中毅資本有限公司
Grand Moore Capital Limited

4 August 2026

The Independent Board Committee of
China Huajun Group Limited

Dear Sir/Madam,

(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE FOR DEBT CAPITALISATION; AND (2) APPLICATION OF WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Settlement Agreement and the respective transactions contemplated thereunder including the Debt Capitalisation and the Whitewash Waiver (collectively, the "**Transactions**"), details of which are set forth in the "Letter from the Board" (the "**Board Letter**") contained in the circular issued by the Company to the Shareholders dated 4 August 2026 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 21 June 2026, the Company entered into the Settlement Agreement with the Creditor, pursuant to which the Company has conditionally agreed to capitalise the Indebted Amount owed to the Creditor by the Company, the Creditor has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 94,000,000 Capitalisation Shares at the Issue Price of HK$1.00 per Capitalisation Share under the Specific Mandate to be sought at the SGM.

TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, each of the Creditor, Mr. Li Gang and parties acting in concert with any of them does not hold any Shares. Assuming there will be no change in the number of issued Shares from the Latest Practicable Date up to the Completion, the shareholding of the Creditor will be approximately 50.14% upon Completion. This is calculated on the basis of 93,491,851 Shares in issue as at the Latest Practicable Date. The Creditor will therefore be

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obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by it and its concert parties pursuant to Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted.

The Creditor has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the allotment and issue of the Capitalisation Shares. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval by more than 50% of the votes cast by the Independent Shareholders at the SGM by way of poll in respect of the Debt Capitalisation, the Settlement Agreement and the transactions contemplated thereunder; and (ii) the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders at the SGM by way of poll.

The Executive may or may not grant the Whitewash Waiver. The Debt Capitalisation will not proceed if the Whitewash Waiver is not granted or approved. The Executive has agreed, subject to approval by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive any obligations to make a general offer which might result from the Debt Capitalisation.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, as at the Latest Practicable Date, the Creditor and its ultimate beneficial owner are Independent Third Parties. Accordingly, the Debt Capitalisation does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. Save as disclosed in the Circular (including the interest of Ms. Chen Yun, an executive Director, in 880 Shares in the issued share capital of the Company, her participation in the board discussion regarding the Debt Capitalisation and her obligation to abstain from voting on the relevant resolution(s) at the SGM), none of the Directors has any material interest in the Settlement Agreement, the Debt Capitalisation, the allotment and issue of the Capitalisation Shares and the transactions contemplated thereunder (including the grant of the Specific Mandate and the Whitewash Waiver) or is otherwise required to abstain from voting on the relevant resolution(s) of the Board.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Mok Yi Kwo, Mr. Ding Xingfu and Ms. Zhu Fang, being all the independent non-executive Directors, has been established by the Company under the Listing Rules and the Takeovers Code to advise the Independent Shareholders in respect of the Transactions. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

OUR INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, save for this engagement of us as the Independent Financial Adviser, no other relationship has been formed and no direct engagement has been performed between the Group, the other party(ies) to the Transactions, or a close associate or core connected person of any of them and us. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, the other party(ies) to the Transactions, or a close associate or core connected person of any of them and us, or other parties that could reasonably be regarded as relevant to our independence. Apart from the normal advisory fee payable to us in connection with our engagement as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company and its subsidiaries or their respective substantial shareholders or any party acting in concert, or presumed to be acting in concert, with any of them. Accordingly, we considered that we are independent to act as the Independent Financial Adviser in respect of the Transactions pursuant to the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have reviewed the documents including but not limited to (i) the announcement dated 30 June 2026 in relation to the Transactions; (ii) the announcement dated 2 July 2026 in relation to the Subscription and the restoration of the Company's public float; (iii) the announcement 16 July 2026 in relation to completion of the Subscription; (iv) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (v) the opinions expressed by and the representations of the Directors and the Management; and (vi) the latest published audited financial information of the Group, i.e. the annual report for the year ended 31 December 2025 (the "**2025 Annual Report**"). We have assumed that the information and facts supplied, opinions expressed, statements and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the SGM. The Shareholders will be informed should there be any material change of information in the Circular or to our opinion up to the date of the SGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the Management in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We considered that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, any counterparty to the Transactions or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Transactions, we have taken into account the following principal factor and reasons.

1. Background information of the Group, Creditor and Mr. Li Gang

1.1. Background information of the Group

The Company is an investment holding company. The Group is principally engaged in (i) printing; (ii) trading and logistics; and (iii) property development and investments.

1.2. Historical financial performance and position of the Group

The following table sets out certain key consolidated financial information of the Group for the years ended 31 December 2024 and 2025 as extracted from the 2025 Annual Report:

	For the year ended 31 December	
	2024	**2025**
	RMB'000	*RMB'000*
Revenue		
Printing	319,608	318,712
Trading and Logistics	766,112	933,115
Property Development and Investments	25,204	93,690
Others	44,020	18,208
Total revenue	**1,154,944**	**1,363,725**
Cost of sales and services	(1,140,956)	(1,469,027)
Gross profit/(loss)	**13,988**	**(105,302)**
Gross profit (loss) margin	**1.2%**	**7.7%**
Loss for the year	**(1,264,365)**	**(234,043)**

Revenue

The Group's revenue for the year ended 31 December 2025 was approximately RMB1,363.7 million, representing an increase of approximately RMB208.8 million, or 18.1%, compared to revenue of approximately RMB1,154.9 million for the year ended 31 December 2024. For the year ended 31 December 2025, the Group's major business segments, namely (1) Printing reported a revenue of approximately RMB318.7 million (2024: approximately RMB319.6 million); (2) Trading and Logistics reported a revenue of approximately RMB933.1 million (2024: approximately RMB766.1 million); and (3) Property Development and Investments reported a revenue of approximately RMB93.7 million (2024: approximately RMB25.2 million). The Group also recorded revenue of approximately RMB18.2 million (2024: approximately RMB44.0 million) from other operating segments during the year ended 31 December 2025.

The Trading and Logistics segment remained a key revenue contributor, generating approximately RMB933.1 million (2024: RMB766.1 million). This growth was primarily driven by increased sales volumes of base oil and rubber products, supported by improved market prices compared with the previous year.

The overall increase in revenue was also driven by the Property Development and Investments segment. During the year ended 31 December 2025, the Group did not invest in or acquire new property projects but continued to dispose of projects and auction assets as part of its strategy to mitigate the debt crisis.

The Printing segment recorded a stable trend, generating revenue of approximately RMB318.7 million for the year ended 31 December 2025 (2024: RMB319.6 million).

Gross profit/(loss) and gross profit/(loss) margin

The Group recorded a gross loss of approximately RMB105.3 million for the year ended 31 December 2025 (2024: gross profit of approximately RMB14.0 million), representing a gross loss margin of 7.7% (2024: gross profit margin of 1.2%). During the year ended 31 December 2025, the Group recognised a provision for the write-down of properties held for sale of approximately RMB117.1 million (2024: RMB66.4 million). Excluding the effect of this provision, gross profit was approximately RMB11.8 million (2024: RMB80.4 million), with a gross profit margin of 0.9% for the year ended 31 December 2025 (2024: 7.0%) as per the 2025 Annual Report.

The significant fluctuation in gross profit and gross profit margin was primarily attributable to (i) the increase in provision for the write-down of properties held for sale from approximately RMB66.4 million in 2024 to approximately RMB117.1 million in 2025; and (ii) the decrease in gross profit (excluding the effect of the aforesaid provision) from approximately RMB80.4 million in 2024 to approximately RMB11.8 million in 2025, with the gross profit margin decreasing from approximately 7.0% to approximately 0.9%. During 2025, the Group did not invest in or acquire new property projects but continued to dispose of projects and auction assets as part of its strategy to mitigate the debt crisis. The cost of properties recognised as an expense increased to approximately RMB149.7 million in 2025 (2024: approximately RMB5.9 million), while the revenue from sales of properties increased to approximately RMB77.0 million in 2025 (2024: approximately RMB5.5 million).

Loss for the year

The net loss for the year ended 31 December 2025 decreased significantly to approximately RMB234.1 million from approximately RMB1,264.4 million in 2024. The decrease in net loss was mainly attributable to the reduction in finance costs following the continued debt restructuring and liquidation of certain subsidiaries of the Group during the prior year, and the absence of the substantial one-off impairment losses and property write-downs which were recognised in 2024.

Set out below are certain key consolidated financial information of the Group as extracted from the consolidated balance sheet set out in the 2025 Annual Report:

	As at 31 December	
	2024	**2025**
	RMB'000	*RMB'000*
Total assets	4,834,511	3,065,617
Total liabilities	12,420,778	10,767,820
Net liabilities	(7,586,267)	(7,702,203)
Bank balances and cash	36,292	34,803

The total assets of the Group amounted to approximately RMB3,065.6 million as at 31 December 2025, representing a decrease of approximately RMB1,768.9 million or approximately 36.6%, as compared to approximately RMB4,834.5 million as at 31 December 2024. Such decrease was mainly attributable to the decrease in investment properties from approximately RMB1,385.8 million to approximately RMB346.0 million following the continued disposal and auction of property assets, the decrease in property, plant and equipment from approximately RMB1,058.5 million to approximately RMB911.0 million, and the decrease in right-of-use assets from approximately RMB305.8 million to approximately RMB213.2 million.

The total liabilities of the Group amounted to approximately RMB10,767.8 million as at 31 December 2025, representing a decrease of approximately RMB1,653.0 million or approximately 13.3%, as compared to approximately RMB12,420.8 million as at 31 December 2024. Such decrease was primarily due to the reduction in interest-bearing bank borrowings and other borrowings from approximately RMB4,916.6 million to approximately RMB3,478.1 million following the continued debt restructuring and repayment efforts, partially offset by the recognition of scheme liabilities under the scheme of arrangement.

The net liabilities of the Group amounted to approximately RMB7,702.2 million (equivalent to approximately HK$8,527.9 million) as at 31 December 2025, as compared to net liabilities of approximately RMB7,586.3 million as at 31 December 2024. Such deterioration was mainly attributable to the gross loss of approximately RMB105.3 million incurred as a result of significant finance costs and the ongoing financial difficulties faced by the Group during the year ended 31 December 2025.

The Group's cash and cash equivalents amounted to approximately RMB34.8 million and RMB36.3 million as at 31 December 2025 and 31 December 2024, respectively. Given the Group's net liabilities position, the net loss recorded in 2025 and the stressed liquidity, the Directors consider that it is critical to reduce the Group's indebtedness and improve its capital structure.

We note that the auditor of the Company has issued a disclaimer of opinion on the consolidated financial statements of the Group for each of the years ended 31 December 2023, 2024 and 2025, citing multiple uncertainties relating to going concern. We have discussed with the Management the basis for such disclaimer and have reviewed the relevant disclosures in the 2025 Annual Report and the extracts from the auditor's reports as set out in Appendix I to the Circular. We have considered the implications of such disclaimer on the financial information relied upon by us in formulating our opinion. Having taken into account that (i) the disclaimer relates principally to the going concern assumption and does not directly call into question the accuracy of the Indebted Amount or the share capital data used in our pricing analysis; (ii) the Debt Capitalisation is expected bring a positive impact in alleviating the Group's multiple uncertainties relating to going concern; and (iii) our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date, we are of the view that the disclaimer of opinion does not affect our ability to form an opinion on the fairness and reasonableness of the Issue Price and the Transactions. Furthermore, we note that the Creditor will have a controlling stake in the Company upon Completion taking place. We believe that the beneficial owner of the Creditor, Mr. Li Gang, who has accumulated many years of working and corporate management experience shall have the incentive to proactively improve the Group's business operations and its liabilities position which, if being successfully implemented, are expected to bring further positive impacts in alleviating the Group's multiple uncertainties relating to going concern.

1.3. Background information of the Creditor and Mr. Li Gang

The Creditor, Vpoint Limited, is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Li Gang. Mr. Li Gang is the sole director of the Creditor.

Mr. Li Gang obtained a bachelor's degree in engineering from the University of Nanking (南京金陵大學) in 1984. Mr. Li Gang has accumulated many years of working and corporate management experience in the fields of trading and financial technology. He founded Shenzhen Youbo Network Technology Co., Ltd. (深圳優博網路科技有限公司) and served as the general manager. He has also worked as the product director in Shanghai Mingchuang Software Technology Co., Ltd. (上海銘創軟件技術有限公司), as the trust manager in Chongqing International Trust Co., Ltd. (重慶國際信託有限公司) and the trust manager in Zhongrong International Trust Co., Ltd. (中融信託有限公司), and as the investment manager in Munsun Asset Management (Asia) Limited (麥盛資產管理(亞洲)有限公司). From June 2020 to April 2025, Mr. Li Gang was the chairman and executive director of Enviro Energy International Holdings Limited, the shares of which are listed on the Stock Exchange with stock code 1102.

As at the Latest Practicable Date, the Creditor and its ultimate beneficial owner are Independent Third Parties. Both the Creditor and Wonderland International Financial Holdings Limited are ultimately controlled by Mr. Li Gang.

Upon Completion, the Creditor will hold 94,000,000 Shares, representing approximately 50.14% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares, and Mr. Li Gang will become the ultimate controlling shareholder of the Group. The Creditor has confirmed that (a) it is intended that the Group will continue its existing principal businesses of printing, trading and logistics following the Completion; (b) the Group intends to dispose of its financially insolvent property development project subsidiaries (whether by way of sale, legal auction, set-off of pledged assets or otherwise) with a view to realising proceeds for repayment of the relevant borrowings and, if practicable, to dispose of the entire property development and investment business segment; and (c) save as mentioned above in (b), there is no intention to introduce any major changes to the existing business of the Group or the continued employment of the Group's employees, and there is no intention to redeploy the fixed assets of the Group other than in its ordinary course of business.

We have discussed with the Management the future plans under the control of Mr. Li Gang and note that his involvement, together with the Debt Capitalisation which alleviates the Group's indebtedness, is expected to bring further positive impacts in addressing the Group's going concern uncertainties. We have taken these factors into account in assessing the fairness and reasonableness of the Transactions.

2. Reasons for and benefits of the Debt Capitalisation

As at the Latest Practicable Date, the outstanding amount owed by the Company to the Creditor was HK$94.0 million, comprising principal amount of approximately HK$76.6 million and interest of approximately HK$17.4 million. Such indebtedness arose from a loan agreement dated 23 January 2021 (the "**Loan Agreement**") entered into between Wonderland and the Company, pursuant to which Wonderland had agreed to provide loan facilities of up to HK$130 million to the Company. As the outstanding loan under the Loan Agreement had been long overdue and the Company was not in a position to repay in cash in near future, the outstanding loan had become a non-performing asset of Wonderland. Wonderland and the Creditor on 17 April 2026 entered into a debt assignment agreement in respect of assigning HK$87 million of the outstanding loan and subsequently on 15 June 2026 the parties agree to assign further HK$7 million of the outstanding loan which in aggregate. Wonderland agreed to transfer all its rights over the Indebted Amount in the total sum of HK$94 million (of which HK$76,609,586 is the principal and HK$17,390,414 is the interest) to the Creditor.

The Debt Capitalisation is a full and final settlement of the Indebted Amount which will reduce the gearing ratio of the Group and save future interest expenses. This method of settlement is cost-effective and does not have negative impact on the Group's cashflow. The Debt Capitalisation enables the Group to settle its existing liabilities without utilising the Group's existing internal financial resources and can avoid cash outflows. After Completion, the Group's gearing level will be reduced, thereby improving the financial position of the Group.

The Directors had considered other alternative means of fund raising to settle the Indebted Amount, such as equity financing (including but not limited to rights issue and open offer) or debt financing and bank borrowings. However, in terms of the equity financing, including rights issue and open offer, the Directors considered that (i) the equity financing typically necessitate substantial negotiations with potential underwriters or placing agents; (ii) expenses such as underwriting commission, placing commission and a range of professional service fees, will likely be incurred; and (iii) given the Group's historical loss-making performance since at least 2018, deterioration to gross loss with a resultant net loss in 2025 and both net liabilities and net current liabilities positions, the Company will likely be required to issue Shares at a substantial discount in order to secure a pre-emptive fundraising, such as rights issue and open offer. In terms of debt financing and bank borrowings, the Directors also considered that additional interest burden will be incurred for obtaining additional bank borrowings to settle the indebtedness and such the principal amount of such bank borrowings will inevitably need to be repaid upon maturity, and given the Group's current financial position, net loss in 2025 and net liabilities and net current liabilities, obtaining additional bank borrowings would be challenging. The Company considers that the Debt Capitalisation would be the best financing option as compared to the above other financing alternatives.

In view of the above, the Directors consider that the terms of the Settlement Agreement and the Debt Capitalisation are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Our view

As per our discussions with the Company regarding debt financing and bank borrowings, the Directors have considered that: (i) one of the key rationales for the Debt Capitalisation is to improve the Group's gearing ratio, which cannot be effectively achieved through debt financing; and (ii) obtaining additional bank borrowings to settle the indebtedness would result in incurring higher finance costs. Nevertheless, we have discussed with the Management and understand that the Management has attempted to seek for debt financing as alternative means of settling the indebtedness, but the results have not been satisfactory.

Given the Group's current financial performance and position, including the net loss recorded for the year ended 31 December 2025 as detailed in the section titled "1. Background information of the Group" in this letter, the Directors note that obtaining bank borrowings generally involves extensive due diligence, internal risk assessments, and prolonged negotiations with banks. Additionally, such borrowings typically require the borrower to provide suitable assets as collateral. While it is noted that the Group holds certain investment properties and properties held by sale as per the 2025 Annual Report, such properties are located in the PRC and had been already pledged for borrowings of the Group and no material assets are available as collateral for obtaining new borrowings. Having considered these factors, we are of the view that debt financing appears to be both time-consuming and infeasible given the Group's circumstances. Furthermore, even if bank borrowings were secured, they would inevitably increase the Group's interest burden and further worsen its gearing ratio. Based on these considerations and the Management's stated objective of reducing the Group's gearing ratio, we are of the view that taking on additional liabilities to settle the indebtedness would not be in the Group's best interests.

Regarding equity financing options such as rights issues or open offers, the Board has considered that the likelihood to issue new shares with substantial discount is high due to the Group's historical loss-making performance since at least 2018, deterioration to gross loss with a resultant net loss recorded in 2025 and net liabilities and net current liabilities positions, coupled with prevailing market conditions and sentiment. Furthermore, as highlighted in the section "3.2. Analysis of the Issue Price – 3.2.2 Review on trading liquidity of the Shares," the Group's recent financial performance and the limited liquidity of its Shares make it challenging to raise funds through equity financing without offering a substantial discount to the prevailing market price of the Shares, in order to attract potential investors or Shareholders.

In light of the above, we are of the view that it is unlikely for the Group to raise funds by way of placing or rights issue or open offer of new Shares without a deep discount to the prevailing market price of the Shares so as to attract subscription by the potential investors or Shareholders or participation of securities brokerages as underwriter or placing agent.

Having considered the above and, in particular that:

(i) the likelihood of success in obtaining additional bank borrowing with favourable terms is low. And even if the Group could obtain bank borrowings as an alternative mean of settling the indebtedness, such bank borrowings will inevitably increase interest burden and further deteriorate the gearing level of the Group which is not aligned with the Company's goal of reducing gearing;

(ii) significant discount to the prevailing closing price of the Shares would be inevitable for any equity fundraising exercise by the Company, in order to encourage participation from shareholders and/or potential investors or participation of securities brokerages as underwriter or placing agent, given the low trading volume of the Shares and the minimum price of HK$1 per Share of the Company to be issued at par value of HK$1 per Share. Given the Group's historical loss-making performance since at least 2018, deterioration to gross loss with a resultant net loss in 2025, net liabilities and net current liabilities positions, and the limited trading liquidity of its Shares, we are of the view that any such equity fundraising with a sizeable amount comparable to the Debt Capitalisation would likely require a discount significantly deeper than the approximately 21.9% discount represented by the Issue Price under the Settlement Agreement. We have taken into account that the Subscription Shares were issued to independent subscribers at HK$1.09 per share (a discount of approximately 14.8% to the closing price of the shares of HK$1.28 on the Last Trading Day) for a relatively small amount of approximately HK$13.1 million; we believe that for a significantly larger fundraising of HK$94 million under the Group's current financial circumstances, an even deeper discount would be required. In contrast, the Issue Price under the Settlement Agreement, while representing a discount to the recent closing prices of the Shares, is not overly aggressive and does not require the Company to incur additional financing costs or underwriting commissions; and

(iii) the Debt Capitalisation can relieve part of the Group's existing borrowings without depleting its existing financial resources or triggering significant cash outflows.

We are of the view that the Debt Capitalisation is in the interests of the Company and the Shareholders as a whole.

3. Analysis of the Issue Price

3.1. Principal terms of the Settlement Agreement

The principal terms of the Settlement Agreement are summarised as follows:

Date:	21 June 2026
Parties:	(i) The Company; and (ii) Vpoint Limited (i.e. the Creditor)
Number of Capitalisation Shares:	94,000,000 Capitalisation Shares
Issue Price:	HK$1.00 per Capitalisation Share

As at the Latest Practicable Date, the Company has 93,491,851 Shares in issue. The Capitalisation Shares represent (i) approximately 100.54% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 50.14% of the issued share capital of the Company as enlarged by the allotment and issuance of the Capitalisation Shares and issue of the Scheme Shares.

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

(i) a discount of approximately 21.9% to the closing price of HK$1.28 per Share as quoted on the Stock Exchange on the trading day preceding the date of the Settlement Agreement;

(ii) a discount of approximately 44.4% to the closing price of HK$1.80 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(iii) a discount of approximately 26.5% to the average closing price of approximately HK$1.36 per Share as quoted on the Stock Exchange for the last five trading days up to and including the trading day preceding the date of the Settlement Agreement;

(iv) a price difference of approximately HK$139.6 as compared to the audited consolidated net liabilities of approximately HK$138.6 per Share as at 31 December 2025, which is calculated based on the audited consolidated net liabilities of the Company of approximately HK$8,527.5 million as at 31 December 2025 and 61,543,075 Shares in issue as at the trading day preceding the date of the Settlement Agreement; and

(v) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) represented by a discount of approximately 16.0% of the theoretical diluted price of HK$1.14 per Share to the benchmarked price of HK$1.36 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on the trading day preceding the date of the Settlement Agreement of HK$1.28 per Share and the average closing price of HK$1.36 per Share as quoted on the Stock Exchange for the five consecutive trading days preceding the date of the Settlement Agreement).

The amount of the total Issue Price of the Capitalisation Shares shall be satisfied by way of capitalising the Indebted Amount owed to the Creditor by the Company.

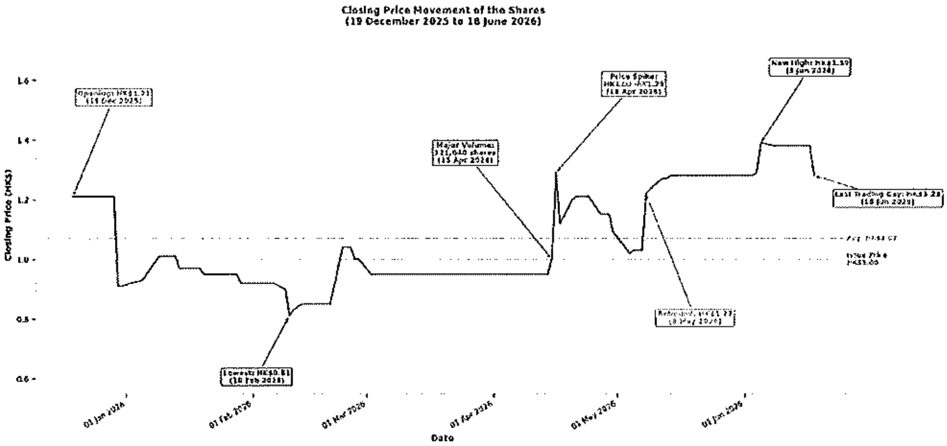
3.2. Analysis of the Issue Price

3.2.1. Review on historical closing prices of the Shares

Set out below is a chart illustrating the closing prices of the Shares during the period from 19 December 2025 (i.e. 6 months prior to the Last Trading Day) to 18 June 2026 (the "**Review Period**"). We have selected the Review Period from 19 December 2025 (i.e. approximately six months prior to the Last Trading Day) to 18 June 2026 as it covers a sufficient number of trading days to illustrate the recent historical price trend and volatility of the Shares, captures the period both before and after the significant price surge in mid-April 2026, and is consistent with the review period adopted for the comparable transactions as set out in section 4 below.

A review period of approximately six months is commonly adopted in the market for similar transactions, including debt capitalisations and rescue proposals involving whitewash waiver applications. We have not selected a longer review period because market conditions prevailing more than six months prior to the Settlement Agreement occurred before the recent price volatility and key corporate events (including the effectiveness of the Scheme and the Subscription), and consequently would not be representative of the market sentiment and pricing environment immediately prior to the Settlement Agreement. Furthermore, as the Shares were very thinly traded throughout the Review Period as discussed in section 3.2.2 below, extending the review period would not provide additional meaningful trading liquidity data.

We consider this period adequate for assessing the market's pricing of the Shares prior to the announcement of the Settlement Agreement.



Source: HKEx website

The highest closing price of HK$1.39 was recorded on 5 June 2026 during the Review Period. The lowest closing price of HK$0.81 was recorded on 10 February 2026 (the "**Lowest Closing Price**").

On 19 December 2025, the first trading day of the Review Period, the Share price closed at HK$1.21 per Share. The Share price traded within a range between HK$0.92 and HK$0.97 during the period between 14 January 2026 to 6 February 2026, before declining to HK$0.81 on 10 February 2026, on which a relatively large trading volume of 49,280 Shares was recorded. The Share price subsequently recovered to HK$1.04 by late February 2026.

During March 2026, the Share price remained flat at HK$0.95 per Share throughout the entire month. In mid-April 2026, the Share price surged from HK$0.95 to HK$1.29 on 16 April 2026, following a significant increase in trading volume on 15 April 2026, before settling at HK$1.20 on 20 April 2026.

During the last week of April 2026, the Share price gradually declined from HK$1.15 to HK$1.09 by 30 April 2026. Following the Labour Day holiday on 1 May 2026, the Share price reached a low of HK$1.02 on 4 May 2026. On 8 May 2026, the Share price rebounded to HK$1.22 per Share, and subsequently stabilised, trading within a narrow range between HK$1.26 and HK$1.28 per Share through late May 2026.

On 5 June 2026, the Share price reached HK$1.39 per Share (the "**Highest Closing Price**"), which was also the highest share price during the Review Period. The Share price subsequently traded at HK$1.38 per Share from 8 June 2026 to 17 June 2026, before closing at HK$1.28 on 18 June 2026 (i.e. the Last Trading Day).

We have made due enquiry with the Board regarding the reasons for the fluctuations and trends in the closing prices of the Shares during the Review Period. The Directors confirmed that, save for the announcements dated 30 June 2026, 2 July 2026 and 16 July 2026 in relation to the Transactions, the Subscription and the completion of the Subscription respectively, there were no other material undisclosed corporate developments or price-sensitive information that would account for the significant price movements during the Review Period. The Directors advised that the fluctuations in the share price during the Review Period were primarily attributable to thin trading liquidity and non-material order flows.

During the Review Period, the Company published the following announcements: (i) the quarterly update on implementation of action plan to resolve disclaimer of opinion dated 30 January 2026; (ii) the update on the status of the public float dated 5 February 2026; (iii) the monthly updates on the status of the public float dated 5 March 2026, 9 April 2026, 7 May 2026 and 4 June 2026; (iv) the annual results announcement for the year ended 31 December 2025 dated 31 March 2026; (v) the annual report for the year ended 31 December 2025 dated 29 April 2026; (vi) the announcement in relation to the lapse of subscription of new shares under general mandate dated 1 June 2026; and (vii) the circular in relation to the proposed granting of general mandates to issue and repurchase shares, re-election of directors, re-appointment of auditor and proposed adoption of new bye-laws dated 3 June 2026. We have discussed with the Management and reviewed the contents of the above announcements, and are of the view that none of the above announcements contained information that would be expected to have a material impact on the share price of the Company during the Review Period, as they either related to routine updates on the public float restoration progress, the publication of historical audited financial results, or corporate actions that had been anticipated by the market or were not price-sensitive in nature.

We have compared the closing price movement of the Shares during the Review Period with the Hang Seng Index ("**HSI**"). The movement of the Share price was generally not correlated with the HSI during the Review Period. In particular, while the HSI declined by approximately 6.9% over the entire Review Period, the Share price recorded a net increase of approximately 5.8% from HK$1.21 to HK$1.28. We consider that the fluctuations in the share price during the Review Period were primarily attributable to company-specific factors, including the thin trading liquidity of the Shares and corporate developments such as the Scheme of Arrangement, the Subscription and the Debt Capitalisation. Accordingly, extending the review period would not provide additional meaningful pricing data as the Share price movements are driven by company-specific events rather than prevailing market conditions.

During the Review Period, the closing prices of the Shares ranged from HK$0.81 per Share (recorded on 10 February 2026) to HK$1.39 per Share (recorded on 5 June 2026), with an average closing price over the Review Period of approximately HK$1.07 per Share (the "**Average Closing Price**"). The Issue Price of HK$1.00 per Capitalisation Share represents a discount of approximately 21.9% to the closing price of HK$1.28 per Share as quoted on the Stock Exchange on the trading day preceding the date of the Settlement Agreement, and a discount of approximately 26.5% to the average closing price of approximately HK$1.36 per Share for the last five trading days up to and including the trading day preceding the date of the Settlement Agreement.

3.2.2. Review on trading liquidity of the Shares

The following table sets out (a) the average daily trading volume of the Shares; and (b) the percentage of average daily trading volume over the total number of issued Shares as at the end of relevant month/period during the Review Period:

Month/Period	Total trading volume	Number of trading days	Average daily trading volume for the month/ period Note (i)	Percentage of average daily volume over the issued share capital Note (ii)	Percentage of average daily volume over the public float Note (iii)
19 to 31 December 2025	3,160	18	176	0.0003%	0.0006%
January 2026	24,960	21	1,189	0.0019%	0.0038%
February 2026	64,280	17	3,781	0.0061%	0.0121%
March 2026	4,000	22	182	0.0003%	0.0006%
April 2026	412,920	19	21,733	0.0353%	0.0697%
May 2026	33,320	19	1,754	0.0028%	0.0056%
1 to 18 June 2026 (Last Trading Day)	4,480	14	320	0.0005%	0.0010%

Source: website of the Stock Exchange

Notes:

(i) The average daily trading volumes are calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.

(ii) During the Review Period, the total number of issued Shares was 61,543,075.

(iii) The public float of the Company was approximately 33.36% of the issued Shares as at the Latest Practicable Date (as disclosed in the Circular under the section headed "Public Float"), representing approximately 31,192,044 Shares. The percentages in the last column are calculated by dividing the average daily trading volume by the number of Shares in the public float as at the Latest Practicable Date. The public float has increased since the end of the Review Period due to the issue of the Scheme Shares and the Subscription Shares. Accordingly, the use of the Latest Practicable Date public float as the denominator represents a conservative assumption, as the actual public float during the Review Period was lower and the resulting percentages would therefore have been higher.

The Shares were very thinly traded throughout the Review Period. Out of 130 trading days, there were 100 days with no trading, i.e. that is more than three out of every four days.

During the period from 19 December 2025 to 31 December 2025, the average daily trading volume was approximately 176 Shares, with trading recorded on only one day during this period (30 December 2025, when 3,160 Shares were traded).

During January 2026, the average daily trading volume was approximately 1,189 Shares, with trading recorded on only eight out of 21 trading days. The busiest day in January was 2 January 2026, when 14,000 Shares were traded.

On average, the lowest daily trading volume was in March 2026, when only about 182 Shares were traded each day on average. This represented just 0.0003% of all Shares in issue and only one day had trading activity in March (4,000 Shares on 11 March 2026).

The highest average daily trading volume was in April 2026, at approximately 21,733 Shares per day, or 0.0353% of all Shares in issue. However, this figure was pushed up by an unusually large volume of 321,040 Shares traded on 15 April 2026, with further elevated trading of 20,160 Shares and 47,800 Shares on 16 and 17 April 2026 respectively. If these three days are excluded, the average daily volume for the rest of April 2026 would have been approximately 1,495 Shares which is much closer to the levels seen in other months.

In May 2026, the average daily trading volume was approximately 1,754 Shares (0.0028% of issued Shares), with trading recorded on only six out of 19 trading days. The busiest day in May was 8 May 2026, when 10,720 Shares were traded.

From 1 June 2026 to 18 June 2026 (the Last Trading Day), the average daily volume was approximately 320 Shares (0.0005% of issued Shares). Trading only occurred on two days during this period with 4,000 Shares on 5 June 2026 and 480 Shares on 4 June 2026.

3.2.3. Our observations

As illustrated in section 3.2.1 above, the Issue Price of HK$1.00 per Share represents a discount of approximately 6.2% to the Average Closing Price during the Review Period.

As illustrated in sections 3.2.1 and 3.2.2 above, the Share price demonstrated volatility throughout the Review Period, declining from approximately HK$1.20 in late April 2026 to a low of HK$1.02 in early May 2026, before recovering and reaching HK$1.38 on 17 June 2026. The Highest Closing Price of HK$1.39 was recorded on 5 June 2026. We have discussed with the Company on the movements of the closing prices of the Shares and were advised that the management did not identify any specific reasons for the fluctuation of the closing prices of the Shares during the Review Period. The Issue Price represents a discount of approximately 21.9% to the closing price of the Share on the Last Trading Day and a discount of approximately 6.2% to the Average Closing Price during the Review Period.

Having considered that (i) the Creditor is willing to accept the Issue Price which reflects its support for and confidence in the long-term prospects of the Group; (ii) the thin trading volume and low liquidity of the Shares throughout the Review Period as discussed in section 3.2.2 above; and (iii) the Debt Capitalisation will enable the Group to settle its existing liabilities without utilising the Group's existing internal financial resources or triggering significant cash outflows, we are of the view that the Issue Price of HK$1.00 is on normal commercial terms and fair and reasonable.

4. Comparable analysis

4.1. Selection criteria

To evaluate the fairness and reasonableness of the Issue Price in connection with the issuance of Shares, we have identified an exhaustive list of 3 comparable transactions (the "**Comparables**") based on the following criteria: (i) companies listed on the Stock Exchange; and (ii) companies that had published announcements in relation to debt capitalisation during the period from 19 December 2025 to 18 June 2026 (being approximately 6 months prior to the trading date of the Settlement Agreement).

The review period was adopted to capture recent market activity with a sufficient number of Comparables. We consider the review period is reasonable and representative as it covers a period of approximately six months prior to the last trading day of the Settlement Agreement, which is sufficient to capture recent market activity while ensuring a meaningful number of Comparables for analysis.

While the primary selection criteria are as stated above, we have also taken into account, as a supplementary factor, whether the comparable transactions involved applications for whitewash waiver under the Takeovers Code, given that the Debt Capitalisation itself involves a Whitewash Waiver and the Creditor will acquire control of the Company upon Completion. However, given the limited number of debt capitalisation transactions during the review period, we have extended the review period from the approximately six-month period to approximately 29 months. Even with this extended period, debt capitalisation transactions remain uncommon in the Hong Kong market, and only 3 comparable transactions meeting the selection criteria were identified. We do not consider that further extension of the review period would yield a materially greater number of relevant comparables, as debt capitalisation transactions typically arise only when a company is in financial distress and unable to service its indebtedness through cash repayment or refinancing, and market conditions prior to 2024 were materially different from those prevailing immediately prior to the Settlement Agreement.

We have excluded transactions involving (a) issuance of new shares for restructuring schemes, emolument or acquisition purposes; (b) issuance of A shares or domestic shares; (c) rights issues or open offers; and (d) subscription of convertible bonds or other debt instruments; and (e) subscription of new shares for cash consideration. We excluded these types of transactions for the following reasons:

(a) Share issuances for restructuring, employee remuneration or acquisitions serve a different commercial purpose and have different pricing drivers from a debt capitalisation. They therefore do not provide a useful pricing comparison.

(b) A shares or domestic shares are governed by different listing rules and traded in different markets from the Shares. Their pricing is not comparable.

(c) Rights issues and open offers are pre-emptive offers made to existing shareholders at a fixed discount. They involve a different pricing mechanism from the arm's length negotiated price under the Settlement Agreement.

(d) Convertible bonds and similar instruments are hybrid securities with debt and equity features. Their pricing is based on conversion rights and optionality, which is fundamentally different from share issue such as the Debt Capitalisation.

(e) Cash subscription transactions involve the injection of new capital rather than the settlement of existing indebtedness, and are typically undertaken by companies that are not in financial distress comparable to the Company. Their pricing dynamics are therefore not directly comparable to a debt capitalisation.

We note that debt capitalisation transactions are relatively uncommon in the Hong Kong market, as they typically arise only when a company is in financial distress and unable to service its indebtedness through cash repayment or refinancing. During the period from 2020 to 2021, Hong Kong's equity fundraising market was exceptionally active, with IPO funds raised reaching HK$400.2 billion in 2020 (ranking second globally and representing a 27% increase from 2019) and HK$331.4 billion in 2021. Total equity funds raised (including post-IPO fundraising such as rights issues, open offers and placings) reached HK$747.0 billion in 2020 and HK$664.1 billion in 2021. This abundant market liquidity meant that most listed companies had ready access to equity financing as an alternative to debt restructuring. While equity fundraising conditions deteriorated significantly from 2022 onwards, debt capitalisation transactions remained scarce during this transitional period, as companies that had borrowed at low rates during 2020-2021 had not yet reached a stage of distress requiring debt conversion, and creditors were generally willing to extend or restructure maturing debt rather than accept equity conversion. It was only from 2024 onwards, as interest rates peaked and the debt servicing burden became unsustainable for a greater number of distressed companies, that debt capitalisation became a more prevalent restructuring tool. Accordingly, we have adopted a review period of approximately 6 months prior to the last trading day of the Settlement Agreement to capture the most recent market activity while ensuring a sufficient number of Comparables for meaningful analysis.

4.2. Identification of debt capitalisation comparables

During the review period, we identified 3 debt capitalisation transactions that met the selection criteria. Set out below is a table of these 3 comparable transactions, together with the Company for reference:

Date of announcement	Stock code	Company name	Transaction type	Issue size *HK$'million*	Percentage of issue size over the then market capitalization on the date of the relevant agreement %	Premium/(discount) of the issue price over/to the closing price of the share on the last trading day prior to the relevant agreement %	Premium/(discount) of the issue price over/to the average closing price for the 5 trading days immediately prior to the relevant agreement %	Connected transaction *(Y/N)*	Whitewash waiver *(Y/N)*
19 January 2026	199	ITC Properties Group Limited	Debt capitalisation	148.2	12.9	(19.7)	(15.0)	Y	N
15 May 2026	943	Zhongzheng International Company Limited	Debt capitalisation	100.9	78.7	0.0	0.0	Y	Y
26 May 2026	1146	Huicheng International Holdings Limited	Debt capitalisation	10.0	2.9	8.0	9.5	Y	N
				Maximum	78.7	8	9.5		
				Minimum	2.9	(19.7)	(15.0)		
				Median	12.9	0.0	0.0		
				Average	31.5	(3.9)	(1.8)		
30 June 2026	377	China Huajun Group Ltd.	Debt capitalisation	94.0	100.5	(21.9)	(26.5)	N	Y

Source: website of the Stock Exchange

4.3. Analysis of the 3 Debt Capitalisation Transactions

Of the 3 debt capitalisation comparable transactions identified, only 1 involved application for whitewash waiver under the Takeovers Code which is the most structurally comparable to the Debt Capitalisation.

The discounts/premiums of the 3 comparable debt capitalisation transactions range from a premium of approximately 8.0% to a discount of approximately 19.7% as compared to the closing price of the share on the last trading day prior to the relevant agreement, with a median of approximately 0% and an average discount of approximately 3.9%. With respect to the average closing price for the 5 trading days immediately before the date of the relevant agreement, the range is from a premium of approximately 9.5% to a discount of approximately 15.0%, with a median of approximately 0% and an average discount of approximately 1.8%.

The Company's discount of approximately 21.9% to the closing price and approximately 26.5% to the 5-day average is deeper than the range of the comparable debt capitalisation transactions. We consider this attributable to the Company's specific financial circumstances, including:

(i) its historically loss-making position since at least 2018, with deterioration to gross loss and a resultant net loss of approximately RMB234.1 million for the year ended 31 December 2025;

(ii) net liabilities of approximately RMB7,702.2 million and net current liabilities as at 31 December 2025;

(iii) the auditor's disclaimer of opinion on the consolidated financial statements for each of the years ended 31 December 2023, 2024 and 2025, citing multiple uncertainties relating to going concern;

(iv) the large issue size relative to its market capitalisation of approximately 115.3%, which is expected to result in a relatively deeper discount; and

(v) the relatively thin trading volume and limited liquidity of the Shares as discussed in section 3.2.2. above.

In particular, we note that of the 3 debt capitalisation transactions among the Comparables:

(i) **ITC Properties Group Limited (stock code: 199)** completed a debt capitalisation at an issue price representing a discount of approximately 19.7% to the closing price and 15.0% to the 5-day average closing price, with the Capitalisation Shares representing approximately 12.9% of the existing issued share capital.

(ii) **Zhongzheng International Company Limited (stock code: 943)** completed a debt capitalisation at an issue price representing 0% discount to both the closing price and the 5-day average closing price, with the Capitalisation Shares representing approximately 78.7% of the existing issued share capital.

(iii) **Huicheng International Holdings Limited (stock code: 1146)** completed a debt capitalisation at an issue price representing a premium of approximately 8.0% to the closing price and 9.5% to the 5-day average closing price, with the Capitalisation Shares representing approximately 2.9% of the existing issued share capital.

For the purpose of assessing whether the deeper discount of the Company's Issue Price is justified by its specific financial circumstances, we have reviewed the publicly available financial information of the above 3 comparable companies. ITC Properties Group Limited and Zhongzheng International Company Limited reported net current liabilities and a loss for the year ended 31 March 2025. China Asia Investment Development Limited reported net assets and a loss for the year ended 31 December 2025.

As illustrated above, two of the three comparables were also in net current liabilities and loss-making positions, which supports the acceptance of discounts by creditors in debt capitalisation scenarios. The Company's specific financial circumstances, including its historically loss-making position since at least 2018, deterioration to gross loss with a resultant net loss in 2025, net liabilities and net current liabilities positions, and the large issue size relative to its market capitalisation, justify the deeper discount compared to the deepest comparable discount.

The discounts/premiums of the 3 debt capitalisation transactions range from a premium of approximately 8.0% to a discount of approximately 19.7% as compared to the closing price, with a median discount of near zero and an average discount of approximately 3.9%. The discount of the Issue Price of the Company of approximately 21.9% is deeper than both the median and the average of the debt capitalisation subset, but we consider this is attributable to the Company's specific financial circumstances, including its historically loss-making position since at least 2018, deterioration to gross loss with a resultant net loss in 2025, net liabilities and net current liabilities positions, and the large issue size relative to its market capitalisation.

Having considered that (i) the discount of the Issue Price to the closing price on the trading day immediately before the date of the Settlement Agreement of approximately 21.9% is deeper than the deepest discount of the comparable debt capitalisation transactions (being the discount of approximately 19.7% represented by ITC Properties), but is attributable to the Company's specific financial circumstance as detailed above; (ii) the discount of the Issue Price to the average closing price for the 5 trading days immediately before the date of the Settlement Agreement of approximately 26.5% is deeper than the deepest discount of the comparable debt capitalisation transactions (being the discount of 15.0% represented by ITC Properties), but is similarly attributable to the Company's specific financial circumstances; (iii) the three comparable transactions were priced at discounts from approximately 0% to 19.7%, with the Company's discount of approximately 21.9% being deeper but attributable to the Company's specific financial circumstances; (iv) the deeper discount is attributable to the Company's specific financial circumstances including its historically loss-making position since at least 2018, deterioration to gross loss with a resultant net loss in 2025, net liabilities and net current liabilities positions and the large issue size relative to its market capitalisation; and (v) the Company's 21.9% discount is only marginally higher than the 20% discount to the benchmark price allowed for issue of new shares under general mandate under Rule 13.36(5) of the Listing Rules which is applicable to "healthy" companies not in the significant financial distress that the Company is current facing, we are of the view that the Issue Price of HK$1.00 per Capitalisation Share is fair and reasonable so far as the Independent Shareholders are concerned.

5. Dilution effect of the Capitalisation Shares on the shareholding structure of the Company

The attention of the Independent Shareholders is drawn to the section headed "Effect of shareholding structure of the Company" in the Board Letter. As noted in the aforementioned section, the shareholding of the "Other Shareholders" (i) is approximately 10.31% as at the Latest Practicable Date and (ii) will be diluted to approximately 5.14% upon Completion and issue of the Capitalisation Shares, representing a decrease in shareholding by approximately 5.2%.

We are aware that the issue of Capitalisation Shares will incur a dilution effect on the shareholding of the existing public Shareholders. Nonetheless, having considered that:

(i) Independent Shareholders are given the chance to express their views on the terms of the Settlement Agreement and the transactions contemplated thereunder (inclusive of the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver) through their votes at the SGM;

(ii) the Capitalisation Shares to be issued, when allotted and issued, will be recognised entirely as equity of the Company which in turn will reduce the total liabilities of the Group and improve the financial position of the Group without utilising the Group's existing internal financial resources or triggering significant cash outflows;

(iii) the reasons for the Debt Capitalisation and the benefits to the Group as discussed in section 2 above, including the preservation of the Group's cash resources for general working capital purposes and the reduction of the Group's gearing ratio;

(iv) our analysis on the historical share price performance and trading liquidity of the Shares as set out in section 3.2.1. above, including the thin trading volume and limited liquidity of the Shares throughout the Review Period;

(v) the Debt Capitalisation represents a genuine settlement of the Group's existing indebtedness to the Creditor and is not being used for general fund raising purposes, and the Creditor has agreed to accept Shares in full and final settlement of the indebtedness in lieu of cash repayment, which demonstrates the Creditor's support for and confidence in the long-term prospects of the Group;

(vi) the discount of the Issue Price to the closing price on the trading day immediately before the date of the Settlement Agreement of approximately 21.9% is deeper than the deepest discount of the comparable debt capitalisation transactions identified in section 4 above (being the discount of approximately 19.7% represented by ITC Properties Group Limited), but we consider this attributable to its specific financial circumstances as a company in financial distress undertaking debt capitalization, including its historically loss-making position since at least 2018, deterioration to gross loss with a resultant net loss in 2025, net liabilities and net current liabilities positions, and the large issue size relative to its market capitalisation;

(vii) the discount of the Issue Price to the average closing price for the 5 trading days immediately before the date of the Settlement Agreement of approximately 26.5% is deeper than the deepest discount of the comparable debt capitalisation transactions identified in section 4 above (being the discount of approximately 15.0% represented by ITC Properties Group Limited), but is similarly attributable to the Company's specific financial circumstances as detailed in section 4 above;

(viii) the Issue Price of HK$1.00 per Capitalisation Share is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, as concluded in section 3.2.3 above; and

(ix) the Whitewash Waiver, if approved, will enable the Settlement Agreement and the Debt Capitalisation to proceed without triggering a mandatory general offer obligation under Rule 26 of the Takeovers Code, which is a common feature in similar rescue proposals for companies in financial difficulties and is in the interests of the Company and the Shareholders as a whole,

we are of the view that the dilution effect on the shareholding interests of the Independent Shareholders is acceptable.

6. 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 Indebted Amount of HK$94.0 million on a dollar-to-dollar basis. Upon Completion, the Indebted Amount shall be deemed to have been fully settled.

Based on the total indebted amount owed by the Company to the Creditor under the Indebted Amount of HK$94 million as at the Latest Practicable Date, upon Completion, it is expected that (i) the total liabilities of the Group will be decreased by HK$94 million; and (ii) the net assets/(liabilities) position of the Group will be improved by HK$94 million.

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.

7. The Whitewash Waiver

As at the Latest Practicable Date, each of the Creditor, Mr. Li Gang and parties acting in concert with any of them does not hold any Shares. Upon the allotment and issue of the Capitalisation Shares, the Creditor will hold 94,000,000 Shares, representing approximately 50.14% of the issued share capital of the Company as enlarged by the allotment and issuance of the Capitalisation Shares and the issue of the Scheme Shares. Under Rule 26.1 of the Takeovers Code, the allotment and issue of the Capitalisation Shares to the Creditor will give rise to an obligation on the Creditor to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Creditor and its concert parties), unless the Whitewash Waiver is granted by the Executive.

We have considered the background of the Creditor and Mr. Li Gang as set out in section 1.3 above. We have discussed with the Management the implications of Mr. Li Gang becoming the controlling shareholder of the Company upon Completion. We note that Mr. Li Gang's accumulated corporate management experience, including his prior chairmanship of a listed company, provides a reasonable basis for him to proactively improve the Group's business operations and financial position. We believe that the Creditor's willingness to accept Shares in full and final settlement of the Indebted Amount demonstrates its support for and confidence in the long-term prospects of the Group. The Creditor has indicated to the Board that it intends to bring further positive impacts in alleviating the Group's multiple uncertainties relating to going concern, including through potential business restructuring, implementation of cost reduction measures and exploration of new business opportunities. We have taken these factors into account in assessing the fairness and reasonableness of the Whitewash Waiver and the Transactions.

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

An application has been made by the Creditor to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy at the SGM by way of poll in respect of the Debt Capitalisation, the Settlement Agreement and the transactions contemplated thereunder (including the Specific Mandate). As at the Latest Practicable Date, the Creditor, Mr. Li Gang and parties acting in concert with any of them do not hold any Shares. As disclosed in the Board Letter, no Shareholders and their respective close associates are interested in and/or involved in the Debt Capitalisation, the Settlement Agreement, the Specific Mandate and/or the Whitewash Waiver, and accordingly, no Shareholders will be required to abstain from voting on the relevant resolution(s) at the SGM.

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

In view that (i) it is in the interests of the Company and the Shareholders as a whole to settle the indebtedness by the Debt Capitalisation given the current financial position and financial performance of the Group; (ii) the terms of the Settlement Agreement are fair and reasonable so far as the Independent Shareholders are concerned as analysed in the above section headed "3. Analysis of the Issue Price" above in this letter; (iii) the Debt Capitalisation is conditional on the conditions precedent (including the Whitewash Waiver and the satisfaction of all conditions (if any) attached to the Whitewash Waiver) with most of the core conditions (including the grant of the Whitewash Waiver and the satisfaction of all conditions (if any) attached to the Whitewash Waiver) cannot be waived, and (iv) the background of Mr. Li Gang and the Creditor, and their future intentions for the Group as discussed in section 7 above, are expected to have a positive impact on the future prospects of the Group and its ability to address the going concern uncertainties, we are of the opinion that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned.

OPINION AND RECOMMENDATION

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

(i) the Group recorded a gross loss of approximately RMB105.3 million and net loss of approximately RMB234.1 million for the year ended 31 December 2025, while having net liabilities approximately RMB7,702.2 million as at 31 December 2025;

(ii) the auditor of the Company has issued a disclaimer of opinion on the consolidated financial statements of the Group for each of the years ended 31 December 2023, 2024 and 2025, citing multiple uncertainties relating to going concern which the Debt Capitalisation may alleviate upon Completion taking place;

(iii) the trading volume of the Shares was thin and liquidity of the Shares was low throughout the Review Period as discussed in section 3.2.2 of this letter;

(iv) given the Company's circumstances, the other financing alternatives with sizeable amount comparable to the Debt Capitalisation are unlike to materialize as discussed in section 2 of this letter;

(v) the discount of the Issue Price to the closing price on the trading day immediately before the date of the Settlement Agreement of approximately 21.9% is within the range of the Comparable Issues (as discussed above, being a range that includes both debt capitalisation and cash subscription transactions);

(vi) the discount of the Issue Price to the average closing price for the 5 trading days immediately before the date of the Settlement Agreement of approximately 26.5% is deeper than the deepest discount of the comparable debt capitalisation transactions identified in section 4 above (being the discount of approximately 15.0% represented by ITC Properties), but is similarly attributable to the Company's specific financial circumstances as detailed in section 4 above;

(vii) the three debt capitalisation comparable transactions were priced at discounts from approximately 0% to 19.7%, with the Company's discount of approximately 21.9% being deeper but attributable to the Company's specific financial circumstances including its historically loss-making position since at least 2018, deterioration to gross loss with a resultant net loss in 2025, net liabilities and net current liabilities positions and the large issue size relative to its market capitalisation;

(viii) the dilution effect arising out of the allotment and issue of the Capitalisation Shares is acceptable as discussed in section 5 of this letter;

we are of the opinion that although the Settlement Agreement and the transactions contemplated thereunder (including the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver) are not in the ordinary and usual course of business of the Company, the terms of the Settlement Agreement and the transactions contemplated thereunder (including the Debt Capitalisation, the Specific Mandate and the Whitewash Waiver) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the relevant resolution(s) at the SGM to approve the Debt Capitalisation, the Settlement Agreement and the transactions contemplated thereunder (including the Specific Mandate and the Whitewash Waiver).

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited

Philip Chau
Managing Director

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited

Kevin So
Managing Director –
Investment Banking Department

Note:

Mr. Philip Chau is a licensed person under the SFO to undertake types 1 and 6 regulated activities (dealing in securities and advising on corporate finance respectively) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. Chau has over 30 years of experience in banking and corporate finance in Hong Kong.

Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 20 years of experience in the corporate finance industry in Hong Kong.