



16 March 2026

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

Dear Sir or Madam,

**(1) PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR (4) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS; AND
(2) CONNECTED TRANSACTION IN RELATION TO 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 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 16 March 2026 (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

The Board proposes to implement the Rights Issue on the basis of four (4) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price of HK\$0.105 per Rights Share, to raise up to approximately HK\$121.6 million before the Set-off Arrangement and expenses by way of issuing up to 1,158,221,124 Rights Shares (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date). The estimated net proceeds of the Rights Issue (taking into account the effect of the Set-off and deducting the related expenses for the Rights Issue), will be approximately HK\$62.6 million (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date and all Qualifying Shareholders taking up their respective entitlement under the Rights Issue in full). 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 does not have any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares. 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 acceptance of the provisionally allotted Rights Shares. In the event the Rights Issue is not fully subscribed, any Unsubscribed Rights Shares and Excluded Unsold Rights Shares will be placed to independent places on a best effort basis by the Placing Agent under the Compensatory Arrangements. Any Unsubscribed Rights Shares and Excluded Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

On 14 January 2026, Mr. Lui had given the Undertaking in favour of the Company, that (i) he will not dispose of any of the 137,886,046 Shares comprising the current shareholding in the Company beneficially 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 551,544,184 Rights Shares, which will be the number of Rights Shares provisionally allotted to him in nil-paid form 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 (iii) pursuant to the note of Rule 7.19(5)(b) of the Listing Rules, when the rights issue is not fully underwritten and on the basis that if the issue is not fully taken up, the application of the Shareholder for his/her/its assured entitlement under the Rights Issue can be scaled down to a level which does not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code, he consents that, in the event of an under-subscription of the Rights Issue, the Company has power and authority to scale down Mr. Lui's assured entitlement under the Rights issue to a level which does not trigger an obligation to make a general offer under the Takeovers Code immediately after completion of the Rights Issue.

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. Lui and his associates shall abstain from voting in favour of the resolution(s) to approve the Rights Issue and the Set-off Arrangement at the EGM.

The Set-off Arrangement

As disclosed in the Letter from the Board, as at the Latest Practicable Date, the Company was indebted to Mr. Lui in an aggregate amount of approximately HK\$71 million (including principal of approximately HK\$60.35 million and accrued interest of approximately HK\$10.70 million) under the Shareholder's Loans. Pursuant to the Undertaking, Mr. Lui conditionally agreed to the Set-off whereby approximately HK\$57.9 million required to be paid by Mr. Lui for the subscription of 551,544,184 Rights Shares provisionally allotted to him pursuant to the Rights Issue would be set-off against the Shareholder's Loans on a dollar-for-dollar basis. However, if the relevant resolution in respect of the Set-off Arrangement is not approved at the EGM, the Company was given to understand that Mr. Lui will satisfy the subscription monies from his internal resources.

As at the Latest Practicable Date, Mr. Lui is a controlling Shareholder holding 137,886,046 Shares, representing approximately 47.62% of the issued share capital of the Company. The Set-off Arrangement would therefore constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is therefore subject to the reporting and announcement requirements and the approval of the Independent Shareholders at the EGM under the Listing Rules.

Mr. Lui and his associates will abstain from voting of the Rights Issue 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. Lui and his associates, no other Shareholder is required or indicated his intention to abstain from voting in respect of the resolution(s) relating to the Rights Issue and the Set-off Arrangement at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Ko Tsz Kin, Mr. Wong Yue Fai and Prof. Jiang Zhihong has been established to advise the Independent Shareholders as to (i) whether the terms of the Rights Issue 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 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 (i) whether the terms of the Rights Issue 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 resolution(s) relating to the Rights Issue 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 Group is principally engaged in the stone sales and supply and installation of marble products in Hong Kong, Macau and the PRC.

Going concern

As disclosed in the 2025 Interim Report, due to the difficult operation environment in the past few years, most of the construction projects were delayed and thus the receivables collection cycle of the Group had unexpectedly procrastinated. As a result, the Group failed to repay certain bank borrowings (mainly trust receipt loans) by the due date since year 2020. On 13 January 2025, a subsidiary of the Group has received a letter from one of its banks requesting the immediate repayment of the outstanding principal bank borrowing balances of approximately HK\$3,425,000 and the accrued interest thereon, along with termination of the respective banking facilities. The letter stated that legal action would be taken against the subsidiary of the Group if that subsidiary of the Group fails to settle the amount within three business days after the date of the letter. As at the Latest Practicable Date, the above bank borrowing has not yet been settled and no agreement has been reached with the bank.

As disclosed in the announcement of the Company dated 7 January 2026, a winding up petition dated 4 December 2025 was presented by Hang Chin Marble Engineering Limited against Pacific Marble and Granite Limited (“PMG”), an indirectly wholly owned subsidiary of the Company, on the ground that PMG is insolvent and unable to pay its debt.

In view of above, certain measures have been taken to mitigate the liquidity pressure and to improve the financial position of the Group, and in an effort to remediating the delayed payments to the relevant banks, which include, but are not limited to, the followings:

- (i) the Group has actively negotiated with the relevant banks for extension of the overdue bank borrowings and to waive their rights arising from the events of default arising from overdue payments. For the bank borrowing which demanded for immediate repayment, the management of the Group is in discussion with the relevant banks for a feasible settlement plans and extension of repayment period. Having considered the long standing relationships with the relevant banks, the Directors believe that the Group will be able to form an agreement with relevant banks, especially the bank borrowing which demanded for immediately repayment on 13 January 2025;
- (ii) the Group has implemented measure to accelerate the certification, billing and collection with customers for completed projects;
- (iii) the Group is also in active negotiations with its customers to request for deposits before commencement of projects and its suppliers and sub-contractors to extend the settlement terms for its purchases;
- (iv) the substantial shareholder, Mr. Lui who is also the chairman and an executive director of the Company, is willing to provide financial support to the Group when needed. Also, the Group obtained loans from its executive Directors for financial support. As at 31 December 2024, such loans amounted to approximately HK\$11,206,000 (2024: approximately HK\$11,621,000) are unsecured and repayable on 30 June 2026 and interest bearing ranged at 2% to 5% per annum;
- (v) the Group continues to improve the operating efficiency by implementing measures to tighten cost controls over various operating expenses in order to enhance its profitability and to improve the cash flow from its operation in future; and
- (vi) the Group is actively looking for other sources of financing including any possible form of debt or equity financing to enhance the capital structure and reduce the overall financing expenses.

Financial performance

The following table summarises the financial performance of the Group for the two financial years ended 31 December 2023 (“FY2023”) and 31 December 2024 (“FY2024”) and the six months ended 30 June 2024 (“6M2024”) and 30 June 2025 (“6M2025”) as extracted from the annual report of the Company for the financial year ended 31 December 2024 (“2024 Annual Report”) and the interim report of the Company for the six months ended 30 June 2025 (“2025 Interim Report”), respectively.

	For the six months ended		For the year ended	
	30 June		31 December	
	2025	2024	2024	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue from contracts with customers	27,866	17,634	58,514	77,199
Cost of sales	(25,376)	(14,646)	(43,130)	(53,250)
Gross profit	2,490	2,988	15,384	23,949
Gross profit margin	8.9%	16.9%	26.3%	31.0%
(Loss) for the period/year	(8,725)	(8,522)	(86,372)	(40,449)

For the six months ended 30 June 2025

Revenue from contracts with customers amounted to approximately HK\$27.9 million for 6M2025, representing an increase of approximately HK\$10.3 million, or approximately 58.5%, as compared to approximately HK\$17.6 million for 6M2024 mainly due to increase in revenue from supply and installation services. Revenue from supply and installation services increased by approximately HK\$8.2 million, or 62.1%, from approximately HK\$13.2 million for 6M2024 to approximately HK\$21.4 million for 6M2025.

Gross profit decreased from approximately HK\$3.0 million for 6M2024 to approximately HK\$2.5 million for 6M2025, representing a decrease of approximately 0.5 million or 16.7%. Gross profit margin decreased from approximately 17.0% for 6M2024 to approximately 9.0% for 6M2025. The decrease in gross profit margin was mainly due to the difference in project mix and the impact of variation orders certified or confirmed.

Loss for the period increased from approximately HK\$8.5 million 6M2024 to approximately HK\$8.7 million for 6M2025 mainly due to increase in (i) impairment losses on contract assets of approximately HK\$1.7 million; which is partially offset by decrease in administrative expenses of approximately HK\$1.0 million and decrease in finance cost, net of approximately HK\$0.9 million.

For the year ended 31 December 2024

Revenue from contracts with customers amounted to approximately HK\$58.5 million for FY2024, representing a decrease of approximately HK\$18.7 million, or approximately 24.2%, as compared to approximately HK\$77.2 million for FY2023 mainly due to decrease in stone sales of approximately HK\$27.4 million, or 52.0%; which is partially offset by increase in revenue from supply and installation service of approximately HK\$8.7 million, or 35.5%. During FY2024, several large projects of the Group reached completion stage and the newly awarded large projects have not yet commenced operation.

Gross profit decreased from approximately HK\$23.9 million for FY2023 to approximately HK\$15.4 million for FY2024, representing a decrease of approximately 8.5 million or 35.6%. Gross profit margin decreased from approximately 31.0% for FY2023 to approximately 26.3% for FY2024. As advised by the management of the Group, the decrease in gross profit was mainly due to increase in cost of sales.

Loss for the year increased from approximately HK\$40.4 million for FY2023 to approximately HK\$86.4 million for FY2024, representing an increase in loss of approximately HK\$46.0 million, or 113.9%. The increase in loss for the year was mainly attributable to (i) decrease in gross profit of approximately HK\$8.5 million as mentioned above; and (ii) increase in impairment losses under expected credit losses model, net of reversal, of contract assets, trade and retention receivables and other receivables of approximately HK\$41.8 million; which was partially offset by decrease in administrative expenses of approximately HK\$3.9 million. As mentioned in the 2024 Annual Report, the increase in impairment losses was mainly based on the reassessment result of the project status and the increasing risk of bad debts due to the current economic downturn and the industry factors.

Financial position

	For the six months ended 30 June 2025 HK\$'000 (unaudited)	For the year ended 31 December 2024 HK\$'000 (audited)	31 December 2023 HK\$'000 (audited)
Total assets	103,880	104,589	190,274
Bank balances and cash	628	308	507
Total liabilities	166,611	158,692	155,029
Bank borrowings and loans from directors	44,752	45,077	59,636
Net (liabilities)/assets	(62,731)	(54,103)	35,245

Comparison between 30 June 2025 and 30 June 2024

Total assets remained relatively stable and amounted to approximately HK\$103.9 million as at 30 June 2025 and approximately HK\$104.6 million as at 31 December 2024. When compared to 31 December 2024, contract assets increased by approximately HK\$7.1 million while (i) inventories decreased by approximately HK\$5.1 million; (ii) trade and retention receivables decreased by approximately HK\$1.7 million and (iii) deposits, prepayments and other receivables decreased by approximately HK\$1.4 million as at 30 June 2025.

Total liabilities increased by approximately HK\$7.9 million from approximately HK\$158.7 million as at 30 June 2024 to approximately HK\$166.6 million as at 30 June 2025. Such increase was mainly due to increase in trade and retention payables of approximately HK\$8.6 million.

As disclosed in the 2025 Interim Report, as at 30 June 2025, the Group had bank balance and cash of approximately HK\$0.6 million and bank overdrafts of approximately HK\$9.9 million. The net liabilities of the Group amounted to approximately HK\$62.7 million as at 30 June 2025. The Group had been relying on its internal resources, financial supports from the Directors and other sources of funds to support its operations.

Comparison between 31 December 2024 and 31 December 2023

Total assets decreased from approximately HK\$190.3 million as at 31 December 2023 to approximately HK\$104.6 million as at 31 December 2024, representing a decrease of approximately HK\$85.7 million, or 45.0%. The decrease was mainly due to (i) decrease in contract assets of approximately HK\$74.7 million and (ii) decrease in inventories of approximately HK\$6.0 million.

Total liabilities increased by approximately HK\$3.7 million from approximately HK\$155.0 million as at 31 December 2023 to approximately HK\$158.7 million as at 31 December 2024. Such increase was mainly due to (i) increase in accruals and other payables of approximately HK\$11.1 million; and (ii) increase in trade and retention payables of approximately HK\$6.1 million; which was partially offset by decrease in loans from directors of approximately HK\$14.9 million. In particular, the loans due to Mr. Lui was decreased from approximately HK\$23.7 million as at 31 December 2023 to approximately HK\$9.6 million 31 December 2024.

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

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), the gross proceeds from the Rights Issue will be approximately HK\$121.6 million and the estimated net proceeds of the Rights Issue after the Set-off Arrangement and deducting the related expenses will be approximately HK\$62.6 million. The Company intends to use the net proceeds from the Rights Issue for the followings:

- (i) as to approximately HK\$41.8 million will be used for repayment of overdue bank loans and the interests incurred therefrom;
- (ii) as to approximately HK\$20.3 million will be used for repayment of the outstanding trade and other payables; and
- (iii) as to the remaining of approximately HK\$0.5 million will be used as general working capital of the Group, including day-to-day salaries, office administrative overheads and selling and distribution expenses.

As disclosed in the Letter from the Board, given that the Rights Issue is non-underwritten and will proceed regardless of the level of subscription, should the Rights Issue be undersubscribed with low or minimal public take-up by Qualifying Shareholders, (i) Mr. Lui's entitlement to the Rights Shares pursuant to the Undertaking (by way of set-off) will be scaled down as described below; and (ii) the net proceeds will be correspondingly reduced, with the Company intending to prioritize to their use for repayment of overdue bank loans, and followed by settlement of outstanding trade and other payables. With reference to the table titled "Proceeds application by subscription levels" under the section headed "Use of Proceeds" in the Letter from the Board.

- in the event that all or most of the Placing Shares are successfully placed, and Mr. Lui subscribes for up to 551,544,184 Rights Shares, the subscription monies payable of Mr. Lui under the Rights Issue, being approximately HK\$57.9 million, will be set-off in full against the Shareholder's Loans on a dollar-to-dollar basis. The remaining net proceeds of up to approximately HK\$62.6 million (subject to the actual results of the Placing) generated via the Placing, will be applied first towards the repayment of the Group's overdue bank loans, which comprise both outstanding principal and accrued interest; and remaining proceeds (if any) are expected to be utilized to the Group's outstanding trade and other payables. (the "**First Placing Scenario**").
- in the event that only a reduced number of or nil Placing Shares are placed, the Company will scale down the number of Rights Shares applied by Mr. Lui's under the Rights Issue, in accordance with note to Rule 7.19(5)(b) of the Listing Rules, to a level that will not trigger an obligation to make a general offer after completion of the Rights Issue and the Placing (i.e. Mr. Lui's shareholding cannot be increased by more than 2% immediately after the completion of the Rights Issue). As illustrated in the Letter from the Board, on the theoretical

basis that no Placing Shares are placed, the maximum number of Rights Shares to be allotted and issued to Mr. Lui will be scaled down to 11,490,000 Rights Shares, and approximately HK\$1.2 million will be set-off against the Shareholder's Loans on a dollar-to-dollar basis. Additionally, should there is an under-subscription of the Rights Issue other than those under the Undertakings and after adjustments to number of Rights Shares offered to Mr. Lui, after the Set-off Arrangement there will be no proceeds from the Rights Issue (the "Second Placing Scenario").

We have obtained and reviewed the email correspondences between the Company and Hang Seng Bank, and between the Company and Chong Hing Bank for the amounts of outstanding bank borrowings. According to the email correspondences, as at 31 December 2025, (i) the total outstanding bank borrowings due to Hang Seng Bank amounted to approximately HK\$40.8 million (including principal amount of approximately HK\$28.8 million and accrued interest of approximately HK\$12.0 million; and (ii) the total outstanding bank borrowings due to Chong Hing Bank amounted to approximately HK\$4.2 million (including principal amount of approximately HK\$2.5 million and accrued interest of approximately HK\$1.7 million). As advised by the management of the Group, the Group has difficulty to obtain new bank facilities and that affects the business operations and liquidity of the Group due to the overdue records.

As for both the First Placing Scenario, since the net proceeds from the Rights Issue (after the Set-off Arrangement) will be applied first towards repayment of overdue bank loans from Hang Seng Bank and Chong Hing Bank before applying the remaining proceeds (if any) to the Group's outstanding trade and other payables, we are of the view that prioritising the repayment of overdue bank loans would improve the financial position of the Group and help to alleviate the pressure from obtaining liquidity in the future for the business operations of the Group, and hence we consider the First Placing Scenario is fair and reasonable. As for the Second Placing Scenario, in the event that only a reduced number of or nil Placing Shares are placed, the Company will scale down the number of Rights Shares to be issued to Mr. Lui in accordance to the note to Rule 7.19(5)(b) of the Listing Rules. In order for Mr. Lui not to trigger the obligation to make a general offer under the Takeovers Code, the shareholding of Mr. Lui cannot be increased by more than 2% immediately upon completion of the Rights Issue and the number of Rights Shares to be allotted and issued to Mr. Lui will be scaled down to 11,490,000 Rights Shares, and approximately HK\$1.2 million will be set-off against the Shareholder's Loans on a dollar-to-dollar basis. Taking into account that the scale down mechanism in the Second Placing Scenario is to comply with the Listing Rules and the Takeovers Code, and approximately HK\$1.2 million will be set-off against the Shareholder's Loans on a dollar-to-dollar basis, we are of the view that the Second Placing Scenario is fair and reasonable. Accordingly we concur with the Board that the First Placing Scenario and the Second Placing Scenario are in the interests of the Company and the Shareholders as a whole.

As disclosed in the 2024 Annual Report, the Group recorded net loss of approximately HK\$86.4 million for FY2024. As disclosed in the 2025 Interim Report, as at 30 June 2025, (i) bank borrowings of the Group amounted to approximately HK\$33.5 million; (ii) trade and retention payables amounted to approximately HK\$58.3 million; and (iii) total deficit of the Group amounted to approximately HK\$62.7 million; while the bank balance and cash amounted to HK\$628,000. Due to the overdue bank borrowings records since 2020, it is difficult for the Group to obtain new bank facilities to support further construction projects. As a result, the Group has to rely on its internal resources, the financial supports from the Directors and other sources of funds to support its operations. We have obtained and reviewed the management account of the Group as of 31 December 2025 and bank statements of the Group, as at 31 December 2025, the bank balance and cash of the Group amounted to approximately HK\$7.5 million and the entire portion of the bank borrowings of approximately HK\$31.3 million were overdue. The current bank balance and cash is not sufficient to support the business operations of the Group and additional funds is required to maintain its business operations such as payment of trade payables and day-to-day expenses.

As such, taking into account (i) the current financial positions of the Group; and (ii) the intended use of proceeds for repayment of (a) overdue bank loans and the interests incurred therefrom; (b) repayment of the outstanding trade and other payables of the Group; and (c) general working capital of the Group, we concur with the Directors that the Group has funding needs to raise additional cash and to support the operation and enhance the financial position of the Group through the Rights Issue.

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. The Directors are of the view that while additional debt financing will further increase the Group's gearing ratio and worsen the net deficit position of the Group, it will also increase the ongoing interest expenses of the Group which may in turn affect the profitability of the Company.

As for equity fund raising, such as sole placement of 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 existing Shareholders without offering them the opportunity to participate in the enlarged capital base of the Company. In addition, to raise fund from placing, substantial amount of securities must be issued and usually the subscriber(s) may ask for a relatively deeper 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 to participate in, but it does not allow the trading of rights entitlements in the open market.

We have discussed with the management of the Group in relation to the quantitative effect of financing the HK\$121.6 million (i.e. the gross proceeds of the Rights Issue before Set-off Arrangement and expenses) from debt financing/bank loans. As advised by the management of the Company, due to the fact that the entire portion of the existing bank borrowings were overdue, it is difficult for the Group to obtain new debt financing/bank loans. The Company had tried to negotiate with one bank to obtain additional financing but unsuccessful. As advised by the management of the Group, under the prevailing market conditions and considering the net liabilities position of the Group, financial institutions would require pledge of assets from the Group; however, the lack of property, plant and equipment makes it difficult for the Group to fulfil the security/covenants requirements of the financial institutions. Even if the Group successfully obtains the additional debt financing/bank loans, it would inevitably increase the interest expenses and gearing ratio of the Group. As disclosed in the 2025 Interim Report, the overall effective interest rates of bank borrowings as at 30 June 2025 was approximately 2.5%–7.3% per annum. The principal amount of HK\$121.6 million would amount to the interest expenses of approximately HK\$3.0 million to HK\$8.9 million per annum. According to the management account of the Group, as at 31 December 2025, the gearing ratio of the Group was approximately -101.0% (calculated as the net debts, i.e. bank borrowings plus loans from Directors less bank balance and cash, divided by the total equity and multiplied by 100%). For illustrative purposes only, the gearing ratio of the Group, when taking into account the additional debt financing of HK\$121.6 million, would be decreased to approximately -230.4%. The Group was in net liabilities position as at 31 December 2025, resulting in a negative gearing ratio.

We concurred that the proposed Rights Issue 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) the Group has overdue bank borrowings records since 2020 and it is difficult for the Group to obtain new bank facilities; 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.

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. 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.

The Set-off Arrangement

As mentioned in the Letter from the Board, the Shareholder's Loans have been provided by Mr. Lui to the Group from time to time since 2020 to finance the Group's general working capital requirements. The Shareholder's Loans are unsecured and bear interest of 5% per annum. Having considered that (i) the Group was not required to provide any collateral for the Shareholder's Loans, and (ii) the interest rate of the Shareholder's Loans is significantly lower as compared to the interest rates offered by banks in Hong Kong which range between approximately 7% to 9% per annum, the Directors consider the terms of the Shareholder's Loans to be on normal commercial terms or better to the Company. As at the Latest Practicable Date, the Company was indebted to Mr. Lui in an aggregate amount of approximately HK\$71 million (including principal of approximately HK\$60.35 million and accrued interest of approximately HK\$10.70 million) under the Shareholder's Loans.

Pursuant to the Undertaking, Mr. Lui conditionally agreed to the Set-off whereby approximately HK\$57.9 million required to be paid by Mr. Lui for the subscription of 551,544,184 Rights Shares provisionally allotted to him pursuant to the Rights Issue would be set-off against the Shareholder's Loans of approximately HK\$71 million on a dollar-for-dollar basis. However, if the relevant resolution in respect of the Set-off Arrangement is not approved at the EGM, the Company was given to understand that Mr. Lui will satisfy the subscription monies from his internal resources.

We have obtained and reviewed the Deed of Set-Off and noted that (i) the subscription monies payable by Mr. Lui for the Rights Shares to which he is entitled to subscribe for the Rights Issue would be set-off on a dollar-to-dollar basis against the equivalent amount of the Shareholder's Loans and accrued interest thereon on the completion date of the Rights Issue; (ii) if there remains any balance of the Shareholder's Loans after the Set-off, the Company shall continue to assume its repayment obligations and settle the balance of the Shareholder's Loans; and (iii) if there remains any outstanding subscription monies payable after the Set-off, Mr. Lui shall settle the payments in accordance with the terms of the Rights Issue.

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) in comparison with loan capitalisation by issuing Shares to Mr. Lui as a form of repayment to part of the Shareholder's Loans, 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. Furthermore, loan capitalisation would not raise any proceeds for the Group to repay its overdue bank borrowings; (ii) the Group is currently in a tight liquidity position in view of its relatively low level of bank balances and cash, and the Group has overdue bank borrowings records since 2020 and it is difficult for the Group to obtain new bank facilities. The Group should prioritise the repayment of overdue

bank loans instead of partial cash repayment or restructuring of the Shareholder's Loans; (iii) the relevant amount from the subscription of Rights Shares under the Undertaking is approximately HK\$57.9 million; and under the Set-off Arrangement, the Shareholder's Loans of approximately HK\$71 million can be substantially set-off; (iv) the Group will be able to save interest expenses immediately after the Set-off and the completion of the Rights Issue; and (v) 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. Moreover, Mr. Lui will, through the subscription of the Rights Shares, increase his equity interests in the Company and signify his continuous support to the Company.

(3) Fund raising exercise in the past 12 months

As disclosed in the Letter from the Board, the Company has announced the issuance of new Shares under general mandate on 19 September 2025 (the "GM Placing"). Details of the use of the proceeds raised from the GM Placing are set out below.

Date	Event	Net proceeds raised (approximately)	Proposed use of proceeds	Actual use of proceeds as at the Latest Practicable Date
19 September 2025	Issue of new Shares under general mandate	HK\$11.78 million such fund has been deposited in the Company's bank accounts by the Company	— approximately HK\$5.89 million for the repayment of bank loans — approximately HK\$2.94 million for the settlement of other debts and payables — approximately HK\$2.94 million for general working capital of the Group	— approximately HK\$2.67 million for the repayment of bank loans — approximately HK\$1.56 million for the settlement of other debts and payables — approximately HK\$0.4 million for general working capital of the Group

As disclosed in the table above and based on our review on the use of proceeds records from the GM Placing provided by the Company, as at the Latest Practicable Date, approximately HK\$4.63 million, or approximately 39.3% of the net proceeds raised from the GM Placing has been utilised as intended. We have discussed with the management of the Company and were advised that there is no change in the intended use of proceeds and the Company expects to fully utilise the proceeds from the GM Placing as intended for the period from September 2025 to April 2026.

We have obtained and reviewed the management account for the Group as of 31 December 2025 and noted that (i) bank borrowings of the Group decreased from approximately HK\$33.5 million as at 30 June 2025 to approximately HK\$31.3 million as at 31 December 2025 mainly due to repayment from the proceeds of the GM Placing; (ii) trade and retention payables decreased from approximately HK\$58.3 million as at 30 June

2025 to approximately HK\$24.7 million as at 31 December 2025 mainly due to repayment by Mr. Lui on behalf of the Company; and (iii) accruals and other payables decreased from approximately HK\$49.7 million as at 30 June 2025 to approximately HK\$24.6 million as at 31 December 2025 mainly due to mainly due to repayment by Mr. Lui on behalf of the Company. We have obtained and reviewed the email correspondences between the Company and the banks and noted that, as at 31 December 2025, interest expenses accrued from the bank borrowings amounted to approximately HK\$13.7 million. As advised by the management of the Group, as at the Latest Practicable Date, there were no material change to the amount of bank borrowings; trade and retention payables; and accruals and other payables as compared to the corresponding amounts as at 31 December 2025.

The Company intends to use unutilised balance of the net proceeds from the GM Placing and the net proceeds from the Rights Issue (assuming full subscription) in the following manner:

- as to approximately HK\$45.0 million will be used for repayment of overdue bank loans and the interests incurred therefrom. As at 31 December 2025, the aggregated amount of overdue bank borrowings and interests incurred amounted to approximately HK\$45.0 million. Hence, a substantial amount of the overdue bank loans and interests incurred therefrom will be settled after the repayment;
- as to approximately HK\$21.7 million will be used for repayment of the outstanding trade and other payables, which will reduce approximately 44.0% of the aggregated amount of trade and retention payables, and accruals and other payables; and
- as to the approximately HK\$3.0 million will be used as general working capital of the Group. We noted from the management account of the Group for the year ended 31 December 2025, administrative expenses amounted to approximately HK\$14.3 million. The current allocation to working capital of the Group would only able to support the operation of the Group for less than 3 months.

As such, we concur with the Directors that the Group has funding needs to raise additional cash and to support the operation and enhance the financial position of the Group through the Rights Issue.

(4) Principal terms of the Rights Issue

Basis of the Rights Issue	:	Four (4) Rights Shares for every one (1) existing Share held by the Qualifying Shareholders on the Record Date
Subscription Price	:	HK\$0.105 per Rights Share
Number of Shares in issue	:	289,555,281 Shares
Number of Rights Shares	:	Up to 1,158,221,124 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\$115,822,112.40 (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 1,447,776,405 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. Lui	:	Up to 551,544,184 Rights Shares (the actual amount of Rights Shares to be taken up by Mr. Lui will depend on the level of subscription taken up by the Qualifying Shareholders and the results of the Placing such that it will not trigger an obligation on the part of the relevant Shareholder to make a general offer under the Takeovers Code immediately after completion of the Rights Issue)
Gross proceeds to be raised from the Rights Issue	:	Up to approximately HK\$121.6 million before the expenses and the Set-off Arrangement

As at the Latest Practicable Date, the Company does not have any other derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares. The Company has no intention to issue or grant any Shares, convertible securities, warranties and/or options on or before the Record Date.

Subscription Price

The Subscription Price is HK\$0.105 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 33.12% to the closing price of HK\$0.157 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 30.00% to the closing price of HK\$0.150 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 28.57% to the average of the closing prices of approximately HK\$0.147 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the Last Trading Day;
- (iv) a discount of approximately 7.89% to the theoretical ex-rights price of HK\$0.114 per Share as adjusted for the effect of the Rights Issue, based on the closing price of HK\$0.150 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (v) a premium of approximately HK\$0.322 to the unaudited consolidated net deficit per Share of approximately HK\$0.217 (based on the latest published unaudited consolidated net deficit of approximately HK\$62,731,000 as at 30 June 2025 and the total number of issued Shares as at the Latest Practicable Date); and
- (vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 24.0% represented by the theoretical diluted price of approximately HK\$0.114 per Share to the benchmarked price (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.150 per Share and 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 Last Trading Day of approximately HK\$0.147 per Share) of approximately HK\$0.150 per Share.

The net Subscription Price per Rights Share (after deducting the relevant expenses) will be approximately HK\$0.104 per Right Share.

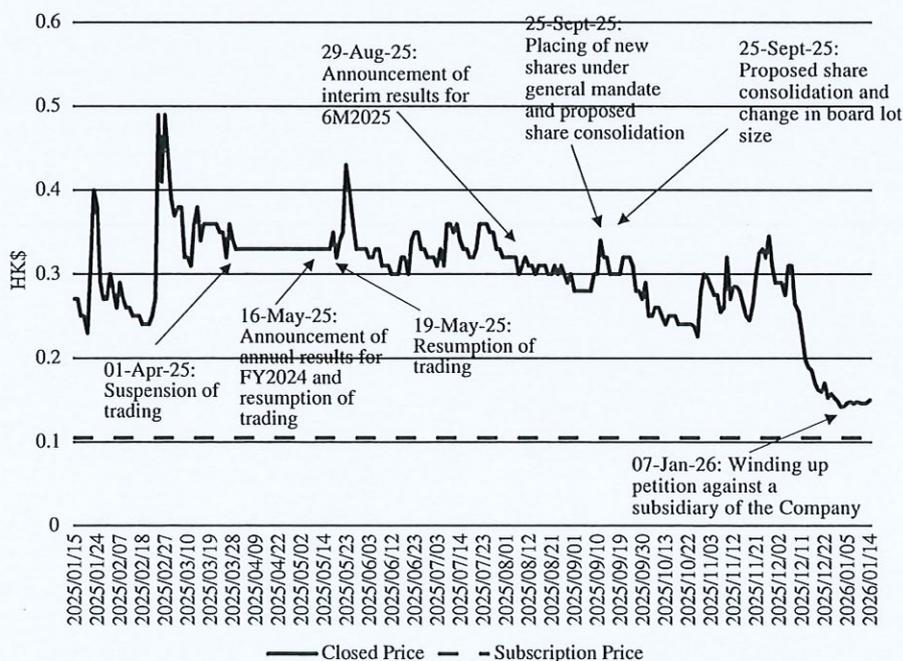
As disclosed in the Letter from the Board, the Subscription Price was determined with reference to, among others, (i) the market price of the Shares under the prevailing market conditions and the relevant discount to the closing prices; (ii) the prevailing market conditions of the capital market in Hong Kong; (iii) the latest

business performance and financial position of the Group; and (iv) the reasons for the Rights Issue as discussed in the section headed “Reasons for the Rights Issue and the Set-off Arrangement” in the 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 as quoted on the Stock Exchange from 15 January 2025 up to and including the Last Trading Day (the “Review Period”), being a period of approximately 12 months up to and including the Last Trading Day.



Source: the website of the Stock Exchange

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.490 (adjusted for the share consolidation of 10 into 1 shares of the Company which became effective on 24 October 2025 (the “**Share Consolidation**”) recorded on 25 February 2025 and 27 February 2025 and HK0.142 recorded on 31 December 2025, respectively.

Taking into account the adjustment for the Share Consolidation, the closing prices of the Shares were volatile and fluctuated between HK\$0.23 and HK\$0.49 during the period from 15 January 2025 to 27 February 2025. The closing prices of the Shares was at HK\$0.27 on 15 January 2025 and reached HK\$0.4 on 23 January 2025. The closing prices of the Shares then dropped to HK\$0.24 on 18 February 2025 before rebounding to HK\$0.49 on 25 February 2025, the highest closing price of the Shares during the Review Period. Subsequently the closing prices of the Shares dropped to HK\$0.34 on 28 March 2025. On 28 March 2025, after the trading hours, the Company announced that there would be delay in publication of the annual results announcement for FY2024. The trading of the Shares was suspended on 1 April 2025 and resumed on 19 May 2025 after the publication of the announcement of annual results for FY2024 on 16 May 2025. The closing prices of the Shares reached HK\$0.43 on 23 May 2025 and then dropped to HK\$0.226 on 27 October 2025. During such period, the Company published announcements in relation to (i) interim results for 6M2025 on 29 August 2025; (ii) placing of new shares under general mandate and proposed share consolidation on 25 September 2025; and (iii) proposed share consolidation and change in board lot size on 25 September 2025. The Share Consolidation became effective on 24 October 2025.

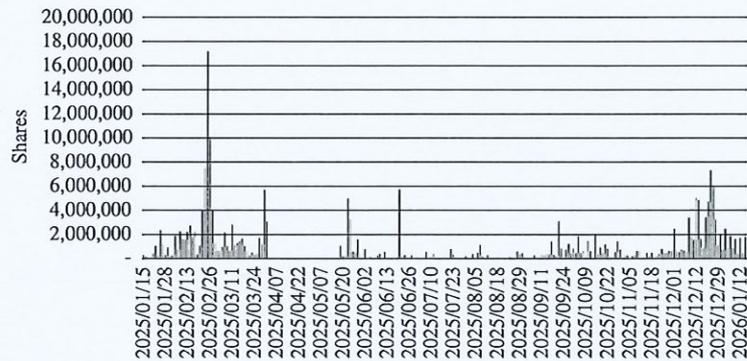
The closing prices of the Shares rebounded to HK\$0.295 on 31 October 2025 and fluctuated between HK\$0.245 and HK\$0.345 during the period from 31 October 2025 to 8 December 2025. The closing prices of the Shares then dropped to HK\$0.142 on 31 December 2025, the lowest closing price of the Shares during the Review Period, and closed at HK\$0.15 on 14 January 2026, being the Last Trading Day.

We have enquired the Directors regarding the movements in the Share price during the Review Period, in particular in February 2025, and we are advised by the Directors that they are not aware of any other specific reason nor event which may be related to the aforesaid movements.

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 deficit position, the difficulty to obtain new bank facilities and has to rely on its internal resources and financial supports from the Directors to support its operations, 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:



Source: the website of the Stock Exchange

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	Number of trading days	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
2025				
January	10	642,300	241,296,281 (Note 2)	0.266%
February	20	3,207,175	241,296,281 (Note 2)	1.329%
March	21	1,408,690	241,296,281 (Note 2)	0.584%
April (Note 1)	—	—	241,296,281 (Note 2)	(Note 1)
May (Note 1)	10	1,287,550	241,296,281 (Note 2)	0.534%
June	21	456,571	241,296,281 (Note 2)	0.189%

Month/period	Number of trading days	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
July	22	143,114	241,296,281 (Note 2)	0.059%
August	21	207,762	241,296,281 (Note 2)	0.086%
September	22	535,868	241,296,281 (Note 2)	0.222%
October	20	732,150	241,296,281 (Note 2)	0.303%
November	20	377,175	241,296,281	0.156%
December	21	2,557,024	289,555,281 (Note 3)	0.883%
2026				
January (Up to the Last Trading Day)	9	1,327,562	289,555,281	0.458%

Notes:

1. Trading of the Shares was suspended from 1 April 2025 to 16 May 2025 pending the release of annual results announcement for the year ended 31 December 2024.
2. Adjusted for the share consolidation of 10 into 1 Share which became effective on 24 October 2025.
3. On 28 November 2025, the Company completed the placing of 48,259,000 Shares under the general mandate.

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 0.059% to 0.883% during the Review Period, except in February 2025 (being approximately 1.329%), trading in the Shares had been historically inactive and the Shares were hence rather illiquid.

Average daily trading volume of the Shares per month was below 1.0% 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 re-invest 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 15 October 2025 and up to the Last Trading Day. We have identified 19 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 capitalisation, 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. The details of our findings are summarised in the table (the “**Comparables Table**”) below:

Date of announcement	Company name (stock code)	Basis of entitlement (%)	Premium/(Discount) of subscription price over/(to) the average closing price of the		closing price on the last trading day (%)	theoretical ex-rights price (%)	theoretical net asset value per Share (%)	Placing commission (%)	Market capitalisation as at the date of the announcement for the estimated net rights issue proceeds (HK\$ million)	Excess application (Yes/No)	Underwriting arrangement (Yes/No)	Status (completed/pending completion/lapsed)	Principal activities	
			price of the five (5) consecutive trading days immediately prior to the last trading day (%)	theoretical ex-rights price (%)										
13	4/11/2025	Zhongshi Minan Holdings Limited (8283)	5 for 1	(23.9)	(26.0)	(4.9)	(64.7)	21.7	2.5	26.5	97.0	No	Completed	Automotive service provider
14	2/11/2025	KNT Holdings Limited (1025)	1 for 1	(9.1)	(10.7)	(4.8)	48.2	5.4	3.0	44.5	38.0	No	Pending completion	Manufacturing and trade of clothing products
15	24/10/2025	Sandmartin International Holdings Limited (482)	1 for 1	2.7	(12.0)	1.4	net liabilities	6.0	N/A	89.8	90.2	Yes	No Pending completion	Trading and manufacture of satellite television equipment and antenna products
16	24/10/2025	Jiading International Group Holdings Limited (8153)	1 for 2	(38.8)	(37.1)	(29.7)	(78.3)	12.9	2.0	22.6	6.2	No	No Completed	Health products business
17	22/10/2025	Crocodile Garments Limited (122)	1 for 2	(22.7)	(22.5)	(16.3)	(92.5)	7.6	N/A	137.9	51.6	Yes	No Completed	Apparel business
18	15/10/2025	Synertone Communication Corporation (1613)	2 for 1	(35.7)	(35.7)	(15.6)	(43.8)	23.8	1.0	94.2	119.3	No	No Completed	Digital trunking system and building intelligence and smart home business
19	15/10/2025	Winshine Science Company Limited (209)	7 for 1	(23.5)	(24.3)	(4.1)	net liabilities	21.1	N/A	34.0	176.5	Yes	Yes Completed	Manufacturing and sales of toys
		Maximum		2.7	(3.3)	1.4	65.1	24.5	3.0					
		Minimum		(69.2)	(69.5)	(66.1)	(92.5)	1.7	1.0					
		Average		(24.1)	(25.5)	(13.6)	(47.6)	13.7	2.0					
		Median		(23.9)	(25.8)	(9.4)	(62.8)	12.9	2.0					
		Company		(30.0)	(28.6)	(7.9)	net liabilities	24.0	1.25					

Source: the website of the Stock Exchange

Note:

1. The premium of the subscription price over the net asset value per share of Mindteli Technology Ltd. (stock code: 8611) is exceptionally high and considered an outlier, it is therefore disregarded and excluded in the calculation of the average discount/premium.

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 within a range from a discount of approximately 69.2% to a premium of approximately 2.7%, with an average discount of approximately 24.1% and median discount of approximately 23.9%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 30.0% 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 and median of the Comparables. With regard to the discount/premium to the average closing price of the five (5) consecutive trading days immediately prior to the last trading day, the Comparables ranged from a discount of approximately 69.5% to a discount of approximately 3.3%, with an average discount of approximately 25.5% and median discount of approximately 25.8%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 28.6% to the average closing price of the five (5) consecutive trading days immediately prior to the last trading day, which also falls within the range of the Comparables and slightly below the average and median 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 66.1% to a premium of approximately 1.4%, with an average discount of approximately 13.6% and median discount of approximately 9.4%. In the case of the Rights Issue, the Subscription Price has a discount of approximately 7.9% to the theoretical ex-entitlement price per Share, which also falls within the range of the Comparables and above the average and median of the Comparables.

Having taken into consideration that:

- (i) in general, it is common for 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) the recent closing price of the Shares in general remained stagnant;
- (iv) average daily trading volume of the Shares per month was generally thin during the Review Period; and
- (v) 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,

we consider that the Subscription Price is 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 Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptance of the provisionally allotted Rights Shares. In the event that the Rights Issue is not fully-subscribed, any Unsubscribed Rights Shares and Excluded Unsold Rights Shares will be placed to independent placees on a best effort basis by the Placing Agent under the Compensatory Arrangements. Any Unsubscribed Rights Shares and Excluded Unsold Rights Shares which are not placed under the Compensatory Arrangements will not be issued by the Company and the size of the Rights Issue will be reduced accordingly.

There are no statutory requirements regarding the minimum subscription levels in respect of the Rights Issue. As the Rights Issue will proceed on a non-underwritten basis, any Shareholder who applies to take up all or part of his/her/its entitlement under the PAL(s) may unwittingly incur an obligation to make a general offer for the Shares under the Takeovers Code. Accordingly, 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 the part of the relevant Shareholder to make a general offer under the Takeovers Code in accordance with the note to Rule 7.19(5)(b) of the Listing Rules.

As shown in the Comparables Table above, we noted that it is common for rights issues to be conducted on a non-underwritten basis as only three Comparables conducted rights issue on an underwritten basis.

Compensatory Arrangements

As disclosed in the Letter from the Board, the Company will, according to Rule 7.21(1)(b) of the Listing Rules, make arrangements to dispose of the Unsubscribed Rights Shares and Excluded Unsold Rights Shares by offering the Unsubscribed Rights Shares and Excluded Unsold Rights Shares to independent placees for the benefit of the Shareholders to whom they were offered by way of the Rights Issue. Accordingly, on 14 January 2026 (after trading hours of the Stock Exchange), the Company entered into the Placing Agreement with the Placing Agent in relation to the placing of the Unsubscribed Rights Shares and Excluded Unsold Rights Shares to the independent placees on a best effort basis.

Set out below are the principal terms of the Placing Agreement:

Date : 14 January 2026 (after trading hours of the Stock Exchange)

Issuer : The Company

Placing Agent : Sun Securities Limited, a corporation licensed to engage in type 1 (dealing in securities) regulated activity under the SFO, was appointed as the Placing Agent to procure.

The Placing Agent confirms that it and its ultimate beneficial owner(s) are Independent Third Parties.

Placing Period : The period commencing from Thursday, 14 May 2026 and ending at 6:00 p.m. on Thursday, 21 May 2026.

Commission and expenses : Subject to completion of the Placing, the Company shall pay to the Placing Agent a placing commission in Hong Kong Dollars, of 1.25% of the amount which is equal to the placing price multiplied by the number of Unsubscribed Rights Shares and Excluded Unsold Rights Shares that have been successfully placed by the Placing Agent and/or its sub-placing agent(s) pursuant to the terms of the Placing Agreement.

Assuming, save for Mr. Lui, none of the Qualifying Shareholders has taken up their entitled Rights Shares and all Unsubscribed Rights Shares and the Excluded Unsold Rights Shares have been placed by the Placed Agent, the total placing commission will be approximately HK\$0.796 million in cash to be deducted from the gross proceeds of the Rights Issue.

Placing price of the Unsubscribed Rights Shares and Excluded Unsold Rights Shares : The placing price of the Unsubscribed Rights Shares and Excluded Unsold Rights Shares shall be not less than the Subscription Price.

The final price determination will depend on the demand for and the market conditions of the Unsubscribed Rights Shares and Excluded Unsold Rights Shares during the process of placement.

Placees : The Unsubscribed Rights Shares and Excluded Unsold Rights Shares are expected to be placed to placee(s), who and whose ultimate beneficial owner(s) shall be Independent Third Party(ies) and none of the placees shall be a party acting in concert (as defined in the Takeovers Code) with any of them or other placees.

The Placing will not have any implications 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.

Ranking of the placed Unsubscribed Rights Shares and Excluded Unsold Rights Shares : The placed Unsubscribed Rights Shares and Excluded Unsold Rights Shares (when allotted, issued and fully paid, if any) shall rank pari passu in all respects among themselves and with the Shares in issue as at the date of completion of the Rights Issue.

Conditions of the Placing Agreement : The obligations of the Placing Agent under the Placing Agreement are conditional upon, among others, the following conditions being fulfilled:

- (i) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms (subject to customary conditions) and such approval not having been withdrawn or revoked;
- (ii) the passing of all necessary resolutions to be proposed at the EGM to be convened to consider and, approve, among others, the Rights Issue, the Increase in Authorised Share Capital and the respective transactions contemplated thereunder;
- (iii) all necessary consents and approvals to be obtained on the part of the Placing Agent and the Company in respect of the Placing Agreement and the transactions contemplated thereunder having been obtained;

- (iv) none of the representations, warranties or undertakings contained in the Placing Agreement being or having become untrue, inaccurate or misleading in any material respect at any time before the completion, and no fact or circumstance having arisen and nothing having been done or omitted to be done which would render any of such undertakings, representations or warranties untrue or inaccurate in any material respect if it was repeated as at the time of completion of the Placing Agreement; and
- (v) the Placing Agreement not having been terminated accordance with the provisions thereof.

Save for condition (iv) which may be waived by either party by notice in writing to the other party, none of the above conditions is capable of being waived.

In the event that the above condition precedents have not been fulfilled or waived (as the case may be) on or before the Latest Time for Termination, all rights, obligations and liabilities of the parties thereunder in relation to the Placing shall cease and determine and none of the parties shall have any claim against the other in respect of the Placing save for any antecedent breach and/or any rights or obligations which may accrue under the Placing Agreement prior to such termination.

Termination : Notwithstanding anything contained in the Placing Agreement, the Placing Agent may terminate the Placing Agreement without any liability to the Company, by notice in writing given to the Company at any time prior to the Latest Time for Termination upon the occurrence of the following events which, in the reasonable opinion of the Placing Agent, has or may have a material adverse effect on the business or financial conditions or prospects of the Company or the Group taken as a whole or the success of the Placing or the full placement of all of the Unsubscribed Rights Shares and the Excluded Unsold Rights Shares or otherwise make it inappropriate, inadvisable or inexpedient to proceed with the Placing on the terms and in the manner contemplated in the Placing Agreement if there develops, occurs or comes into force:

- (i) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before on and/or after the date of the Placing Agreement) and including an event or change in relation to or a development of an existing state of affairs of a political, military, industry, financial, economic, fiscal, regulatory or other nature, resulting in a change in, or may result in a change in, political, economic, fiscal, financial, regulatory or stock market conditions and which in the Placing Agent's reasonable opinion would affect the success of the Placing; or
- (ii) the imposition of any moratorium, suspension (for more than 7 trading days) or restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise and which in the Placing Agent's absolute opinion, would affect the success of the Placing; or

- (iii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group and if in the Placing Agent's reasonable opinion any such new law or change may affect the business or financial prospects of the Group and/or the success of the Placing; or
- (iv) any litigation or claim being instigated against any member of the Group or its senior management, which has or may affect the business or financial position of the Group and which in the Placing Agent's reasonable opinion would affect the success of the Placing; or
- (v) any breach of any of the representations and warranties given by the Company as set out in the Placing Agreement having come to the knowledge of the Placing Agent or any event having occurred or any matter having arisen on or after the date of the Placing Agreement and prior to the completion of the Rights Issue which if it had occurred or arisen before the date of the Placing Agreement would have rendered any of such representations and warranties untrue or incorrect in a material respect or there has been a material breach by the Company of any other provision of the Placing Agreement; or
- (vi) there is any material change (whether or not forming part of a series of changes) in market conditions which in the reasonable opinion of the Placing Agent would materially and prejudicially affect the Placing or makes it inadvisable or inexpedient for the Placing to proceed.

As shown in the Comparables Table above, among the 19 Comparables, 10 of them had placing of the unsubscribed rights shares as compensatory arrangement. The Comparables had placing commissions ranged from 1.0% to 3.0%, with average and median of 2.0%. The placing commission under the Placing Agreement of 1.25% is within the range of the Comparables and below both the average and median of the Comparables. Thus, we consider the placing commission under the Placing Agreement 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 liabilities of the Group will decrease 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 unaudited consolidated net tangible liabilities of the Group as at 30 June 2025 is approximately HK\$62.7 million, while the unaudited consolidated net tangible liabilities per Share as at 30 June 2025 before the completion of the Rights Issue is approximately HK\$0.26. Assuming full subscription under the Rights Issue, the Group is expected to raise net proceeds of approximately HK\$62.6 million (after the Set-off Arrangement and deducting the related expenses). After pro forma adjustments, the unaudited pro forma adjusted consolidated net tangible liabilities of the Group after the completion of the Rights Issue would improve to approximately HK\$131,000, while the unaudited pro forma adjusted consolidated net tangible liabilities per Share after the completion of the Rights Issue would decrease to approximately HK\$0.0001. Such decrease is due to the fact that approximately HK\$62.6 million (after the Set-off Arrangement and deducting the related expenses) would be raised upon completion of the Rights Issue and enhance the cash position of the Group.

Liquidity position

According to the 2025 Interim Report, the Group had bank and cash balances of approximately HK\$628,000 as at 30 June 2025. 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\$62.6 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 net debts, being loans from Directors and bank borrowings, less bank balances and cash) divided by total capital) was approximately -237.1% as at 30 June 2025. The net proceeds of approximately HK\$62.6 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 operation of the Group's existing businesses.

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. 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 approximately 24.0%. 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 "(4) Principal terms of the Rights Issue" in this letter. We noted that the theoretical dilution effect of the Rights Issue of approximately 24.0% falls within the range although it is near to the highest end of the Comparables of approximately 24.5%.

We concur with the view of the Board that the Subscription Price and the size of funds to be raised are fair and reasonable and thereby 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 discount to the closing prices 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) we have reviewed the 2025 Interim Report and noted that the bank and cash balances was approximately HK\$628,000 while the net current liabilities amounted to approximately HK\$51.4 million as at 30 June 2025;
- (iii) 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” under the section headed “(2) Reasons for the Rights Issue and the Set-off Arrangement” in this letter. Having considered the Group’s financial position, 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 “(4) 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
- (iv) the size of funds to be raised reflects the reasonable amount of funds required to fund the Group’s business operation 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 operation; (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 a net loss of approximately HK\$86.4 million for FY2024 and, as at 30 June 2025, total deficit of the Group amounted to approximately HK\$62.7 million. Due to the overdue bank borrowings records since 2020, it is difficult for the Group to obtain new bank facilities to support the further construction projects. Funds to be raised from the Rights Issue will improve the Group’s liquidity position and provide it with additional funds for business operation and general working capital;

- (ii) 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” under the section headed “(2) Reasons for the Rights Issue and the Set-off Arrangement” in this letter; and
- (iii) the Subscription Price is fair and reasonable, the Company has made arrangements in accordance with Rule 7.21 and it is common for rights issues to be conducted on a non-underwritten basis as discussed in the section headed “(4) Principal terms of the Rights Issue” in this letter,

In respect of the Set-off Arrangement:

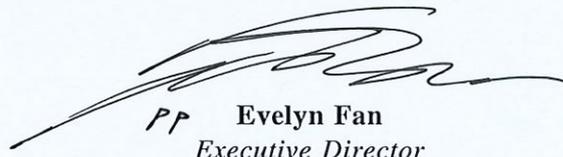
- (i) the Group is in a tight liquidity position; as at 31 December 2025, the bank balance and cash of the Group amounted to approximately HK\$7.5 million and the entire portion of the bank borrowings of approximately HK\$31.3 million were overdue. The Set-off Arrangement can alleviate the liquidity pressure and reduce the interest expenses of the Group with the repayment of the Shareholder’s Loans. It also signifies Mr. Lui’s continuous support to the Group; and
- (ii) the Set-off Arrangement will entail Mr. Lui’s long-term support and confidence to the Group as he will increase his equity interests in the Company by extinguishment of part of the Shareholder’s Loans; and the Company would reduce the interest expenses from the Shareholder’s Loans,

we consider that the terms of the Rights Issue 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 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.