



红日资本有限公司
RED SUN CAPITAL LIMITED

24 September 2025

To: The Independent Board Committee and the Independent Shareholders of
New Concepts Holdings Limited

Dear Sirs,

**CONNECTED TRANSACTION
LOAN CAPITALISATION INVOLVING
ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Capitalisation Agreement (together with the transactions contemplated therein, including the issue of the Capitalisation Shares under specific mandate), 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 24 September 2025 (the **"Circular"**), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 25 August 2025 (after trading hours of the Stock Exchange), the Company (as issuer) and Mr. Zhu Yongjun (**"Mr. Zhu"**) (as subscriber) entered into the Capitalisation Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Zhu has conditionally agreed to subscribe for, a total of 10,000,000 Capitalisation Shares at the price of HK\$1.00 per Capitalisation Share (**"Subscription"**) for the settlement of part of the Outstanding Sum owed by the Company to Mr. Zhu (**"Debt Capitalisation"**). The Subscription amount in the sum of HK\$10,000,000 payable by Mr. Zhu under the Capitalisation Agreement shall be satisfied by setting off against an equivalent amount of the Outstanding Sum.

LISTING RULES IMPLICATIONS

As set out in the Letter from the Board, Mr. Zhu is the Chairman of the Board, an executive Director and is directly and beneficially interested in 86,772,000 Existing Shares, representing approximately 4.75% of the entire issued share capital of the Company. Therefore, Mr. Zhu is considered a connected person of the Company, the entering into of the Capitalisation Agreement and the Debt Capitalisation constitute a connected transaction of the Company, and is subject to reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Capitalisation Shares will be issued by the Company under a specific mandate. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors namely, Ms. Du Yun, Mr. Lo Chun Chiu, Adrian, Dr. Tong Ka Lok and Mr. Choy Wai Shek, Raymond, has been formed to advise the Independent Shareholders as to whether the Capitalisation Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, are in the ordinary and usual course of business of the Group and are in the interests of the Company and its Shareholders as a whole, and how to vote at the EGM. Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected with Mr. Zhu, the Company or its shareholders, directors or chief executives, or any other parties that could reasonably be regarded as relevant to our independence, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Capitalisation Agreement, including the proposed issue of new shares under specific mandate and Debt Capitalisation. During the past two years, Red Sun Capital Limited has not acted as an independent financial adviser to the Company under the Listing Rules. Apart from the normal advisory fee payable to us in connection with this engagement as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Directors and the management of the Company ("**Management**"). We have assumed that all statements, information and representations provided by the Directors and the Management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration.

Our review and analysis were based upon, among other things, including, (i) the Capitalisation Agreement; (ii) the announcement in relation to the Capitalisation Agreement (the "**Announcement**"); (iii) information set out in the Letter from the Board; and (iv) the annual report of the Company for the year ended 31 March 2025 ("**2025 Annual Report**") and the interim report for the six months ended 30 September 2024 ("**2024 Interim Report**"). We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company, to enable us to reach an informed view and to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, the Management or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, there are no other facts not contained in this letter, the omission of which would make any statement contained in the Circular, including this letter, incorrect or misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the Capitalisation Agreement, including the issue of new shares and the transaction contemplated thereunder, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE CAPITALISATION AGREEMENT

In arriving at our opinion in respect of the Capitalisation Agreement, we have taken into consideration the following principal factors and reasons:

(1) Principal business and financial information of the Group

The Group is principally engaged in (i) provision of foundation works, civil engineering contractual service and general building works in Hong Kong (the “**Construction Business**”); and (ii) environmental protection projects including harmless waste treatments, development and management of environmental protection industrial park and new energy materials in Mainland China and Hong Kong (the “**Environmental Protection Business**”).

Set out below are the summarised consolidated statement of profit or loss of the Group for the years ended 31 March 2024 and 2025 as extracted from the 2025 Annual Report, and the six months ended 30 September 2023 and 2024 from the 2024 Interim Report.

Summary of consolidated statement of profit or loss

	For the year ended 31 March		For the six months ended 30 September	
	2025	2024	2024	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	929,235	628,236	362,293	307,098
Construction Business	832,123	511,281	313,761	260,452
Environmental Protection Business	97,112	116,955	48,532	46,646
Gross profit	58,989	61,091	33,863	40,795
(Loss)/Profit for the year/period attributable to owners of the Company	(80,707)	2,863	(14,856)	(6,443)

Financial performance for the year ended 31 March 2024 (“FY2024”) and the year ended 31 March 2025 (“FY2025”)

As set out in 2025 Annual Report, the Group recorded revenue of approximately HK\$929.2 million for FY2025, comprising revenue from the Construction Business segment of approximately HK\$832.1 million and the Environmental Protection Business segment of approximately HK\$97.1 million.

An increase in total revenue of approximately 47.9% was recorded during FY2025 as compared to FY2024, which was mainly driven by the increase in revenue of approximately HK\$320.8 million from the Construction Business segment, resulted from the increase of sizeable projects undertaken by the Group during FY2025. However, it was partially offset by a decline in the new energy material business (being part of the Environmental Protection Business) of approximately HK\$39.5 million.

Notwithstanding the increase in revenue, the Group's gross profit decreased from approximately HK\$61.1 million for FY2024 to approximately HK\$59.0 million for FY2025, due to the new energy materials from the Environmental Protection Business segment recorded a gross loss during FY2025.

Comparing with FY2024, the Group recorded a turnaround from net profit of approximately HK\$2.9 million to net loss attributable to owners of the Company of approximately HK\$80.7 million for FY2025. Such was mainly attributable to, among others, (i) absence of a one-off gain of HK\$52.9 million arising from a capital injection into an associate through the contribution of patented technologies recorded in FY2024; and (ii) a rise in the impairment loss under expected credit loss model of HK\$33.4 million on financial and contract assets.

Financial performance for the six months ended 30 September 2023 ("6M2023") and the six months ended 30 September 2024 ("6M2024")

As set out in 2024 Interim Report, the Group recorded revenue of approximately HK\$362.3 million for 6M2024, comprising revenue from the Construction Business segment of approximately HK\$313.8 million and the Environmental Protection Business segment of approximately HK\$48.5 million.

An increase in total revenue of approximately 18.0% was recorded during 6M2024 as compared to approximately HK\$307.1 million for 6M2023, which was mainly attributable to (i) increase in revenue from the Construction Business segment of approximately 20.5%; and (ii) increase in revenue from the Environmental Protection Business segment of approximately 4.1% as compared to 6M2023.

Loss attributable to owners of the Company amounted to approximately HK\$14.9 million for 6M2024, representing an increase in loss as compared to 6M2023 of approximately HK\$6.4 million.

Summary of consolidated statement of financial position of the Group

	As at 31 March 2025 HK\$'000 (audited)	As at 30 September 2024 HK\$'000 (unaudited)
Non-current assets	816,760	786,336
Current assets	394,828	414,734
Total assets	1,211,588	1,201,070
Non-current liabilities	394,348	337,861
Current liabilities	439,585	409,178
Total liabilities	833,933	747,039
Net assets	377,655	454,034

We noted from the 2025 Annual Report and the 2024 Interim Report, total assets of the Group amounted to approximately HK\$1,211.6 million as at 31 March 2025, representing a slight increase of approximately 0.9% as compared to approximately HK\$1,201.1 million as at 30 September 2024. Such changes was attributable to (i) increase in cash and cash equivalent to approximately HK\$115.2 million as at 31 March 2025 from approximately HK\$53.4 million as at 30 September 2024; (ii) increase in investment properties to approximately HK\$163.3 million as at 31 March 2025 from approximately HK\$56.7 million as at 30 September 2024; and (iii) increase in retention receivables to approximately HK\$28.5 million as compared to approximately HK\$8.8 million as at 30 September 2024, which was partially alleviated by the (i) decrease from loan receivables of approximately HK\$9.3 million as at 30 September 2024 to nil as at 31 March 2025; (ii) decrease in prepayments, deposits and other receivables from approximately HK\$164.6 million as at 30 September 2024 to approximately HK\$95.9 million as at 31 March 2025; (iii) decrease in contract assets from approximately HK\$52.3 million as at 30 September 2024 to nil as at 31 March 2025.

Total liabilities of the Group amounted to approximately HK\$833.9 million as at 31 March 2025, representing an increase of approximately 11.6% as compared to approximately HK\$747.0 million as at 30 September 2024. Such was mainly due to the (i) increase in amounts due to related companies of approximately HK\$41.3 million; (ii) increase in other payables and accruals of approximately \$33.7 million; and (iii) increase in interest-bearing bank and other borrowings of approximately HK\$33.1 million, which were offset by the (i) decrease in contract liabilities of approximately HK\$20.9 million; (ii) decrease in lease liabilities of approximately HK\$4.5 million.

The increase in total liabilities signals potential financial stress, as liabilities have grown more than assets. The substantial increase in current liabilities raises concerns about short-term financial sustainability and interest obligations.

(2) Information of the Subscriber

As set out in the Letter from the Board, Mr. Zhu is the Chairman of the Board and an executive Director and is directly and beneficially interested in 86,772,000 Existing Shares, representing approximately 4.75% of the entire issued share capital of the Company. Therefore, Mr. Zhu is considered a connected person of the Company.

(3) Principal terms of the Capitalisation Agreement

Subject matter

On 25 August 2025 (after trading hours), the Company (as issuer) and Mr. Zhu (as subscriber) entered into the Capitalisation Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Zhu has conditionally agreed to subscribe for, a total of 10,000,000 Consolidated Shares at the price of HK\$1.00 per Capitalisation Share for the settlement of the Outstanding Sum in full.

As at the date of the Announcement, the Company is in debt to Mr. Zhu the Outstanding Sum in the amount of HK\$34.32 million. The subscription price in the amount of HK\$10,000,000 payable by Mr. Zhu under the Capitalisation Agreement shall be satisfied by setting off an equivalent amount of the Outstanding Sum.

The principal terms of the Capitalisation Agreement are as follows:

Date: 25 August 2025

Parties: (i) The Company (as issuer)
(ii) Mr. Zhu (as subscriber)

Capitalisation Shares

The Company has conditionally agreed to allot and issue, and Mr. Zhu has conditionally agreed to subscribe for, a total of 10,000,000 Capitalisation Shares at the price of HK\$1.00 per Capitalisation Share.

Assuming that there will be no change in the issued share capital of the Company between the date of the Announcement and the Completion Date, the Capitalisation Shares represent (i) approximately 5.47% of the issued share capital of the Company as at the date of the Announcement and after the adjustment for the effect of the Share Consolidation; and (ii) approximately

5.19% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares and after the adjustment for the effect of the Share Consolidation.

The aggregate nominal value of the Capitalisation Shares (with a par value of HK\$0.1 each) is HK\$1,000,000.

Issue Price

The Issue Price of HK\$1.00 per Capitalisation Share represents:

- (i) a premium of approximately 21.95% to the theoretical closing price per Share of HK\$0.82 (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 13.64% over the theoretical closing price per Share of HK\$0.88 (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange on 25 August 2025, being the date of the Capitalisation Agreement;
- (iii) a premium of approximately 14.94% over the theoretical average closing price per Share of HK\$0.87 (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Capitalisation Agreement;
- (iv) a premium of approximately 12.36% over the theoretical average closing price per Share of HK\$0.89 (after taking into account the effect of the Share Consolidation) as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Capitalisation Agreement; and
- (v) a discount of approximately 51.60% over the consolidated net asset value attributable to the Shareholders of approximately HK\$2.07 per Consolidated Share (equivalent to approximately HK\$0.207 per Existing Share) as at 31 March 2025, calculated by dividing the Group's audited consolidated net assets attributable to the Shareholders of approximately HK\$377,655,000 as at 31 March 2025 by 182,763,213 Consolidated Shares (after taking into account the effect of the Share Consolidation) in issue as at the date of the Capitalisation Agreement.

The Issue Price was arrived at on an arm's length basis between the Company and Mr. Zhu after taking into account the recent trading performance of the Shares, the recent market conditions, the current financial position and the business prospects of the Group, details of which is set out in the Letter from the Board. The Directors (other than the independent non-executive Directors) consider that the Issue Price and the terms of the Capitalisation Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The amount of the total Issue Price of HK\$10,000,000 shall be satisfied by way of setting-off against an equivalent amount of the Outstanding Sum owed to Mr. Zhu by the Company.

In addition, the Group will use its internal resources to settle the professional fees and all related expenses which may be borne by the Company in connection with the Debt Capitalisation.

Conditions

Completion is conditional upon the fulfilment of the following conditions:

- (i) the passing of the necessary resolution(s) by the Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules and other applicable laws and regulations at the EGM to be held and convened to approve (a) the Share Consolidation; and (b) the Capitalisation Agreement and the transactions contemplated thereunder, including the allotment and issue of the Capitalisation Shares under Specific Mandate;
- (ii) the Share Consolidation becoming effective;
- (iii) the Listing Committee of the Stock Exchange granting, and not having withdrawn or revoked up to Completion, the listing of and permission to deal in the Capitalisation Shares; and
- (iv) all necessary consents and approvals required to be obtained by the Company in respect of the Capitalisation Agreement and the transactions contemplated thereunder having been obtained.

None of the above conditions can be waived. If the above conditions are not fulfilled on or before 15 October 2025 or such later date as the parties to the Capitalisation Agreement may agree, all rights, obligations and liabilities of the parties under the Capitalisation Agreement shall cease and determine and neither party shall have any claim against the other, save for any antecedent breaches of the terms thereof.

Completion

Completion shall take place on the Completion Date after satisfaction of the conditions precedent set out above (or such other date as may be agreed between the Company and Mr. Zhu).

Ranking of the Capitalisation Shares

The Capitalisation Shares, when allotted and issued, shall rank *pari passu* in all respects with the existing Shares in issue at the date of allotment and issue of the Capitalisation Shares.

(4) Reasons for and benefits of the Subscription and Debt Capitalisation

As discussed in the above section headed “(1) PRINCIPAL BUSINESS AND FINANCIAL INFORMATION OF THE GROUP”, the Group recorded, among others, (i) a turnaround from net profit to net loss attributable to owners of the Company of approximately HK\$80.7 million for the year ended 31 March 2025; (ii) net loss for the six months ended 30 September 2023 and 2024. Moreover, as noted from the 2025 Annual Report, the Group incurred net current liabilities of approximately HK\$44.8 million as at 31 March 2025.

As at the Latest Practicable Date, the total outstanding amount owed to Mr. Zhu (comprising principal amount and interest accrued) is approximately HK\$34.61 million, which is expected to fall due in May 2026. Due to recent loss-making performance and the net operating cashflow, the Group has taken substantial work to improve its liquidity level and financial position. As such, the Company engaged in negotiation with Mr. Zhu on the proposed settlement plan of the Outstanding Sum on terms that are favourable to the Company without having to further compromise its liquidity position or requiring a huge cash outflow.

As discussed with the Management, the Directors have also considered alternative means to settle the Outstanding Sum, including a range of debt financing and equity financing methods. However, the Management of the Company considered that these options were not feasible due to, where applicable, the Group’s financial position, the substantial amount of the Outstanding Sum and the insufficient assets or properties as collateral.

In assessing the options for debt financing or bank borrowings, based on our discussion with the Management, we understand that the Company has considered the following factors: (i) additional bank borrowings will inevitably deteriorate the gearing level of the Group and further compromise the Group’s financial position; (ii) securing new bank facilities could be difficult due to the recent loss-making performance of the Group as discussed above; (iii) bank loans typically require asset pledges or collateral, which would impose limitation on the Group’s operational flexibility; (iv) the lengthy procedure for due diligence, risk assessments and negotiation with banks/lenders; and (v) the then rates available may or may not be favourable to the Company.

Nonetheless, the Company still reached out to various banks and financial institutions to explore the possibilities of loan arrangements. As advised by the Company, certain banks indicated that it would be difficult to secure additional facilities without property as collateral, and two entities have provided indicative quotations for the provision of loan facilities bearing interest rates between 12% to 24% per annum, which is substantially higher than the interest rate of the Outstanding Sum (i.e. 6% per annum). As such, the Management considers that the above debt financing options may not be favourable to the Company. In addition, we noted from the 2025 Annual Report that, as at 31 March 2025, the Group's total interest-bearing loans including lease liabilities, bank and other borrowings (excluding bonds) amounted to approximately HK\$236.4 million. In this connection, we have discussed with the Management and understand that certain assets and investment properties have already been pledged to existing facilities, including a syndicated loan of RMB100 million granted in February 2024, which were primarily used for business development purpose in relation to the construction of investment properties in Jiangsu, PRC. Hence, we concur with the view of the Management that conducting further debt fundraising exercise may not be feasible under the Group's current circumstances.

With respect to other equity financing methods such as placement of new shares, rights issue or open offer, considering (i) the Group has recently completed a subscription of new shares under general mandate, details of which is set out in the announcement of the Company dated 11 August 2025; (ii) the loss-making performance of the Group recently, issuance of new shares in the open market may not be appealing to investors and attract subscribers without offering a significant discount; (iii) rights issue or open offer generally entail additional finance cost such as underwriting or placing commission or other professional fees, which is less cost-effective to the Group in view of its financial position; and (iv) the low liquidity of the Shares discussed in the section headed "5.2 TRADING LIQUIDITY OF SHARES" below, the likelihood of conducting such fundraising methods successfully under favourable terms is low, thus no substantive progress in attempting the above alternatives were noted.

We were also given to understand that: (i) the Group has upcoming repayment obligation of approximately HK\$39.6 million from outstanding borrowings due by December 2025; and (ii) the Group has an investment project on hand in relation to the development of a food waste (kitchen waste) disposal facility in Haimen District and expected to invest approximately HK\$28.35 million (the "**Haimen Investment**"), details of which are set out in the announcements of the Company dated 24 June 2025 and 4 August 2025. Accordingly, it is the intention of the Company to allocate and reserve its existing cash and cash equivalents to sustain ongoing operational needs, support the upcoming repayments obligations and the Haimen Investment. Having taken into account all the above factors, we concur with the view of the Directors that it is important to maintain an adequate cash level to ensure the Group's operational continuity or accommodate any potential development needs.

In view of the foregoing, in particular the costs, financial impact and execution risks of abovementioned fundraising alternatives, we are of the view that the Debt Capitalisation represents a more appropriate and beneficial mean for the Group to partially settle the Outstanding Sum and improve its financial position.

After taking into account that: (i) the deteriorated financial position of the Group as mentioned above; (ii) the capitalisation of the Outstanding Sum through the issuance of new shares will not exert immediate cash outflow burden on the Group, and in turn, alleviate the repayment pressure and reduce finance cost expenses; (iii) the expected repayment obligations of the Company in the upcoming period and capital required to support its Haimen Investment; (iv) the Debt Capitalisation is a more favourable and appropriate option as compared to other fundraising alternatives, the Directors considers and we concur with their views that the terms of the Capitalisation Agreement and the transaction contemplated thereunder, including the Debt Capitalisation through the issuance of new shares, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

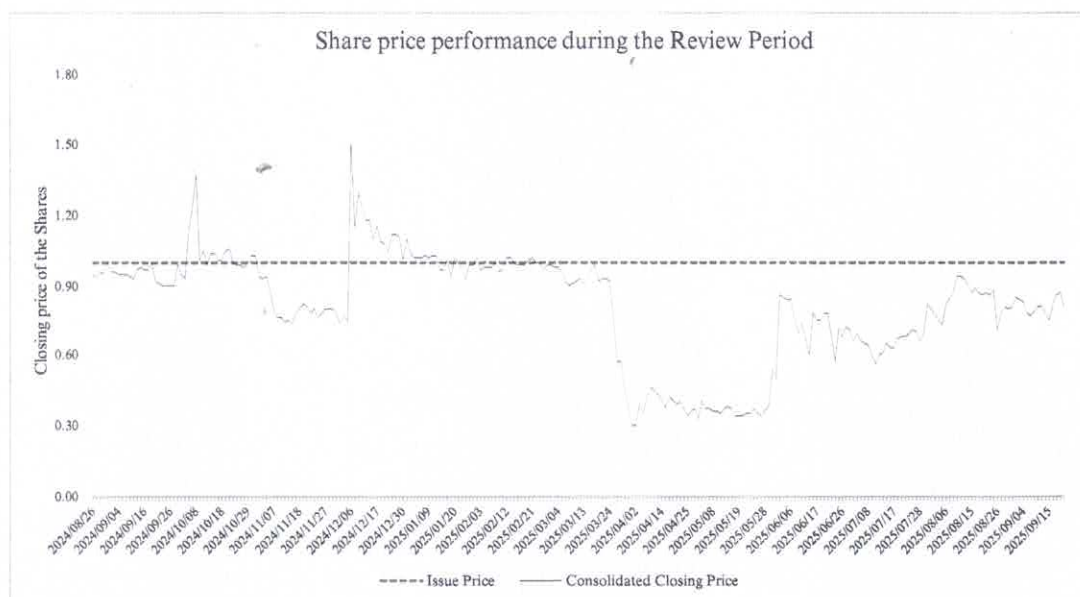
(5) Evaluation of the principal terms of the Capitalisation Agreement and the Subscription

As set out in the Letter from the Board, the Issue Price was arrived at on an arm's length basis between the Company and Mr. Zhu after taking into account the recent trading performance of the Shares, the recent market conditions, the current financial position and the business prospects of the Group.

In order to assess the fairness and reasonableness of the Issue Price at HK\$1.00, we have conducted the following assessments:

5.1 Historical Share price performance

We have reviewed the movement in historical closing prices and the chart below reflects the movement in closing prices from 26 August 2024 to the Latest Practicable Date, being approximately a twelve-month trading period from the date of the Capitalisation Agreement (the "**Review Period**"). We consider that the Review Period is adequate and representative to provide the fair comparison between the Issue Price and historical closing price, which allows a sufficient demonstration of the performance of Shares in response to prevailing market sentiment and operating conditions.



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

During the Review Period, the daily closing prices of the shares (after taken into account the effect of the Share Consolidation) of the Company ranged from HK\$0.30 per Share (“**Lowest Closing Price**”) and HK\$1.50 per Share (“**Highest Closing Price**”), respectively, with the average daily closing price recorded at HK\$0.81 per Share (“**Average Closing Price**”).

As illustrated in the above graph, the closing price of the Shares recorded notable fluctuations since the beginning of the Review Period, of which the Shares (i) increased from HK\$0.93 per Share on 3 October 2024 to HK\$1.37 per Share on 8 October 2024; (ii) recorded an increase from HK\$0.74 per Share on 5 December 2024 to HK\$1.50 per Share on 6 December 2024, followed by a gradual decrease to the range of HK\$0.90 to HK\$1.29 up to March 2025; and (iii) decreased from HK\$0.92 per Share on 24 March 2025 to HK\$0.35 per Share on 7 April 2025. According to Management, save for the publication of the profit warning announcement dated 12 November 2024, and the interim report for the six months ended 30 September 2026 issued on 9 November 2024, the Company were not aware of any material affairs of the Group that could potentially be related to the movements in the closing price of the Share during the aforesaid periods.

It is noted that the Issue Price of HK\$1.00 is within the range of the daily closing prices of the Shares during Review Period and represents (i) a discount of approximately 33.3% over the Highest Closing Price per Share during the Review Period; (ii) a premium of approximately 233.3% over the Lowest Closing Price per Share during the Review Period; and (iii) a premium of approximately 23.3% over the Average Closing Price per Share during the Review Period.

Taken into consideration the Issue Price falls within the range of the aforesaid historical closing price during the Review Period and represents a premium over the Lowest Closing Price and Average Closing Price, we are of the view the Issue Price is fair and reasonable.

5.2 Trading liquidity of Shares

The following table sets out a summary of the average daily trading volume of the Shares with respect to the total number of issued Shares as at the respective month/period, during the Review Period from 26 August 2024 up to the Latest Practicable Date, showing a fair representation of the overall market perception during the past 12 months prior to entering the Capitalisation Agreement.

Month/period	Number of trading days	Average daily trading volume	Percentage of average trading volume to total number of Shares in issue (Note)
2024			
August (from 26 August 2024)	5	234,400	0.01%
September	19	450,526	0.03%
October	21	1,985,714	0.12%
November	21	887,238	0.06%
December	20	5,207,750	0.32%
2025			
January	19	645,263	0.04%
February	20	435,000	0.03%
March	21	4,260,381	0.27%
April	19	14,062,737	0.88%
May	20	8,501,000	0.53%
June	21	15,527,048	0.97%
July	22	6,073,455	0.38%
August	21	5,215,238	0.29%
September (up to and including Latest Practicable Date)	16	2,522,000	0.14%
Minimum			0.01%
Maximum			0.89%
Average			0.27%

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

Note: Calculated based on the total number of Shares in issue at the end of the respective month/period, where applicable.

As illustrated in the above table, during the Liquidity Review Period, the average daily trading volume for each month as a percentage to the then total number of shares in issue ranged from approximately 0.01% to 0.89% with an average of 0.27%.

We note that the trading liquidity of the Shares is relatively thin during the Liquidity Review Period, where 5 out of 12 months have a trading liquidity of below 0.1% of the then total issued Shares. Overall, this may hinder investors/underwriters or placing agent to participate when the Company attempts to conduct equity fundraising activities or is likely to result in a considerable discount to the prevailing market price of the Shares as incentive if such options were pursued. Therefore, the Management consider, and we concur, that it would be difficult for the Company to pursue a sizeable equity fundraising under terms that are favourable to the Company.

5.3 Market comparable analysis on the Issue Price

To further assess the fairness and reasonableness of the terms of the Issue Price, we have identified, to the best of our knowledge, effort and endeavour, an exhaustive list of comparable transactions involving issues of new shares under specific mandate by companies listed on the Stock Exchange.

Based on the following selection criteria (the “**Selection Criteria**”):

- (i) announcement published on the Stock Exchange website in relation to issuance of new shares under specific mandate for loan/debt capitalisation purpose, which we consider to be comparable in nature to the Debt Capitalisation;
- (ii) announcements that were published during the period from 25 February 2025 up to 25 August 2025, being a six-month period prior to the date of the Capitalisation Agreement, due to the sufficient number of transactions identified during the recent six-month period to comprise a representative list for comparable purpose, we consider the said period is sufficient to serve as a general reference and reflect recent market trend of similar transactions under prevailing market conditions;
- (iii) excluding issuance of A-shares or PRC domestic shares or issuance that have been terminated and lapsed as at the Latest Practicable Date;

we have identified a total of 8 comparable transactions (the “**Comparables**”) for the purpose of our analysis.

It should be noted that the principal terms of the Comparables may vary due to differences in principal business, operations, financial positions and prospects of the respective companies. We have not conducted any in-depth investigation into the size, principal business, operations, financial positions and prospects of the Comparable Issues. This analysis is aiming in providing a general reference for the recent market practice in relation to the key terms of the Comparable Issues under similar type of transactions, we consider that our comparable analysis and the Selection Criteria are fair and reasonable and useful for Independent Shareholders' reference.

We set out our findings in the table below:

Date of announcement	Company name (Stock Code)	Premium/ (discount) of issue price over/to the average closing price of five trading days prior to and including the last trading day/on the date of the respective announcement/ agreement (%)	Premium/ (discount) of issue price over/to the average closing price of five trading days prior to and including the last trading day/on the date of the respective announcement/ agreement (%)	Premium/ (discount) of issue price over/to the average closing price of ten trading days prior to and including the last trading day/on the date of the respective announcement/ agreement (%)
		Premium/ (discount) of issue price over/to the closing price on the last trading day/on the date of the respective announcement/ agreement (%)	Premium/ (discount) of issue price over/to the average closing price of five trading days prior to and including the last trading day/on the date of the respective announcement/ agreement (%)	Premium/ (discount) of issue price over/to the average closing price of ten trading days prior to and including the last trading day/on the date of the respective announcement/ agreement (%)
18 Jun 2025	New City Development Group Limited	(4.95%)	(7.53%)	(13.00%)
15 May 2025	Zhongzheng International Company Limited	0.00%	0.00%	(1.00%)
29 Apr 2025	GoFintech Quantum Innovation Limited	4.92%	2.56%	1.75%
28 Apr 2025	Sunshine Oilsands Ltd.	2.27%	18.11%	25.70%
17 Apr 2025	China HK Power Smart Energy Group Limited	0.00%	(0.51%)	(4.41%)
16 Apr 2025	Zhonghua Gas Holdings Limited	0.00%	0.00%	0.00%
7 Apr 2025	Regent Pacific Group Limited	0.00%	16.00%	13.00%
17 Mar 2025	Acme International Holdings Limited	(32.50%)	(30.90%)	(31.70%)
	Maximum	4.92%	18.11%	25.70%
	Minimum	(32.50%)	(30.90%)	(31.70%)
	Average	(3.78%)	(0.28%)	(1.21%)
	Median	0.00%	0.00%	(0.50%)
	The Company	13.64%	14.94%	12.36%

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

As shown in the above table, we noted that the issue prices of the Comparable ranged from (i) a discount of approximately 32.50% to a premium of approximately 4.92% over the respective closing prices of the shares on the last trading day/the date of the relevant announcement/agreement (the “**Market Range**”), with an average discount of approximately 3.78% (the “**Market Average**”); (ii) a discount of approximately 30.90% to a premium of approximately 18.11% over the respective average closing prices of the shares on the last five trading days up to and including the date of the respective

announcement/agreement (the “**5-Day Market Range**”), with an average discount of approximately 0.28% (the “**5-Day Market Average**”); and (iii) a discount of approximately 31.70% to a premium of approximately 25.70% over the respective closing prices of the shares on the last ten trading days up to and including the date of the respective announcement/agreement (“**10-Day Market Range**”), with an average discount of approximately 1.21% (“**10-Day Market Average**”).

We observed that the Issue Price represents, after taking into account the effect of the Share Consolidation: (i) a premium of approximately 13.64% over the theoretical closing price per Share of HK\$0.88 as quoted on the date of the Capitalisation Agreement; (ii) a premium of approximately 14.94% over the theoretical closing price per Share of HK\$0.87 for the last five consecutive trading days immediately preceding the date of the Capitalisation Agreement; and (iii) a premium of approximately 12.36% over the theoretical average closing price per Share of HK\$0.89 for the last ten consecutive trading days immediately preceding the date of the Capitalisation Agreement, which fall within the 5-Day Market Range and 10-Day Market Range, respectively.

Despite the Issue Price represents a premium of approximately 13.64% over the theoretical closing price on the date of the Capitalisation Agreement which does not fall within the Market Range, taking into account that: (i) the majority of the subject issue price of the Comparables were either at par or at a premium over the respective closing price of the shares on the date of the respective announcement, five trading days and ten trading days up to the date of the respective announcement(s), respectively; (ii) the premium as represented by the Issue Price is more favourable as compared to the Market Average discount of approximately 3.78% of the Comparables; and (iii) the Issue Price falls within the 5-Day Market Range and 10-Day Market Range, we consider that the Issue Price is justifiable.

Our view

Having considered the above, in particular that:

- (i) the Group’s recent loss-making performance recorded a net loss attributable to owners of the Company of approximately HK\$80.7 million during FY2025 as discussed under the section headed “(1) PRINCIPAL BUSINESS AND FINANCIAL INFORMATION OF THE GROUP”;
- (ii) the Issue Price is determined on an arm’s length basis after taking into account various factors, including among others, the recent trading performance of the Shares, the recent market conditions, the current financial position and business prospects of the Group;

- (iii) the historical share price performance during the Review Period demonstrated a general sluggish trend yet the Issue Price falls within the range of the historical closing price per Share as discussed in under “5.1 Historical share price performance”;
- (iv) the Shares demonstrated a relatively thin liquidity during the Review Period preceding the date of the Capitalisation Agreement, as discussed under “5.2 TRADING LIQUIDITY OF SHARES”, which reflects the recent market perception towards the Shares and pose challenges in conducting equity financing exercise in the open market;
- (v) the Issue Price falls within the 5-Day Market Range and the 10-Day Market Range, and represents a premium to the closing price on the date of the Capitalisation Agreement, which aligns with market practice as compared to recent issuance of new shares for the purpose of debt/loan capitalisation;
- (vi) the Issue Price represents a premium over the theoretical closing price per Share reflects the solid confidence of Mr. Zhu towards the prospects of the Company and his commitment as Chairman and executive Director; and
- (vii) its difficulty in conducting fundraising activities through alternative methods such as bank borrowings or equity financing due to reasons as discussed under section headed “(4) REASONS FOR AND BENEFIT OF THE SUBSCRIPTION AND DEBT CAPITALISATION”;

we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

(6) Dilution effect on the shareholding interests of the existing public Shareholders

The table below set out the shareholding structure of the Company (i) as at the date of Latest Practicable Date; (ii) immediately upon completion of the Share Consolidation; and (iii) immediately after completion and the allotment and issue of the Capitalisation Shares as contemplated under the Debt Capitalisation.

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Share Consolidation		Immediately after Completion and the allotment and issue of the Capitalisation Shares as contemplated under the Debt Capitalisation	
	Number of Shares	Approx. % of shareholding	Number of Shares	Approx. % of shareholding	Number of Shares	Approx. % of shareholding
Directors						
Mr. Zhu Yongjun (<i>Note 1</i>)	86,772,000	4.75	8,677,200	4.75	18,677,200	9.69
Mr. Pan Yimin ("Mr. Pan") (<i>Note 2</i>)	500,000	0.03	50,000	0.03	50,000	0.03
Dr. Tong Ka Lok ("Dr. Tong") (<i>Note 3</i>)	480,000	0.03	48,000	0.03	48,000	0.02
Mr. Choy Wai Shek, Raymond, MH., JP. ("Mr. Choy") (<i>Note 4</i>)	1,200,000	0.07	120,000	0.07	120,000	0.06
Public Shareholders	1,738,680,134	95.13	173,868,013	95.13	173,868,013	90.20
Total	1,827,632,134	100.00	182,763,213	100.00	192,763,213	100.00

Note:

- As at the Latest Practicable Date, among the 86,772,000 Shares, 77,000,000 Shares are beneficially held by Jumbo Grand Enterprise Development Limited ("Jumbo Grand") and 4,372,000 Shares are beneficially by Excellent Point Asia Limited ("Excellent Point"). Mr. Zhu owns 100% of the issued voting shares of Jumbo Grand and Excellent Point. As such, Mr. Zhu is deemed or taken to be interested in all the Shares which are beneficially owned by Jumbo Grand and Excellent Point for the purpose of the SFO.
- As at the Latest Practicable Date, Mr. Pan is an executive Director.
- As at the Latest Practicable Date, Dr. Tong is an independent non-executive Director.
- As at the Latest Practicable Date, Mr. Choy is an independent non-executive Director.
- Certain percentage figures in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

Assuming there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date and the completion save for the allotment and issue of Capitalisation Shares, the interests of the public shareholders of the Company will be diluted from approximately 95.13% to 90.20%.

Considering that: (i) the Debt Capitalisation is in the interest of the Company and the Shareholders as a way to alleviate the Group liquidity pressure and reduce financial burden caused by the Group's liabilities; (ii) the Issue Price is on normal commercial terms, fair and reasonable so far as the Shareholders are concerned as discussed above, we consider that the aforesaid dilution effect on the shareholding interest of public shareholders to be acceptable and justifiable.

(7) Potential financial effects of the Debt Capitalisation

There will be no proceeds arising from the Debt Capitalisation as the entire aggregate Issue Price will set off against the partial amount of the Outstanding Sum on a dollar-to-dollar basis. As at the Latest Practicable Date, the outstanding principal amount of Outstanding Sum in aggregate amounted to approximately HK\$34.61 million. Upon Completion, the subscription amount of HK\$10,000,000 shall be deemed to have been repaid under the Outstanding Sum owed to Mr. Zhu. After Completion, the remaining and aggregated principal amount of HK\$24.61 million under the Outstanding Sum will remain as a liability of the Group and is expected to be repaid by the Group's internal financial resources.

Given partial repayment amount of HK\$10,000,000 to be offset against the Debt Capitalisation, upon completion, it is expected that (i) the net current liabilities of the Group will be decreased by HK\$10,000,000; and (ii) the net assets position of the Group will be increased by HK\$10,000,000.

The financial effect of the Debt Capitalisation as set out in the foregoing paragraph is presented for illustrative purpose only and is subject to change upon completion, review and final audit by the auditor of the Company.

RECOMMENDATION

In view of the above factors and reasons stated above, we are of the opinion that although the entering into of the Capitalisation Agreement is not in the ordinary and usual course of business of the Group, the terms of the Capitalisation Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Capitalisation Agreement.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited

A handwritten signature in dark ink, consisting of a large, stylized loop followed by a horizontal line and a small flourish at the end.

Robert Siu
Managing Director

Note: Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 type (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 26 years of experience in corporate finance industry.