HK\$0.2 between 20 August 2024 and 2 October 2024, then fluctuated between HK\$0.155 and HK\$0.23 from 3 October 2024 to 16 January 2025. The closing price of the Shares climbed up to reach HK\$0.54 on 21 January 2025 but went down sharply to HK\$0.21 on 22 January 2025. Save for the voluntary announcement dated 20 January 2025 in relation to the entering into a non-binding memorandum of cooperation for a potential cooperation plan between the Group and MIXMAX e-Commerce Hainan Limited, the Directors confirmed that they are not aware of any reasons for the pike in the closing price of the Shares. The closing price of the Shares then dropped gradually to HK\$0.108 on the Latest Practicable Date.

We note that it is a common market practice that, in order to enhance the attractiveness of a rights issue and to encourage the existing shareholders to participate in the rights issue, the subscription price of a rights issue normally represents a discount to the prevailing market prices of the relevant shares. Having considered the Group's net current liabilities position and negative operating cashflow, relatively high reliance on external financing and the Shareholder's Loans; and the closing price of the Shares was stagnant at low level since late August 2024 (without taking into account the extreme up and down on 21 January 2025 and 22 January 2025), we concur with the Directors that the Subscription Price being set at a discount to the prevailing market prices of the Shares for the Rights Issue is in line with the general practice and is acceptable.

Trading liquidity of the Shares

Set out below is the daily trading volume of the Shares during the Review Period:



The average daily trading volume of the Shares per month, and the respective percentages of the average daily trading volume as compared to the total number of issued Shares at the beginning of each calendar month during the Review Period are tabulated as follows:

Month/period	Average daily trading volume	Number of issued Shares at the beginning of each month	Percentage of average daily trading volume to the total number of issued Shares at the beginning of the month
2024			
April	110,760	237,715,799 (Note 1)	0.05%
May	652,497	237,715,799 (Note 1)	0.27%
June	413,505	237,715,799 (Note 1)	0.17%
July	3,362,740	237,715,799 (Note 1)	1.41%
August	1,206,659	237,715,799 (Note 1)	0.51%
September	278,547	237,715,799 (Note 1)	0.12%
October	891,465	237,715,799 (Note 1)	0.38%
November	410,245	237,715,799	0.17%
December	178,824	237,715,799	0.08%
2025			
January	22,377,741	237,715,799	9.41%
February	2,186,071	447,715,799 (Note 2)	0.49%
March	1,266,437	447,715,799 (Note 2)	0.28%
April	1,279,205	447,715,799 (Note 2)	0.29%
May	1,243,682	447,715,799 (Note 2)	0.28%
June	1,029,840	447,715,799 (Note 2)	0.23%
July (up to the Latest Practicable Date)	412,685	447,715,799 (Note 2)	0.09%

Note:

1. Adjusted for the share consolidation which has become effective on 3 October 2024.
2. 210,000,000 Shares issued on 13 January 2025 under specific mandate pursuant to the subscription agreement dated 12 November 2024.

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

The above table illustrates that the average daily trading volume of the Shares per month was generally thin during the Review Period. The percentage of average daily trading volume to the total number of issued Shares at the beginning of the month ranged from approximately 0.05% to 0.51% during the Review Period, except in July 2024 (approximately 1.41%) and January 2025 (approximately 9.41%), trading in the Shares had been historically inactive and the Shares were hence rather illiquid. On 9 July 2024, the Company announced that it was not aware of any reasons for the share price and trading volume movements on 8 July 2024. On 20 January 2025, the Company announced it has entered into a non-binding memorandum of cooperation in relation to a potential strategic cooperation plan between the Group and MIXMAX. During January 2025, after the completion of loan capitalisation, Mr. Chen has disposed a total of 110,200,000 Shares on the Stock Exchange. Save for disclosed as above, we are advised that the Directors did not aware the reasons for the relatively high trading volume in January 2025.

Average daily trading volume of the Shares per month was below 0.6% of the total number of issued Shares at the beginning of the month in most of the Review Period. Since the Shares were generally illiquid in the open market, we concur with the Board that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at discount to the historical closing prices of the Shares.

Comparison with other rights issue transactions

In order to assess the reasonableness of the Subscription Price, we have reviewed all rights issues conducted by other companies listed on the Stock Exchange, which announced the respective rights issue in the three months preceding the Last Trading Day, i.e. from 17 January 2025 and up to the Last Trading Day. We have identified 14 comparable companies (the “Comparables”) and consider the selection of such three months period to be sufficient and appropriate for our analysis for fund raising exercises such as rights issues, as the market sentiment at the relevant time in general plays an important role in the determination of the Subscription Price, while reasonable number of such fund-raising exercises could be included for reference purposes. Nevertheless, Shareholders should note that the businesses, operations and prospects of the Company are not exactly the same as the Comparables and we have not conducted any in-depth investigation into the business, operations and prospects of the Comparables. Although the Comparables may differ from the Company in terms of: (i) their principal activities, market capitalization, profitability and financial position; (ii) the subscription prices and the amounts and the proposed use of proceeds; and (iii) the background of the respective rights issues, we still consider that the Comparables are fair and reasonable as they can provide a general reference to the Independent Shareholders on the recent range of discount of subscription price to the market price of the relevant shares of rights issue transactions in the equity capital market in Hong Kong. Details of our findings are summarised in the table (the “Comparables Table”) below:

Premium/(Discount) of subscription price over/(to) the average closing price of the five (5) consecutive trading days immediately prior to the last trading day													
Date of announcement	Company name (stock code)	Basis of entitlement	Closing price on the last trading day (¢)	Theoretical ex-right price (¢)	Net asset value per share (¢)	Theoretical dilution effect (non-cumulative) (%)	Maximum dilution (Note 2) (%)	Pricing commission (%)	Market capitalisation as at the date of the respective announcement for the rights issue (HK\$ million)	Approximate estimated net proceeds (Yes/No) (HK\$ million)	Underwriting arrangement (Yes/No)	Status (completed/ pending completion/ lapsed)	Principal activities
1 16 April 2025	Asotaka Group Ltd. (2425)	2 for 5	(29.11)	(22.76)	(80.95)	8.23	28.57%	N/A	1,106.73	308.81	Yes	Pending completion	Production and sales of raw milk, beef cattle and feed products, and the distribution and sales of milk products in the People's Republic of China
2 11 April 2025	ISP Holdings Ltd. (2340)	1 for 2	(74.50)	(66.07)	(85.59)	24.85	33.33%	N/A	68.40	10.13	Yes	Completed	Provision of property and facility management services
3 19 March 2025	Pacific Legend Group Ltd. (8547)	1 for 2	(13.79)	(9.64)	(53.99)	4.60	33.33%	1.25	27.92	13.30	No	Completed	Distribution of home furniture and accessories
4 14 March 2025	Good Fellow Healthcare Holdings Ltd. (8143)	1 for 1	(12.38)	(7.41)	233.33	10.94	50.00%	1.00	24.80	26.70	No	Completed	Operation of hospitals
5 07 March 2025	Volcano Spring International Holdings Ltd. (1715)	3 for 1	47.06	8.70	(23.02)	N/A	75.00%	1.00	13.63	86.80	No	Completed	Research and development, manufacturing and trading of kitchenware and sales of health products
6 05 March 2025	China Zenith Chemical Group Ltd. (362)	2 for 1	(17.90)	(19.38)	Net liabilities	13.05	66.67%	N/A	37.84	59.90	Yes	Pending completion (Note 3)	Generation and supply of heat and power
7 27 February 2025	Timeless Resources Holdings Ltd. (8028)	1 for 2	(9.64)	(8.81)	(23.28)	3.21	33.33%	N/A	65.10	29.10	Yes	Completed	Mining business
8 18 February 2025	China Baoli Technologies Holdings Ltd. (184)	4 for 1	6.67	0.25	Net liabilities	N/A	80.00%	1.00	37.95	167.70	Yes	Completed	Multi-media technologies and convergence media business
9 14 February 2025	China Sifoner International Holding Group Ltd. (8523)	1 for 2	(6.78)	(4.62)	(82.79)	2.26	33.33%	1.00	11.92	5.33	No	Completed	Maintaining and sales of wires and cables
10 14 February 2025	Yues International Holdings Group Ltd. (1529)	4 for 1	(7.14)	(1.52)	(88.68)	21.47	80.00%	1.00% or HK\$100,000	15.74	67.60	No	Completed	Provision of logistics services
11 07 February 2025	Stream Ideas Group Ltd. (8401)	2 for 1	(15.00)	(5.58)	319.24	11.58	66.67%	3.00	19.92	38.50	No	Completed	Provision of online advertising services
12 02 February 2025	CSI Properties Ltd. (497)	18 for 10	5.88	2.04	(93.54)	N/A	64.29%	N/A	1,566.66	1,454.69	Yes	Completed	Investment and trading of commercial properties
13 27 January 2025	Colour Life Services Group Co. Ltd. (1778)	1 for 4	0.00	(2.60)	(95.03)	0.43	20.00%	N/A	232.05	60.16	Yes	Completed	Provision of property management services
14 17 January 2025	Wan Kei Group Holdings Ltd. (1713)	1 for 1	(29.82)	(17.53)	(75.00)	17.64	50.00%	3.00	26.73	21.40	No	Completed	Provision of foundation works
		Maximum	47.06	8.70	319.24	24.85	80.00%	3.00	1565.66	1,454.69			
		Minimum	(74.50)	(66.07)	(95.03)	0.43	20.00%	1.00	11.92	5.33			
		Average	(11.17)	(9.77)	(12.44)	10.75	51.84%	1.53	233.81	167.88			
		Median	(10.96)	(6.19)	(77.98)	10.94	50.00%	1.00	32.88	49.20			
	The Company		(25.93)	(8.05)	(75.91)	20.95	75.00%	2.00	48.35	52.00	Yes	No	

Note:

1. Information is extracted from the relevant rights issue announcement of the respective Comparables and/or from public information.
2. Maximum dilution is calculated as the number of rights shares divided by the total number of shares as enlarged by the allotment and issue of the rights shares.
3. Trading in the shares of China Zenith Chemical Group Limited (362) has been suspended since 17 March 2025.

Source: the website of the Stock Exchange (<http://www.hkex.com.hk>)

As shown in the above table, the Comparables had subscription prices at a discount/premium to their respective closing price per share on the last trading day prior to the release of the relevant announcements within a range from a discount of approximately 74.50% to a premium of approximately 47.06%, with an average discount of approximately 11.17% and median discount of approximately 10.96%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 25.93% to the closing price per Share as quoted on the Stock Exchange on the Last Trading Day, which falls within the range of the Comparables and below the average of the Comparables. With regard to the discount/premium to the theoretical ex-entitlement price per share of the Comparables, the Comparables ranged from a discount of approximately 66.07% to a premium of approximately 8.70%, with an average discount of approximately 9.77% and median discount of approximately 6.19%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 8.05% to the theoretical ex-entitlement price per Share, which also falls within the range of the Comparables and above the average of the Comparables. With regard to the discount/premium to the net asset value price per share of the Comparables, they ranged from a discount of approximately 95.03% to a premium of approximately 319.24%, with an average discount of approximately 12.44% and median discount of approximately 77.98%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 75.91% to the net asset value per Share, which also falls within the range of the Comparables and above the median of the Comparables.

Having taken into consideration that:

- (i) in general, it is common for the listed issuers in Hong Kong to issue rights issue at a discount to the market price in order to enhance the attractiveness of a rights issue transaction;
- (ii) the discount represented by the Subscription Price to the closing price of the Shares on the Last Trading Day and the discount represented by the Subscription Price to the theoretical ex-entitlement prices fall within the respective ranges of the Comparables;

- (iii) we have reviewed the recent closing prices of the Shares for the period from 17 April 2024 to the Last Trading Day, being one year period from the Last Trading Day. Among the 246 trading days for the periods from 17 April 2024 to the Last Trading Day, there were 162 trading days which the closing price of the Shares was over 30% lower than the net asset value per Share of approximately HK\$0.33 as at 31 December 2024. Therefore, the Directors consider that the current market price of the Shares in fact reflects the value of the Shares that is generally perceived by the market having taken into account the Group's business nature and the prevailing market conditions. Accordingly, the net asset value per Share is not a meaningful benchmark to assess the Subscription Price, instead, the prevailing market price of the Shares would be a more appropriate reference in determining the Subscription Price in this regard;
- (iv) the recent closing price of the Shares in general remained stagnant;
- (v) average daily trading volume of the Shares per month was generally thin during the Review Period;
- (vi) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price so long as they are offered with an equal opportunity to participate in the Rights Issue; and
- (vii) excess application is available for Qualifying Shareholders who would like to participate more in the future growth of the Group,

we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

As for the Undertaking from Mr. Chen in respect of the Rights Issue, having considered that the Undertaking (a) solely represents the intention of Mr. Chen in respect of his interests in the securities of the Company under the Rights Issue; and (b) indicates Mr. Cheng's support to the Company as he has undertaken to take up his own pro-rata entitlements under the Rights Issue; whereby his acceptance of the 675,291,879 Rights Shares will be set-off against the Shareholder's Loans. As a result, the Company will be able to strengthen its equity base, improve its liquidity position and reduce its debt level, we consider that the terms of the Undertaking in respect of the Rights Issue are fair and reasonable.

Application for excess Rights Shares

As mentioned in the Letter from the Board, the Qualifying Shareholders are entitled to apply for, by way of excess application: (i) any unsold entitlements to the Rights Shares of the Excluded Shareholder(s) (if any) and (ii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renounces or transferees of nil-paid Rights Shares. Applications for excess Rights Shares may be made by completing an EAF and lodging the same with a separate remittance for the full amount payable for the excess Rights Shares being applied for. The Directors will allocate any excess Rights Shares on a fair and equitable basis. Subject to the requirements of Rule 10.31(3)(b) of the Listing Rules, the Directors will allocate the excess Rights Shares (if any) at their discretion on a fair and equitable basis and on the following principles:

- (i) as far as practicable, in proportion to the number of excess Rights Shares being applied for under each application;
- (ii) no preference will be made to the Rights Shares subscribed through applications by PALs or the existing number of Shares held by Qualifying Shareholders; and
- (iii) no preference will be given to applications made for topping up odd lot holdings to whole board lot holdings.

As set out in the Comparables Table above, 7 of the 14 Comparables have the arrangement for excess application for the qualifying shareholders. We agree that the arrangement for excess application under the Rights Issue are not uncommon in the market. With the arrangement of application for excess Rights Shares, the Qualifying Shareholders shall be given a pre-emptive right to subscribe for the excess Rights Shares if they wish to do so. Moreover, the allocation basis adopted by the Company is in line with the normal market practice of other rights issue with arrangement of application for excess rights shares and the shareholding of each Qualifying Shareholder, except those who do not take up their full entitlements or those who apply for the excess Rights Shares, will be largely maintained after the completion of the Rights Issue. Based on the above, we are of the view that arrangement of application for excess Rights Shares for the Qualifying Shareholders and the allocation method for the excess Rights Shares are fair and reasonable so far as the Independent Shareholders are concerned.

Non-underwritten basis

As mentioned in the Letter from the Board, subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares, the level of subscription of the excess Rights Shares. In the event the Rights Issue is not fully subscribed, any Rights Shares not taken up by the Qualifying Shareholders will not be issued by the Company and the size of the Rights Issue will be reduced accordingly. As mentioned in the Letter from the Board, there are no statutory requirements regarding minimum subscription levels in respect of the Rights Issue. There is no minimum amount to be raised under the Rights Issue. The Rights Issue will be made on terms that the Company will provide for the Shareholders to apply on the basis that if the Rights Shares are not fully taken up, the application of any Shareholder (except for HKSCC Nominees Limited) for his/her/its assured entitlement under the Rights Issue will be scaled down to a level which does not trigger an obligation on part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance to the note to Rule 7.19(5)(b) of the Listing Rules and complying with the minimum public float requirements of the Listing Rules.

It is noted that 12 out of the 14 Comparables are on a non-underwritten basis. As such, we are of the view that it is common for rights issues to be conducted on a non-underwritten basis. The Company will offer the Qualifying Shareholders with an option to apply for excess Rights Shares, if any.

Pursuant to Rule 7.21 of the Listing Rules, in every rights issue, the issuer must make arrangements to dispose of securities not subscribed by allottees under provisional letters of allotment or their renounces by either excess application or compensatory arrangement. As advised by the management of the Group, the decision to adopt the excess application rather than compensatory arrangement to dispose of the Unsubscribed Rights Issue was made after taking into consideration that: (i) the excess application or compensatory arrangements are just different mechanism to provide entitlements to the existing Shareholders for the unsubscribed shares; (ii) the Company has complied with requirements under the relevant Listing Rules in disposing the unsubscribed Rights Shares; and (iii) the excess application offers all Qualifying Shareholders an opportunity (which is not available under a compensatory arrangement) to increase their shareholding interest in the Company in addition to their entitled portion at a discount to the closing price of the Shares. Based on the above, we concurred with the Directors that the Rights Issue, conducted on a non-underwritten basis and did not adopt compensatory arrangements, is in the interests of the Company and the Shareholders as a whole.

Despite that there is no guarantee of minimum amount to be raised by the Rights Issue (other than the amount to be raised under the proposed Rights Issue for the Set-off Arrangement and undertaken by Mr. Chen), given that the Rights Issue provides an opportunity for the Group to raise funds for its financials needs, we consider the Rights Issue to be in the interests of the Company and Shareholders as a whole.

(4) Principal terms of the Placing Agreement

On 16 April 2025 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to procure placee(s), on a best effort basis, to subscribe for the Placing Shares (i.e. unsubscribed Rights Shares) under the Specific Mandate.

Set out below are the principal terms of the Placing Agreement as extracted from the Letter from the Board:

Date	:	16 April 2025 (after trading hours)
Issuer	:	the Company
Placing Agent	:	MoneyMore Securities Limited
		The Placing Agent confirmed that it and its ultimate beneficial owner(s) (i) are not Shareholders; and (ii) they are Independent Third Parties.
Placing Period	:	a period commencing from the next Business Day after the date of announcement of the number of Placing Shares, which is expected to be Tuesday, 16 September 2025, and ending at the 6:00 p.m. on Wednesday, 24 September 2025.
Placing fee	:	Subject to completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 2.0% of the amount which is equal to the placing price multiplied by the number of Placing Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement.
		For the avoidance of doubt, the Placing Agent will not be entitled to any placing commission pursuant to the Placing Shares placed to Mr. Chen.
Placing price of the Placing Shares	:	HK\$0.080 per Placing Share, equivalent to the Subscription Price.
Placees	:	The Placing Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies) (other than Mr. Chen (when applicable)).

The Placing Agent shall ensure that the Placing Shares are placed (i) to investors who and whose ultimate beneficial owners shall be Independent Third Parties (other than Mr. Chen (when applicable)); (ii) such that no placee shall become a substantial shareholder immediately following the Placing (other than Mr. Chen (when applicable)); (iii) such that the Placing will not have any implication under the Takeovers Code and no Shareholder will be under any obligation to make a general offer under the Takeovers Code as a result of the Placing; and (iv) such that the Placing will not result in the Company incapable of complying with the public float requirements under the Listing Rules immediately following the Placing.

Placing Shares : being the number of the unsubscribed Rights Shares (if any).

For the avoidance of doubt, if all the Rights Shares are fully subscribed under the Rights Issue, the Placing will not proceed.

Subject to the situation that the Placing may result in a notable dilution on Mr. Chen's shareholding's percentage to under 50.28% in the Company, Mr. Chen will also be able to subscribe for and be allotted a maximum of 233,589,172 Placing Shares so that Mr. Chen will retain and be interested in up to 900,389,172 Shares, representing approximately 50.28% of the enlarged issued Shares upon the completions of the Rights Issue and the Placing assuming none of the Warrants will be exercised.

Ranking of the Placing Shares : The Placing Shares (when allotted, issued and fully paid, if any) shall rank *pari passu* in all respects among themselves and with the existing Shares in issue as at the date of completion of the Placing.

The placing price and placing commission

Subject to the completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong dollars, of 2.0% of the amount which is equal to the placing price multiplied by the number of Placing Shares that have been successfully placed by the Placing Agent pursuant to the terms of the Placing Agreement. For the avoidance of doubt, the Placing Agent will not be entitled to any placing commission pursuant to the Placing Shares placed to Mr. Chen.

As set out in the Comparables Table above, all 8 Comparables which involved placing, conducted placing of the rights shares that (i) are unsubscribed by the qualifying shareholders of the respective rights issue; and/or (ii) would otherwise be provisionally allotted to excluded shareholders by the placing agent. The Placing, which is to place the Placing Shares, is of similar nature to those conducted by the respective placing agents of the Comparables. The placing commission of the Comparables range from 1% to 3%, with the average of approximately 1.53%. Accordingly, as the placing commission of 2% pursuant to the Placing Agreement is slightly above the average placing commission of the Comparables but falls within range of the Comparables, and there is no placing fee payable by the Company for the Placing Shares placed to Mr. Chen under the Placing, we consider that the placing commission payable to the Placing Agent is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Given that (i) the Placing will be only for the Placing Shares, i.e. Rights Shares that are not subscribed by the Qualifying Shareholders (and after excess applications) under the Rights Issue; (ii) the placing price of the Placing Share shall be the same as the Subscription Price; and the Subscription Price is considered acceptable based on analysis set out in the paragraphs under "Comparison with other rights issue transactions" of the section headed "(3) Principal terms of the Rights Issue" in this letter; (iii) the Placing provides a distribution channel of the Placing Shares to the Company and a channel of participation for independent investors; (iv) the Placing will be managed by the Placing Agent which is an Independent Third Party; (v) the placing commission payable to the Placing Agent is fair and reasonable as mentioned above; and (vi) the Possible Subscription is fair and reasonable and in the interest of the Shareholders and the Company as a whole as discussed in the paragraphs under "The Placing" in the section headed "(2) Reasons for the Rights Issue, the Placing and the Set-off Arrangement" in this letter, we consider that the terms of the Placing Agreement, including the placing price, the placing commission and the Possible Subscription, are fair and reasonable.

Pursuant to the Placing Agreement, the placing price of the Placing Shares will be equal to the Subscription Price. Given that (i) the placing price shall not be less than the Subscription Price, which is not prejudicial to the interests of the Qualifying Shareholders; and (ii) the Subscription Price is fair and reasonable as discussed in the paragraphs under "Comparison with other rights issue transactions" of the section headed "(3) Principal terms of the Rights Issue" in this letter, we consider that the placing price is fair and reasonable so far as the Independent Shareholders are concerned.

(5) Possible financial effects of the Rights Issue

Net asset value

Taking into account the proceeds from Rights Issue, it is expected that the net assets of the Group will increase as a result of the Rights Issue. Further, we note from the section headed “Unaudited Pro Forma Financial Information of the Group” as set out in Appendix II to the Circular that the audited consolidated net tangible assets of the Group as at 31 December 2024 is approximately HK\$148.7 million, while the audited consolidated net tangible assets per Share as at 31 December 2024 before the completion of the Rights Issue is approximately HK\$0.33. Assuming full subscription under the Rights Issue, the Group is expected to raise net proceeds of approximately HK\$106.0 million. After pro forma adjustments, the unaudited pro forma adjusted consolidated net tangible assets of the Group after the completion of the Rights Issue would improve to approximately HK\$254.7 million, while the unaudited pro forma adjusted consolidated net tangible assets per Share after the completion of the Rights Issue would deteriorate by approximately 57.6% to approximately HK\$0.14. Such decrease is due to the fact that the Subscription Price of HK\$0.080 per Rights Share is fixed at a discount to the consolidated net tangible assets per Share prior to the completion of the Rights Issue.

Despite the decrease in consolidated net tangible assets per Share as a result of the Rights Issue, the Rights Issue is expected to have a positive impact on the Group’s overall net assets position upon completion of the Rights Issue.

Liquidity position

According to the 2024 Second Interim Report, the Group had bank and cash balances of approximately HK\$6.4 million as at 31 December 2024. Upon the completion of the Rights Issue, the bank and cash balances of the Group will increase as a result of the net proceeds of approximately HK\$52.0 million after the Set-off Arrangement and deducting the related expenses for the Rights Issue. The Rights Issue will provide additional liquidity in the form of equity to the Group and therefore, will enhance its liquidity position. We consider that it is in the interests of the Company and the Shareholders as a whole.

Gearing ratio

The gearing ratio of the Group (represented by the bank and other borrowings divided by the total equity) was approximately 43.1% as at 31 December 2024. The net proceeds of approximately HK\$52.0 million after the Set-off Arrangement and deducting the related expenses for the Rights Issue will enhance the cash position and increase the total equity of the Group immediately upon completion of the Rights Issue. The Set-off Arrangement will improve the indebtedness level and lower the gearing ratio of the Group.

Earnings

We concurred with the Directors that the Rights Issue will have a positive impact to the earnings of the Group having considered that (i) the Group can save interest expenses through the Set-off Arrangement with repayment of the interest-bearing Shareholder's Loans; and (ii) the net proceeds from the Rights Issue will be utilised to support the growth and development of the Group's existing businesses.

(6) Potential dilution effect of the Rights Issue on the shareholding interests

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their proportional shareholding interests in the Company will remain unchanged after the Rights Issue. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Rights Issue will have their shareholdings in the Company diluted. The possible dilution effect of the Rights Issue on shareholding interests is illustrated in the section headed "Change in the shareholding structure of the Company arising from the Rights Issue" in the Letter from the Board. As in all other rights issues, the dilution on the shareholding of excluded shareholders and those qualifying shareholders who do not take up in full their assured entitlement under the Rights Issue is inevitable. Subject to the situation that the Placing may result in a notable dilution on Mr. Chen's shareholding's percentage to under 50.28% in the Company, Mr. Chen will be able to subscribe for and be allotted a maximum of 233,589,172 Placing Shares so that Mr. Chen will retain and be interested in up to 900,389,172 Shares, representing approximately 50.28% of the enlarged issued Shares upon the completions of the Rights Issue and the Placing assuming none of the Warrants will be exercised.

With reference to the Letter from the Board, the Rights Issue will result in a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of (a) approximately 20.95% on a standalone basis, represented by the theoretical diluted price of approximately HK\$0.088 per Share to the benchmarked price (as defined under Rule 7.27B of the Listing Rules, taking into account of the higher of (i) the closing price on the Last Trading Day of HK\$0.1080 per Share; and (ii) the average of the closing prices of the Shares as quoted on the Stock Exchange for the five previous consecutive trading days prior to the date of the Announcement of approximately HK\$0.1110 per Share) of approximately HK\$0.1110 per Share; and (b) approximately 21.06% on an accumulative basis taking into account of the theoretical dilution effect of the loan capitalisation of the Company announced in November 2024.

We compared the Rights Issue with other rights issue transactions as set out in the table under "Comparison with other rights issue transactions" in the section headed "(3) Principal terms of the Rights Issue" in this letter. We noted that the theoretical dilution effect of the Rights Issue of approximately 20.95% falls within the range although it is near to the highest end of the Comparables of approximately 24.85%.

We concurred with the view of the Board that the Subscription Price and the size of funds to be raised are fair and reasonable and thereby still in the interest in the Shareholders despite the substantial potential dilution impact in case that the Qualifying Shareholders do not take up the Rights Shares based on the following independent assessments:

- (i) the dilution effect complies with the Listing Rules and the significant discount to both the closing prices and the net asset value is expected to attract more Shareholders to participate in the Rights Issue to maintain their respective shareholding interests in the Company and contribute to the Group's future growth and development;
- (ii) as mentioned in the paragraph under "Imminent need and reasonableness of the proposed use of proceeds" in the section headed "(2) Reasons for the Rights Issue, the Placing and the Set-off Arrangement" in this letter, it is critical for the Company to deploy resources to the development of the plans set out set out in the respective tables under "Upgrade existing cross-border e-Commerce platform HKMALL" and "Expand the Group's business model of product wholesaling", shortly upon completion of the Rights Issue. Given the fact that the consumer market is highly competitive, market players need to respond quickly to ensure customers satisfaction. In order to maintain its competitiveness and avoid losing business opportunities, the Group has the imminent needs to upgrade its e-commerce platform for better accessibility to customers and to alleviate the supply chain for shorter lead time of delivery and cost effectiveness;
- (iii) we have reviewed the 2024 Second Interim Report and noted that the bank and cash balances of the Group was at low level of approximately HK\$6.4 million as at 31 December 2024, which will not be sufficient to facilitate the Group's development plans. The Group also recorded net loss of approximately HK\$134.4 million and net cash outflow from operating activities of HK\$64.8 million for the twelve months ended 31 December 2024. Given the current unclear market conditions, it is not expected that the Group's profitability and liquidity position can be improved significantly in the near term; thus, the Group has the funding needs for its development plans;
- (iv) the Rights Issue is considered as the most suitable source of financing among other financing alternatives as discussed under "Suitable source of financing among other financing alternatives" in the section headed "(2) Reasons for the Rights Issue, the Placing and the Set-off Arrangement" in this letter. Having considered the Group's financial performance, the low and stagnant closing price of the Shares since late August 2024 (as referred in the paragraphs under headed "Share price performance" in the section headed "(3) Principal terms of the Rights Issue" in this letter) and general thin trading volume of the Shares during the Review Period (as referred in the paragraphs under "Trading liquidity of the Shares" in the section headed "(3) Principal terms of the Rights Issue" in this letter), it is inevitably that the Subscription Price has to be set at a relatively deep discount to the prevailing market prices of the Shares to encourage the Shareholders to participate in the Rights Issue; and

- (v) the size of funds to be raised reflects the reasonable amount of funds required to fund the Group's development plans and meet its working capital requirements, and is balanced against the potential dilution impact on Qualifying Shareholders who do not take up the Rights Issue.

We considered that the potential dilution effects mentioned above should be balanced by the following factors: (i) the Rights Issue would enhance the Group's financial position and strengthen its capital base for business development; (ii) provide additional funds for general working capital and reduce the debt level of the Group through the Set-off Arrangement; (iii) potential dilution to the shareholding interests of the Shareholders only happens to the Qualifying Shareholders who decide not to accept their assured entitlements in full; and (iv) the Qualifying Shareholders are in fact given the opportunity to trade the nil-paid Rights Shares if they decided not to take up their entitlements in whole or in part.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

In respect of the Rights Issue

- (i) the Group recorded negative operating cashflow for the twelve months ended 31 December 2024 and, net current liabilities as at 31 December 2024. Funds to be raised from the Rights Issue will improve the Group's liquidity position and provide it with additional funds for business development and general working capital;
- (ii) the Group's intention to upgrade its existing cross-border e-Commerce platform HKMALL is in line with its business strategy since 2020 to transform from a single-category beauty retailer into a digital ecosystem, in particular the move to terminate traditional physical retail shop operations and the focus on enhancement on HKMALL e-Commerce operations;
- (iii) the Group's intention to enhance business model of product wholesaling is also in line with its long-term strategy to enhance cross-border trade capabilities and bonded warehousing for supply chain efficiency;
- (iv) having considered various financing alternatives available to the Group, the Directors believe the Rights Issue to be the most appropriate method of fund raising and in the best interest of the Company and the Shareholders, as opposed to other alternative means of financing as discussed in the paragraphs under "Suitable source of financing among other financing alternatives" in the section headed "(2) Reasons for the Rights Issue, the Placing and the Set-off Arrangement" in this letter; and
- (v) the Subscription Price, the application for excess Rights Shares and the allocation method for the excess Rights Shares are fair and reasonable and it is common for rights issues to be conducted on a non-underwritten basis as discussed in the section headed "(3) Principal terms of the Rights Issue" in this letter,

In respect of the Placing and the Possible Subscription

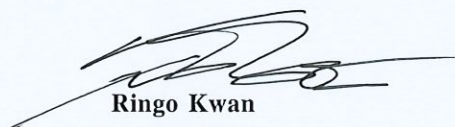
- (i) the Placing will be only for the Placing Shares (i.e. the Rights Shares not subscribed by the Qualifying Shareholders under the provisional allotment and after excess application) and provides a supplemental way of equity fund-raising for the Company and an opportunity for the Company to maximise the funds to be raised;
- (ii) the terms of the Placing Agreement (including the placing price, the placing commission and the Possible Subscription) are fair and reasonable as discussed in the section headed “(4) Principal terms of the Placing Agreement” above; and
- (iii) the Possible Subscription provides a mechanism for Mr. Chen to subscribe for the number of Placing Shares for the purpose of retaining his shareholding interests in the Company, and will not increase his shareholding interests in the Company immediately upon completion of the Right Issue and the Placing. Mr. Chen has expressed such intention pursuant to the Undertaking,

In respect of the Set-off Arrangement

- (i) The Group is in a tight liquidity position; however, the outstanding Shareholder’s Loans will become due shortly within twelve months. The Set-off Arrangement can alleviate the liquidity pressure and reduce the interest expenses of the Group with the repayment of the Shareholder’s Loans. It also signifies Mr. Chen’s continuous support to the Group;
- (ii) the Group currently relies more on external financings for business operation. In view of the unclear prevailing market conditions, it is reasonable for the Group to reduce its debt level. Under the Set-off Arrangement, the Shareholder’s Loan of approximately HK\$54.86 million will be substantially set off; and
- (iii) the Set-off Arrangement will entail Mr. Chen’s long-term support to the Group as he will change from a creditor of the Shareholder’s Loans to a Shareholder by extinguishment of the Shareholder’s Loans and increase his equity interests in the Company; and reduce the interest expenses from the Shareholder’s Loans. As such, maintaining continuous support from Mr. Chen and putting efforts on cost control under the Liquidity Improvement Measures adopted for preparing the condensed consolidated financial statements for the twelve months ended 31 December 2024 on a going concern basis can be addressed,

we consider that the terms of the Rights Issue, the Placing, the Possible Subscription and the Set-off Arrangement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders, and we ourselves advise the Independent Shareholders, to vote in favour of the resolution relating to the Rights Issue, the Placing, the Possible Subscription and the Set-off Arrangement at the EGM.

Yours faithfully,
For and on behalf of
SBI China Capital Hong Kong Securities Limited



Ringo Kwan
Managing Director



Evelyn Fan
Executive Director

Mr. Ringo Kwan and Ms. Evelyn Fan have been responsible officers of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) since 2005 and 2012, respectively. Both of them have participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.