

19 July 2024

*To: The independent board committees and the independent shareholders
of Sinopharm Tech Holdings Limited*

Dear Sir/Madam,

**(1) CAPITAL REORGANISATION;
(2) CONNECTED TRANSACTIONS: LOAN CAPITALISATION
INVOLVING ISSUE OF ORDINARY SHARES AND
CONVERTIBLE PREFERENCE SHARES
UNDER CONNECTED SPECIFIC MANDATE;
AND
(3) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in respect of (i) the Capital Reorganisation; (ii) the IAM Loan Capitalisation; (iii) the Quantum Loan Capitalisation (together with the IAM Loan Capitalisation, the “**Connected Loan Capitalisation**”); (iv) the grant of the Connected Specific Mandate; and (v) the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 19 July 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Board proposes to implement the Capital Reorganisation, involving (i) the Capital Reduction of the par value of each issued Share from HK\$0.3125 to HK\$0.0125 by cancelling the paid up share capital to the extent of HK\$0.3 per Share and the total credit arising from the Capital Reduction will be applied towards setting off the accumulated losses of the Company upon the Capital Reduction

becoming effective; and (ii) the Share Sub-division of each authorised but unissued Shares into twenty-five (25) authorised but unissued New Shares with a par value of HK\$0.0125 each immediately following the Capital Reduction becoming effective.

On 14 June 2024 (after trading hours of the Stock Exchange), the Company (as issuer) entered into:

- (a) the IAM Loan Capitalisation Agreement with IAM (as subscriber), pursuant to which the Company conditionally agreed to allot and issue, and IAM conditionally agreed to subscribe for, (i) 300,000,000 IAM Shares at HK\$0.1 per Ordinary Share, the same of which shall be satisfied by offsetting HK\$30,000,000 of the IAM Debt; and (ii) 932,541,460 IAM CPSs at HK\$0.1 per CPS, the same of which shall be satisfied by offsetting the remaining balance of the IAM Debt of approximately HK\$93,254,146; and
- (b) the Quantum Loan Capitalisation Agreement with Quantum (as subscriber), pursuant to which the Company conditionally agreed to allot and issue, and Quantum conditionally agreed to subscribe for 150,000,000 Quantum Shares at HK\$0.1 per Ordinary Share, the same of which shall be satisfied by offsetting the full amount of the Quantum Debt.

Each of the IAM Loan Capitalisation and the Quantum Loan Capitalisation is conditional on the Capital Reorganisation becoming effective. Completion of the IAM Loan Capitalisation Agreement and the Quantum Loan Capitalisation Agreement are inter-conditional with each other. Upon completion of Connected Loan Capitalisation, the IAM Debt and the Quantum Debt (collectively, the “**Connected Debts**”) shall be deemed to have been fully repaid and the Company shall be released from its obligations under the respective Connected Debts.

On 14 June 2024 (after trading hours of the Stock Exchange), the Company and Creative Big entered into the Creative Big Loan Capitalisation Agreement, pursuant to which the Company conditionally agreed to allot and issue, and Creative Big conditionally agreed to subscribe for 547,609,590 Creative Big CPSs at HK\$0.1 per CPS, the same of which shall be satisfied by offsetting the full amount of the Creative Big Debt. Upon completion of the Creative Big Loan Capitalisation, the Creative Big Debt shall be deemed to have been fully repaid and the Company shall be released from its obligations under the Creative Big Debt. Creative Big Loan Capitalisation is conditional on the Capital Reorganisation becoming effective. Completion of the Creative Big Loan Capitalisation Agreement is not inter-conditional with the IAM Loan Capitalisation Agreement and the Quantum Loan Capitalisation Agreement. Nevertheless, all three agreements are expected to be completed simultaneously.

With reference to the Board Letter:

- The Connected Loan Capitalisation constitute connected transactions of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.
- As at the Latest Practicable Date, IAM was interested in 21,694,520 Ordinary Shares, representing approximately 11.8% of the issued share capital of the Company. Immediately after completion of the Capital Reorganisation and the issue of Connected Shares, the aggregate shareholding of IAM and parties acting in concert with it (including Mr. Yam Tak Cheung and Quantum) in the Company will be increased from 11.8% to 74.4%. Under Rule 26.1 of the Takeovers Code, the allotment and issue of Connected Shares to IAM and Quantum will give rise to an obligation on IAM to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by IAM and its concert parties), unless the Whitewash Waiver is granted by the Executive.
- An application has been made 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, will be subject to, among other things, (a) the approval by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy at the EGM by way of poll in respect of the Whitewash Waiver; and (b) the approval by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy at the EGM by way of poll in respect of the Capital Reorganisation, the IAM Loan Capitalisation and the Quantum Loan Capitalisation, in which IAM and its concert parties will abstain from voting on the relevant resolutions.

The LR Independent Board Committee comprising Mr. LAU Fai Lawrence, Mr. HSU Dong An and Mr. HEUNG Pik Lun (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Capital Reorganisation and the Connected Loan Capitalisation (including the Connected Specific Mandate) are on normal commercial terms and are fair and reasonable; (ii) whether the Capital Reorganisation and the Connected Loan Capitalisation (including the Connected Specific Mandate) are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Capital Reorganisation, the Connected Loan Capitalisation and the Connected Specific Mandate.

The Code Independent Board Committee comprising Dr. CHENG Yanjie, Mr. LAU Fai Lawrence, Mr. HSU Dong An and Mr. HEUNG Pik Lun (all being non-executive directors) has been formed to advise the Independent Shareholders on (i) whether the Capital Reorganisation, the Connected Loan Capitalisation (including the Connected Specific Mandate) and the Whitewash Waiver are fair and reasonable to the Shareholders as

a whole; and (ii) how the Independent Shareholders should vote in respect of the Capital Reorganisation, the Connected Loan Capitalisation, the Connected Specific Mandate and the Whitewash Waiver.

We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital acted as independent financial adviser in respect of a connected transaction of the Company as set out in the Company's circular dated 21 October 2022. Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders.

Having considered the above and that (i) none of the circumstances as set out under Rule 17.96 of the GEM Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial advisory engagement and would not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the LR Independent Board Committee, the Code Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Capital Reorganisation, the Connected Loan Capitalisation (including the grant of the Connected Specific Mandate) and the Whitewash Waiver. We consider that we have taken sufficient

and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed “1. RESPONSIBILITY STATEMENT” of Appendix II to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, IAM, Quantum, or their respective subsidiaries or associates (where applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Capital Reorganisation, the Connected Loan Capitalisation (including the Connected Specific Mandate) and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any Shares or any securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Capital Reorganisation, the Connected Loan Capitalisation (including the Connected Specific Mandate) and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

I. Background of the Capital Reorganisation, the Connected Loan Capitalisation and the Connected Specific Mandate

Information on the Group

With reference to the Board Letter, the principal activities of the Group are the provision of “Internet Plus” services (supply chain). As advised by the Directors, such services mainly relate to product supply chain services involving e-commerce platforms operators.

Financial performance

Set out below are the consolidated financial performance of the Group for the two years ended 30 June 2023 and for the six months ended 31 December 2023 (“1H2023/24”) (with comparative figures) as extracted from the Company’s annual report for the year ended 30 June 2023 (“2022/23 Annual Report”) and the Company’s interim report for 1H2023/24 (“2023/24 Interim Report”) respectively:

	For six months ended 31 December 2023 HK\$'000 (unaudited)	For six months ended 31 December 2022 HK\$'000 (unaudited)	Year-on-year change %	For the year ended 30 June 2023 HK\$'000 (audited)	For the year ended 30 June 2022 HK\$'000 (audited)	Year-on-year change %
Revenue	18,844	15,025	25.42	42,839	40,985	4.52
— Lottery-related services	Nil	Nil	N/A	Nil	1,841	N/A
— “Internet Plus” services (solution)	Nil	Nil	N/A	Nil	362	N/A
— “Internet Plus” services (supply chain)	18,844	10,825	74.08	37,077	29,670	24.96
— Manufacturing and distribution of personal protective equipment	Nil	4,200	N/A	5,762	9,112	(36.76)
Other income and gains	2,120 (Note 1)	28,003 (Note 2)	(92.43)	106,849 (Note 3)	39,350 (Note 4)	171.53
Profit/(loss) for the year/period	(2,239)	15,769	N/A	(10,100)	(93,771)	(89.23)

Notes:

- Including gain on disposal of subsidiaries, interest income and others.
- Including compensation income from sales of locked-up Consideration Shares (as defined below), government subsidies, gain on settlement of amount due to a director, gain on settlement of amount due to a related party, loss on dilution of interests in associates, interest income and others.
- Including interest income, gain on settlement of amount due to a director, government subsidies, compensation income relating to Profit Guarantee (as defined below) and others.
- Including interest income, write-off of consideration payable for acquisition of subsidiaries, write back of other payables, gain on disposal of property, plant and equipment, gain on disposal of subsidiaries, gain on settlement of amount due to a director, gain on settlement of amount due to a related party, government subsidies and others.

Comparison of FY2022/23 against FY2021/22

As depicted from the above table, the Group’s revenue for the year ended 30 June 2023 (“FY2022/23”) was approximately HK\$42.8 million, representing an increase of approximately 4.52% as compared to that for the year ended 30 June 2022 (“FY2021/22”). With reference to the 2022/23 Annual Report and as confirmed by the Directors, (i) the Group’s revenue from “Internet Plus” supply chain business for FY2021/22 mainly derived from the supply of

quarantine-related products (including surgical masks, anti-viral oral drugs targeted at COVID-19 and testing kits for COVID-19); and (ii) the increase in revenue from “Internet Plus” supply chain business for FY2022/23 was mainly a result of the co-operation agreement entered between the Group and a big health products supplier for rendering “Internet Plus” supply chain services regarding the supply of healthcare products through the PRC and Hong Kong district in the post-pandemic era.

With reference to the 2022/23 Annual Report and as advised by the Directors:

- The Group was not able to secure any new contracts for its lottery-related business during FY2022/23. The Group fulfilled its obligation under the existing contracts during FY2021/22 and did not generate revenue from provision of lottery-related services since FY2022/23.
- The Group conducted trial runs of its anti-counterfeiting solution business (categorised as the Group’s “Internet Plus” solution services) during FY2021/22 and attempted to secure a major contract with PRC government authority for this business. Nevertheless, due to resignation of Mr. Liao Zhe (the then executive director and chief operating officer of the Company who was fully responsible for the Group’s anti-counterfeiting solution business) in September 2022 and that the Group failed to secure the aforesaid major contract, the Group ceased its anti-counterfeiting solution business and did not generate revenue from provision of “Internet Plus” solution services since FY2022/23.
- Revenue from the Group’s personal protective equipment business for FY2022/23 decreased compared to that for FY2021/22 as market demand for personal protective equipment decreased due to receding impact of pandemic and good progress in resumption of social activities.

The Group’s loss for FY2022/23 decreased from approximately HK\$93.8 million for FY2021/22 to approximately HK\$10.1 million for FY2022/23, representing a decrease of approximately 89.23%. With reference to the 2022/23 Annual Report, such decrease was mainly due to the combined effect of (i) recognition of compensation income relating to profit guarantee of approximately HK\$92.8 million; (ii) the Group’s strengthened efforts in cost control which resulted in less administrative and operating expenses; (iii) increase in net impairment loss on compensation income receivables; and (iv) recognition of loss on deemed disposal of associate as a result of capital contribution made by other shareholders of the associate (which led to dilution of the Group’s shareholding in this associate).

With reference to the 2022/23 Annual Report and as advised by the Directors:

- (i) On 4 January 2019, a wholly-owned subsidiary of the Company, as purchaser (the “**Purchaser**”), entered into a sale and purchase agreement (the “**SPA**”) with a vendor (the “**Vendor**”) in relation to acquisition of 100% equity interest in Hero Global Holdings Limited (the “**Target Company**”), for a consideration of HK\$139.10 million, which was satisfied by allotment and issue of 650,000,000 Shares (the “**Consideration Shares**”) by the Company to the Vendor. Completion of the aforesaid acquisition took place on 6 May 2019 and the Target Company became a wholly-owned subsidiary of the Company.
- (ii) The Vendor provided profit guarantee to the Purchaser in respect of the Target Company (the “**Profit Guarantee**”). The Consideration Shares, upon allotment and issue, are subject to lock-up arrangement and shall be released from the lock-up arrangement upon satisfaction of the Profit Guarantee. In the event that the Vendor fails to compensate the Purchaser in accordance with the SPA (in respect of the Profit Guarantee), the Purchaser shall have the right to sell the locked-up Consideration Shares in return for such compensation amount in cash.
- (iii) As the Target Company failed to meet the guaranteed profit, on 23 May 2022, the Purchaser and the Vendor signed a confirmation letter and mutually agreed on the amount of the compensation to be approximately HK\$92.8 million.
- (iv) As the Vendor failed to settle the aforesaid compensation, the Purchaser exercised its right to sell the locked-up Consideration Shares. During FY2022/23, 530,200,000 locked-up Consideration Shares were sold by the Company in return for the compensation of approximately HK\$16.4 million. As at 30 June 2023, market value of the then remaining locked-up Consideration Shares was approximately HK\$1.7 million, and thus an impairment loss of approximately HK\$74.8 million was recognised in relation to the compensation income receivables.

Comparison of 1H2023/24 against 1H2022/23

The Group’s revenue for 1H2023/24 was approximately HK\$18.8 million, representing an increase of approximately 25.42% as compared to that for the six months ended 31 December 2022 (“**1H2022/23**”); while the Group’s revenue from the provision of “Internet Plus” supply chain services under the “Internet Plus” business for 1H2023/24 increased by approximately 74.08% as compared to that for 1H2022/23. As advised by the Directors, such increase was mainly attributable to the expansion of the Group’s “Internet Plus” supply chain business to the distribution of Chinese patent medicines and healthcare products in the PRC. With reference to the 2023/24 Interim Report and as confirmed by the Directors, the Group did not generate revenue from its personal protective equipment

business for 1H2023/24 and the Group reallocated its resources to exit from such business and increased its investment in “Internet Plus” supply chain services for the healthcare industry.

Despite the aforesaid increase in the Group’s revenue, the Group recorded loss of approximately HK\$2.2 million for 1H2023/24, as opposed to profit of approximately HK\$15.8 million for 1H2022/23. With reference to the 2023/24 Interim Report, such turnaround was primarily due to significant reduction in other income and gains due to absence of (a) one-off compensation income from sales of locked-up Consideration Shares; and (b) one-off gain on settlement of loans by shares issuance, for 1H2023/24, as partially offset by decrease in administrative and operating expenses.

Financial position and prospects

Set out below are the consolidated financial position of the Group as at 30 June 2022, 30 June 2023 and 31 December 2023, as extracted from the 2022/23 Annual Report and the 2023/24 Interim Report:

	As at 31 December 2023 HK\$'000 (unaudited)	As at 30 June 2023 HK\$'000 (audited)	As at 30 June 2022 HK\$'000 (audited)
Bank balances and cash	8,505	1,776	2,991
Net current liabilities	(192,037)	(186,191)	(202,205)
Net liabilities	(182,509)	(179,754)	(173,397)

As depicted from the above table, the Group recorded net current liabilities and net liabilities as at 30 June 2022, 30 June 2023 and 31 December 2023. As at 31 December 2023, the Group’s net current liabilities and net liabilities were approximately HK\$192.0 million and HK\$182.5 million respectively.

With reference to the 2023/24 Interim Report, the Group will continue focus on the “Internet Plus” supply chain business in the future. Leveraging on its experience and know-how in “Internet Plus” supply chain services and its cooperative relationships with various platform operators, the Group will expand its scope of “Internet Plus” services, including strengthening the depth of co-operation with various platform operators. The Group will also continue to explore other opportunities for the development of its “Internet Plus” business, including joint ventures with various industry players for “Internet Plus” solutions, to jointly develop possibilities for the application of “Internet Plus” technologies in various fields, thereby opening up new development opportunities for the Group.

With reference to the Board Letter, the Group continued to accelerate its deployment in the healthcare industry. Through the PRC Subsidiary in Jiangxi Province, the PRC Subsidiary is principally engaged in sourcing and sales of Chinese patent medicines to hospitals through distributors. The PRC Subsidiary has a team of personnel stationed in Jiangxi Province, the PRC and they are responsible for managing sales transactions with customers and conducted frequent visits to understand the latest demand of Chinese patent medicines. As healthcare industry chain is the Group's key focus area of development, the Group intends to cooperate with various categories of customers and pharmaceutical manufacturers and expand the existing product lines of medicines in order to effectively accelerate the business development of the PRC Subsidiary.

We also discussed with the Directors regarding the business development of the Group's "Internet Plus" supply chain business. We understood from the Directors that:

- (i) the Group is exploring various expansion opportunities for its "Internet Plus" supply chain business, including diversification of product offerings and co-operation with existing and potential platform operators;
- (ii) the Group also assessed possibility of expanding its "Internet Plus" supply chain business (a) to other geographical locations; and (b) through acquisitions of companies which engage in the same business; and
- (iii) the aforesaid business opportunities are still in preliminary stage and are expected to be materialised after completion of the Connected Loan Capitalisation and the Creative Big Loan Capitalisation where the Group's financial position would be significantly improved.

In light of the above, we consider the Group's financial positions had affected the possibility of business expansion of the Group and we concur with the Directors that the Group would be better prepared for various business opportunities after completion of the Connected Loan Capitalisation and the Creative Big Loan Capitalisation.

Auditor's opinion and going concern

With reference to the 2022/23 Annual Report, the Group's auditors expressed (i) qualified opinion on the Group's consolidated financial statements for FY2021/22 and FY2022/23; and (ii) that there was existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern.

According to the Hong Kong Standard on Auditing 705 (Revised) “Modifications to the Opinion in the Independent Auditor’s Report”, a qualified opinion is expressed by the auditor if the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. As stated in the independent auditor’s report contained in the Company’s annual report for each of FY2021/22 and FY2022/23, except for the possible effects of the matters described in the section headed “Basis of Qualified Opinion” of their independent auditor’s report (the extract of which are set out in Appendix I to the Circular), the Group’s consolidated financial statements give a true and fair view of the Group’s consolidated financial position as at 30 June 2022 and 2023, and the Group’s consolidated financial performance and consolidated cash flows for FY2021/22 and FY2022/23.

As noted from the section headed “Basis of Qualified Opinion” of the independent auditor’s report for FY2022/23, the matters which caused the Company’s auditor to express a qualified opinion only affects (i) the Group’s consolidated financial position as at 30 June 2022; and (ii) the Group’s consolidated financial performance for FY2022/23. Accordingly, the Directors advised us that the Group’s consolidated financial position as at 30 June 2023 is free from material misstatement.

Information on IAM and Quantum

With reference to the Board Letter, the subscribers of the Connected Loan Capitalisation (namely, IAM and Quantum) were BVI business companies incorporated with limited liability. IAM is a Hong Kong-based investment company primarily engaged in public and private equity investments, with expertise in telecommunications, finance and technology. Quantum is principally engaged in investment holding. As at the Latest Practicable Date, IAM was a substantial Shareholder. Both IAM and Quantum are wholly-owned by Mr. YAM Tak Cheung, a professional investor who has extensive experience in investment in securities. Both IAM and Quantum are connected persons of the Company under Chapter 20 of the GEM Listing Rules.

Reasons for the Capital Reorganisation and the Connected Loan Capitalisation

Connected Loan Capitalisation

With reference to the Board Letter, the Company recorded capital deficiency attributable to the equity holders of the Company of approximately HK\$176.3 million as at 31 December 2023, mainly including an amount due to IAM of approximately HK\$105.7 million and an amount due to Creative Big of approximately HK\$53.0 million. The amount due to IAM was related to the outstanding principal and interests of convertible bonds held by IAM which have matured on 17 January 2022. The amount due to Creative Big was related to the outstanding principal and interests of convertible bonds matured on 20 February 2023. During FY2022/23, the Group only generated net cash inflow of

approximately HK\$4.7 million from its operating activities and the Group had bank balances and cash of approximately HK\$1.8 million as at 30 June 2023, which was insufficient to repay the outstanding principal amounts due to IAM and Creative Big.

On 8 November 2023, the Company and Quantum entered into the Quantum Loan Agreement for the purpose of financing the general working capital of the Group. The Quantum Debt was originally scheduled for repayment of (i) HK\$10 million and the accrued interest on 7 May 2024; and (ii) HK\$5 million and the accrued interests on 31 July 2024. Having further considered the Group's net liabilities of approximately HK\$182.5 million as at 31 December 2023 and the net cash outflow from the operating activities of the Group of approximately HK\$1.3 million for 1H2023/24, the Directors are of the view that the Group is unlikely to have adequate resources to repay the Quantum Debt on its due dates. As such, the Company further negotiated with Quantum and IAM for the Quantum Loan Capitalisation and IAM Loan Capitalisation with a view to alleviate the cashflow pressure of the Group.

As aforementioned, with reference to the 2022/23 Annual Report, the Group's auditor expressed (i) a qualified opinion on the Group's consolidated financial statements for FY2022/23; and (ii) that there was existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern.

As advised by the Directors, in light of the aforesaid, the Group had formulated certain measures and arrangements, including, the Connected Loan Capitalisation and the Creative Big Loan Capitalisation.

We noted that the Connected Debts and the Creative Big Debt amounted to approximately HK\$193.0 million in aggregate. Based on the Group's financial position as at 31 December 2023 (i.e. net current liabilities of approximately HK\$192.0 million and net liabilities of approximately HK\$182.5 million), upon completion of the Connected Loan Capitalisation and the Creative Big Loan Capitalisation, the Group would greatly relieve from net current liability and net liability positions. Furthermore, the Connected Loan Capitalisation reflects confidence of IAM and its ultimate beneficial owner towards the Group.

Financing alternatives

After discussion with the Directors, we concur with the Directors that the Group's recent net current liability and net liability position hindered the ability of the Company to raise finance by way of equity and debt financing, which in turn hindered the Group's operation and future business growth. Nevertheless, the Board considered the feasibilities of other available financing means before resorting to the Connected Loan Capitalisation, including debt financing and other equity financing.

In respect of debt financing, we noted from the Board Letter that due to the increasing interest rates in the debt financing market and the net liability of the Group, the Directors are of the view that the Group may not be able to obtain banking facilities on terms that are favourable or cost effective and would place additional financial burden on the Group. The management of the Company attempted to enquire requirements of loan facilities from banks. However, banks usually request valuable assets for pledging and conduct in-depth due diligence on the Group's financial position. Since the Group is unable to provide valuable assets for pledging and the net liability position of the Group is unlikely to be resolved shortly. Therefore, the Directors found it difficult to get new bank loan facilities. Given the purpose of the Connected Loan Capitalisation is to reduce the Company's high indebtedness level and improve the net liability position, we consider that debt financing (such as issuance of convertible bonds and external borrowings) would not serve such purpose.

In respect of other equity financing, we noted from the Board Letter that (i) under the Group's current financial performance, independent investors or the existing Shareholders may not find it attractive to participate in the Company's equity financing exercise; (ii) there is relatively higher uncertainty in the amount of fund raised from pre-emptive fund-raising exercises (such as rights issue and open offer) if it is not fully underwritten; and (iii) the Company tried to approach placing agents for soliciting placees for subscription of new shares for repayment of outstanding amount (including accrued interests) due to IAM, Quantum and Creative Big, but no placing agent showed interests to participate in the Company's proposed share placing exercise. The Company has no confidence to seek for sufficient number of independent placees and raise sufficient funding to repay outstanding amount (including accrued interests) due to IAM, Quantum and Creative Big.

Based on the Group's financial performance and financial position as analysed in the sub-section headed "Information on the Group" above (loss-making for FY2021/22, FY2022/23 and 1H2023/24, net current liabilities and net liabilities as at 30 June 2022, 30 June 2023 and 31 December 2023), we concur with the Directors that (i) the Group's ability to raise finance by way of equity and debt financing is hindered; and (ii) the Connected Loan Capitalisation is an appropriate mean to settle the Connected Debts.

Capital Reorganisation

With reference to the Board Letter, the Capital Reorganisation, upon effective, will result in the par value of Shares and nominal value of New Shares to HK\$0.0125 each. In light of the closing prices of Shares (being below par value) recorded in recent period, the Directors are of the view that the Capital Reorganisation would enhance the flexibility of the Company to issue new Shares for the Loan Capitalisation and in the future since the Company is not permitted, without order of the Cayman Court, to issue new Shares below their par value (i.e. HK\$0.3125 per Share before the Capital Reorganisation becoming effective).

We reviewed the historical closing prices of Shares and noted that the closing prices of Shares were below the par value from 21 July 2023 up to and including Latest Practicable Date.

In light of the aforesaid and that the Capital Reorganisation is one of the conditions precedent of each of the Connected Loan Capitalisation, we are of the view that it is necessary for the Company to conduct the Capital Reorganisation.

Conclusion

Having considered that:

- (i) the Connected Debts can be settled without any cash outflow for the Group;
- (ii) the Connected Loan Capitalisation is an appropriate mean to settle the Connected Debts, which would significantly improve the Group's financial position; and
- (iii) completion of the Capital Reorganisation is one of the conditions precedent of the Connected Loan Capitalisation,

we are of the view that, although the Capital Reorganisation and the Connected Loan Capitalisation are not conducted in the ordinary and usual course of business of the Company, the Capital Reorganisation and the Connected Loan Capitalisation are in the interest of the Company and the Shareholders as a whole.

II. Principal Terms of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 divided into 640,000,000 Shares of par value of HK\$0.3125 each, of which 183,693,055 Shares were issued and fully paid.

With reference to the Board Letter, the Board proposes the Capital Reorganisation to be implemented in the following manner:

- (i) the par value of each of the issued Shares be reduced from HK\$0.3125 to HK\$0.0125 per issued Share by cancelling the paid up share capital to the extent of HK\$0.3 per issued Share;
- (ii) the total credit arising from the Capital Reduction will be applied towards setting off the accumulated losses of the Company upon the Capital Reduction becoming effective;
- (iii) immediately following the Capital Reduction becoming effective, each of the authorised but unissued Shares with par value of HK\$0.3125 each be sub-divided into 25 authorised but unissued New Shares with par value of HK\$0.0125 each; and

- (iv) each of the New Shares arising from the Capital Reduction and Share Sub-division shall rank *pari passu* in all respects with each other and will have rights and privileges and be subject to the restrictions contained in the memorandum and articles of association of the Company.

Immediately following the Capital Reorganisation, the authorised share capital of the Company will be HK\$200,000,000 divided into 16,000,000,000 New Shares of HK\$0.0125 each, of which 183,693,055 New Shares will be issued as fully paid or credited as fully paid. The aggregate par value of the issued share capital of the Company will be approximately HK\$2,296,000 (assuming that there will be no other change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation). The total credit arising from the Capital Reduction will be applied towards setting off the accumulated losses of the Company upon the Capital Reduction becoming effective, thereby reducing the accumulated losses of the Company.

The following table set out the effect of the Capital Reorganisation on the share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Capital Reorganisation becoming effective, assuming that there will be no other change in the issued share capital of the Company from the Latest Practicable Date until the effective date of the Capital Reorganisation, as extracted from the Board Letter:

	As at the Latest Practicable Date	Immediately after the Capital Reorganisation becoming effective
Par value	HK\$0.3125 per Share	HK\$0.0125 per New Share
Amount of the authorised share capital	HK\$200,000,000	HK\$200,000,000
Number of the authorised Shares	640,000,000 Shares	16,000,000,000 New Shares
Amount of the issued share capital	HK\$57,404,080	HK\$2,296,163
Number of the issued Shares	183,693,055	183,693,055

With reference to the Board Letter, the Capital Reorganisation will not result in any change in existing rights of the Shareholders. Other than the expenses incurred or to be incurred by the Company in relation to the Capital Reorganisation, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the proportionate interests or rights of the Shareholders as a whole. Having considered the above, we are of the view that the terms of the Capital Reorganisation are fair and reasonable.

III. Principal Terms of the Connected Loan Capitalisation

Set out below are the summarised terms of the Connected Loan Capitalisation as contemplated under IAM Loan Capitalisation Agreement and Quantum Loan Capitalisation Agreement, details of which are set out under the sub-sections headed “(A) IAM Loan Capitalisation Agreement” and “(B) Quantum Loan Capitalisation Agreement” of the Board Letter:

	IAM Loan Capitalisation Agreement	Quantum Loan Capitalisation Agreement
<i>Date:</i>	14 June 2024	14 June 2024
<i>Parties:</i>	The Company (as issuer) and IAM (as subscriber)	The Company (as issuer) and Quantum (as subscriber)
<i>Subject matter:</i>	<p>Subject to the fulfilment of the conditions precedent, the Company will allot and issue (i) 300,000,000 IAM Shares at HK\$0.1 per Ordinary Share; and (ii) 932,541,460 IAM CPSs at HK\$0.1 per CPS, to IAM with an aggregated amount of HK\$123,254,146. The aggregated amount shall be satisfied in full by setting off against the obligation of the Company to repay the IAM Debt. The interests for the period from 1 January 2024 up to the date of the completion of the IAM Loan Capitalisation shall be settled in cash by the Company’s internal resources within 12 months from the date of the completion of the IAM Loan Capitalisation or any other date to be agreed by both parties in writing.</p> <p>The interests in respect of all outstanding principal under the IAM Debt from 18 January 2022 to 31 December 2023 was calculated at the rate of 10.0% per annum on a simple and daily basis.</p> <p>The interests in respect of all outstanding principal under the IAM Debt from 1 January 2024 up to the date of the completion of the IAM Loan Capitalisation shall be reduced to 5.0% per annum on a simple interest and daily basis.</p> <p>With reference to the Board Letter, the accrued interest for the period from 1 January 2024 up to the Latest Practicable Date was HK\$2,443,202 which is expected to be settled by the general working capital of the Group and the cash inflow from the operating activities.</p>	<p>Subject to the fulfilment of the conditions precedent as mentioned below, the Company will allot and issue 150,000,000 Quantum Shares at HK\$0.1 per Ordinary Share to Quantum with an aggregated amount of HK\$15,000,000. The amount shall be satisfied in full by setting off against the obligation of the Company to repay the Quantum Debt. The outstanding interest accrued from the Quantum Debt under the Quantum Loan Capitalisation Agreement shall be paid on such date and by such means to be agreed by the Company and Quantum.</p> <p>With reference to the Board Letter, as at the Latest Practicable Date, the outstanding interest was HK\$461,644. The outstanding interests up to the Latest Practicable Date and the interests to be accrued from the Latest Practicable Date up to the completion of the Quantum Loan Capitalisation shall be settled by the general working capital of the Group and the cash inflow from its operating activities during the year ending 30 June 2025.</p>

IAM Loan Capitalisation Agreement

Quantum Loan Capitalisation Agreement

Completion:

Completion of the IAM Loan Capitalisation Agreement shall take place within seven Business Days following the satisfaction of the conditions precedent of the IAM Loan Capitalisation Agreement (which shall be no later than 10 January 2025 or such later date as may be agreed by the Company and IAM in writing) at the principal place of business of the Company, or other such place as may be agreed between the parties in Hong Kong.

Completion of the Quantum Loan Capitalisation Agreement shall take place within seven Business Days following the satisfaction of the conditions precedent of the Quantum Loan Capitalisation Agreement (which shall be no later than 10 January 2025 or such later date as may be agreed by the Company and Quantum in writing) at the principal place of business of the Company, or other such place as may be agreed between the parties in Hong Kong.

The IAM Loan Capitalisation Agreement is inter-conditional with the Quantum Loan Capitalisation Agreement.

The Quantum Loan Capitalisation Agreement is inter-conditional with the IAM Loan Capitalisation Agreement.

Set out below are the major terms of the CPS (including the IAM CPS) as extracted from the Board Letter (We also searched for Comparable CPS Transactions (as defined below), including the subscription of convertible preference shares conducted by Cybnaut International Holdings (stock code: 1020) (“**Cybnaut Transaction**”), ShiFang Holding Limited (stock code: 1831) (“**ShiFang Transaction**”), Aidigong Maternal & Child Health Limited (stock code: 286) (“**Aidigong Transaction**”) and Global Bio-chem Technology Group Company Limited (stock code: 809) (“**Global Bio-chem Transaction**”), for comparison. Details of the Comparable CPS Transactions (as defined below) are set out in the section headed “Comparable convertible preference shares subscription transactions” below):

Issuer

The Company

Par value

HK\$0.0125 each

Maturity Date

CPSs are perpetual and have no maturity date

Interest rate

Nil

Subscription price

HK\$0.1 per CPS

Conversion rights

The CPS shall be convertible at the option of the holder(s) during the Conversion Period without the payment of any additional consideration therefor, into such number of fully-paid Ordinary Shares as determined in accordance with the ratio of 1:1.

If and whenever the Ordinary Shares are consolidated or sub-divided into a different nominal amount, then the same consolidation or sub-division shall be effected on the CPSs, in which case the conversion ratio shall remain as one CPS for one Ordinary Share (as consolidated or sub-divided, as the case may be).

For the avoidance of doubt, no conversion right could be exercised upon the expiry of the Conversion Period and the CPSs will retain all other rights in the terms of the CPSs (apart from the conversion right) as set out in the Articles of Association.

Any preferred distribution that has been accrued but remain unpaid as at the date of service of a Conversion Notice shall remain payable to the Converting Shareholder.

We noted that the conversion ratio for all Comparable CPS Transactions (as defined below) is 1 convertible preference share for 1 ordinary share. We consider the conversion ratio of the CPS is normal as compared to those of the Comparable CPS Transactions (as defined below).

Restriction on conversion

Conversion of the CPSs to Ordinary Shares shall be subject to (i) the condition that any CPSs holders and/or the parties acting in concert with any of them and/or their respective associates being interested in such issued share capital of the Company will not trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code upon exercise of the conversion rights of the CPSs, except that the relevant whitewash waiver for making such mandatory general offer has been granted by the Executive pursuant to the Takeovers Code; (ii) the compliance of all requirements imposed by the Stock Exchange and/or the SFC in relation to the allotment and issue of any new Ordinary Shares due to conversion, whether under the GEM Listing Rules, the Takeovers Code or otherwise; (iii) the approval by the Stock Exchange of the listing of, and permission to deal in, the new Ordinary Shares arising from conversion; and (iv) the condition that the conversion of the CPSs to Ordinary Shares shall not reduce the public float of the Shares to less than 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares in breach of the Public Float Requirement.

We noted that conversion of relevant convertible preference shares for three of the Comparable CPS Transactions (as defined below), being Cybernaut Transaction, ShiFang Transaction and Global Bio-chem Transaction is subject to (a) that the holder of the relevant convertible preference shares of the Comparable CPS Transactions (as defined below) will not trigger a mandatory general offer obligation under the Takeovers Code upon conversion; and/or (b) that the conversion of the relevant convertible preference shares of the Comparable CPS Transactions (as defined below) will not reduce public float of relevant issued ordinary shares of the subject company of the Comparable CPS Transactions (as defined below) to less than 25% or any given percentage as required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). In addition, all convertible preference shares of the Comparable CPS Transactions (as defined below) are subject to listing approval by the Stock Exchange. We consider the conversion restriction of the CPS is normal as compared to those of the Comparable CPS Transactions (as defined below).

Preferred distribution

During the first five years from the Date of Issue, each holder of issued CPS has the right to receive a preferred distribution at the fixed rate of 5.0% per annum on the aggregate issue price of the CPSs paid by the initial subscriber for its initial subscription, payable annually in arrears on each anniversary of the Date of Issue until the 5th anniversary of the Date of Issue, subject to the sole discretion of the Company to defer any such payment for a maximum period of 10 years from the date when such payment falls due by giving written notice to the holders of CPSs prior to the relevant Annual Payment Date. Each of such preferred distribution is cumulative. The holders of CPSs do not have any right to receive any preferred distribution after the 5th anniversary of the Date of Issue, except for any unpaid distribution accrued during the first five anniversary years.

If the Board elects to defer a preferred distribution, the Company shall not (i) pay any dividends, distributions or make any other payment on any Ordinary Shares or (ii) redeem, cancel, repurchase or acquire for any consideration any other Ordinary Shares, unless at the same time it pays to the holders of the CPSs any deferred or declared but unpaid preferred distribution which was scheduled to be paid on a day falling in the same financial year in respect of which payment of such dividends, distributions or other payments on such Ordinary Shares are made.

Our analysis on this preferred distribution clause is set out under the section headed “Analysis on the preferred distribution of the CPSs” below.

Dividends

Other than the preferred distribution as mentioned above, the holders of CPSs have no right to receive any dividend or distribution prior to its conversion into Ordinary Shares.

We noted that (i) the holders of relevant convertible preference shares for one of the Comparable CPS Transactions (as defined below), being Global Bio-chem Transaction, are not entitled to any dividend; (ii) the holders of relevant convertible preference shares for two of the Comparable CPS Transactions (as defined below), being Cybernaut Transaction and ShiFang Transaction, are entitled to receive dividends *pari passu* with holders of the relevant ordinary shares of the subject company; and (iii) the holders of the relevant convertible preference shares for one of the Comparable CPS Transactions (as defined below), being Aidigong Transaction, are entitled to receive dividends by way of preferred distribution.

As the holders of CPSs are not entitled to any dividend or distribution other than the preferred distribution, we consider the dividend rights of the holders of CPSs are favourable to the Company as compared to majority of the Comparable CPS Transactions (as defined below).

Voting rights

The CPSs shall not confer on the holders thereof the right to vote at a general meeting of holders of Ordinary Shares.

Holders of the CPSs are entitled to vote at CPS Meeting subject to the terms of the Articles of Association and the laws of the Cayman Islands.

We noted that the relevant convertible preference shares of the Comparable CPS Transactions (as defined below) are “non-voting” in nature (except for specific circumstances such as resolution for winding-up of the company, resolution which if passed would vary or abrogate the rights or privileges of the holders of convertible preference shares or vary the restrictions to which the convertible preference shares are subject). The “non-voting” nature under voting rights clause of the CPS is similar with the “non-voting” nature of relevant convertible preference shares of the Comparable CPS Transactions (as defined below) and thus it is normal as compared to those of the Comparable CPS Transactions (as defined below).

Return of capital

Upon the occurrence of a Relevant Event, the assets of the Company available for distribution among the Shareholders shall, subject to the applicable laws, be applied in the following priority:

- (a) firstly, to the holders of CPSs, *pari passu* as between themselves, an amount equal to the aggregate nominal amount paid up or credited as paid up on all issued and outstanding CPSs (so long as the Company has not redeemed such CPSs, or such CPSs remain non-converted), on a basis pro-rata to the aggregate of the nominal amounts of the CPSs held by each of the holders of CPSs;

- (b) secondly, to the holders of the Ordinary Shares, *pari passu* as between themselves, an amount equal to the aggregate nominal amount paid up or credited as paid up on all issued and outstanding Ordinary Shares, on a basis pro-rata to the aggregate of the nominal amounts of the Ordinary Shares held by each of the holders of the Ordinary Shares; and
- (c) the remaining balance of such assets shall belong to and be distributed on a *pari passu* basis among the holders of any class of shares of the Company including the CPSs, other than any other shares not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amounts of shares in the Company held by them respectively.

We noted that except for one of the Comparable CPS Transactions (as defined below), being the Aidigong Transaction, that confers the rights to holders of relevant convertible preference shares to receive an amount greater than the nominal amount of relevant convertible preference shares upon occurrence of events similar to the Relevant Events, all other Comparable CPS Transactions (as defined below), upon occurrence of events similar to the Relevant Events, confer holders of relevant convertible preference share the rights to be paid (i) the nominal amount of the convertible preference shares in priority to other class of shares; and (ii) the remaining assets and funds after distribution of (i) above, on a *pari passu* basis among holders of any class of shares. We consider the return of capital mechanism of the CPS is normal as compared to majority of the Comparable CPS Transactions (as defined below).

Redemption

The Company may, at any time at its sole discretion, by written notice of not less than 10 days to the holders of CPSs whose CPSs are to be redeemed and subject to compliance with the articles of association of the Company and the Companies Act, request to redeem part or all of the CPSs at a price equivalent to the subscription price of such CPSs, so long as such CPSs have not been previously converted, redeemed or cancelled. The holders of CPSs do not have any right to request or demand the Company to redeem any CPSs.

We noted that (i) there was no redemption rights in relation to the relevant convertible preference shares for two of the Comparable CPS Transactions (as defined below), being Cybernaut Transaction and ShiFang Transaction; (ii) the relevant convertible preference shares for one of the Comparable CPS Transactions (as defined below), being Aidigong Transaction, is redeemable at the discretion of the issuer and the holders of the relevant convertible preference shares; and (iii) the relevant convertible preference shares for one of the Comparable CPS Transactions (as defined below), being Global Bio-chem Transaction, is redeemable solely at the discretion of the issuer.

We consider that the redemption rights of the CPS enable the Company the flexibility to redeem the CPS as it deems necessary, and it is favourable to the Company as compared to those of the Comparable CPS Transactions. (as defined below).

Transferability

Each CPS may be transferred by the holder thereof after the respective dates of issue of the CPSs which are to be transferred without restriction, provided that the holder thereof shall give prior notice to the Company and (if applicable) the Stock Exchange where the transferee is a connected person of the Company (as defined in the GEM Listing Rules).

The transfer of any CPS to a connected person of the Company (as defined in the GEM Listing Rules) should comply with all relevant requirements under GEM Listing Rules.

We consider the transferability clause of the CPS is normal as it ensures the compliance with the GEM Listing Rules (in particular, Chapter 20 of the GEM Listing Rules).

Terms of the IAM CPS are identical to the Creative Big CPS. Detailed terms of the IAM CPS are set out in the section headed “PRINCIPAL TERMS OF CPSs” of the Board Letter.

Analysis on adopted interest rates for IAM Debt

As aforementioned and pursuant to the IAM Loan Capitalisation Agreement:

- The interests in respect of all outstanding principal under the IAM Debt from 18 January 2022 (being the date immediately after the IAM Debt maturity date of 17 January 2022) to 31 December 2023 was calculated at the rate of 10% per annum (the “**Adopted Interest Rate Up To Cut-off Date**”) on a simple and daily basis.
- The interests in respect of all outstanding principal under the IAM Debt from 1 January 2024 up to the date of the completion of the IAM Loan Capitalisation shall be reduced to 5.0% per annum (the “**Adopted Interest Rate After Cut-off Date**”) on a simple interest and daily basis.

We noticed that:

- Coupon rate of the IAM Debt prior to maturity was 10% per annum. The Adopted Interest Rate Up To Cut-off Date equals to the IAM debt coupon rate prior to maturity. The Adopted Interest Rate After Cut-off Date is significantly reduced as compared to the Adopted Interest Rate Up To Cut-off Date.

- Coupon rate of the Creative Big Debt prior to maturity was 7% per annum. Pursuant to the Creative Big Loan Capitalisation Agreement, the interests in respect of all outstanding principal under the Creative Big Debt shall be remained at the rate of 7% per annum on a simple interest and daily basis from 21 February 2023 (being the date immediately after the Creative Big Debt maturity date of 20 February 2023). There was no reduction in the adopted interest rate as compared to the coupon rate.

Given the above, we consider that (i) the Adopted Interest Rate Up To Cut-off Date is fair and reasonable as it equals to the coupon rate of the IAM Debt prior to maturity, whereas the adopted interest rate up to cut-off date pursuant to the Creative Big Loan Capitalisation Agreement (being an agreement with Independent Third Party) also equals to the coupon rate of the Creative Big Debt prior to maturity; and (ii) the Adopted Interest Rate After Cut-off Date is fair and reasonable as it was reduced as compared to the Adopted Interest Rate Up To Cut-off Date, whereas there was no reduction under the Creative Big Loan Capitalisation Agreement (being an agreement with Independent Third Party).

For avoidance of doubt, both of the Adopted Interest Rate Up To Cut-off Date and the Adopted Interest Rate After Cut-off Date form part of the IAM Loan Capitalisation Agreement which is subject to fulfilment of conditions precedent and is yet to be effective.

Analysis on the subscription price

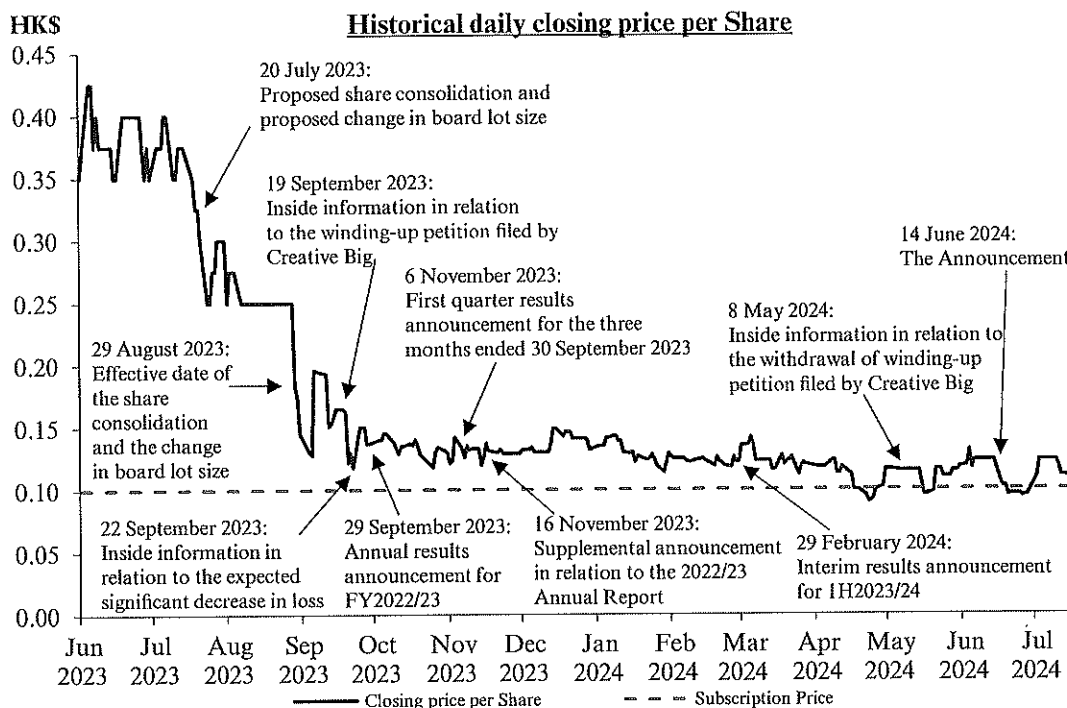
With reference to the Board Letter, the subscription price of each of the Connected Shares and the IAM CPSs is HK\$0.1 (the “**Subscription Price**”), which represents:

- (i) a discount of approximately 5.66% to the closing price of HK\$0.106 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 18.70% to the closing price of HK\$0.123 per Ordinary Share as quoted on the Stock Exchange on the Last Trading Day (the “**LTD Discount**”);
- (iii) a discount of approximately 18.70% to the average closing price of approximately HK\$0.123 per Ordinary Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Last Trading Day (the “**5 Days Discount**”);
- (iv) a discount of approximately 13.19% to the average closing price of approximately HK\$0.115 per Ordinary Share as quoted on the Stock Exchange for the last thirty consecutive trading days immediately prior to the Last Trading Day;

- (v) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of approximately 17.07% represented by the theoretical diluted price of HK\$0.102 per Ordinary Share to the benchmarked price of HK\$0.123 per Ordinary Share; and
- (vi) a premium of approximately HK\$1.06 over the unaudited consolidated net liabilities attributable to Shareholders of approximately HK\$0.96 per Ordinary Share as at 31 December 2023 (based on unaudited deficit attributable to owners of the Company of approximately HK\$176,324,000 as at 31 December 2023 and 183,693,055 Shares in issue as at the Latest Practicable Date).

Share price performance

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 1 June 2023 to the Latest Practicable Date, being a period of approximately one year prior to the Last Trading Day and up to the Latest Practicable Date (the “IFA Review Period”), to illustrate the general trend and level of movement of the closing prices of the Shares:



Source: the Stock Exchange's website

Note: The daily closing prices of Shares for the period from 1 June 2023 up to 28 August 2023 were adjusted for the Company's share consolidation of every twenty-five (25) issued and unissued ordinary shares into one (1) consolidated share which became effective on 29 August 2023.

During the IFA Review Period, the highest and lowest closing prices of Shares as quoted on the Stock Exchange were HK\$0.425 per Share recorded on 5 June 2023 and 6 June 2023, and HK\$0.090 recorded on 23 April 2024, respectively, with average of approximately HK\$0.175 per Share and median of HK\$0.131 per Share. Despite the Subscription Price is lower than the closing prices of Shares for majority of the trading days during the IFA Review Period and is lower than the average and median of the closing prices of Shares during the IFA Review Period, the Subscription Price is nevertheless within the aforesaid range and represents either premiums or discounts of not more than 20% to the closing prices of Shares for the period from 25 March 2024 up to the Last Trading Day (except for 4 June 2024 where the Subscription Price represents a discount of approximately 23.66% to the closing price of HK\$0.131 recorded). The LTD Discount and the 5 Days Discount are within the aforesaid premiums/discounts range for the period from 25 March 2024 up to the Last Trading Day (except for 4 June 2024).

From the beginning of the IFA Review Period, the closing price of Shares increased from HK\$0.350 per Share to HK\$0.425 per Share on 5 June 2023 and 6 June 2023. Subsequently, the closing prices of Shares formed a downward trend (in particular, the sudden drop in closing price of Shares before the effective date (29 August 2023) of share consolidation and change in board lot size) and reached HK\$0.128 per Share on 5 September 2023. Thereafter, the closing price per Share fluctuated between HK\$0.090 per Share to HK\$0.196 per Share until it reached HK\$0.123 per Share on the Last Trading Day.

Subsequent to the publication of the Announcement and up to the Latest Practicable Date, the closing price of Shares fluctuated between HK\$0.094 per Share to HK\$0.123 per Share.

Having enquired into the Directors, we did not identify any specific reason which caused the aforesaid fluctuation of the closing prices of the Shares.

Comparable companies

We attempted to perform trading multiple analysis (including price-to-earnings ratio, price-to-book ratio and price-to-sales ratio), being commonly adopted methods to assess the fairness and reasonableness of the Subscription Price. In this regard, we searched for Hong Kong listed companies which are principally engaged in similar line of business as the Group (being the provision of supply chain services in relation to patent medicines and healthcare products in Hong Kong and the PRC) and derived more than 50% of their revenue from such business. Nevertheless, we are unable to identify any Hong Kong listed companies that met the aforesaid criteria. As such, we consider the trading multiples analysis is inapplicable in this case.

Comparable ordinary shares subscription transactions

As part of our analysis, we searched for transactions in relation to the subscription of new ordinary shares listed on the Stock Exchange as announced by Hong Kong listed companies during the period from 15 June 2023 up to and including the Last Trading Day which were not lapsed/terminated up to the Latest Practicable Date (the “Comparable OS Transactions”), based on the criteria that (i) the new ordinary shares were issued under specific mandate; (ii) the new ordinary shares were issued (a) to set-off outstanding indebtedness; or (b) for subscription by cash with all or majority of the proceeds to be used for repayment of outstanding indebtedness; and (iii) the listed shares of the subject company were not halted/suspended for trading for over one month prior to the date of the relevant agreement. “Whether the transaction is a connected transaction or transaction with independent third party” is not a selection criteria as we intended to include both categories of transactions for comparison. We consider the one-year period prior to the Last Trading Day to be a commonly adopted transaction review period and would allow sufficient, fair and representative comparable transactions to be identified to demonstrate market practices prior to the Last Trading Day. We found 19 transactions which met the said criteria and they are exhaustive. Shareholders should note that although the businesses, operations, prospects and market capitalisation of the Company are not the same as the subject companies of the Comparable OS Transactions, the Comparable OS Transactions illustrate the recent practice in respect of price determination for approved subscription of ordinary shares transactions conducted by Hong Kong listed companies during the past year.

Company name (stock code)	Principal business	Date of announcement	Market capitalisation of the subject company as at the last trading day immediately prior to or on the date of agreement in relation to the respective transaction (HK\$ million)	Premium/ (discount) of the subscription price to closing price per share on the last trading day immediately prior to or on the date of agreement in relation to the respective transaction (%)	Premium/ (discount) of the subscription price to average closing price per share for the last five consecutive trading day prior to the last trading day in relation to the subscription transaction (%)	Connected transaction? (Y/N)
Summi (Group) Holdings Limited (756)	Production and sales of orange juice and related products	10 July 2023	168.9	(9.46)	(8.72)	Y
China Regenerative Medicine International Limited (8158)	Provision of healthcare products and services	14 July 2023	22.3	8.97	24.63	Y
NOIZ GROUP LIMITED (8163)	Financial services business, corporate consulting business and digital platform business	14 July 2023	50.4	21.35	20.27	Y
Bonjour Holdings Limited (653)	Retail and wholesale of beauty and healthcare products	31 August 2023	221.3	(1.59)	4.38	Y

Company name (stock code)	Principal business	Date of announcement	Market capitalisation of the subject company as at the last trading day immediately prior to or on the date of agreement in relation to the respective transaction (<i>HKS million</i>)	Premium/ (discount) of the subscription price to closing price per share on the last trading day immediately prior to or on the date of agreement in relation to the respective transaction (%)	Premium/ (discount) of the subscription price to average closing price per share for the last five consecutive trading day prior to the last trading day in relation to the subscription transaction (%)	Connected transaction? (Y/N)
New City Development Group Limited (456)	Property development and investment and operation of supermarket retail	6 September 2023	51.9	(5.00)	(5.63)	Y
Da Sen Holdings Group Limited (1580)	Manufacturing and sales of plywood products and leasing activities	7 September 2023	104.9	(35.48)	(40.48)	Y
China Greenland Broad Greenstate Group Company Limited (1253)	Provision of landscape design, gardening and the related services	27 September 2023	401.1	(16.67)	(7.41)	Y
China Rongzhong Financial Holdings Company Limited (3963)	Provision of leasing services, due diligence, credit investigation and debt collection	30 October 2023	176.7	(9.52)	(8.21)	Y
InvesTech Holdings Limited (1087)	Provision of network system integration including the provision of network infrastructure solutions, network professional services and smart office software solutions, and the network equipment rental business	7 November 2023	24.6	(9.52)	(9.09)	Y
ZO Future Group (2309)	Operation of a professional football club and other related business; investment in properties; and healthcare and medical related business	12 January 2024	1,944.3	(15.00)	(11.41)	Y
China Beidahuang Industry Group Holdings Limited (39)	Wholesale trading and distribution of food products, including wine and liquor, fruit, vegetables and grains, raw beef and live cattle	25 January 2024	550.9	14.94	21.07	Y
Renaissance Asia Silk Road Group Limited (274)	Gold mining, exploration and trading of gold products; and trading of non-ferrous metal and wholesale and trading of frozen meat	30 January 2024	97.2	(39.13)	(31.71)	N
Enviro Energy International Holdings Limited (1102)	Supply of building materials and aluminium related products	7 February 2024	30.4	(10.71)	(1.19)	Y

Company name (stock code)	Principal business	Date of announcement	Market capitalisation of the subject company as at the last trading day immediately prior to or on the date of agreement in relation to the respective transaction (HK\$ million)	Premium/ (discount) of the subscription price to closing price per share on the last trading day immediately prior to or on the date of agreement in relation to the respective transaction (%)	Premium/ (discount) of the subscription price to average closing price per share for the last five consecutive trading day prior to the last trading day in relation to the subscription transaction (%)	Connected transaction? (Y/N)
China HK Power Smart Energy Group Limited (931)	Sales and distribution of natural gas and the provision of financial services	7 March 2024	2,569.8	Nil	1.42	Y
China Qidian Guofeng Holdings Limited (1280)	Retail of household appliance, mobile phones, computers, import and general merchandise, provision of maintenance and installation services; and trading of liquor	18 March 2024	134.2	(31.37)	(31.37)	Y
China Silver Technology Holdings Limited (515)	Manufacturing and trading of light emitting diode lighting, and printed circuit boards	19 April 2024	103.6	(16.28)	(16.15)	N
Labixiaoxin Snacks Group Limited (1262)	Manufacturing and sales of jelly products, confectionary products, beverages products and other snacks products	13 May 2024	154.2	(5.17)	(15.77)	Y
Hua Yin International Holdings Limited (989)	Property development and management	14 May 2024	302.6	19.05	6.38	Y
Wenye Group Holdings Limited (1802)	Provision of interior and exterior building decoration and design services	7 June 2024	33.9	(3.51)	(14.06)	Y
				Maximum: Minimum: Average: Median:	21.35 (39.13) (7.58) (9.46)	24.63 (40.48) (6.48) (8.21)
The Connected Loan Capitalisation			22.6	(18.70)	(18.70)	Y

Source: the Stock Exchange's website

Note: No outlier was detected based on the mean and standard deviation outlier detection method using two standard deviations away from the mean.

According to the above table:

- The subscription prices of the Comparable OS Transactions ranged from discount of approximately 39.13% to premium of approximately 21.35% to the respective closing prices of shares on the last trading day immediately prior to or on the date of agreement in relation to the respective subscription transaction.
- The subscription prices of the Comparable OS Transactions ranged from discount of approximately 40.48% to premium of approximately 24.63% to the respective average closing prices of shares for the last five consecutive trading days immediately prior to the date of agreement in relation to the respective subscription transaction.

The LTD Discount and the 5 Days Discount fall within the respective range of the Comparable OS Transactions and represent deeper discounts as compared to the average and median of the Comparable OS Transactions.

Comparable convertible preference shares subscription transactions

As part of our analysis, we searched for transactions in relation to the subscription of new convertible preference shares as announced by Hong Kong listed companies during the period from 15 June 2023 up to and including the Last Trading Day which were not lapsed/terminated up to the Latest Practicable Date (the “Comparable CPS Transactions”), based on the criteria that (i) the new convertible preference shares were issued under specific mandate; (ii) the new convertible preference shares were issued (a) to set-off outstanding indebtedness; or (b) for subscription by cash with all or majority of the proceeds to be used for repayment of outstanding indebtedness; and (iii) the listed shares of the subject company were not halted/suspended for trading for over one month prior to the date of the relevant agreement. “Whether the transaction is a connected transaction or transaction with independent third party” is not a selection criteria as we intended to include both categories of transactions for comparison. We only found one transaction which met the said criteria. We consider the number of comparable transaction identified was not sufficient for us to perform a meaningful analysis. Accordingly, we extended the review period to three years from 15 June 2021 up to and including the Last Trading Day. We found 4 transactions which met the said criteria and they are exhaustive. Shareholders should note that although the businesses, operations, prospects and market capitalisation of the Company are not the same as the subject companies of the Comparable CPS Transactions, the Comparable CPS Transactions illustrate the practice in respect of determination of terms (including pricing, conversion ratio, restriction on conversion, preferred distribution, dividends, voting rights, return on capital, redemption and transferability) for approved subscription of convertible preference shares transaction conducted by Hong Kong listed companies during the past three years.

Company name (stock code)	Principal business	Date of announcement	Market capitalisation of the subject company as at the last trading day immediately prior to or on the date of agreement in relation to the respective transaction (HK\$ million)	Premium/ (discount) of the subscription price to closing price per share on the last trading day prior to the date of agreement in relation to the respective transaction (%)	Premium/ (discount) of the subscription price to average closing price per share for the last five consecutive trading day immediately prior to the date of agreement in relation to the respective transaction (%)	Conversion ratio	Preferred distribution rate	Dividend	Connected transaction? (Y/N)
Cybernaut International Holdings (1020)	Electronic commerce business, internet education services and money lending business	27 May 2022	572.5	4.17	1.76	1:1	Nil	Right to receive any dividends <i>pari passu</i> with the holders of ordinary shares	Y
ShiFang Holding Limited (1831)	Provision of integrated tourism services, publishing and advertising services	5 August 2022	660.4	(18.57)	45.04	1:1	Nil	Right to receive any dividends <i>pari passu</i> with the holders of ordinary shares	Y
Aidigong Maternal & Child Health Limited (286)	Provision of postpartum care services	9 September 2022	2,502.7	(13.79) (Note 1, 3) 20.69 (Note 2, 3)	(10.71) (Note 1, 3) 25.00 (Note 2, 3)	1:1	4% cumulative	By way of preferred distribution	N
Global Bio-chem Technology Group Company Limited (809)	Manufacture and sale of corn refined products and corn based biochemical products	30 November 2023	498.8	78.57	79.86	1:1	Not exceeding 5% non-cumulative	Nil	Y
		Maximum:		78.57	79.86				
		Minimum:		(18.57)	(10.71)				
		Average:		14.21	28.19				
		Median:		4.17	25.00				
The Connected Loan Capitalisation			22.6	(18.70)	(18.70)		5% cumulative	Nil	Y

Source: the Stock Exchange's website

Notes:

1. The relevant discount was represented by the subscription price for class A convertible preference shares of the subject company.
2. The relevant premium was represented by the subscription price for class B convertible preference shares of the subject company.
3. Class A and class B convertible preference share were treated as two separate data samples to form our data analysis.
4. No outlier was detected based on the mean and standard deviation outlier detection method using two standard deviations away from the mean.

According to the above table:

- The subscription prices of the Comparable CPS Transactions ranged from discount of approximately 18.57% to premium of approximately 78.57% to the respective closing prices of shares on the last trading day immediately prior to or on the date of agreement in relation to the respective subscription transaction.
- The subscription prices of the Comparable CPS Transactions ranged from discount of approximately 10.71% to premium of approximately 79.86% to the respective average closing prices of shares for the last five consecutive trading days immediately prior to the date of agreement in relation to the respective subscription transaction.

The LTD Discount and the 5 Days Discount represent deeper discounts as compared with those of the Comparable CPS Transactions.

Our conclusion on the Subscription Price

Despite that both the LTD Discount and the 5 Days Discount represent deeper discounts as compared (i) to average and median of the Comparable OS Transactions; and (ii) with those of the Comparable CPS Transactions, having considered that:

- (i) the Subscription Price represents either premiums or discounts of not more than 20% to the closing prices of Shares for the period from 25 March 2024 up to the Last Trading Day (except for 4 June 2024), being a recent period up to the Last Trading Day;
- (ii) the Subscription Price is within the highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the IFA Review Period; and
- (iii) the Subscription Price represents a premium of approximately HK\$1.06 over the unaudited consolidated net liabilities attributable to Shareholders of approximately HK\$0.96 per Ordinary Share as at 31 December 2023,

we consider the Subscription Price to be fair and reasonable.

Analysis on the preferred distribution of the CPSs

With reference to the Board Letter, during the first five years from the Date of Issue, each holder of issued CPS has the right to receive a preferred distribution at the fixed rate of 5.0% per annum (the “**CPS Distribution Rate**”) on the aggregate issue price of the CPSs paid by the initial subscriber for its initial subscription (the “**CPS Distribution**”), payable annually in arrears on each anniversary of the Date of Issue until the 5th anniversary of the Date of Issue,

subject to the sole discretion of the Company to defer any such payment for a maximum period of 10 years from the date when such payment falls due by giving written notice to the holders of CPSs prior to the relevant Annual Payment Date. Each of such preferred distribution is cumulative. The holders of CPSs do not have any right to receive any preferred distribution after the 5th anniversary of the Date of Issue, except for any unpaid distribution accrued during the first five anniversary years.

We noted that (i) there was no preferred distribution/interest under two of the Comparable CPS Transactions; (ii) one of the Comparable CPS Transactions has preferred distribution rate of 4% per annum (cumulative) on the aggregate issue price of the relevant convertible preference shares throughout existence of the relevant convertible preference shares; (iii) one of the Comparable CPS Transactions has preferred distribution rate of not exceeding than 5% per annum (non-cumulative) on the aggregate issue price of the relevant convertible preference shares throughout existence of the relevant convertible preference shares; and (iv) the CPS Distribution Rate is 5% per annum (cumulative) for the first five years since the Date of Issue.

Having considered that (i) the CPS Distribution is only payable by the Company for the first five years from the Date of Issue, whereas (a) the term of the CPS is perpetual; and (b) the preferred distribution for two of the Comparable CPS are throughout the existence of the relevant convertible preference shares; and (ii) the CPS Distribution Rate (which is the Group's finance cost in substance) approximates to the 1-year Hong Kong Interbank Offered Rate of 4.98393% on the Last Trading Day (being a reference of the Group's finance cost should the Group be able to secure loan facilities with financial institutions in Hong Kong), we are of the view that the CPS Distribution Rate to be justifiable.

Detailed terms and conditions of the Connected Loan Capitalisation are set out under the section headed "LOAN CAPITALISATION INVOLVING ISSUE OF ORDINARY SHARES AND CONVERTIBLE PREFERENCE SHARES UNDER CONNECTED SPECIFIC MANDATE" of the Board Letter.

Taking into account the principal terms of the Connected Loan Capitalisation as discussed above, we are of the view that the terms of the Connected Loan Capitalisation are on normal commercial terms and are fair and reasonable.

Possible dilution effect on the shareholding interests of the public Shareholders

With reference to the shareholding table in the section headed "EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY" of the Board Letter, the shareholding interests held by the existing public would be diluted by (i) approximately 52.1 percentage points as a result of the issuance of the Connected Shares; and (ii) approximately 67.0 percentage points as a result of the issuance of the Connected Shares and the full conversion of the IAM CPSs and Creative Big CPSs.

We are aware of the possible dilution effects as mentioned above. Nonetheless, we consider that the foregoing should be balanced by (i) the reasons for and benefits of the Connected Loan Capitalisation; (ii) that there is a material uncertainty on the Group's continuing business operation and future development if the Group does not relieve its net current liability and net liability positions by conducting the Connected Loan Capitalisation (together with the Creative Big Loan Capitalisation); and (iii) the terms of the Connected Loan Capitalisation being fair and reasonable.

Accordingly, we consider that the possible dilution to the shareholding interests held by the public is acceptable.

Recommendation on the Capital Reorganisation and the Connected Loan Capitalisation (including the Connected Specific Mandate)

Having taken into consideration the factors and reasons as stated above, in particular:

- the Connected Loan Capitalisation is to relieve the Group's net current liability and net liability position and it is an appropriate mean to settle the Connected Debts;
- it is necessary for the Company to conduct the Capital Reorganisation as it is one of the conditions precedent of the Connected Loan Capitalisation;
- the Adopted Interest Rate Up To Cut-off Date and the Adopted Interest Rate After Cut-off Date are fair and reasonable based on our analysis above;
- the Subscription Price is fair and reasonable based on our analysis on recent share price performance, and the Group's net liability position above;
- the CPS Distribution Rate is justifiable based on our analysis on CPS Distribution and CPS Distribution Rate above;
- the major terms of the CPS (including conversion rights, restriction on conversion, dividend, voting rights, return of capital, redemption and transferability) are normal as compared to those of the Comparable CPS Transactions; and
- the possible dilution on shareholding interest of existing public Shareholders is acceptable,

we are of the opinion that (i) the Capital Reorganisation and the Connected Loan Capitalisation (including the Connected Specific Mandate) are on normal commercial terms and are fair and reasonable; and (ii) although the Capital

Reorganisation and the Connected Loan Capitalisation are not conducted in the ordinary and usual course of business of the Company, they are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the LR Independent Board Committee and the Code Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Capital Reorganisation and the Connected Loan Capitalisation and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

IV. Whitewash Waiver

According to the Board Letter, IAM is interested in 21,694,520 Shares, representing approximately 11.8% of the issued share capital of the Company as at the Latest Practicable Date. Upon completion of the Capital Reorganisation and the issuance of the Connected Shares, the aggregate shareholding of IAM and parties acting in concert with it (including Mr. YAM Tak Cheung and Quantum) in the Company will be increased from 11.8% to 74.4%. Accordingly, the allotment and issuance of the Connected Shares will give rise to an obligation on IAM to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by IAM and its concert parties), unless the Whitewash Waiver is granted by the Executive.

As further mentioned in the Board Letter, an application has been made 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, (a) the approval by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy at the EGM by way of poll in respect of the Whitewash Waiver; and (b) the approval by more than 50% of the votes cast by Independent Shareholders either in person or by proxy at the EGM by way of poll in respect of the Capital Reorganisation and the Connected Loan Capitalisation, in which IAM and its concert parties will abstain from voting on the relevant resolutions.

In view of (i) the aforesaid reasons for the Capital Reorganisation and the Connected Loan Capitalisation as stated in the section headed “Reasons for the Capital Reorganisation and the Connected Loan Capitalisation” above; (ii) that the Capital Reorganisation and the Connected Loan Capitalisation are in the interest of the Company and the Shareholders as a whole; (iii) the Capital Reorganisation and the Connected Loan Capitalisation are fair and reasonable; and (iv) that the Connected Loan Capitalisation is conditional on, among other things, the grant of the Whitewash Waiver, we are of the opinion that the Whitewash Waiver is in the interest of the Company and the Shareholders as a whole and is fair and reasonable.

Recommendation on the Whitewash Waiver

Having taken into consideration (i) the reasons for and benefits of the Capital Reorganisation and the Connected Loan Capitalisation; and (ii) that the Connected Loan Capitalisation is conditional on, among other things, the grant of the Whitewash Waiver, we consider the Whitewash Waiver is fair and reasonable and is in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Code Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.