紅日資本有限公司
RED SUN CAPITAL LIMITED

31 July 2025

To: The independent board of committee and the independent shareholders of
China Health Group Limited

**(I) SUBSCRIPTIONS OF NEW SHARES UNDER SPECIFIC MANDATE;
(II) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY TEN (10) SHARES HELD ON THE RECORD DATE;
(III) CONNECTED TRANSACTION AND SPECIAL DEAL IN RELATION TO THE UNDERWRITING AGREEMENT;
(IV) SPECIAL DEAL IN RELATION TO THE PLACING AGENT AGREEMENT; AND
(V) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Subscription Agreements and the transactions contemplated thereunder, the grant of the Specific Mandate and the Whitewash Waiver; (ii) the Underwriting Agreement and the transactions contemplated thereunder; and (iii) the Placing Agent Agreement and the transactions contemplated thereunder; and (iv) the Special Deals, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 31 July 2025 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

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Subscription Agreements

On 30 April 2025 (after trading hours), the Company entered into the Subscription Agreement A, the Subscription Agreement B and the Subscription Agreement C in relation to the issue and subscription of 500,000,000 new Shares, 100,000,000 new Shares and 100,000,000 new Shares (a total of 700,000,000 new Shares) at the Subscription Price of HK$0.1 per Subscription Share to Subscriber A, Subscriber B and Subscriber C, respectively. Pursuant to the Subscription Agreements, the Subscription Shares shall be allotted and issued simultaneously with that of the Rights Shares. For the avoidance of doubt, the Subscription Shares will not be entitled to the Rights Issue. The Subscription Shares will be allotted and issued under the Specific Mandate which will be sought from the Independent Shareholders at the SGM.

Completion of the Subscription Agreement A is conditional on, among others, each of the Underwriting Agreement and the Placing Agent Agreement having been entered into by the parties thereto and the transactions contemplated thereunder having become unconditional and not terminated pursuant to the terms thereof. Completion of each of the Subscription Agreement B and the Subscription Agreement C is also conditional on, among others, each of the Subscription Agreement A, the Underwriting Agreement and the Placing Agent Agreement having been entered into by the parties thereto and the transactions contemplated thereunder having become unconditional and not terminated pursuant to the terms thereof.

Whitewash waiver

As at the Latest Practicable Date, Mr. Ying was directly interested in 16,211,900 Shares, representing approximately 3.30% of the issued share capital of the Company. Save as disclosed as above, none of the Subscribers or parties acting in concert with any of them were interested in any Shares as at the Latest Practicable Date. Accordingly, Mr. Ying, Subscriber A, Subscriber B, Subscriber C and parties acting in concert with any of them were interested in 16,211,900 Shares representing approximately 3.30% of the issued share capital of the Company as at the Latest Practicable Date. Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Rights Shares, the Subscribers and parties acting in concert with any of them (including Mr. Ying) will, in aggregate, be interested in approximately 53.08% (assuming all Share Options not subject to the Optionholders' Undertakings having been exercised before the closure date of register of members for determining entitlements to the Rights Issue) or approximately 53.49% (assuming no Share Options having been exercised prior to the closure date of register of members for determining entitlements to the Rights Issue) of the issued share capital of the Company as enlarged by the issue of all the Subscription Shares and the Rights Shares.

Accordingly, the Subscribers would be required to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities not already owned or agreed to be acquired by them and parties acting in concert with any of them, unless the Whitewash Waiver is granted.

As further mentioned in the Letter from the Board, an application has been made by Subscriber A to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Subscription Agreements and the transactions contemplated thereunder. Mr. Zhang was involved in the negotiation of the Subscriptions. The Subscribers, the Underwriter, the Placing Agent and their respective parties acting in concert with any of them (including Mr. Ying and Mr. Zhang respectively) are required to abstain from voting on the relevant resolution(s) in respect of the Subscription Agreements, the Special Deals (i.e. the Underwriting Agreement and the Placing Agent Agreement) and the transactions contemplated thereunder as well as the Whitewash Waiver at the SGM.

Proposed Rights Issue, the Placing Agent Agreement and the Underwriting Agreement

The Company proposes to implement the Rights Issue to provide the Qualifying Shareholders with an opportunity to participate in the fund-raising exercise at the same Subscription Price as the Subscribers. The basis of the Rights Issue is three (3) Rights Shares for every ten (10) Shares held by the Qualifying Shareholders on the Record Date at the Issue Price of HK$0.1 for each of the Rights Share to raise a gross amount of in the range of between approximately HK$14.7 million and approximately HK$15.0 million. The Company will make arrangements to dispose of the Unsubscribed Rights Shares by offering the Unsubscribed Rights Shares to the independent placees for the benefit of the relevant No Action Shareholders to whom they were offered under the Rights Issue and the Non-Qualifying Shareholders.

On 30 April 2025 (after the trading hours), the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue, pursuant to which the Underwriter has agreed to subscribe for the Untaken Rights Shares, being all the Unsubscribed Rights Shares that are not successfully placed by the Placing Agent, pursuant to the terms and subject to the conditions set out in the Underwriting Agreement.

The Underwriter is a substantial Shareholder and therefore a connected person of the Company. Accordingly, the transactions contemplated under the Underwriting Agreement constitute a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As set out in the Letter from the Board, as at the Latest Practicable Date, the Underwriter is wholly owned by Mr. Zhang. Therefore, Mr. Zhang and his associates (including the Underwriter) are required to abstain from voting on the resolution(s) in relation to the Underwriting Agreement at the SGM. Moreover, Mr. Ying and his associates are also required to abstain from voting on the resolution(s) in relation to the Underwriting Agreement.

As at the Latest Practicable Date, the Underwriter, wholly owned by Mr. Zhang, was a Shareholder interested in 135,992,000 Shares and Mr. Zhang was directly interested in 1,307,400 Shares. As the Underwriting Agreement was not extended to all other Shareholders, the Underwriting Agreement and the transactions contemplated thereunder constitute a special deal under Rule 25 of the Takeovers Code.

As at the Latest Practicable Date, the Placing Agent was a Shareholder interested in 804,000 Shares. As the Placing Agent Agreement was not extended to all other Shareholders, the Placing Agent Agreement and the transactions contemplated thereunder also constitute a special deal under Rule 25 of the Takeovers Code.

The Special Deals are subject to the approval by more than 50% of the Independent Shareholders at the SGM by way of poll and require the consent of the Executive. Applications have been made by the Company to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Special Deals.

Such consent of the Executive, if granted, will be subject to (i) the Independent Financial Adviser publicly stating that in its opinion the terms of the Special Deals are fair and reasonable; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Special Deals.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the non-executive Directors and the independent non-executive Directors, namely, Mr. Huang Lianhai, Mr. Wang Jingming, Mr. Jiang Xuejun, Mr. Du Yanhua, Mr. Lai Liangquan and Ms. Yang Huimin, has been established to advise the Independent Shareholders in respect of the Subscription Agreements, the Special Deals (i.e. the Underwriting Agreement and the Placing Agent Agreement) and the transactions contemplated thereunder as well as the Whitewash Waiver, and as to the voting action therefor.

With the approval of the Independent Board Committee, Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with or interest in the Company, the Placing Agent, the Underwriter or the Subscribers that could reasonably be regarded as relevant in assessing our independence. Save for our appointment as the Independent Financial Adviser, Red Sun Capital Limited did not act as an independent financial adviser to the Company under the Listing Rules in the past two years. We are not in the same group as the financial adviser to the Company, the Subscribers, their respective substantial shareholders, and/or parties acting in concert with any of them. We do not have a significant connection, financial or otherwise, with either the Subscribers, the Company or the controlling shareholders of either of them, within the two years prior to the date of the Announcement, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice under the Takeovers Code. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other 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 pursuant to Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code.

BASIS OF OUR ADVICE

In order to formulate our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the "**Management**"). We have reviewed, among others, (i) the Subscription Agreements, the Placing Agent Agreement and the Underwriting Agreement; (ii) the annual report of the Company for the year ended 31 March 2024 (the "**Annual Report 2023/24**"); (iii) the announcement of the Company dated 3 July 2025 regarding the Settlement Deed and the change in intended use of proceeds; and (iv) the annual results announcement (the "**Annual Results 2024/25**") and the annual report of the Company for the year ended 31 March 2025 (the "**Annual Report 2024/25**"). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular, nor statements, information, opinions or representation provided to us to be untrue, inaccurate or misleading. However, we have not, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group or its respective history, experience and track records, or the prospects of the markets in which it operates.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of the transactions as contemplated under the Subscription Agreements, the Special Deals (i.e. the Underwriting Agreement, the Placing Agent Agreement) and the transactions contemplated thereunder as well as the Whitewash Waiver, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have taken into consideration the following principal factors and reasons in arriving at our opinion in respect of the Underwriting Agreement, the Subscription Agreements and the Whitewash Waiver:

1. INFORMATION OF THE GROUP

As set out in the Letter from the Board, the Company is an investment holding company and the business operations of the Group comprise mainly (i) medical equipment and consumables distribution and service business; and (ii) hospital operation and management services business. It previously operated two additional business segments, namely business factoring, and the research and development and sale of functional food through the Jinmei Group. However, the business factoring segment was discontinued following the expiry of its license in June 2024, while the functional food segment was discontinued following the completion of the Settlement Deed.

Set out below is a summary of the Group's operating results extracted from the Annual Report 2023/24; and (ii) the Annual Report 2024/25:

Summary of the Group's audited consolidated statement of comprehensive income

	For the year ended 31 March		
	2023	**2024**	**2025**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Revenue	76,414	59,930	38,943
Distribution and service in medical equipment and consumables	54,238	45,849	27,711
Hospital operation and management services	21,215	14,081	11,232
Business service	961	–	–

	For the year ended 31 March		
	2023	2024	2025
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Gross profit	27,192	13,638	9,235
Loss before tax	(39,383)	(42,294)	(67,378)
Loss for the year	(39,560)	(42,497)	(67,821)
Loss for the year attributable to:			
Owners of the Company	(42,046)	(40,187)	(67,790)
Non-controlling interests	2,486	(2,310)	(31)

Financial performance of the Group for the year ended 31 March 2025 (the "FY2025") compared with the year ended 31 March 2024 (the "FY2024")

As set out in the Annual Report 2024/25, the Group recorded revenue of approximately HK$38.9 million for FY2025, representing a decrease of approximately 35.1% as compared to approximately HK$59.9 million recorded for FY2024. The revenue comprised (i) income from distribution and service in medical equipment and consumables of approximately HK$27.7 million for FY2025, represented a decrease of approximately 39.5% from FY2024 of approximately HK$45.8 million, which was mainly attributable to the decrease in the sales of the relevant medical equipment and consumables; and (ii) income from hospital operation and management services of approximately HK$11.2 million for FY2025, represented a decrease of approximately 20.6% from approximately HK$14.1 million for FY2024, which was mainly attributable to the overall decrease in numbers of outpatient visits and inpatient admissions of the hospitals operated by the Group in FY2025.

Based on the Annual Report 2024/25, the Group recorded a loss attributable to owners of the Company of approximately HK$67.8 million for FY2025, representing an increase in losses of approximately 68.7% as compared to approximately HK$40.2 million recorded for FY2024. Such increase in losses was mainly attributable to (i) the abovementioned decrease in revenue; (ii) the decrease in other income due to a reversal of other payables and accrued expenses of approximately HK$16.3 million for FY2025 compared with approximately HK$31.2 million for FY2024, which were credited to profit or loss due to expiry of the time bar for bringing payment claims in court by the relevant creditors under the applicable laws and contracts or the waiver of payments having been obtained from the relevant creditors; and (iii) the increase in administrative expenses from approximately HK$33.8 million for FY2024 to approximately HK$62.7 million for FY2025 which was primarily due to the provision for litigation expenses of approximately HK$35.6 million for FY2025 (FY2024: nil) arising from the judgment (the "**Appeal Judgment**") in relation to the action number HCA2549/2017 by the Court of Appeal dated 18 October 2024, ruling against the Company and ordering the payment of US$4 million without interest to Capital Foresight, which was partially offset by (a) the decrease in other loss, net from approximately HK$24.7 million for FY2024 to approximately HK$6.6 million for FY2025 due to the change in fair value of contingent consideration from loss of approximately HK$13.9 million for FY2024 to gain of approximately HK$5.2 million for FY2025; and (b) the decrease in selling and distribution expenses from approximately HK$17.8 million for FY2024 to approximately HK$6.1 million for FY2025. For further details of Appeal Judgment, please refer to the announcement of the Company dated 21 October 2024.

Financial performance for the year ended 31 March 2024 (the "FY2024") compared with the year ended 31 March 2023 (the "FY2023")

As set out in the Annual Report 2023/24, the Group recorded revenue of approximately HK$59.9 million for FY2024, representing a decrease of approximately 27.5% as compared to approximately HK$76.4 million recorded for FY2023. The revenue comprised (i) income from distribution and service in medical equipment and consumables of approximately HK$45.8 million for FY2024, represented a decrease of approximately 15.5% from FY2023 of approximately HK$54.2 million, which was mainly attributable to the increased market competition and the slowing of economic growth in the PRC at the material time, thus the decrease in the sales of the relevant medical equipment and consumables; and (ii) income from hospital operation and management services of approximately HK$14.1 million for FY2024, represented a decrease of approximately 33.6% from approximately HK$21.2 million for FY2023, which was mainly attributable to the overall decrease in numbers of outpatient visits and inpatient admissions of the hospitals operated by the Group in FY2024.

Based on the Annual Report 2023/24, the Group recorded a loss attributable to owners of the Company of approximately HK$40.2 million for FY2024, representing a decrease in losses of approximately 4.6% as compared to approximately HK$42.0 million recorded for FY2023. Such decrease was mainly attributable to the net effects of (i) the abovementioned decrease in revenue and the decrease in gross profit from approximately HK$27.2 million for FY2023 to approximately HK$13.6 million for FY2024, which was mainly attributable to the gross profit margin decreased as the raw materials and labor costs in hospital operations and distribution and services in medical equipment and consumables increased; (ii) the increase in impairment losses on loans and interest receivables, increasing from approximately HK$4.0 million in FY2023 to approximately HK$17.7 million in FY2024; and (iii) other income of approximately HK$31.2 million, due to the reversal of a disputed payable (based on a court judgment and legal advice, the Company believed it was not required to repay a HK$31.2 million loan note, so it recorded such amount as other income in FY2024). Subsequently, Capital Foresight lodged an appeal in the Court of Appeal against the judgment and the Court of Appeal delivered the Appeal Judgment, ruling against the Company and ordering the payment of US$4 million without interest and the Board decided not to appeal against the Appeal Judgment. For further details, please refer to the announcement of the Company dated 21 October 2024. As a result, a provision for other payables amounted to US$4 million was recognised as profit or loss for FY2025.

Summary of the Group's audited consolidated statement of financial position

	As at 31 March		
	2023	**2024**	**2025**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Non-current assets	**79,050**	**63,333**	**32,728**
– Property, plant and equipment	21,300	18,238	17,396
– Goodwill	37,880	25,633	13,561
– Prepayment	17,132	16,524	–
Current assets	**142,135**	**128,983**	**114,620**
– Inventories	11,666	18,595	13,536
– Trade receivables	30,751	30,043	21,230
– Prepayments, deposits and other receivables	29,020	30,089	44,388
– Loan and interest receivables	59,218	46,243	34,345
– Cash and bank balances	11,480	4,013	1,048

	As at 31 March		
	2023	2024	2025
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Current liabilities	**127,235**	**112,107**	**131,965**
– Trade payables	24,117	31,546	24,386
– Other payables and accruals	74,886	62,434	88,471
– Amount due to directors	7,020	6,875	8,577
– Contingent consideration	8,061	–	–
– Bank borrowings	5,684	5,508	5,418
Non-current liabilities	**–**	**20,456**	**15,288**
– Contingent consideration	–	20,325	14,863
Equity attributable to owners of the Company	**86,332**	**52,037**	**(7,663)**
Non-controlling interests	**7,618**	**7,716**	**7,758**

Note: For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above.

Consolidated financial position of the Group as at 31 March 2025

As at 31 March 2025, the Group's total assets amounted to approximately HK$147.3 million, representing a decrease of approximately HK$45.0 million or 23.4% as compared to approximately HK$192.3 million as at 31 March 2024, which was mainly attributable to (i) the decrease in goodwill from approximately HK$25.6 million as at 31 March 2024 to approximately HK$13.6 million as at 31 March 2025; (ii) the decrease in prepayment in non-current nature from approximately HK$16.5 million as at 31 March 2024 to nil as at 31 March 2025; (iii) the decrease in inventories from approximately HK$18.6 million as at 31 March 2024 to approximately HK$13.5 million as at 31 March 2025; (iv) the decrease in trade receivables from approximately HK$30.0 million as at 31 March 2024 to approximately HK$21.2 million as at 31 March 2025; (v) the decrease in loan and interest receivables from approximately HK$46.2 million as at 31 March 2024 to approximately HK$34.3 million as at 31 March 2025; (vi) the decrease in cash and bank from approximately HK$4.0 million as at 31 March 2024 to approximately HK$1.0 million as at 31 March 2025; and (v) on the other hand, the Group recorded an increase in prepayment, deposits and other receivables from approximately HK$30.1 million as at 31 March 2024 to approximately HK$44.4 million as at 31 March 2025.

As at 31 March 2025, the Group's total liabilities amounted to approximately HK$147.3 million, representing an increase of approximately HK$14.7 million or 11.1% as compared to approximately HK$132.6 million as at 31 March 2024, which was mainly attributable to (i) the increase in other payables and accrued expenses from approximately HK$62.4 million as at 31 March 2024 to approximately HK$88.5 million as at 31 March 2025; (ii) the increase in amounts due to directors from approximately HK$6.9 million as at 31 March 2024 to approximately HK$8.6 million as at 31 March 2025, which was partially offset by (a) the decrease in trade payables from approximately HK$31.5 million as at 31 March 2024 to approximately HK$24.4 million as at 31 March 2025; (b) the decrease in contract liabilities from approximately HK$5.1 million as at 31 March 2024 to approximately HK$3.9 million as at 31 March 2025; and (c) the decrease in contingent consideration from approximately HK$20.3 million as at 31 March 2024 to approximately HK$14.9 million as at 31 March 2025.

As at 31 March 2025, net liabilities attributable to owners of the Company amounted to approximately HK$7.7 million as compared to approximately HK$52.0 million of equity attributable to owners of the Company at 31 March 2024.

Consolidated financial position of the Group as at 31 March 2024

As at 31 March 2024, the Group's total assets amounted to approximately HK$192.3 million, representing a decrease of approximately HK$28.9 million or 13.1% as compared to approximately HK$221.2 million as at 31 March 2023, which was mainly attributable to (i) the decrease in goodwill from approximately HK$37.9 million as at 31 March 2023 to approximately HK$25.6 million as at 31 March 2024; (ii) the decrease in loan and interest receivables from approximately HK$59.2 million as at 31 March 2023 to approximately HK$46.2 million as at 31 March 2024; and (iii) the decrease in cash and bank from approximately HK$11.5 million as at 31 March 2023 to approximately HK$4.0 million as at 31 March 2024.

As at 31 March 2024, the Group's total liabilities amounted to approximately HK$132.6 million, representing an increase of approximately HK$5.4 million or 4.2% as compared to approximately HK$127.2 million as at 31 March 2023, which was mainly attributable to (i) the increase in contingent consideration from approximately HK$8.1 million as at 31 March 2023 to approximately HK$20.3 million as at 31 March 2024; and (ii) the increase in trade payables from approximately HK$24.1 million as at 31 March 2023 to approximately HK$31.5 million as at 31 March 2024, which was partially offset by the decrease in other payables and accrued expenses from approximately HK$74.9 million as at 31 March 2023 to approximately HK$62.4 million as at 31 March 2024.

As at 31 March 2024, equity attributable to owners of the Company amounted to approximately HK$52.0 million as compared to approximately HK$86.3 million at 31 March 2023.

Disclaimer of opinion of independent auditor's report of the Company

As set out in the Annual Report 2024/25, the auditors of the Company (the "**Auditors**") issued a disclaimer of opinion ("**Disclaimer of Opinion**") for the consolidated financial statements of the Group for FY2025. Regarding the Disclaimer of Opinion in summary, the Auditors were concerned with the material uncertainties in relation to the Group's that may cast significant doubt on the Group's ability to continue as a going concern, including (i) the Group incurred a loss of approximately HK$67.8 million for FY2025; (ii) the Group had net current liabilities of approximately HK$17.3 million as at 31 March 2025; and (iii) the Group had outstanding bank borrowings, trade payables and other payables and accrued expenses amounting to approximately HK$5.4 million, HK$24.4 million and HK$88.5 million, respectively, as at 31 March 2025, of which (a) the bank borrowings amounted to approximately HK$5.4 million would be repayable on demand; and (b) trade payables and other payables and accrued expenses amounted to approximately HK$24.4 million and HK$88.5 million respectively, which at the time would be due for repayment within the next twelve months or repayable on demand, while its cash and cash equivalents amounted to approximately HK$1.0 million.

Given the Auditors were unable to obtain sufficient appropriate audit evidence that the Auditors considered necessary to assess the assumptions and judgments supporting the Directors' assessment of the Group's ability to continue as a going concern and the likelihood of success of the Group's plans and measures. There were no other satisfactory audit procedures that the Auditors could adopt to satisfy themselves as to the appropriateness of the Directors' use of the going concern basis of accounting and the adequacy of the related disclosures in the consolidated financial statements for FY2025 of the Group. Hence the Disclaimer of Opinion, further details of which are set out in the Annual Report 2024/25.

In this connection, the Subscription Agreements and the Rights Issue, if consummated, should improve the overall consolidated financial position of the Group and reduce the overall gearing ratio of the Group compared to that immediately prior to such transactions.

As set out in the Letter from the Board, 700,000,000 Subscription Shares and 149,848,428 Rights Shares will be issued pursuant to the Subscription Agreements and the Rights Issue respectively and the gross proceeds from the Subscriptions and Rights Issue are expected to be approximately HK$84.7 million in aggregate. As set out in the unaudited pro forma financial information of the Group in Appendix II to the Circular, immediately upon completion of the Subscriptions and Rights Issue and only taking into account the effects of the Subscriptions and Rights Issue, the consolidated net tangible liabilities of the Group attributable to the equity holders of the Company of approximately HK$21.5 million would improve to consolidated net tangible assets of the Group attributable to equity holders of approximately HK$59.4 million.

As set out in the Annual Report 24/25, the gearing ratio as at 31 March 2025 was approximately 0.25 times. The gearing ratio as at 31 March 2025 was calculated based on the total debts comprising (i) other payables of approximately HK$31.2 million, being the Judgement Debt, which shall be repaid using part of the net proceeds from the Subscription and the Rights issue; and (ii) bank borrowings of approximately HK$5.4 million, divided by total assets of the Group of approximately HK$147.3 million. The gearing ratio is expected to improve to approximately 0.04 times following completion of the Subscriptions and Rights Issue as the Judgment Debt will be fully settled according to the intended use of proceeds and assuming no changes to the total assets of the Group.

As set out in the Annual Report 2024/25, the Group had current assets of approximately HK$114.6 million and current liabilities of approximately HK$132.0 million as at 31 March 2025. On this basis, the current ratio of the Group (being the current assets divided by the current liabilities) as at 31 March 2025 was approximately 0.87 times. Immediately upon completion of the Subscriptions and Rights Issue but before the use of proceeds, only taking into account the effects of the Subscriptions and Rights Issue, the current assets of the Group are expected to increase by the net proceeds from the Subscription and the Rights Issue of approximately HK$80.9 million as set out in the Letter from the Board, to approximately HK$195.5 million, and hence the current ratio of the Group will improve to approximately 1.48 times.

Nonetheless, Shareholders should note that the Auditors would reassess the Group's financial position and the circumstance that led to the Disclaimer of Opinion during the course of their annual audit for the year ending 31 March 2026. The audit opinion will be issued based on the information available at that time.

2. INFORMATION ON THE SUBSCRIBERS

We have extracted the background information of the Subscribers from the Letter from the Board and set out below.

Subscriber A

Subscriber A was wholly owned by Mr. Ying as at the Latest Practicable Date.

Mr. Ying (aged 59) joined CDH Investments as an operating partner and a managing director in 2009 as set out in the Letter from the Board, and is currently a managing partner of 上海鼎暉百孚投資管理有限公司 (Shanghai CDH Baifu Investment Management Co., Ltd.) ("**Dinghui Baifu**"). As set out in the Letter from the Board, Dinghui Baifu is an investment manager of CDH Investments, managing approximately RMB70 billion in assets. Mr. Ying previously served as an executive director of China Botanic Development Holdings Limited (currently known as China City Infrastructure Group Limited), a company listed on the Stock Exchange (stock code: 2349) from July 2008 to July 2009. Mr. Ying is currently (i) an independent non-executive director of each of Zhongsheng Group Holdings Limited, a company listed on the Stock Exchange (stock code: 881) and Fountain Set (Holdings) Limited, a company listed on the Stock Exchange (stock code: 420); and (ii) a director of Microvast Holdings, Inc. (a company listed on American NASDAQ, stock code: MVST). Mr. Ying holds a master's degree in Business Administration from the University of San Francisco and a bachelor's degree in Economics from 浙江工商大學 (Zhejiang Gongshang University) (formerly known as 杭州商學院 (Hangzhou Business College*)).

Subscriber B

Subscriber B is wholly-owned by Ms. Ying as at the Latest Practicable Date.

Ms. Ying (aged 30) is a general manager and executive director of 脈福(深圳)醫療生物科技有限公司 ("**Maifu**") since February 2024, and the chief executive officer of Mineup LLC ("**Mineup**") since 2017. Maifu is a PRC company and principally engaged in the sale and distribution of medical equipment business. Mineup is a multimedia design creative agency located in the United States. Ms. Ying is mainly responsible for overseeing Mineup's overall strategic direction, managing key partnerships, supervising executive-level operations, and leading cross-functional teams in the development of innovative creative and digital media solutions. Ms. Ying holds a master's degree in Architecture from Columbia University.

Subscriber C

Ms. Wu Linling (aged 62) acted as the vice president of Government and Legal Affairs (Asia-Pacific) at Owens Corning (China) Investment Co., Ltd. from April 2012 to March 2025. Ms. Wu also acts as an arbitrator at the China International Economic and Trade Arbitration Commission Shanghai Sub-Commission since 2016 and the Shenzhen Court of International Arbitration since 2022. Ms. Wu is an independent non-executive director of 惠而浦(中國)股份有限公司, a company listed on the Shanghai Stock Exchange (stock code: 600983) since December 2023. Ms. Wu Linling is a practicing attorney in New York, the United States and holds master's degrees in Law from Wuhan University and Columbia University.

3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHT ISSUES AND USE OF PROCEEDS

As set out in the Letter from the Board, the Group principally engaged in (i) medical equipment and consumables distribution and service business; and (ii) hospital operation and management services business, which together represent its core revenue streams. It previously operated two additional business segments, namely business factoring, and the research and development and sale of functional food through the Jinmei Group. However, the business factoring segment was discontinued following the expiry of its license in June 2024, while the functional food segment was discontinued following the completion of the Settlement Deed.

We have reviewed and summarised the reasons for and benefits of the Subscriptions and the Rights Issue as set out in the Letter from the Board hereafter. Over the past decades, the Group has dedicated itself to the development and provision of healthcare-related services in the PRC as well as the sale and marketing of medical equipment and consumables. Despite its established presence in the PRC healthcare sector, the Group has in recent years encountered operational and financial headwinds stemming from both macro-economic conditions and sector-specific challenges, such as the increasing pricing pressure of its medical equipment and consumables distribution business. In response to challenges faced by the Group, the Group has continued to adjust its operational strategies, capital deployment and identify new growth opportunities under the evolving regulatory environment.

Notwithstanding such efforts, the Group has been loss-making for the past few years and is facing liquidity pressure. The situation is further aggravated by the outstanding Judgment Debt, which remains unpaid following the ruling by the Court of Appeal, placing the Group under an imminent and genuine threat of winding-up proceedings, details of which are set out in the announcement of the Company dated 21 October 2024. Moreover, the Company had received a letter from the legal representatives of Ever True in 2024 claiming its rights to accelerate the payment of the promissory note issued by the Company as consideration for the Jinmei Acquisition for the reason that the cross-default clause has been triggered as a result of the Judgement Debt.

It is noted that the Company explored a range of financing alternatives, including bank borrowings, share placements, convertible bonds, and restructuring plans, which has been further analysed under section headed "4. OUR ANALYSIS ON THE GROUP'S FINANCING NEEDS AND FINANCING ALTERNATIVES" in this letter.

While both Subscription Price and the Issue Price and Subscription Price represent a discount to the closing price per Share as at the Last Trading Day, they reflect a premium when compared to the net liabilities attributable to Shareholders as at 31 March 2025. Further analysis is set out under section headed "6. ANALYSIS OF THE SUBSCRIPTION PRICE" in this letter. Moreover, the closing Share price increased significantly from HK$0.140 per Share on the Last Trading Day to HK$0.295 per Share on 23 May 2025 after the publication of the Announcement. The Share price closed at HK$0.345 per Share on the Latest Practicable Date. This shows the positive market reaction regarding the Proposal. The Directors consider that the Rights Issue as an essential component of the capital raising plan, as it offers Qualifying Shareholders the opportunity to subscribe for Rights Shares at the same price as the Subscribers. This helps partially mitigate the dilution impact for Shareholders who elect to participate, while also raising additional working capital to support the Group's business operations and development.

The Directors believe that Mr. Ying's industry expertise will be instrumental in navigating the challenges of the healthcare landscape in the PRC and driving the Group's business development. He has over 10 years of experience in investing across various sectors, including the medical industry. The funds managed by him have invested in a wide range of medical and biotechnology companies, including pharmaceutical firms and healthcare service providers based in the PRC. Leveraged on his background as further discussed in the section headed "2. INFORMATION ON THE SUBSCRIBERS" in this letter.

Subscriber A intends to continue the existing principal businesses of the Group, does not intend to introduce any major changes to the businesses of the Group (including any redeployment of the fixed assets of the Group) or terminate the continued employment of the employees of the Group (except for a proposed nomination of new director(s) to the Board at a time no earlier than that as permitted under the Takeovers Code or such later time as Subscriber A considers to be appropriate). Due to the potential business opportunities that may arise from working with Subscriber A and the potential incentives of Subscriber A as a substantial shareholder (the Subscriber will benefit from the Group's performance turning around in future, including but not limited to, the increase in price of Shares or dividend), we consider that it is fair and reasonable to introduce the Subscriber as a substantial Shareholder.

Assuming there being no new issue or repurchase of Shares on or before the Record Date, the estimated gross proceeds and net proceeds from the Subscriptions and the Rights Issue (after deducting all fees, costs and expenses estimated to be incurred by the Company in connection with the Subscriptions and the Rights Issue) are expected to be approximately HK$84.7 million and HK$80.9 million, respectively. The estimated net Subscription Price and Issue Price, after deducting such fees, costs and expenses, are therefore both at approximately HK$0.095 per Subscription Share and Rights Share.

The Company intends to apply the net proceeds from the Subscriptions and the Rights Issue in the following manner:

(i) as to approximately HK$65.3 million for settlement of payables of the Group including: (a) approximately HK$31.2 million for repayment of the Judgment Debt; (b) approximately HK$15.5 million for settlement of loans (including estimated interest) to the Group with interest rate of 6.5% per annum, are unsecured and repayable on demand; (c) approximately HK$3.6 million for settlement of overdue salaries of employees of the Group; (d) approximately HK$5.1 million for the settlement of certain professional fees (save for those relating to the Subscriptions and the Rights Issue); and (e) approximately HK$9.9 million for settlement of overdue Directors remuneration; and

(ii) as to approximately HK$12.0 million for repayment of principal of the Settlement Note, details of the Settlement Note are set out in the announcement of the Company dated 3 July 2025; and

(iii) as to the balance amounted to approximately HK$3.6 million as working capital of the Group for payment of daily operating expenses (including staff costs and rental expenses) and settlement of the amount due to suppliers.

In connection with the above reasons for and benefits of the Subscriptions and the Right Issues and use of proceeds, we have set out our work done thereof, including, on the Group's financing needs and financing alternatives and the Subscriptions below.

4. OUR ANALYSIS ON THE GROUP'S FINANCING NEEDS AND FINANCING ALTERNATIVES

We have conducted independent review of the information as set out in the Annual Report 2023/24, the Annual Report 2024/25 and the Announcement. We noted the following observations:

(i) the Group has recorded loss attributable to owners of the Company for each of the past six years ended 31 March 2025;

(ii) net cash outflows from operating activities were recorded for each of the past three years;

(iii) the Group was in a net debt position (being the net balance of the cash and bank balances and bank borrowings) of approximately HK$1.5 million and HK$4.4 million as at 31 March 2024 and 2025 respectively, with bank borrowings classified as current liabilities and repayable within one year amounting to approximately HK$5.5 million and HK$5.4 million as at 31 March 2024 and 2025, respectively;

(iv) the Judgment Debt of US$4 million (equivalent to approximately HK$31.2 million), details of which are set out in the announcement of the Company dated 21 October 2024, remained unpaid following the ruling by the Court of Appeal;

(v) the Auditors expressed a Disclaimer of Opinion on multiple uncertainties related to going concern on the consolidated financial statements of the Group for the year ended 31 March 2025, including the Group's outstanding bank borrowings, trade payables and other payables and accrued expenses amounting to approximately HK$5.4 million, HK$24.4 million and HK$88.5 million, respectively, as at 31 March 2025, all of which were either due for repayment within the next twelve months or repayable on demand, while the Group's cash and cash equivalents amounted to approximately HK$1.0 million. A summary of the Disclaimer of Opinion is set out under the section headed "1. Information of the Group – Disclaimer of opinion of independent auditor's report of the Company" in this letter; and

(vi) the intended use in proceeds includes the settlement of payables amounting to approximately HK$65.3 million, repayment of principal amount of the Settlement Note of approximately HK$12 million and allocation of approximately HK$3.6 million as working capital for the Group for payment of daily operating expenses (including staff costs and rental expenses) and amount due to suppliers. Further details are set out under the section headed "USE OF PROCEEDS" in the Letter from the Board

Nonetheless, Shareholders should note that the Auditors would reassess the Group's financial position and the circumstances that led to the Disclaimer of Opinion during the course of their annual audit for the year ending 31 March 2026, and would issue their audit opinion based on the then information available. Given the above and considering that the Group's cash and bank balances declined from approximately HK$4.0 million as at 31 March 2024 to approximately HK$1.0 million as at 31 March 2025, the Group is facing liquidity pressure and has genuine funding needs. This aligns with the Directors' view set out under the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHT ISSUES AND USE OF PROCEEDS" in this letter.

We noted from the Letter from the Board that the Company explored a range of financing alternatives, including bank borrowings, share placements, convertible bonds, and restructuring plans, the Management considered that all these options were unfeasible due to, where applicable, the Group's financial position, insufficient collateral, and lack of interests from other investors at the material time.

As far as debt financing is concerned, we noted that bank borrowings of the Group, being unsecured and repayable within one year, amounted to approximately HK$5.5 million and HK$5.4 million, as at 31 March 2024 and 2025, respectively. Based on our independent review on the Group's financial status based on published information and discussion with the Management, we are given to understand that the Management is of the view that it is not feasibility for the Group to obtain new and/or upsize their existing banking facilities given (i) the Group's recent financial results, which recorded losses for each of the years ended 31 March 2020, 2021, 2022, 2023, 2024 and 2025; (ii) the Group's net cash outflow from operating activities; (iii) the Group was in a net debt position of approximately HK$1.5 million and HK$4.4 million as at 31 March 2024 and 2025, respectively; (iv) the overhang of the Judgment Debt; (v) the increased financial pressure and cash flow for the Group to service additional debt; and (vi) the lack of suitable assets as collateral for credit facilities. In addition, the Management further considered that the increase in finance costs associated with increased debt may adversely affect the Group's future profitability.

As far as equity financing is concerned, we noted that the Company explored possible equity financing options, such as placement of Shares and convertible bonds with financial institutions in the past. However, due to the economic slowdown and challenging market sentiment at the material time, as well as the performance of the then Share prices of the Company and the Group's need to settle the Judgement Debt, no substantive progress for raising funds through other equity financing means were noted.

We also noted from the Letter from the Board that the Company had approached a securities firm to discuss the capital raising options. However, such firm declined to pursue a capital raising proposal after considering the factors including (i) the Group's ongoing financial distress and operational struggles; (ii) the significant risk posed by the winding-up petitions from Capital Foresight; (iii) the Group's history of losses and deteriorating performance; and (iv) then unfavourable market conditions affecting investor sentiment. Besides, even if a large-scale placement was achievable, it would likely require a significant discount to the then market price of the Shares, possibly resulting in substantial dilution for existing Shareholders without offering them the opportunity to participate, as provided by the Rights Issue.

The Company had also consulted a professional firm in restructuring practice to assess the feasibility of a debt restructuring plan involving the introduction of a white knight investor. It was noted that such debt restructuring plan would likely require a winding-up process, during which the incoming investor(s), if any, would acquire the Group's assets through liquidation. The Directors considered that entering into a winding-up process would result in severe and immediate adverse and unpredictable consequences to the Group's operations. Accordingly, the Company concluded that debt restructuring through winding-up was not a viable path and therefore not to opt for this alternative. Majority of the assets of the Group comprised inventories, receivables, prepayment and loan receivables which could not be realised in a timely manner to meet the Group's funding need. In addition, the amounts that might be collected would be required to support ongoing operations of the Group, including the settlement of trade payables, bank borrowings as well as other payables and accruals. The Directors concluded that realisation of assets was not a viable option.

To assess the fairness and reasonableness of the Subscriptions, we have conducted the following work and analysis, including:

(i) reviewed the Group's financial status based on published information;

(ii) reviewed the outstanding debts repayment plan of the Group, namely, the total outstanding balance of payables, debts and the Settlement Note of approximately HK$77.3 million of the Group will be settled by the net proceeds from the Subscriptions and the Rights Issue and noted that net proceeds from the Subscriptions and the Rights Issue of approximately HK$80.9 million (in aggregate) would contribute towards the repayment of the debts and liabilities of the Group, and is expected to have positive financial effects on the net assets, current ratio and gearing ratio of the Group, our further analysis of which is set out under section headed "1. INFORMATION OF THE GROUP – Disclaimer of opinion of independent auditor's report of the Company" in this letter above;

(iii) discussed with the Management and understood that the Proposal, including the Subscription, is the outcome of the Company's consideration of alternatives; and

(iv) reviewed background information on the Subscriber A and understood that the Subscriptions offer an opportunity to introduce Subscriber A to be a new controlling Shareholder which is expected to bring (a) access to broad business network in the healthcare sector in the PRC given the network, track record and experience of Mr. Ying, who owns Subscriber A, in investing in across various sectors, including healthcare, medical and biotechnology related businesses; and (b) strategic support to enhance the Group's operations, broaden its business scope and facilitate its recovery efforts.

Given that (i) the Proposal is the outcome of the Company's consideration of alternatives including bank loans, share placements, convertible bond issuances and debt restructuring and the Company's distressed financial position and lack of sufficient collateral have made these options impracticable; (ii) Subscriber A emerged as the investor who is prepared to provide immediate capital support and the negotiations led to the formulation of the Proposal, comprising the proposed Subscriptions, Rights Issue and Placing, which the Board considers to be a necessary and strategic financial restructuring to address both the Group's liquidity needs and long-term business sustainability; and (iii) based on our independent review on the Group's current financial status, including the liquidity pressure and funding needs of the Group, as well as the limitations of the other financing alternatives, we concur with the Directors that the Proposal, including the Subscriptions, is an appropriate fund-raising method for the Group and is in the interests of the Company and the Shareholders as a whole.

5. THE SUBSCRIPTIONS

On 30 April 2025 (after trading hours), the Company entered into three Subscription Agreements in relation to the issue and subscription of a total of 700,000,000 new Shares at the Subscription Price with major terms as follows:

Date: 30 April 2025

Parties and number of the Subscription Shares

Subscription Agreements	Parties		Number of the Subscription Shares	Consideration *HK$*
Subscription Agreement A	(i) (ii)	the Company (as issuer); and Subscriber A (as subscriber)	500,000,000	50,000,000
Subscription Agreement B	(i) (ii)	the Company (as issuer); and Subscriber B (as subscriber)	100,000,000	10,000,000
Subscription Agreement C	(i) (ii)	the Company (as issuer); and Subscriber C (as subscriber)	100,000,000	10,000,000
			700,000,000	70,000,000

Subscriber A is wholly owned by Mr. Ying. Mr. Ying was interested in 16,211,900 Shares as at the Latest Practicable Date and was a former non-executive Director. Subscriber B is wholly owned by Ms. Ying who is a daughter of Mr. Ying. Subscriber A was an investment holding company and held other investment as at the Latest Practicable Date. Subscriber B was also an investment holding company and save for the entering into of the Subscription Agreement B, Subscriber B did not have other existing business as at the Latest Practicable Date. Subscriber C is an acquaintance of Mr. Ying. Mr. Ying acquainted with Subscriber C about six years ago in a seminar for the arbitration industry, where both Mr. Ying and Subscriber C, who has been an arbitrator at the China International Economic and Trade Arbitration Commission Shanghai Sub-Commission since 2016, were participants of the said seminar. Mr. Ying confirms that he has no business relationship with Subscriber C up to the Latest Practicable Date. Subscriber C is interested and participated in the Subscriptions, viewing the Subscriptions as a suitable investment opportunity. Subscriber A, Subscriber B, and Subscriber C are acting in concert in respect of the voting rights of the Company.

As at the Latest Practicable Date, Subscriber A, Subscriber B and their respective ultimate beneficial owners together with Subscriber C, were (i) third parties independent of the Company and its connected persons; and (ii) third parties independent of and not acting in concert with any of the Underwriter, Mr. Zhang and parties acting in concert with any of them.

Subscription Shares

Pursuant to the Subscription Agreements, the Company has conditionally agreed to allot and issue, and the Subscribers have conditionally agreed to subscribe for, an aggregate of 700,000,000 Subscription Shares at the Subscription Price of HK$0.1 per Subscription Share. The Subscription Shares will be allotted and issued under the Specific Mandate which will be sought from the Independent Shareholders at the SGM.

The Subscription Shares, when issued, will be issued fully paid up, free from all liens, charges, encumbrances, security interests and claims of third parties of whatsoever nature, and will rank *pari passu* and carry the same rights and privileges in all respects among themselves and with the Shares then in issue, including the right to receive all dividends and other distributions declared, paid or made thereon the record date of which falls on or after the date of issue. For the avoidance of doubt, the Subscription Shares will not be entitled to the Rights Issue.

Assuming there being no other change in the issued share capital of the Company from the Latest Practicable Date and up to completion of the Subscription Completion (other than the issue of the Subscription Shares and the Rights Shares), the total number of 700,000,000 Subscription Shares represent (i) approximately 142.4% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 52.3% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares and the Rights Shares immediately upon completion of the Subscriptions and the Rights Issue. The respective number of Subscription Shares to be issued to Subscriber A, Subscriber B and Subscriber C represent approximately 37.3%, 7.5% and 7.5% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares and the Rights Shares immediately upon completion of the Subscriptions and the Rights Issue on the basis there being no other change in the issued share capital of the Company from the Latest Practicable Date and up to completion of the Subscriptions and the Rights Issue (other than the issue of the Subscription Shares and the Rights Shares). For the shareholding structure of the Company immediately upon the completion of the Subscriptions and the Rights Issue (other than the issue of the Subscription Shares and the Rights Shares), please refer to the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Letter from the Board.

Subscription Price

The Subscription Price of HK$0.1 per Subscription Share represents:

(i) a discount of approximately 28.6% to the closing Share price of HK$0.140 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 37.1% to the average closing Share price of approximately HK$0.159 per Share as quoted on the Stock Exchange for the last six consecutive trading days immediately preceding the Last Trading Day;

(iii) a discount of approximately 41.9% to the average closing Share price of approximately HK$0.172 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the Last Trading Day;

(iv) a discount of approximately 51.5% to the average closing Share price of approximately HK$0.206 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days immediately preceding the Last Trading Day;

(v) a discount of approximately 71.0% to the closing price of HK$0.345 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

(vi) a premium of approximately 12.4% over the net asset value attributable to the Shareholders of approximately HK$0.089 per Share based on the unaudited net asset value attributable to the Shareholders of approximately HK$43.9 million as at 30 September 2024 set out in interim report of the Company for the six months ended 30 September 2024 and 491,644,763 total issued Shares as at 30 September 2024.

As set out in the Annual Report 2024/25, the Company recorded net liabilities attributable to owners of the Company of approximately HK$7.7 million as at 31 March 2025. Hence no comparison of value against the Subscription Price has been made in this connection.

The Subscriptions and the Rights Issue will result in a maximum theoretical dilution effect of 23.6%. The Company considers that the Subscriptions offer an opportunity to introduce Subscriber A to be a new controlling Shareholder, which is expected to bring (i) access to broad business network in the healthcare sector in the PRC given the network, track record and experience of Mr. Ying, who owns Subscriber A, in investing in across various sectors, including healthcare, medical and biotechnology related businesses through his role at Dinghui Baifu, being a PRC asset manager established for more than 10 years with an asset under management of over RMB70 billion as set out in its website; and (ii) strategic support to enhance the Group's operations, broaden its business scope and facilitate its recovery efforts.

The Group has recorded consecutive losses for six financial years ended 31 March 2025. The persistent losses significantly weakened the financial position of the Group. The Share price has been, in general, on a downward trend from 1 January 2024 to the Last Trading Day which may be contributed by, among other things, (i) the historical financial performance of the Group with persistent losses and deteriorating operational performance; and (ii) a legal claim by Capital Foresight against the Company for US$4 million, details of which set out in the announcements of the Company dated 28 September 2016, 3 October 2016, 30 March 2017, 8 November 2017, 21 December 2023 and 21 October 2024. Considering the Group's financial distress and uncertainty as well as the downward trend of the Share price, the Subscribers sought for a discount to reflect the risks associated with subscribing for new Shares in a distressed environment, and the Directors considered it fair and reasonable. As set out in the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and the Subscribers with reference to, among others, (i) the Group's financial position and historical loss-making financial performance; (ii) the then market prices of the Shares with a downward trend as abovementioned and market conditions; (iii) the net asset value per Share; and (iv) the potential strategic contributions of Subscriber A to the Group.

Conditions precedent

Details of the conditions precedent of the Subscription Agreements are set out in the Letter from the Board under the section headed "The SUBSCRIPTIONS". It is also noted that save for the conditions precedent applicable to each of the Subscription Agreements as set out in the Letter from the Board, completion of the Subscription Agreement A is also conditional on each of the Underwriting Agreement and the Placing Agent Agreement having become unconditional and not terminated pursuant to the terms thereof. This additional condition precedent cannot be waived by the parties to the Subscription Agreement A.

As for each of the Subscription Agreement B and Subscription Agreement C, save for the conditions precedent applicable to each of the Subscription Agreements as set out in the Letter from the Board, completion of each of the Subscription Agreement B and the Subscription Agreement C is also conditional on each of the Subscription Agreement A, the Underwriting Agreement and the Placing Agent Agreement having been entered into by the parties thereby and the transactions contemplated thereunder having become unconditional and not terminated pursuant to the terms thereof. This additional condition precedent cannot be waived by the relevant parties to the Subscription Agreement B and the Subscription Agreement C. For the avoidance of doubt, the Subscription Agreement B and the Subscription Agreement C are not inter-conditional to each other.

None of the conditions precedent had been fulfilled or waived (as the case may be) on the Latest Practicable Date.

Completion

Each of the completion of the Subscription Agreement A, the Subscription Agreement B and the Subscription Agreement C shall take place on the fifth Business Day upon the satisfaction and waiver (as the case may be) of all respective conditions precedent to each of the Subscription Agreement A, the Subscription Agreement B and the Subscription Agreement C or such other date as the Company, Subscriber A, Subscriber B and Subscriber C (as the case may be) may agree in writing.

Pursuant to the Subscription Agreements, the Subscription Shares shall be allotted and issued simultaneously with that of the Rights Shares.

It is stipulated in the Subscription Agreement B and the Subscription Agreement C that in the event that Subscriber A fails to complete in respect of the Subscription Agreement A, the respective obligations of the Company, Subscriber B and Subscriber C (as the case may be) to proceed with the completion of each of the Subscription Agreement B and the Subscription Agreement C shall immediately cease.

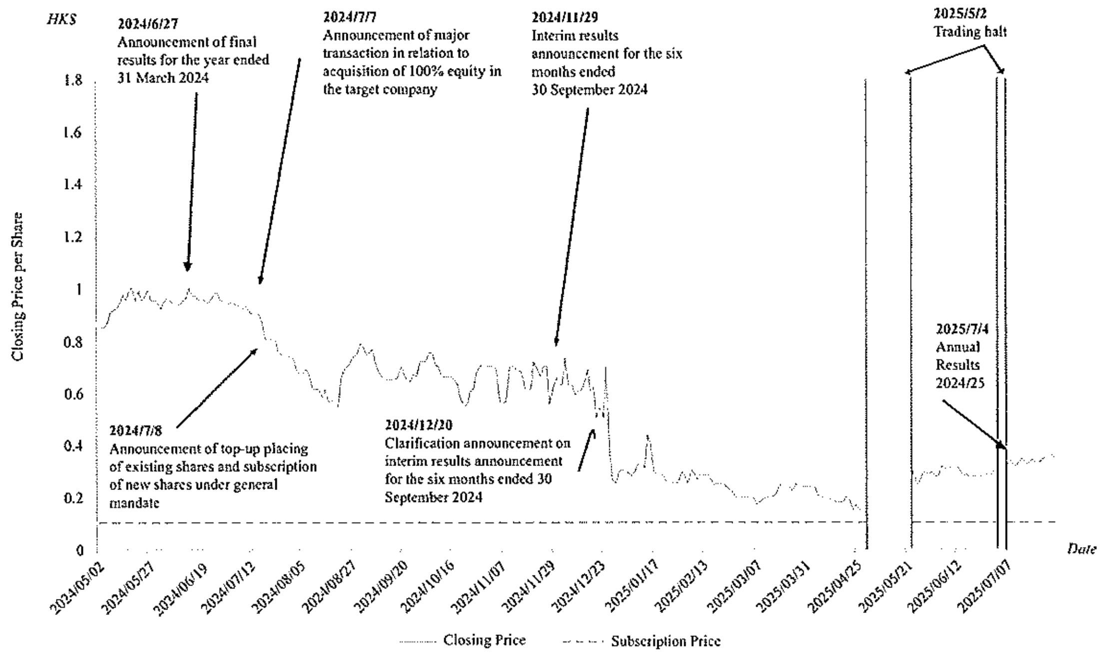
6. ANALYSIS OF THE SUBSCRIPTION PRICE

With reference to the Letter from the Board, the Subscription Price was determined after arm's length negotiations between the Company and the Subscribers, among others, with reference to the then market price of the Shares and the recent market conditions. To assess the fairness and reasonableness of the Subscription Price, we conducted the following analysis:

(i) Analysis on historical Share price performance

To assess the fairness and reasonableness of the Subscription Price, we have reviewed the movements in the closing price per Share during the period from 1 May 2025, being 12 months immediately preceding the date of the Subscription Agreements, up to and including the Latest Practicable Date (the "**Review Period**"), which is a commonly adopted timeframe for similar share price analysis. We consider that a period of 12 months is adequate and long enough to illustrate the recent price movements and covered the seasonal factors of the Shares for conducting a reasonable comparison between the Subscription Price and the closing price of the Shares for assessing the fairness and reasonableness of the Subscription Price.

Share price chart during the Review Period



Source: www.hkex.com.hk

As illustrated in the above chart, the closing price per Share ranged from HK$0.14 (30 April 2025) and HK$1.00 (20 May 2024) during the Review Period. Since the commencement of the Review Period, the closing price per Share has largely demonstrated a general downward trend.

For information purposes only, the Group recorded a decrease in revenue of approximately 27.5% and losses of over HK$40 million for FY2024 according to the annual results announcement published in or around June 2024, i.e. towards the beginning of the Review Period. Subsequently, the interim results announcement was published by the Company in late November 2024, which set out that the revenue of the Group for the six months ended 30 September 2024 decreased by approximately 33.9% with the loss for the subject six months period further deteriorated. Such financial results coupled with an overall thin trading volume of the Shares as analysed under section headed "(ii) Historical trading liquidity of Shares" had coincided with the general downward trend during the Review Period.

More recently, the closing price per Share on the trading day immediately following the publication of the interim results announcement (i.e. 2 December 2024) was HK$0.66. The interim results announcement for the six months ended 30 September 2024 set out that the Group's revenue decreased to approximately HK$18.7 million and loss for the period attributable to owners of the Company increased to approximately HK$17.9 million. It is noted that the closing price per Share of HK$0.66 on 2 December 2024 decreased to the closing price per Share of HK$0.14 on the Last Trading Day.

Furthermore, we noted that the closing price per Share surged after the publication of the Announcement from HK$0.140 on the Last Trading Day to HK$0.295 on 23 May 2025, being the trading day immediately following the date of the Announcement, representing an increase of approximately 110.7%. We have discussed with the Management and the Company has confirmed that, save for the information as set out in the Announcement, they are not aware of any information which may cause the notable increase in Share price. As such, the increase in Share price after the publication of the Announcement may be attributable to the market reaction to the transactions as set out in the Announcement, including the Subscriptions and the Rights Issue.

The closing price per Share on the trading day immediately following the publication of the Annual Results 2024/25 (i.e. 7 July 2025) was HK$0.325. The Annual Results 2024/25 set out that the Group's revenue decreased to approximately HK$38.9 million and loss for the year attributable to owners of the Company increased to approximately HK$67.8 million for the year ended 31 March 2025. It is noted that the closing price per Share of HK$0.140 on the Last Trading Day increased to the closing price per Share of HK$0.325 on 7 July 2025. We have discussed with the Management and the Company has confirmed that, save for the information as set out in the announcement of the Company dated 3 July 2025 regarding the Settlement Deed and the change in intended use of proceeds and the Annual Results 2024/25 dated 4 July 2025, they are not aware of any information which may cause the notable increase in Share price.

Although the Subscription price was lower than the closing price per Share during the Review Period, we considered that the Subscription Price should be evaluated together with the factors including the latest published financial position and historical loss-making financial performance of the Group, the reasons and benefits of the Subscriptions.

(ii) Historical trading liquidity of Shares

We have reviewed the historical trading volume of the Shares during the Review Period. The number of days with trading, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares during the Review Period are shown in the table below.

Month/period	Number of trading days	Average daily number of Shares traded per trading days in the month/period	% of average daily number of Shares traded to the total number of Shares in issue (Note 1)
2024			
May	21	3,812,279	0.80%
June	19	3,787,200	0.79%
July	22	2,958,730	0.60%
August	22	843,700	0.17%
September	19	1,183,320	0.24%
October	21	677,226	0.14%
November	21	1,071,446	0.22%
December	20	1,986,217	0.40%

2025			
January	19	1,675,058	0.34%
February	20	1,202,791	0.24%
March	21	538,390	0.11%
April	19	326,453	0.07%
May *(Note 2)*	6	12,471,720	2.54%
June	21	941,719	0.19%
July *(up to and including the Latest Practicable Date)*	16	1,113,620	0.23%
Average			0.47%
Maximum			2.54%
Minimum			0.07%

Source: www.hkex.com.hk

Notes:

(1) *Calculated based on the total number of the Shares in issue at the end of month/period, where applicable.*

(2) *Trading of Shares was suspended on 2 May 2025 and trading of Shares was resumed on 23 May 2025, representing 14 trading days.*

As set out in the table above, during the Review Period, the percentage of average daily trading volume of the Shares by month/period were in the range of approximately 0.07% to approximately 2.54%, with an average of approximately 0.47% as to the total number of issued Shares.

During the period before the trading of Shares suspended on 2 May 2025, the above statistics indicated that the trading liquidity of the Shares has been low in the open market and the percentage in average daily number of Shares traded to the total number of Shares in issue showing a downward trend from approximately 0.80% in May 2024 to approximately 0.07% in April 2025. Therefore, it is unlikely for the Company to be able to raise fund by issuing new Shares without discount. Although the Subscription Price represents a discount to the closing price of HK$0.140 per Share as quoted on the Stock Exchange on the Last Trading Day, the Subscription Price represents a premium to the net asset value attributable to the Shareholders. On this basis and having considered the financial performance and financial conditions of the Group as analysed under the section headed "1. INFORMATION OF THE GROUP" in this letter, we are of the view that the discount to the closing price of the Shares as represented by the Subscription Price is fair and reasonable.

We noted that the average daily trading volume of the Shares by month increased significantly from approximately 0.07% in April 2025 to approximately 2.54% in May 2025. Such increase was mainly driven by the notably higher trading volume after the publication of the Announcement. In this connection, we have discussed with the Management and the Company has confirmed that, save for the information as set out in the Announcement, they are not aware of any information which may cause the notable increase in trading volume of the Shares in May 2025. As such, the increase in the trading volume of the Shares after the publication of the Announcement may be attributable to the market reaction to the transactions as set out in the Announcement, including the Subscriptions and the Rights Issue.

(iii) Trading multiple analysis of P/S Ratio and P/B Ratio

With a view to supplementing the above work performed and analysis, we have also conducted analysis on the trading multiples of the Company to further support our findings on the fairness and reasonableness of the Subscription Price. In this connection, we have considered (a) the implied price-to-earnings ratio (the "**P/E Ratio**"); and (b) the implied price-to-book ratio (the "**P/B Ratio**") of the Company, as calculated based on the Subscription Price. However, as the Group recorded a loss attributable to its owners for the year ended 31 March 2024 and 2025, P/E Ratio analysis is therefore not applicable. On this basis, as an alternative analysis to the P/E Ratio analysis and with a view to providing more tailored analysis for loss making companies, we have included the price-to-sales ratio (the "**P/S Ratio**"), being a valuation benchmark for loss-making companies, as part of our analysis.

In this connection, having considered the principal businesses of the Group, namely (a) medical equipment and consumables distribution and service business; and (b) hospital operation and management services business, which together represent its core revenue streams, and the market capitalisation of the Company as at the Last Trading Day, we have set the following criteria to select comparable companies for the purpose of our analysis, namely (a) shares of the companies being listed and traded on the main board of the Stock Exchange (the "**Main Board**") as at the date of the Announcement, excluding those with suspended trading; (b) to avoid unduly distortions to the P/S Ratio given its sensitivity to the revenue size, revenue of the selected listed companies should not be more than HK$300 million given the Group's revenue was in the region of HK$60 million and HK$40 million for the years ended 31 March 2024 and 2025, respectively, so as to ensure sample is representative and relevant; (c) over 50% of the selected listed companies' revenue for their most recent financial year shall be generated from the sales of medical equipment and/or consumables and/or the provision of hospital operations and/or medical services; and (d) based on the closing share price on the Last Trading Day, the market capitalisation of the selected listed companies shall not be more than HK$200 million, compared with the Company's implied market capitalisation (the "**Implied Market Capitalisation**") of approximately HK$49.2 million, calculated based on the Subscription Price of HK$0.10 and the number of issued Shares as at the Latest Practicable Date (i.e. 491,644,763 Shares) (together the "**Comparable Companies Criteria**"). We have conducted our market comparables analysis using the Implied Market Capitalisation, calculated based on the Subscription Price of HK$0.10. This analysis enables us to evaluate the fairness and reasonableness of the Subscription Price by comparing the P/B Ratio and the P/S Ratio of the Company under the Implied Market Capitalisation against those of the Trading Multiple Comparable Companies (defined hereinafter). The reasons for adopting P/B Ratio and P/S Ratio as valuation benchmarks are set out in the first paragraph under this sub-section headed "(iii) Trading multiple analysis of P/S Ratio and P/B Ratio" above.

Based on the aforesaid Comparable Companies Criteria and our searches conducted on a best effort basis on the website of the Stock Exchange, we have identified two companies (the "**Trading Multiple Comparable Company(ies)**"), which meet our Comparable Companies Criteria and they are exhaustive. Although no discount rate was applied as a result of the difference in the principal business and the market capitalisation, as all of the Trading Multiple Comparable Companies derived a majority of its revenue, i.e. over 50%, from the sales of medical equipment and/or consumables, provision of hospital operations and/or medical services for its latest completed financial year, which operated broadly under a similar industry, thus the Trading Multiple Comparable Companies shared many similarities and are considered to be appropriate for comparison purposes. On this basis, we considered the Trading Multiple Comparable Companies to be an appropriate benchmark for the purpose of evaluating and assessing the reasonableness of the implied P/S Ratio and implied P/B Ratio under the Subscriptions.

The financial information available as at the Last Trading Day was used to calculate the subject P/B Ratios and P/S Ratios for comparison purposes in the table below as the Subscription Price was determined with reference to the then available financial information of the Company as at the Last Trading Day. To ensure consistency, the same benchmark, i.e. the Last Trading Day, was adopting for calculating the P/B Ratio and P/S Ratio for the Trading Multiple Comparable Companies. Nonetheless, it is noted that the Group recorded net liabilities attributable to its owners as at 31 March 2025, in contrast to equity attributable to its owners as at 30 September 2024. In addition, the Group recorded a lower revenue for the year ended 31 March 2025 (the "**FY24/25 Revenue**") as compared to the year ended 31 March 2024. This further supports the fairness and reasonableness of the Subscription Price as the P/S Ratio would have been even higher had the FY24/25 Revenue been used in the calculation. The deterioration in the Group's consolidated financial position as at 31 March 2025, together with its FY2025 financial performance, also demonstrated the genuine funding needs of the Group. It also showed the importance of the net proceeds from Subscription Agreements and the Rights Issue, the intended use of which is set out under the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHT ISSUES AND USE OF PROCEEDS" in this letter.

Set out below are the P/S Ratio and P/B Ratio of the Trading Multiple Comparable Companies:

Company name (Stock code)	Principal business	Market capitalisation as at the date of Subscription Agreement	Revenue from the respective latest financial year	P/S Ratio on the Last Trading Day *(Note 1)*	P/B Ratio on the Last Trading Day *(Note 2)*
		Approximately (HK$' million)	*Approximately (HK$' million)*	*Approximately (times)*	*Approximately (times)*
Raily Aesthetic Medicine International Holdings Limited ("**Raily Aesthetic Medicine**") (2135)	Provision of aesthetic medical services, sale of aesthetic medical equipment products and provision of consulting services	64.1	213.3 (approximately 99.9% from the provision of medical services and sales of medical products)	0.30	0.57
Wanjia Group Holdings Limited ("**Wanjia**") (401)	Principally engage in business on pharmaceutical wholesale and distribution business, and hemodialysis treatment and consultancy service business in the PRC	39.8	181.1 (100% from the provision of medical services and pharmaceutical wholesale)	0.22	0.52
Average				0.26	0.55
The Company (based on the Subscription Price)		49.2		0.82 *(Note 3)*	1.12 *(Note 4)*

Source: The website of Stock Exchange.

Note 1. The P/S Ratio of the Trading Multiple Comparable Companies on the Last Trading Day were calculated as their closing price as quoted on the Stock Exchange as at the Last Trading Day divided by their revenue per share which were calculated based on the then latest published revenue for the year as at the Last Trading Day and the total issued shares of the company as at the Last Trading Day.

Note 2. The P/B Ratio of the Trading Multiple Comparable Companies on the Last Trading Day were calculated as their closing prices as quoted on the Stock Exchange as at the Last Trading Day divided by their net asset value per share which were calculated based on the then latest published net assets attributable to owners of the company as at the Last Trading Day and the total issued shares of the company as at the Last Trading Day.

Note 3. The implied P/S Ratio of the Company was calculated as the Subscription Price divided by its revenue per Share which were calculated based on the then latest published revenue for the year available as at the Last Trading Day (i.e. the year ended 31 March 2024) and the total issued Shares as at the Last Trading Date.

Note 4. The implied P/B Ratio of the Company was calculated as the Subscription Price divided by its net asset value per Share which were calculated based on the then latest published net assets attributable to owners of the company available as at the Last Trading Day (i.e. as at 30 September 2024) and the total issued Shares as at the Last Trading Date.

Note 5. The exchange rate was based on HK$1.07 = RMB1.00.

We noticed from the above table that (a) the P/S Ratio of the Trading Multiple Comparable Companies was approximately 0.22 times (Wanjia) and 0.30 times (Raily Aesthetic Medicine), with an average of approximately 0.26 times (the "**Comparable P/S Ratio(s)**"); and (b) the P/B Ratio of the Trading Multiple Comparable Companies was approximately 0.52 times (Wanjia) and 0.57 times (Raily Aesthetic Medicine), with an average of approximately 0.55 times (the "**Comparable P/B Ratio(s)**"). Although only two Trading Multiple Comparable Companies have been identified, both were selected based on and satisfied the Comparable Companies Criteria, which has been set with relevance to the characteristics of the Group. Given that the Trading Multiple Comparable Companies represent an exhaustive list of comparable companies listed on the Main Board that meet the selection criteria, we are of the view that the Trading Multiple Comparable Companies are fair and representative for the purpose of our analysis.

Based on our analysis above, in particular, (a) the Subscription Price of HK$0.10 represents an implied P/S Ratio of approximately 0.82 times, which is higher than the P/S Ratio of Wanjia of approximately 0.22 times and the P/S Ratio of Raily Aesthetic Medicine of approximately 0.30 times; and (b) the implied P/B Ratio under the Subscriptions of approximately 1.12 times is higher than the P/B Ratio of Wanjia of approximately 0.52 times and the P/B Ratio of Raily Aesthetic Medicine of approximately 0.57 times, supports that the Subscription Price, which is further analysed below, is fair and reasonable.

Having considered the following factors, namely:

(a) the imminent funding needs of the Group and restrictions of the alternative fund-raising methods as set out under the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHTS ISSUE AND USE OF PROCEEDS" as well as the latest published financial position and performance of the Group;

(b) the liquidity of the Shares was thin in the open market during the Review Period as analysed under the section headed "(ii) Historical trading liquidity of Shares" in this letter, which indicates limited trading activities and interests of the Shares;

(c) the implied P/S Ratio is higher than both of the Comparable P/S Ratios, being approximately 0.22 times (Wanjia) and approximately 0.30 times (Raily Aesthetic Medicine) and the implied P/B Ratio is also higher than both of the Comparable P/B Ratios, being approximately 0.52 times (Wanjia) and approximately 0.57 times (Raily Aesthetic Medicine), please refer to the section headed "(iii) Trading multiple analysis of P/S Ratio and P/B Ratio" in this letter above for further details;

(d) there is no other suitable financing alternatives and fund raising alternatives practicably available as discussed under the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHT ISSUES AND USE OF PROCEEDS" in this letter;

(e) the Rights Issue provides the Independent Shareholders with the rights but not the obligation to participate in the fundraising exercise, at the Issue Price, being the same price as the Subscription Price, which partially alleviates the dilutive effect of the Subscriptions on the Qualifying Shareholders; and

(f) the Group has recorded net losses for six consecutive financial years ended 31 March 2025, approximately HK$35.8 million for the year ended 31 March 2020, approximately HK$6.6 million for the year ended 31 March 2021, HK$9.1 million for the year ended 31 March 2022, HK$39.6 million for the year ended 31 March 2023, HK$42.5 million for the year ended 31 March 2024 and HK$67.8 million for the year ended 31 March 2025,

we are of the view that the Subscription Price is fair and reasonable and the discount on the Subscription Price to the prevailing market value of the Shares is fair and reasonable.

(iv) Our view on the Subscription Price

Although the Subscription price represents a discount to the closing Share price as quoted on the Stock Exchange on the Last Trading Day and the Latest Practicable Date respectively, as detailed under the section under "5. THE SUBSCRIPTIONS – Subscription Price" in this letter (together, the "**Subscription Price Discounts**"), having considered the factors as set out below (the "**Subscription Price Factors**"):

(a) our work and analysis as set out under the section headed "4. OUR ANALYSIS ON THE GROUP'S FINANCING NEEDS AND FINANCING ALTERNATIVES" in this letter, in particular, (aa) the net debt position of the Group as at 31 March 2025; (bb) the Group's net cash used in operating activities of approximately HK$6.8 million for the year ended 31 March 2025, translating into an average monthly operating cash outflow of approximately HK$0.6 million (the "**Monthly Operating Cash Outflow**"); (cc) the Group's cash and bank balances amounted to approximately HK$1.0 million as at 31 March 2025, representing only approximately 1.7 times the Monthly Operating Cash Outflow; (dd) the outstanding Judgment Debt of US$4 million (equivalent to approximately HK$31.2 million), which remained unpaid following the Court of Appeal's ruling; (ee) the Settlement Note of HK$12.0 million; and (ff) the Disclaimer of Opinion for the consolidated financial statements of the Company for FY2025.

Thus, the Group is facing liquidity pressure and has genuine funding needs. The estimated net proceeds of approximately HK$80.9 million from the Subscriptions and the Rights Issue are intended to be applied in the manner as set out under the section headed "USE OF PROCEEDS" in the Letter from the Board;

(b) our analysis on the financing alternatives, including the feasibility of additional bank borrowings, equity fundraising and restructuring plans, considered by the Management, but were assessed to be unfeasible and the reasons thereof;

(c) Subscriber A emerged as the investor who is prepared to provide immediate capital support and the negotiations led to the formulation of the Proposal, comprising the proposed Subscriptions, Rights Issue and Placing, which the Board considers to be a necessary and strategic financial restructuring to address both the Group's liquidity needs and long-term business sustainability;

(d) the Subscribers are the only potential investors who are willing to subscribe for the Subscription Shares at the Subscription Price and is acceptable to the Proposal, which involves the Rights Issue, which provides the Qualifying Shareholders with an opportunity to participate in the fundraising exercise at the same Subscription Price as the Subscribers;

(e) the Group has recorded net losses for six consecutive financial years ended 31 March 2020, 2021, 2022, 2023, 2024 and 2025;

(f) the implied P/S Ratio under the Subscriptions is higher than both of the Comparable P/S Ratios, being approximately 0.22 times (Wanjia) and approximately 0.30 times (Raily Aesthetic Medicine);

(g) the implied P/B Ratio under the Subscriptions is higher than both of the Comparable P/B Ratios, being approximately 0.52 times (Wanjia) and approximately 0.57 times (Raily Aesthetic Medicine);

(h) the Group intends to utilise over 95% of net proceeds from the Subscriptions and the Rights Issue, representing approximately HK$77.3 million, for the settlement of the Group's liabilities, including the Judgement Debt, the Settlement Note, loans and overdue salaries and professional fees, with the remaining net proceeds intended for the working capital of the Group; and

(i) the Subscription Price was determined after arm's length negotiations between the Company and the Subscribers with reference to the factors as set out in the Letter from the Board,

we are of the view that the Subscriptions are in the interests of the Company and the Independent Shareholders as a whole and that the Subscription Price is fair and reasonable.

7. PROPOSED RIGHTS ISSUE, THE PLACING AGENT AGREEMENT AND THE UNDERWRITING AGREEMENT

The Company proposes to implement the Rights Issue on the basis of three (3) Rights Shares for every ten (10) Shares held by the Qualifying Shareholders on the Record Date at the Issue Price of HK$0.1 per Rights Share.

(i) Background information of the Rights Issue

The principal terms of the Rights Issue are set out below:

Basis of the Rights Issue:	Three (3) Rights Shares for every ten (10) Shares held by the Qualifying Shareholders at the close of business on the Record Date
Issue Price:	HK$0.1 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	491,644,763 Shares
Maximum number of Rights Shares to be issued pursuant to the Rights Issue:	149,848,428 Rights Shares (assuming that 7,850,000 new Shares are issued on or before the Record Date pursuant to the full exercise of all outstanding exercisable Share Options not subject to the Optionholders' Undertakings, but otherwise no other Shares are issued or repurchased on or before the Record Date)
Minimum number of Rights Shares to be issued pursuant to the Rights Issue:	147,493,428 Rights Shares (assuming there being no new issue or repurchase of Shares on or before the Record Date)
Maximum enlarged issued share capital upon completion of the Subscription and the Rights Issue:	1,349,343,191 Shares (assuming 7,850,000 new Shares are issued on or before the Record Date pursuant to the full exercise of all outstanding exercisable Share Options not subject to the Optionholders' Undertakings, but otherwise no other Shares are issued or repurchased immediately before the completion of the Subscriptions and the Rights Issue)
Minimum enlarged issued share capital upon completion of the Subscriptions and Rights Issue:	1,339,138,191 Shares (assuming no new Shares are issued or repurchased immediately on or before the completion of the Subscriptions and the Rights Issue)

The Rights Issue and the Underwriting Agreement are subject to conditions precedent including, among others, each of the Subscription Agreement A and the Placing Agent Agreement having become unconditional and not terminated pursuant to the terms thereof. Further details of the conditions precedent of the Rights Issue and the Underwriting Agreement are set out in the paragraph headed in the paragraph headed "Conditions of the Rights Issue and the Underwriting Agreement" in the section headed "The Underwriting Agreement" in the Letter from the Board.

As at the Latest Practicable Date, there were outstanding Share Options carrying the right to subscribe for a total number of 19,050,000 new Shares at an exercise price of HK$1.8 per Share (subject to adjustments), of which 6,850,000 Share Options exercisable from 27 April 2020 to 25 April 2029 (both dates inclusive) and 12,200,000 Share Options exercisable from 21 October 2020 to 20 October 2030 (both dates inclusive) granted and exercisable under the Share Option Scheme. Save for the foregoing, there are no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into the Shares.

As at the Latest Practicable Date, the Undertaken Optionholders held the Share Options which entitle them to subscribe for an aggregate of 11,200,000 new Shares. The Undertaken Optionholders have executed the Optionholders' Undertakings in favour of the Company and the Underwriter in respect of the Share Options entitling them to subscribe for a total of 11,200,000 new Shares, pursuant to which each of them has irrevocably undertaken not to exercise any of the Share Options which have been granted to each of them from the date of the Optionholders' Undertakings until the Record Date (both dates inclusive).

Assuming 7,850,000 new Shares are issued on or before the Record Date pursuant to the full exercise of all outstanding exercisable Share Options not subject to the Optionholders' Undertakings, but otherwise no other Shares are issued or are repurchased on or before the Record Date, the maximum number of 149,848,428 Rights Shares represents approximately 30.5% of the total number of the existing issued Shares of 491,644,763 as at the Latest Practicable Date and approximately 11.1% of the issued Shares as enlarged by the allotment and issue of all the Subscription Shares and the Rights Shares immediately upon completion of the Subscriptions and the Rights Issue.

The Issue Price for the Rights Issue represents a discount of approximately 23.7% to the theoretical ex-rights price of approximately HK$0.131 based on the closing Share price of HK$0.140 per Share as quoted on the Stock Exchange on the Last Trading Day. Assuming no new Shares are issued and no Shares are repurchased on or before the Record Date, the minimum number of 147,493,428 Rights Shares represents 30.0% of the total number of the existing issued Shares as at the Latest Practicable Date and approximately 11.0% of the total number of the issued Shares as enlarged by the allotment and issue of the Subscription Shares and the Rights Shares immediately upon completion of the Subscriptions and the Rights Issue.

The Issue Price

The Issue Price of HK$0.1 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, and, where applicable, when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Issue Price for the Rights Issue was determined by the Company with reference to the Subscription Price paid by the Subscribers for the Subscription Shares. The equal pricing for Rights Issue can ensure that the Qualifying Shareholders can participate at the same price as the Subscribers. This helps partially alleviate the dilutive effect of the Subscriptions on the Qualifying Shareholders. On this basis, the Directors consider the Issue Price for the Rights Issue to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. Details of our analysis of the Subscription Price, please refer to the section headed "6. ANALYSIS OF THE SUBSCRIPTION PRICE" in this letter.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank *pari passu* in all respects with the Shares then in issue, including the right to receive all dividends and distributions which may be declared, made or paid with a record date which falls on or after the date of allotment of the Rights Shares in their fully-paid form.

Deed of Covenants and Undertaking

As at the Latest Practicable Date, Mr. Zhang was interested in an aggregate of 137,299,400 Shares (representing approximately 27.9% of the entire issued share capital of the Company as at the Latest Practicable Date), of which 1,307,400 Shares were held by him and 135,992,000 Shares were held by the Underwriter, a company wholly owned by him.

Pursuant to the Deed of Covenants and Undertaking,

(a) Mr. Zhang unconditionally and irrevocably undertakes to the Company, (aa) to subscribe for 392,220 Rights Shares which represent the full amount of provisional entitlements in respect of the 1,307,400 Shares beneficially held by Mr. Zhang; (bb) to procure subscription for 40,797,600 Rights Shares which represent the full amount of provisional entitlements in respect of the 135,992,000 Shares beneficially held by the Underwriter; (cc) not to and will procure the Underwriter not to dispose of, or agree to dispose of, any of the 1,307,400 Shares and 135,992,000 Shares owned by Mr. Zhang and the Underwriter, respectively, and such Shares will remain beneficially owned by Mr. Zhang and the Underwriter, respectively, up to and including the Record Date; and (dd) to and to procure the Underwriter to lodge or procure the subscription of the 392,220 Rights Shares and 40,797,600 Rights Shares, respectively, which will be the number of Rights Shares provisionally allotted (on nil-paid basis) to Mr. Zhang and the Underwriter, respectively, under the Rights Issue, with the Registrar.

(b) the Underwriter unconditionally and irrevocably undertakes to the Company: (aa) to subscribe for the full amount of provisional entitlements in respect of the 135,992,000 Shares beneficially held by the Underwriter; (bb) not to dispose of, or agree to dispose of, any of the 135,992,000 Shares owned by the Underwriter, and such Shares will remain beneficially owned by the Underwriter, respectively, up to and including the Record Date; and (cc) to lodge the subscription of the 40,797,600 Rights Shares, which will be the number of Rights Shares provisionally allotted (on nil-paid basis) to the Underwriter, under the Rights Issue, with the Registrar.

Save for the Deed of Covenants and Undertaking, the Company had not received any information or irrevocable undertaking from any other Shareholder of his/her/its intention in relation to the Rights Shares (in both nil-paid and fully-paid forms) to be provisionally allotted to him/her/it under the Rights Issue as at the Latest Practicable Date.

For further details of the terms and conditions of the Rights Issue, please refer to the paragraph headed "PROPOSED RIGHTS ISSUE" in the Letter from the Board.

Having considered that (a) our work and analysis as set out under the section headed "4. OUR ANALYSIS ON THE GROUP'S FINANCING NEEDS AND FINANCING ALTERNATIVES" in this letter, including the net debt position, the Monthly Operating Cash Outflow and the cash position of the Group as at 31 March 2025 and the Judgment Debt, demonstrating the fact that the Group is facing liquidity pressure and has genuine funding needs; (b) the Issue Price for the Rights Issue was determined with reference to the Subscription Price paid by the Subscribers for the Subscription Shares, which offers the equal pricing for Rights Issue to ensure that the Qualifying Shareholders can participate at the same price as the Subscribers which helps partially alleviate the dilutive effect of the Subscriptions on the Qualifying Shareholders; and (c) the our work and analysis on the Trading Multiple Comparable Companies which supports our view that the Subscription Price, being equivalent to the Issue Price, is fair and reasonable; (d) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and that the Qualifying Shareholders have their choice of whether to accept the Rights Issue or not; and (e) the inherent dilutive nature of rights issue in general if the existing Shareholders do not subscribe in full for their assured entitlements, the Directors consider and we concur that the Issue Price for the Rights Issue to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(ii) The Placing Agent Agreement

On 30 April 2025 (after trading hours), the Company and the Placing Agent, being independent third party of and not acting in concert with the Underwriter, the Subscribers and their respective parties acting in concert with any of them, entered into the Placing Agent Agreement, pursuant to which the Placing Agent has agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares.

Date:	30 April 2025 (after trading hours) and as supplemented by an amendment deed dated on 22 May 2025
Placing agent:	Great Bay Securities Limited was appointed as the placing agent to place, or procure the placing of, a maximum of 108,658,608 Unsubscribed Rights Shares, on a best effort basis, to the Placee(s). The Placing Agent was interested in 804,000 Shares as at the Latest Practicable Date, representing approximately 0.16% of the total number of existing issued Shares. It acted as overall coordinator and placing agent for a top-up placing of the Company under general mandate in July 2024, details of which are set out in the announcements of the Company dated 8 July 2024 and 17 July 2024. The Placing Agent has confirmed that it is an independent third party of and not acting in concert with the Underwriter, the Subscribers and their respective parties acting in concert with them.
Placing commission payable to the Placing Agent:	2% of the gross proceeds from successful placements of Unsubscribed Rights Shares.
Placing price of the Unsubscribed Rights Shares:	The placing price of the Unsubscribed Rights Shares shall be not less than the Issue Price. The final price will be determined based on the demand for and market conditions of the Unsubscribed Rights Shares during the Placing.

The terms of the Placing Agent Agreement (including the placing commission) were determined after arm's length negotiation between the Placing Agent and the Company with reference to the size of the Rights Issue and the then market rate of commission and are on normal commercial terms and the Directors consider that the terms of the Placing Agent Agreement are fair and reasonable. Given that the Compensatory Arrangements would provide a compensatory mechanism for the No Action Shareholders, the Directors consider that the Compensatory Arrangements are in the interests of the Independent Shareholders.

For further details of the terms and conditions of the Placing Agent Agreement, including the information on the Placees, ranking of the Unsubscribed Rights Shares, Placing conditions and period, please refer to the paragraph headed "THE PLACING AGENT AGREEMENT" in the Letter from the Board. As the Placing Agent is a Shareholder and the Placing Agent Agreement was not extended to all other Shareholders, the Placing Agent Agreement and the transactions contemplated thereunder constitute a special deal under Rule 25 of the Takeovers Code, and are subject to (i) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll; and (ii) the consent of the Executive. Further details regarding the implications of the Takeovers Code are set out in the section headed "TAKEOVERS CODE IMPLICATIONS, APPLICATION FOR WHITEWASH WAIVER AND SPECIAL DEALS" in the Letter from the Board.

Our analysis on the Placing Agent Agreement

As set out in the Letter from the Board, pursuant to the Compensatory Arrangements, the Company will process arrangements to dispose of the Unsubscribed Rights Shares by offering the Unsubscribed Rights Shares to the Placees for the benefit of the relevant No Action Shareholders to whom they were offered under the Rights Issue and the Non-Qualifying Shareholders. Pursuant to the Placing Agent Agreement, a Placing commission of 2% of the gross proceeds from successful placements of Unsubscribed Rights Shares shall be payable by the Company to the Placing Agent.

In this connection, we have conducted market research on placing agent agreements entered into under the subject rights issue as part of the compensatory arrangements pursuant to the Listing Rule 7.21(b), conducted by other Main Board listed companies, the date of the subject announcement falls within the three months period immediately prior the Latest Practicable Date (the "**Placing Criteria**"). Based on the Placing Criteria, we have identified an exhaustive sample of eight rights issue with placing as part of the compensatory arrangements ("**Placing Comparable Companies**"), details of which are set out below:

Date of announcement	Company name (Stock Code)	Basis of entitlement	Rights issue price *(HK$)*	Gross proceeds raised *(HK$' million)*	Available compensatory arrangements under Listing Rule 7.21(1)(2) provided to the shareholders	Placing commission	Underwriter is a connected person to the Company	Theoretical dilution effect (%)
15 May 2025	Zhongzheng International Company Limited *(943)*	1 for 2	0.20	114.6	Placing and Underwriting	2.0% of the gross proceeds from the successful placement of the unsubscribed rights shares	Yes	Nil *(Note 2)*
13 May 2025	Capital Realm Financial Holdings Group Limited *(204)*	3 for 1	1.00	155.7	Placing	3.0% of the gross proceeds from the successful placement of unsubscribed and unsold rights shares	N/A *(Note 1)*	No *(Note 2)*
9 May 2025	China Sci-Tech Industrial Investment Group Limited *(339)*	1 for 2	0.07	10.08	Placing	1.5% of the gross proceeds from the successful placement of unsubscribed and unsold rights shares	N/A *(Note 1)*	16.2

Date of announcement	Company name (Stock Code)	Basis of entitlement	Rights issue price *(HK$)*	Gross proceeds raised *(HK$' million)*	Available compensatory arrangements under Listing Rule 7.21(1)(2) provided to the shareholders	Placing commission	Underwriter is a connected person to the Company	Theoretical dilution effect (%)
7 May 2025	SEEC Media Group Limited *(205)*	1 for 2	0.11	40.5	Placing	(i) HK$100,000; or (ii) 3.0% of the gross proceeds from the successful placement of unsubscribed and unsold rights shares, whichever is higher	N/A *(Note 1)*	10.7
16 April 2025	Bonjour Holdings Limited *(653)*	3 for 1	0.08	107.5	Excess application and placing	2.0% of the gross proceeds from the successful placement of unsubscribed rights shares	N/A *(Note 1)*	20.95
7 March 2025	Volcano Spring International Holdings Limited *(1715)*	3 for 1	0.25	88.4	Placing	1.0% of the gross proceeds from the successful placement of unsubscribed rights shares	N/A *(Note 1)*	No *(Note 2)*
18 February 2025	China Baoli Technologies Holdings Limited *(164)*	4 for 1	0.40	202.5	Excess application and placing	1.0% of the gross proceeds from the successful placement of unsubscribed rights shares	N/A *(Note 1)*	No *(Note 2)*

Date of announcement	Company name (Stock Code)	Basis of entitlement	Rights issue price *(HK$)*	Gross proceeds raised *(HK$' million)*	Available compensatory arrangements under Listing Rule 7.21(1)(2) provided to the shareholders	Placing commission	Underwriter is a connected person to the Company	Theoretical dilution effect (%)
14 February 2025	Yues International Holdings Group Limited *(1529)*	4 for 1	0.13	69.4	Placing	(i) HK$100,000; or (ii) 1.0% of the gross proceeds from the successful placement of unsubscribed rights shares, whichever is higher	N/A *(Note 1)*	21.47
					Maximum	3.0%		
					Minimum	1.0%		
					Average	1.8%		
					Median	1.8%		
	The Company *(based on the Placing Agent Agreement)*	3 for 10				2.0%		

Source: The website of Stock Exchange

Note 1. The respective rights issue was conducted on a non-underwritten basis.

Note 2. Based on the announcement of the subject rights issue, the issue price under the subject rights issue was equivalent to or higher than the benchmark price, thus there are nil or no theoretical dilution effect.

As set out in the table above, we noted that the placing commission of the Placing Comparable Companies ranged from 1.0% to 3.0%, with both the average and median being approximately 1.8%. Pursuant to the terms of the Placing Agent Agreement, the Placing Agent shall be entitled to a commission fee equal to 2.0% of the gross proceeds from successful placements of Unsubscribed Rights Shares, such is within the range of the Placing Comparable Companies although higher than the average and median of the Placing Comparable Companies, being 1.8%, is considered to be aligned with the prevailing market practice. In view of (a) the Company is required to arrange arrangements to dispose of securities not subscribed by allottees under provisional letters of allotment or their renouncees by offering the securities to independent placees for the benefit of the persons to whom they were offered by way of rights (i.e. the Placing) as required by Rule 7.21(1)(b) of the Listing Rules; (b) the placing of the Unsubscribed Rights Shares by the Placing Agent, may be placed to independent placees under the Compensatory Arrangements, provides a distribution channel of the Unsubscribed Rights Shares for the Company and expand the Shareholders' base of the Company; (c) the No Action Shareholders could potentially benefit from the Net Gain arrangement; (d) the expenses of the Placing (i.e. the placing commission at 2%) payable by the Company under the Placing Agent Agreement is considered to be aligned with the prevailing market practice; (e) the Placing Agent is a corporation licensed to carry out Type 1 (dealing in securities) regulated activities under the SFO and the Placing will be supervised by the responsible officer(s) of the Placing Agent; (f) the Placing Agent is an independent third party of and not acting in concert with the Company, the Underwriter, the Subscribers and their respective parties acting in concert with any of them; and (g) the Placing Agent has been a licensed corporation under the SFO for more than 10 years and was successfully in completing a placement of Shares for the Company with net proceeds of approximately HK$9.8 million in 2024, please refer to the section headed "FUNDRAISING ACTIVITY OF THE COMPANY IN THE PAST 12 MONTHS" in the Letter from the Board for further details, the Directors are of the view and we concur that the terms of Placing Agent Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company as far as the Independent Shareholders are concerned.

(iii) The Underwriting Agreement

The Rights Shares (other than those agreed to be taken up by Mr. Zhang and the Underwriter pursuant to the Deed of Covenants and Undertaking) will be fully underwritten by the Underwriter in accordance with the terms of the Underwriting Agreement. The principal terms and conditions of the Underwriting Agreement are set out below:

Date:	30 April 2025 (after trading hours)
Underwriter:	The Underwriter is Treasure Wagon Limited, a substantial Shareholder interested in 135,992,000 Shares. The Underwriter is wholly owned by Mr. Zhang, the Chairman and an executive Director, who is directly interested in 1,307,400 Shares. As such, the Underwriter complies with Rule 7.19(1)(b) of the Listing Rules. The Underwriter is an investment holding company and does not engage in securities underwriting as part of its ordinary course of business.
Number of Rights Shares underwritten by the Underwriter:	Up to 108,658,608 Rights Shares, being the maximum number of Rights Shares (assuming 7,850,000 new Shares are issued on or before the Record Date pursuant to the full exercise of all outstanding exercisable Share Options not subject to the Optionholders' Undertakings, but otherwise no other Shares are issued or repurchased on or before the Record Date) and no less than 106,303,608 Rights Shares, being the minimum number of Rights Shares under the Rights Issue, and in both cases, excluding the Rights Shares undertaken to be taken up by Mr. Zhang and the Underwriter pursuant to the Deed of Covenants and Undertaking).
Underwriting Commission:	nil

Subject to the fulfilment and/or waiver (as the case may be) of the conditions precedent of the Underwriting Agreement and provided that the Underwriting Agreement is not terminated prior to the Latest Time for Termination in accordance with the terms of the Underwriting Agreement, the Underwriter has agreed to subscribe for the Untaken Rights Shares (being any Unsubscribed Rights Shares that are not successfully placed by the Placing Agent under the Placing Agent Agreement).

For further details of the terms and conditions of the Underwriting Agreement, please refer to the paragraph headed "THE UNDERWRITING AGREEMENT" in the Letter from the Board.

Our analysis on the Underwriting Agreement

As disclosed in the Letter from the Board, no underwriting commission is payable by the Company. However, the Underwriter has to pay for the Subscription Price per Share if the Underwriter takes up the Unsubscribed Rights Shares.

Having considered that the low liquidity of the Shares as mentioned under the section headed "6. ANALYSIS OF THE SUBSCRIPTION PRICE – (ii) Historical trading liquidity of Shares" and the deteriorating financial position of the Group as mentioned under the section headed "1. INFORMATION OF THE GROUP" in this letter, we are of the view that the Company is unlikely to obtain positive feedback from independent financial institutions in acting as an underwriter of the Company on fully-underwritten basis for the Rights Shares at the commission rate under the Underwriting Agreement.

Assuming that (a) there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Rights Shares; (b) no Share Options having been exercised prior to the closure date of register of members for determining entitlements to the Rights Issue; and (c) none of the Qualifying Shareholders (other than Mr. Zhang and the Underwriter who shall take up their respective entitlements) have taken up any entitlements of the Rights Share, (aa) the Subscribers and parties acting in concert with any of them, including Mr. Ying, will, in aggregate, be interested in approximately 53.49% of the issued share capital of the Company as enlarged by the issue of all the Subscription Shares and the Rights Shares; and (bb) Mr. Zhang together with his associates and concert parties (including the Underwriter) will be interested in approximately 21.26% of the issued share capital of the Company as enlarged by the issue of all the Subscription Shares and the Rights Shares.

As there will be no excess application arrangement in relation to the Rights Issue as stipulated under Rule 7.21(1)(a) of the Listing Rules, the Company has put in place the Compensatory Arrangements as required by Rule 7.21(1)(b) of the Listing Rules. Subject to the terms and conditions set out in the Underwriting Agreement, if and to the extent that at the Latest Placing Time, there shall be any Unsubscribed Rights Shares which have not been successfully placed out by the Placing Agent under the Compensatory Arrangements, then the Underwriter shall subscribe or procure subscription for a maximum of 108,658,608 Rights Shares pursuant to the allocations under the terms set out in the Underwriting Agreement and on the terms as set out in the Letter from the Board.

Having considered that (a) there was no underwriting commission to be charged by the Underwriter who will facilitate the fund-raising effort of the Company; (b) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and that the Qualifying Shareholders have their choice of whether to accept the Rights Issue or not; and (c) the inherent dilutive nature of rights issue in general if the existing Shareholders do not subscribe in full for their assured entitlements, we are of the view that the Issue Price for the Rights Issue to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

According to the Placing Agent Agreement, the Placing Agent has agreed to procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares. Unsubscribed Rights Shares will be placed by the Placing Agent to Independent Third Parties on a best effort basis. However, if the Placing Agent is unable to place all of the Unsubscribed Rights Shares, the Underwriter has agreed to subscribe for the Unsubscribed Rights Shares (being any Unsubscribed Rights Shares that are not placed by the Placing Agent under the Placing Agent Agreement).

(iv) Our view on the Special deals

As at the Latest Practicable Date, the Underwriter, wholly owned by Mr. Zhang, was a Shareholder interested in 135,992,000 Shares and Mr. Zhang is directly interested in 1,307,400 Shares. As the Underwriting Agreement was not extended to all other Shareholders, the Underwriting Agreement and the transactions contemplated thereunder constitute a special deal under Rule 25 of the Takeovers Code. As at the Latest Practicable Date, the Placing Agent was a Shareholder interested in 804,000 Shares. As the Placing Agent Agreement was not extended to all other Shareholders, the Placing Agent Agreement and the transactions contemplated thereunder also constitute a special deal under Rule 25 of the Takeovers Code.

The Special Deals are subject to the approval by more than 50% of the Independent Shareholders at the SGM by way of poll and require the consent of the Executive. Applications have been made by the Company to the Executive for consent under Rule 25 of the Takeovers Code in relation to the Special Deals.

Such consent of the Executive, if granted, will be subject to (a) the Independent Financial Adviser publicly stating that in its opinion the terms of the Special Deals are fair and reasonable; and (b) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Special Deals.

Having considered that (a) the imminent funding needs of the Group as discussed in the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHT ISSUES AND USE OF PROCEEDS" in this letter; (b) the Rights Issue represents an opportunity for the Qualifying Shareholders to participate in the fundraising exercise at the same Subscription Price as the Subscribers; (c) under the Compensatory Arrangements in accordance with the Listing Rules, the Placing Agent, being an independent third party of and not acting in concert with the Underwriter, the Subscribers and their respective parties acting in concert with them, shall procure Placee(s), on a best effort basis, to subscribe for the Unsubscribed Rights Shares and that the Underwriter has agreed to subscribe for the Untaken Rights Shares, being all the Unsubscribed Rights Shares that are not successfully placed by the Placing Agent, in accordance with the terms of the Underwriting Agreement regardless of the participation level from Qualifying Shareholders; (d) the Underwriter will only subscribe for the Unsubscribed Rights Shares (other than Mr. Zhang and the Underwriter who shall take up their respective entitlements) that the Placing Agent is unable to place, on a best effort basis, to the Placee(s); (e) the Company is unlikely to obtain positive feedback from independent financial institutions in acting as an underwriter of the Company on fully-underwritten basis for the Rights Shares at the commission rate under the Underwriting Agreement given the current financial position and performance as discussed in the section headed "1. INFORMATION OF THE GROUP" in this letter; and (f) our analysis on the terms of the Placing Agent Agreement and the Underwriting Agreement as set out under this section, we concur with the Directors' view that the terms of the Special Deals (i.e. the Placing Agent Agreement, the Underwriting Agreement and the transactions contemplated thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

8. EXPECTED FINANCIAL EFFECTS OF THE SUBSCRIPTIONS AND THE RIGHTS ISSUE

(i) Net asset value

As set out in the Annual Report 2024/25, the net liabilities attributable to the owners of the Company as at 31 March 2025 were approximately HK$7.7 million. As set out in the Letter from the Board, 700,000,000 Subscription Shares and 149,848,428 Rights Shares will be issued under the Subscription Agreements and the Rights Issue respectively, with gross proceeds expected to be approximately HK$84.7 million in aggregate. Immediately upon completion of the Subscriptions and Rights Issue, the asset backing of the Group is expected to improve notably, with net liabilities attributable to the owners of the Company of approximately HK$7.7 million being turned in to net assets attributable to the owners of the Company of approximately HK$73.2 million.

As set out in the unaudited pro forma financial information of the Group in Appendix II to the Circular, the consolidated net tangible liabilities per Share attributable to equity holders of the Company per Share as at 31 March 2025 would be improved from approximately HK4.37 cents to approximately HK$4.43 cents of net tangible assets per Share attributable to equity holders of the Company.

(ii) Current ratio

As set out in the Annual Report 2024/25, the Group had current assets of approximately HK$114.6 million and current liabilities of approximately HK$132.0 million as at 31 March 2025. On this basis, the current ratio of the Group (being the current assets divided by the current liabilities) as at 31 March 2025 was approximately 0.87 times. Immediately upon completion of the Subscriptions and Rights Issue but before the use of proceeds, only taking into account the effects of the Subscriptions and Rights Issue, the current assets of the Group are expected to increase by the net proceeds from the Subscription and the Rights Issue of approximately HK$80.9 million as set out in the Letter from the Board, to approximately HK$195.5 million, and hence the current ratio of the Group will improve to approximately 1.48 times.

(iii) Net debt position

According to the Annual Report 2024/25, the Company recorded net liabilities attributable to owners of the Company of approximately HK$7.7 million and a net debt position of approximately HK$35.6 million as at 31 March 2025, based on the Group's cash and bank balances of approximately HK$1.0 million less the aggregate amount of Judgement Debt and bank borrowings of approximately HK$36.6 million. Immediately upon completion of the Subscriptions and Rights Issue but before use of proceeds, only taking into account the effects of the Subscriptions and Rights Issue, based on (a) the net proceeds from the Subscription and Rights Issue (after deducting all fees, costs and expenses estimated to be incurred by the Company in connection with the Subscriptions and the Rights Issue), which are expected to be approximately HK$80.9 million in aggregate; and (b) the net debt position of approximately HK$35.6 million of the Group as at 31 March 2025, the Group will have net cash position of approximately HK$45.3 million.

Although the above analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be immediately upon the completion of the Subscriptions and the Rights Issue, it indicates that the Subscriptions and the Rights Issue would have a positive impact on the Group's net assets value, current ratio and net debt-to-equity ratio. On this basis, we are of the view that the Subscriptions are fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

9. EFFECTS ON THE SHAREHOLDING INTEREST OF THE PUBLIC SHAREHOLDERS

With reference to the shareholding table in the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" of the Letter from the Board, the shareholding interests of the other public Shareholders would be diluted by a maximum of approximately 43.13 percentage points, from approximately 68.16% to approximately 25.03%, immediately after completion of the Subscriptions and the Rights Issue, assuming none of the Qualifying Shareholders (other than Mr. Zhang and the Underwriter who shall take up their respective entitlements) have taken up any entitlements of the Rights Shares and all the Untaken Rights Shares are fully placed to the Placees or taken up by the Underwriter. Having considered the reasons and benefits of the Subscriptions as set out in the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHT ISSUES AND USE OF PROCEEDS" in this letter:

(i) there are imminent funding needs of the Group as the Group's cash and bank balances amounted to approximately HK$1.0 million as at 31 March 2025, which was considered not sufficient to (a) settle the outstanding principal amount of the bank borrowing of approximately HK$5.4 million as at 31 March 2025 and the Judgment Debt of US$4 million (equivalent to approximately HK$31.2 million); and (b) satisfy the funding needs under the liquidity pressure of the Group as evidenced by the net cash outflow used in operating activities of the Group of approximately HK$6.8 million for the year ended 31 March 2025, please refer to the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHTS ISSUE AND USE OF PROCEEDS" in this letter for further details;

(ii) not less than 80% of the net proceeds from the Subscriptions and the Rights Issue is set aside by the Group for the settlement of its payables and the remaining of such net proceeds is set aside by the Group for its working capital;

(iii) the Subscriptions will strengthen the capital base of the Company by improving its debts position, thus enhancing its financial position and supporting the development of the Group's business without incurring additional interest expenses;

(iv) the Group's liabilities and finance costs will be reduced after repaying the liabilities of the Group with the net proceeds of the Subscriptions and Rights Issue;

(v) the benefits of the Subscriptions and Rights Issue (details of which are set out under the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHTS ISSUE AND USE OF PROCEEDS" in this letter); and

(vi) the Subscription Price is fair and reasonable, details of which are set out under the section headed "6. ANALYSIS OF THE SUBSCRIPTION PRICE" in this letter, we are of the view that the aforesaid dilution effects are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

10. APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, Mr. Ying was directly interested in 16,211,900 Shares, representing approximately 3.30% of the issued share capital of the Company. Save as disclosed above, none of the Subscribers or parties acting in concert with any of them were interested in any Shares as at the Latest Practicable Date. Accordingly, Mr. Ying, Subscriber A, Subscriber B, Subscriber C and parties acting in concert with any of them were interested in 16,211,900 Shares representing approximately 3.30% of the issued share capital of the Company as at the Latest Practicable Date. Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Rights Shares, the Subscribers and parties acting in concert with any of them (including Mr. Ying) will, in aggregate, be interested in approximately 53.08% (assuming all Share Options not subject to the Optionholders' Undertakings having been exercised before the closure date of register of members for determining entitlements to the Rights Issue) or 53.49% (assuming no Share Options having been exercised prior to the closure date of register of members for determining entitlements to the Rights Issue) of the issued share capital of the Company as enlarged by the issue of all the Subscription Shares and the Rights Shares.

Accordingly, the Subscribers will be required to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities not already owned or agreed to be acquired by them and parties acting in concert with any of them, unless the Whitewash Waiver is granted.

An application has been made by Subscriber A 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 independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Subscription Agreements and the transactions contemplated thereunder. Mr. Zhang was involved in the negotiation of the Subscriptions. The Subscribers, the Underwriter, the Placing Agent and their respective parties acting in concert with any of them (including Mr. Ying and Mr. Zhang respectively) are required to abstain from voting on the relevant resolution(s) in respect of the Subscription Agreements, the Special Deals (i.e. the Underwriting Agreement and the Placing Agent Agreement) and the transactions contemplated thereunder as well as the Whitewash Waiver at the SGM.

The Subscriptions are conditional on, among others, each of the Underwriting Agreement and the Placing Agent Agreement becoming unconditional, the granting of the Whitewash Waiver by the Executive and the approval by the Independent Shareholders at the SGM. The Subscription Agreement A having become unconditional is one of conditions precedent for each of the Subscription Agreement B and the Subscription Agreement C. The Underwriting Agreement and the Placing Agent Agreement (i.e. the Special Deals) are conditional on, among others, the Subscription Agreement A having become unconditional, the consent of the Executive and the approval of the Independent Shareholders at the SGM. If the Whitewash Waiver or consent for the Special Deals is not granted by the Executive or approvals by the Independent Shareholders of the Whitewash Waiver or the Special Deals are not obtained, the Group's capital raising plan by way of the Subscriptions and the Rights Issue will not proceed.

Having considered that (i) the reasons for and benefits of the Subscriptions set out in the section headed "3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE RIGHTS ISSUE AND USE OF PROCEEDS" in this letter and that the Subscriptions are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) that the terms of the Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

As set out in this letter above and having considered the factors, in particular:

(i) our work and analysis as set out under the section headed "4. OUR ANALYSIS ON THE GROUP'S FINANCING NEEDS AND FINANCING ALTERNATIVES" in this letter, including the net debt position, the Monthly Operating Cash Outflow, the cash position of the Group as at 31 March 2025 and the Judgment Debt, demonstrating the fact that the Group is facing liquidity pressure and has genuine funding needs. The aggregate net proceeds from the Subscriptions and the Rights Issue of approximately HK$80.9 million are intended to be applied as follows: (a) approximately HK$65.3 million for the settlement of payables of the Group; (b) approximately HK$12 million for the repayment of principal amount of the Settlement Note; and (c) approximately HK$3.6 million for working capital purpose, including payment of daily operating expenses (including staff costs and rental expenses) and settlement of the amount due to suppliers. Further details are set out under the section headed "USE OF PROCEEDS" in the Letter from the Board;

(ii) our analysis on the financing alternatives, including additional bank borrowings, equity fundraising and restructuring plans, considered by the Management, but were assessed to be unfeasible and the reasons thereof;

(iii) the Subscribers are the only potential investors who are willing to subscribe for the Subscription Shares at the Subscription Price and is acceptable to the Proposal, which involves the Rights Issue, which provides the Qualifying Shareholders with an opportunity to participate in the fundraising exercise at the same Subscription Price as the Subscribers;

(iv) our work and analysis on the Trading Multiple Comparable Companies, including our comparison and analysis on the P/S Ratio and the P/B Ratio under the Subscriptions and that of the Trading Multiple Comparable Companies, which we found that (a) the implied P/B Ratio under the Subscriptions to be higher than both of the Comparable P/B Ratios, being approximately 0.52 times (Wanjia) and approximately 0.57 times (Raily Aesthetic Medicine), respectively; and (b) the implied P/S Ratio under the Subscriptions to be higher than both of the Comparable P/S Ratios, being approximately 0.22 times (Wanjia) and approximately 0.30 times (Raily Aesthetic Medicine), respectively; and (c) the Subscription Price is considered fair and reasonable;

(v) the Subscription Price of the Subscriptions is fair and reasonable as discussed in the section headed "6. ANALYSIS OF THE SUBSCRIPTION PRICE" above;

(vi) the possible dilution effects of the Subscriptions are fair and reasonable as discussed in the section headed "9. EFFECT ON THE SHAREHOLDING INTEREST OF THE PUBLIC SHAREHOLDERS" above;

(vii) the analysis on the fairness and reasonableness of the Whitewash Waiver as discussed in the section headed "10. APPLICATION FOR WHITEWASH WAIVER" above;

(viii) the terms of the Subscription Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Subscriptions are in the interests of the Company and the Independent Shareholders as a whole, although the Subscription is not in the ordinary and usual course of business of the Group; and

(ix) the terms of the Placing Agent Agreement and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Placing Agent Agreement and the Underwriting Agreement, both being part of the Rights Issue, are in the interests of the Company and the Independent Shareholders as a whole, we are of the opinion that (i) although the Subscription Agreements, the Underwriting Agreement and the Placing Agent Agreement were not entered into in the ordinary and usual course of business of the Group; (ii) the Subscription Agreements, the Underwriting Agreement, the Placing Agent Agreement and the respective transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; (iii) the approval of the Whitewash Waiver and the Special Deals, which is a prerequisite for the completion of the Subscriptions, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (iv) the Subscription Agreements, the Underwriting Agreement and the Placing Agent Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions on the Subscription Agreements, the Special Deals (i.e. the Underwriting Agreement and the Placing Agent Agreement) and the Whitewash Waiver to be proposed at the SGM.

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

Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 18 years of experience in the corporate finance industry.

* *for identification purposes only*