

20 December 2024

To The Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder (including the grant of Specific Mandate), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular dated 20 December 2024 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 those defined in the Circular unless the context requires otherwise.

On 12 November 2024 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 210,000,000 Subscription Shares at the Subscription Price of HK\$0.158 per Subscription Share (and with an aggregate amount of HK\$33,180,000) to the Subscriber, which shall be satisfied by way of offsetting against the Partial Repayment Amount of HK\$33,180,000. As at the date of the Subscription Agreement, the outstanding principal amount and the accrued interest under the Shareholder’s Loans amounted to approximately HK\$74,585,484. Upon Completion, the amount of HK\$33,180,000 under the Shareholder’s Loans shall be deemed to have been repaid.

The Shareholder's Loans were provided by the Subscriber to the Group pursuant to the Master Loan Agreement entered into between the Company and the Subscriber on 1 September 2023, pursuant to which the Subscriber agreed to provide loans to the Group from time to time for the purpose of financing its general working capital requirement, subject to a limit of HK\$100,000,000, with the maturity date being 31 March 2025. The Shareholder's Loans are unsecured and bear interest of 2.75% per annum.

The Subscription Shares represent approximately 88.34% of the existing number of issued Shares as at the Latest Practicable Date and approximately 46.90% of the enlarged number of issued Shares of 447,715,999 Shares immediately following Completion, assuming that there will be no change in the total number of issued Shares (other than the issue of the Subscription Shares) between the Latest Practicable Date and Completion.

As at the Latest Practicable Date, the Subscriber is the chairman of the Board, an executive Director and the controlling Shareholder who beneficially owns 125,297,293 Shares, representing approximately 52.71% of the issued share capital of the Company, and hence a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder constitute a connected transaction of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to (i) whether the Loan Capitalisation and the terms of the Subscription Agreement are on normal commercial terms or better, fair and reasonable and in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned; and (ii) whether the entering into of the Subscription Agreement is in the ordinary and usual course of business of the Group and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder (including the grant of Specific Mandate). As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, Lego Corporate Finance did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years prior to the Latest Practicable Date, we have acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in respect of the subscription agreement dated 31 August 2023 and the transactions contemplated thereunder, details of which are set out in the circular of the Company dated 17 October 2023. Apart from normal professional fees paid or payable to us in connection with the previous engagement and this appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company. Accordingly, we consider that we are eligible to give independent advice in respect of the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder (including the grant of Specific Mandate).

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the “**Management**”); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Management, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors, the Management or the Subscriber, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group or the Subscriber or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Loan Capitalisation, we have considered the following principal factors and reasons:

1. Information on the parties to the Subscription Agreement

1.1. The Company and the Group

The Company is a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 653). The Company is an investment holding company and the Group is principally engaged in the retail and wholesale of beauty and health-care products in Hong Kong, Macau and the PRC, and through the e-commerce platform HKMALL.

Set out below is a summary of the financial results of the Group for the years ended 31 December 2022 and 2023, and the six months ended 30 June 2023 and 2024 as extracted from the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”), respectively.

	For the year ended 31 December		For the six months ended 30 June	
	2023	2022	2024	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)	(unaudited)
Turnover	950,271	185,662	55,697	71,206
Profit before tax	54,611	164,489	127	49,226
Profit for the year/period				
attributable to the Shareholders	53,971	167,221	127	48,658

For the years ended 31 December 2022 and 2023

The Group's turnover increased from approximately HK\$185.7 million for the year ended 31 December 2022 to approximately HK\$950.3 million for the year ended 31 December 2023. As disclosed in the 2023 Annual Report, such increase was mainly due to the increase in sales of technology products as a result of the expansion of the product range of the Group from pure cosmetics products to “Beauty, Health & Lifestyle” products, which enhanced consumers' shopping experience.

Despite the significant increase in revenue in 2023, the Group's profit attributable to the Shareholders decreased from approximately HK\$167.2 million for the year ended 31 December 2022 to approximately HK\$54.0 million for the year ended 31 December 2023. As disclosed in the 2023 Annual Report, such decrease was mainly because a net gain on disposal of subsidiaries of approximately HK\$350.0 million was recognised for the year ended 31 December 2022, which was partially offset by (i) the increase in gross profit from approximately HK\$33.8 million for the year ended 31 December 2022 to approximately HK\$63.1 million for the year ended 31 December 2023; and (ii) the gain on deconsolidation of a subsidiary of approximately HK\$103.0 million recognised for the year ended 31 December 2023.

For the six months ended 30 June 2023 and 2024

The Group's turnover decreased from approximately HK\$71.2 million for the six months ended 30 June 2023 to approximately HK\$55.7 million for the six months ended 30 June 2024. As disclosed in the 2024 Interim Report, such decrease was mainly due to the sluggish retail market in Hong Kong during the period.

The Group's profit attributable to the Shareholders decreased from approximately HK\$48.7 million for the six months ended 30 June 2023 to approximately HK\$0.1 million for the six months ended 30 June 2024. As disclosed in the 2024 Interim Report, such decrease was primarily attributable to (i) a gain on deconsolidation of a subsidiary of approximately HK\$103.0 million was recognised for the six months ended 30 June 2023; and (ii) the decrease in gross profit of approximately HK\$8.9 million, which was partially offset by the share of result of a joint venture of approximately HK\$37.3 million recognised for the six months ended 30 June 2024.

Set out below is a summary of the financial position of the Group as at 31 December 2023 and 30 June 2024 as extracted from the 2024 Interim Report.

	As at 30 June 2024 HK\$'000 (unaudited)	As at 31 December 2023 HK\$'000 (audited)
Total assets	522,006	504,108
Non-current assets	442,672	409,733
Current assets	79,334	94,375
Total liabilities	239,616	221,872
Non-current liabilities	67,870	74,503
Current liabilities	171,746	147,369
Total equity	282,390	282,236

The total assets of the Group amounted to approximately HK\$504.1 million and HK\$522.0 million as at 31 December 2023 and 30 June 2024, respectively. The major components of the total assets of the Group as at 30 June 2024 were (i) interest in a joint venture of approximately HK\$405.7 million; (ii) prepayments, deposits and other receivables of approximately HK\$59.9 million; (iii) right-of-use assets of approximately HK\$29.3 million; and (iv) bank and cash balances of approximately HK\$6.1 million.

The total liabilities of the Group amounted to approximately HK\$221.9 million and HK\$239.6 million as at 31 December 2023 and 30 June 2024, respectively. The major components of the total liabilities of the Group as at 30 June 2024 were (i) amount due to the controlling Shareholder of approximately HK\$62.6 million; (ii) other payables, deposits received and accrued charges of approximately HK\$61.9 million; (iii) lease liabilities of approximately HK\$55.4 million; and (iv) bank and other borrowings of approximately HK\$48.1 million.

1.2. The Subscriber

As at the Latest Practicable Date, Mr. Chen Jianwen is the chairman of the Board, an executive Director of the Company, and the controlling Shareholder who beneficially owns 125,297,293 Shares, representing approximately 52.71% of the issued share capital of the Company.

2. Reasons for and benefits of the Loan Capitalisation and use of proceeds

Use of proceeds

As the Subscription Price will be satisfied by way of offsetting the Partial Repayment Amount, there will be no proceeds from the allotment and issue of the Subscription Shares available to be utilised by the Company.

We have discussed with the Management and were given to understand that the Subscriber has been providing Shareholder's Loans to the Group from time to time since September 2023 pursuant to the Master Loan Agreement entered into between the Company and the Subscriber on 1 September 2023, pursuant to which the Subscriber agreed to provide loans to the Group from time to time for the purpose of financing its general working capital requirement, subject to a limit of HK\$100,000,000, with the maturity date being 31 March 2025. The Shareholder's Loans are unsecured and bear interest of 2.75% per annum. The maturity date of the Shareholder's Loans is 31 March 2025. As disclosed in the Letter from the Board, having considered that (i) the Group was not required to provide any collateral for the Shareholder's Loans, and (ii) the interest rate of the Shareholder's Loans is significantly lower as compared to the interest rates offered by the three commercial banks in Hong Kong approached by the Company which range from approximately 7.625% to 8.625% per annum, the Directors consider the terms of the Shareholder's Loans to be on normal commercial terms or better to the Company. As at the date of the Subscription Agreement, the Company was indebted to the Subscriber for an aggregate amount of HK\$74,585,484 (including accrued interest).

As disclosed in the Letter from the Board, while the Subscriber has expressed to the Company his intention to capitalise the Shareholder's Loans and increase his equity investment in the Company given his confidence in the Group's future business performance, the Company considers that the subscription of Shares by the Subscriber, being an executive Director and the controlling Shareholder, reflects the confidence of the Subscriber towards the long-term and sustainable growth of the Group, and the continuing support of the Subscriber would be beneficial to the long term business development of the Group.

As disclosed in the 2023 Annual Report and the 2024 Interim Report, the Group recorded net cash used in operating activities of approximately HK\$59.0 million and HK\$20.1 million for the year ended 31 December 2023 and the six months ended 30 June 2024, respectively. As at 30 June 2024, the Company had net current liabilities of approximately HK\$92.4 million and bank and cash balances of approximately HK\$6.1 million. The gearing ratio (total liabilities over total assets) of the Group was approximately 44.0% and 45.9% as at 31 December 2023 and 30 June 2024, respectively. Excluding the gain on deconsolidation of a subsidiary for the year ended 31 December 2023, which was non-recurring in nature, the Group has been suffering from continuous losses in recent years.

Further, as disclosed in the Letter from the Board, based on the indebted amount owed by the Company to the Subscriber under the Shareholder's Loans of approximately HK\$74,585,484 as at the date of the Subscription Agreement and the Partial Repayment Amount of HK\$33,180,000 to be offset against the Subscription Price, upon Completion, it is expected that (i) the net current liabilities of the Group will be reduced by approximately HK\$33.18 million; (ii) the gearing ratio of the Group will be improved from approximately 45.9% as at 30 June 2024 to approximately 39.6% immediately after Completion; and (iii) the net assets position of the Group will be improved by approximately HK\$33.18 million.

Notwithstanding that there is no immediate need to repay the Shareholder's Loans given the maturity date thereof is 31 March 2025, taking into consideration that (i) the aforementioned current financial performance and position of the Group, and the level of cash and cash equivalents which is insufficient to repay the amount due to the Subscriber; and (ii) the auditors of the Group indicated in the 2023 Annual Report that despite its opinion is not modified, a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern, we are of the view that the Loan Capitalisation will allow the Company to settle the Partial Repayment Amount without obtaining additional bank borrowing and incurring additional finance costs, while retaining cash and existing financial resources of the Group which could in lieu be retained for general working capital and business development, and by capitalising the Subscription Price, the Group will be able to improve the gearing level and hence strengthen its financial position.

Financing alternatives

We have discussed with the Management and were given to understand that the Company has considered other fundraising alternatives available to the Group before resolving to the Subscription, such as debt financing and other means of equity financing such as rights issue or open offer.

In respect of debt financing and bank borrowings, taking into consideration that (i) one of the rationales for the Loan Capitalisation is to improve the Group's gearing level which could not be achieved by debt financing; (ii) it is estimated that finance costs of at least HK\$2.75 million would be incurred per year for obtaining additional bank borrowings to settle the Shareholders' Loan. We have discussed with the Management and were given to understand that the Company has approached and made enquiries through physical meetings and/or calls with the representatives of three commercial banks in Hong Kong for obtaining additional banking facilities and the interest rates offered by the banks were approximately 7.625% to 8.625% per annum subject to their internal review and approval process. In other words, it is estimated that the Company would incur additional finance costs of at least HK\$1.76 million per year when compared to the interest expenses of approximately HK\$0.99 million to be incurred under the Shareholder's Loans which bear interest of 2.75% per annum; (iii) the Loan Capitalisation does not incur any interest expenses and other costs on the Group (except for the professional fees and related expenses for the Subscription which amount to approximately HK\$0.5 million) as compared with bank financing or the issue of bonds; (iv) based on our review of the financial performance and condition of the Group as discussed in the paragraphs above, it may be difficult, uncertain and time-consuming for the Company to obtain additional bank borrowings; and (v) bank financing generally involves pledge of assets and/or securities which may reduce the Group's flexibility in managing its assets, we consider debt financing and bank borrowings being less favourable alternatives for the Group.

In respect of equity financing, considering (i) that pre-emptive fundraising methods such as rights issue or open offer may require lengthy discussions with potential commercial underwriters; (ii) additional costs, including but not limited to underwriting commission and other professional fees may be incurred; (iii) that based on our independent research on recent placing, rights issue and open offer conducted by other listed companies in Hong Kong which indicated that equity financings are often conducted at discount to recent closing price or average closing price of shares. As such, it would be difficult for the Company to engage placing agent for share placement or underwriter for rights issue/open offer without offering a considerable discount to attract subscription in light of the recent financial performance and financial position of the Group, the prevailing market prices and trading volume of the Shares; and (iv) that rights issue, open offer and placement of new Shares may be subject to underwriting uncertainty and market risk, we consider equity financing being less favourable financing alternative for the Group.

Furthermore, the theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of the Loan Capitalisation is approximately 0.47%, represented by the theoretical diluted price of approximately HK\$0.1588 per Share to the benchmarked price of approximately HK\$0.1596 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (i) the closing price of HK\$0.158 per Share as quoted on the Stock Exchange on 12 November 2024, being the date of the Subscription Agreement; and (ii) the average closing price of HK\$0.1596 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day). As the Loan Capitalisation will not result in a theoretical dilution effect of 25% or more, the theoretical dilution effect of the Loan Capitalisation is in compliance with Rule 7.27B of the Listing Rules.

In view of the foregoing, in particular the time and costs incurred, and the uncertainties involved for the debt financing and equity financing as compared to that of the Loan Capitalisation, we are of the view that the Subscription is comparatively a more appropriate and viable means of settlement in light of the Group's circumstances.

Having considered (i) the Subscriber has expressed his intention to capitalise the Shareholder's Loans and increase his equity investment in the Company given his confidence in the Group's future business performance; (ii) the recent financial position of the Group as mentioned above; (iii) debt financing and bank borrowings would increase the finance costs of the Group, rather than lowering the gearing level of the Group; (iv) other equity financings may require attractive discount to the current market price of the Shares and are relatively less cost effective as compared to the Subscription; (v) the Loan Capitalisation will settle the Partial Repayment Amount and improve the Group's gearing level without depleting its existing financial resources; and (vi) the analysis of the Subscription Price as discussed in the paragraph headed "4. Analysis of the Subscription Price" below, we are of the view and concur with the Directors' view that, although the Loan Capitalisation is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Subscription Agreement

The principal terms of Subscription Agreement are summarised as follow:

Date

12 November 2024 (after trading hours of the Stock Exchange)

Parties

The Company (as the issuer) and Mr. Chen Jianwen (as the Subscriber)

Number of Subscription Shares

The Subscription Shares represent approximately 88.34% of the existing number of issued Shares as at the Latest Practicable Date and approximately 46.90% of the enlarged issued share capital of 447,715,999 Shares immediately following Completion, assuming that there will be no change in the total number of issued Shares (other than the issue of the Subscription Shares) between the Latest Practicable Date and Completion.

Based on the closing price of the Shares of HK\$0.16 per Share on the Last Trading Day, the Subscription Shares have a total market value of HK\$33,600,000 and an aggregate nominal value of HK\$2,100,000 (after taking into account the effect of the Capital Reorganisation).

The Subscription Shares will be allotted and issued under the Specific Mandate to be obtained at the EGM.

Subscription Price

The Subscription Price is HK\$0.158 per Subscription Share, and the aggregate Subscription Price of all Subscription Shares of approximately HK\$33,180,000 payable by the Subscriber shall be satisfied by way of offsetting against the Partial Repayment Amount of HK\$33,180,000. As at the date of the Subscription Agreement, the outstanding principal amount and the accrued interest under the Shareholder's Loans amounted to approximately HK\$74,585,484. Upon Completion, the amount of HK\$33,180,000 under the Shareholder's Loans shall be deemed to have been repaid.

The Subscription Price represents:

- (i) the closing price of HK\$0.158 per Share as quoted on the Stock Exchange on 12 November 2024, being the date of the Subscription Agreement;
- (ii) a discount of approximately 1.00% to the average closing price of approximately HK\$0.1596 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 12.22% to the closing price of HK\$0.180 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a discount of approximately 86.72% to the Company's unaudited consolidated net asset value per Share as at 30 June 2024 of approximately HK\$1.19 (based on the equity attributable to the Shareholders of approximately HK\$282.4 million as at 30 June 2024 and 237,715,799 Shares in issue as at the Latest Practicable Date).

The net Subscription Price (after deduction of all professional fees and related expenses) is estimated to be approximately HK\$0.155 per Subscription Share. The professional fees and related expenses for the Subscription, which amount to approximately HK\$0.5 million (representing approximately 1.51% of the aggregate Subscription Price), will be settled by the Company in cash.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to, among other things, the outstanding principal amount and accrued interest under the Shareholder's Loans, the prevailing market price of the Shares and the financial position of the Group.

Ranking of the Subscription Shares

The Subscription Shares when allotted and issued, shall rank *pari passu* in all respects among themselves free from all liens, charges, guarantee, adverse interests and adverse claims, and with the Shares in issue on the date of allotment and issue of the Subscription Shares including all dividends declared or payable or distribution made or proposed on or after the Completion Date.

Conditions Precedent

Completion is conditional upon the following conditions being fulfilled or waived (if applicable):

- (A) the Capital Reorganisation becoming effective;
- (B) the Board having passed and approved the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder;
- (C) the Independent Shareholders having approved and passed at the EGM, the necessary resolutions to approve the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Subscription Shares);
- (D) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Subscription Shares and such approval and permission having not subsequently been revoked or withdrawn prior to the commencement of dealings in the Subscription Shares on the Stock Exchange;
- (E) the allotment, issue and subscription of the Subscription Shares not being prohibited by any statute, order, rule, regulation, ruling, directive or request promulgated or issued after the date of the Subscription Agreement by any legislative, executive or regulatory body or authority (including the Stock Exchange and the Securities and Futures Commission) which is applicable to the Company;
- (F) the representations and warranties given by the Company under the Subscription Agreement remaining true and accurate in all material respects, and not misleading in any material respect as at the Completion Date; and
- (G) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder having been obtained.

Save for condition (F) above which can be waived by the Subscriber by notice in writing to the Company, none of the conditions set out above may be waived by the Company or the Subscriber. If the conditions set out above are not fulfilled or waived (if applicable) on or before the Long Stop Date (being 31 December 2024, which may be extended by agreement in writing between the parties to the Subscription Agreement), the Subscription Agreement shall terminate and neither of the parties shall have any claim against the other for costs, damages, compensation or otherwise save for any antecedent breach of the Subscription Agreement.

As at the Latest Practicable Date, except condition (B) which has been fulfilled, none of the other conditions set out above has been fulfilled. The fulfilment of condition (A) is in turn conditional upon the fulfilment of certain conditions, details of which are set out in the sections headed "Letter from the Board – Proposed Share Consolidation – Conditions of the Share Consolidation" and "Letter from the Board – Capital Reduction and Sub-division – Conditions for Capital Reduction and Sub-division" in the circular of the Company dated 6 September 2024. As at the Latest Practicable Date, the progress of fulfilment of such conditions is as follows:

- (a) the Share Consolidation, the Capital Reduction and the Sub-division were approved by the Shareholders at an extraordinary general meeting of the Company held on 30 September 2024;
- (b) the Share Consolidation had become effective on 3 October 2024; and
- (c) a petition was presented to the Grand Court of the Cayman Islands (the "**Court**") to apply for an order confirming the Capital Reduction. Pursuant to the directions given by the Court, the hearing of the petition for confirmation of the Capital Reduction has been held on 18 December 2024.

Further announcement will be made by the Company upon the Capital Reorganisation becoming effective.

In terms of condition (D), application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Completion

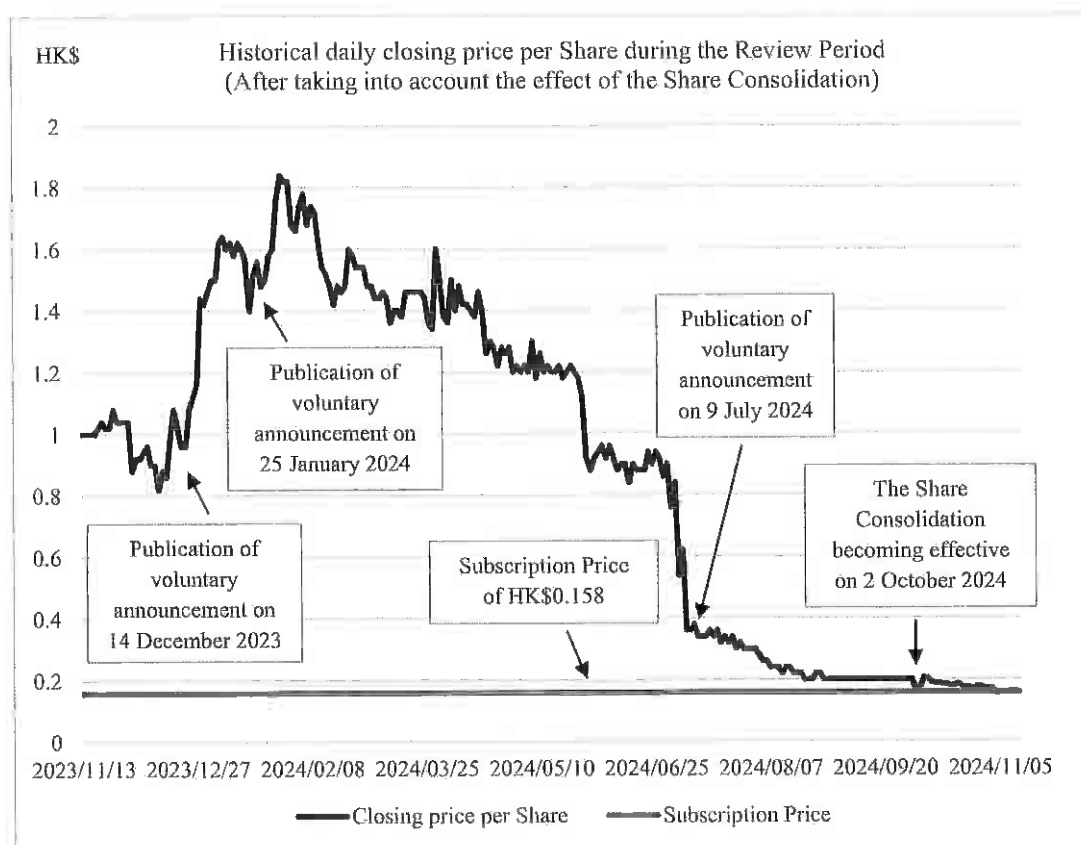
Completion will take place on the third Business Day after the date on which the last condition has been fulfilled or waived (as the case may be), or such other date as the parties may agree in writing. At Completion, the Company will allot and issue 210,000,000 Subscription Shares to the Subscriber, and the Subscriber will pay to the Company the Subscription Price with an aggregate amount of HK\$33,180,000 to be satisfied by way of offsetting against the Partial Repayment Amount of HK\$33,180,000. As at the date of the Subscription Agreement, the outstanding principal amount and the accrued interest under the Shareholder's Loans amounted to approximately HK\$74,585,484. Upon Completion, the amount of HK\$33,180,000 under the Shareholder's Loans shall be deemed to have been repaid.

4. Analysis of the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 13 November 2023 to 12 November 2024 (being a period of approximately 12 months prior to and including the date of the Subscription Agreement, the “Review Period”) and compared with the Subscription Price. We consider the Review Period is adequate, fair and representative to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the daily closing prices of the Shares, which can reflect the correlation between the recent business performance of the Group and the latest market reaction in the Share price.

(a) Analysis on historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period, after taking into account the effect of the Share Consolidation:



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

As shown in the chart above, during the Review Period, the daily closing prices of the Shares ranged from HK\$0.155 per Share after the Share Consolidation becoming effective (the “**Lowest Closing Price**”) recorded on 4 November 2024 to HK\$1.840 per Share after the Share Consolidation becoming effective (the “**Highest Closing Price**”) recorded on 29 January 2024, with the average closing price of the Shares amounted to approximately HK\$0.892 per Share after the Share Consolidation becoming effective (the “**Average Closing Price**”).

The Share price fluctuated between HK\$0.820 per Share after the Share Consolidation becoming effective and HK\$1.080 per Share after the Share Consolidation becoming effective from 13 November 2023 to 14 December 2023. On 14 December 2023, the Company published the voluntary announcement in respect of the entering into of (i) the merchant referral agreement with Luxey International (Holdings) Limited (“**Luxey Online**”), pursuant to which Luxey Online shall refer potential merchants to the global crossborder e-commerce platform “HKMall 香港貓” (“**HKMall**”) managed and operated by the Group; and (ii) the non-binding memorandum of understanding with Luxey Online in relation to a potential cooperation, pursuant to which Luxey Online shall provide financing facilities to the merchants of HKMall. After that, the Share price demonstrated an increasing trend.

On 25 January 2024, the Company published the voluntary announcement in respect of the approval from the Town Planning Board for the proposed comprehensive residential development with minor relaxation of maximum plot ratio and building height restrictions, and the Share price reached the Highest Closing Price on 29 January 2024. Subsequently, the Share price showed a gradual decreasing trend and dropped to HK\$0.360 per Share after the Share Consolidation becoming effective on 8 July 2024. As disclosed in the voluntary announcement of the Company dated 9 July 2024, the Board was not aware of any reasons for the Share price and trading volume movements or of any information which must be announced to avoid a false market in the Company’s securities or of any inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) for the recent decrease in the price and increase in trading volume of the Shares. During the period from 9 July 2024 to 26 August 2024, the closing prices of the Shares oscillated between HK\$0.20 per Share after the Share Consolidation becoming effective and HK\$0.38 per Share after the Share Consolidation becoming effective. Since 27 August 2024 and up to the date of the Share Consolidation becoming effective, the closing prices of the Shares maintained at around HK\$0.20 per Share. After the Share Consolidation becoming effective on 2 October 2024, the closing prices of the Share further dropped to below HK\$0.20 per Share and reached the Lowest Closing Price of HK\$0.155 per Share on 4 November 2024.

The Subscription Price of HK\$0.158 per Subscription Share represents (i) a premium of approximately 1.94% over the Lowest Closing Price of HK\$0.155 per Share after the Share Consolidation becoming effective; (ii) a discount of approximately 91.41% to the Highest Closing Price of HK\$1.840 per Share after the Share Consolidation becoming effective; and (iii) a discount of approximately 82.28% to the Average Closing Price of approximately HK\$0.892 per Share after the Share Consolidation becoming effective.

Notwithstanding that the Subscription Price of HK\$0.158 per Subscription Share represents a discount of approximately 82.28% to the Average Closing Price and a discount of approximately 86.72% to the Company's unaudited consolidated net asset value per Share as at 30 June 2024 of approximately HK\$1.19, taking into consideration that (i) the Subscription Price falls within the aforesaid historical closing price range (after taking into account the effect of the Share Consolidation) during the Review Period; (ii) the Subscription Price represents the closing price of HK\$0.158 on the date of the Subscription Agreement and a slight discount of approximately 1.00% over the average closing price of approximately HK\$0.1596 per Share for the last five trading days up to and including the Last Trading Day, respectively; (iii) as shown in the chart above, the closing price of the Shares demonstrated a downward trend over the Review Period; (iv) the recent plummet of the closing price of the Shares; and (v) the aforementioned current financial performance and position of the Group, which is insufficient to repay the amount due to the Subscriber as analysed in the section headed "2. Reasons for and benefits of the Loan Capitalisation and use of proceeds" above, we are of the view that the Subscription Price is fair and reasonable from the perspective of historical trend of the closing prices of the Shares.

(b) Review on trading liquidity of the Shares

The following table sets out (i) the average daily trading volume of the Shares; and (ii) the percentage of the average daily trading volume of the Shares to total number of issued Shares as at the end of the month/period during the Review Period, after taking into account the effect of the Share Consolidation:

	Total trading volume of the Shares for the month/period	Number of trading days	Average daily trading volume of the Shares for the month/period	Percentage of the average daily trading volume over total number of issued Shares as at the end of the month/ period
2023				
November (from 13 November)	813,880	14	58,134	0.025%
December	2,548,650	19	134,139	0.056%

	Total trading volume of the Shares for the month/period	Number of trading days	Average daily trading volume of the Shares for the month/period	Percentage of the average daily trading volume over total number of issued Shares as at the end of the month/ period
2024				
January	5,102,460	22	231,930	0.098%
February	2,360,700	19	124,247	0.052%
March	723,910	20	36,196	0.015%
April	1,971,195	20	98,560	0.042%
May	13,702,430	21	652,497	0.275%
June	7,856,590	19	413,505	0.174%
July	73,980,270	22	3,362,740	1.415%
August	26,546,490	22	1,206,659	0.508%
September	5,292,400	19	278,547	0.117%
October	18,720,770	21	891,465	0.375%
November (up to the date of the Subscription Agreement)	3,147,120	8	393,390	0.166%
Maximum			3,362,740	1.415%
Minimum			36,196	0.015%
Average			606,308	0.255%

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

As illustrated from the table above, the average trading volume of the Shares was low, with a range from 36,196 Shares to 3,362,740 Shares during the Review Period, representing approximately 0.015% to 1.415% of the total number of Shares in issue as at the end of relevant month/period. It illustrates that the trading volume of the Shares was relatively thin during the Review Period, which might be affected by various factors such as market sentiment. The relatively low trading volume suggests that it would be difficult for the Company to pursue sizeable equity financing alternative in stock market without providing considerable discount.

(c) *Market comparables analysis*

As part of our analysis, we have, on a best effort and exhaustive basis, conducted an analysis of the transactions involve subscription of new shares (excluding transactions involving (i) issue of new shares under share award plan or for restructuring scheme, emolument or acquisition purposes, or A shares or domestic shares; and (ii) whitewash waiver applications or general offer obligations under the Hong Kong Code on Takeovers and Mergers) under specific mandate for cash consideration and/or capitalisation as announced by the companies listed on the Stock Exchange for the period from 13 November 2023 to 12 November 2024 (being approximately 12 months prior to and including the date of the Subscription Agreement). The approximate 12-month timeframe was adopted to demonstrate the recent market trends with sufficient and representative number of comparable transactions (the “Comparables”) and thus, we consider the timeframe is reasonable and representative. Based on the aforesaid criteria and using our best effort, we have identified 25 Comparables which we consider to be exhaustive.

Independent Shareholders should note that the businesses, operations, financial positions and prospects of the Company are not the same as those of the Comparables. We have not conducted any independent investigation with regards to the businesses, operations, financial positions and prospects of the companies. Despite the subject companies underlying the Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, we would still consider, in light of our selection criteria, capturing recent issues of new shares under specific mandate by listed companies for cash consideration under similar market conditions and sentiments can provide us with a general reference on the recent market trend of the premium/discount of issue prices of new shares over/to the market prices of the relevant shares for this type of transaction on the equity capital market in Hong Kong.

Date of announcement	Stock code	Company name	Connected transaction	Gross proceeds	Subscription shares as a percentage of the then issued shares (approx. %)	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/ up to the date of agreement (approx. %)	
						Premium/ (Discount) of the subscription price over/to the closing price per share on/prior to the date of the agreement (approx. %)	Premium/ (Discount) of the subscription price over/to the
24 October 2024	8337	Directel Holdings Limited	Yes	12,000,000	32.5	138.1 (Note 8)	138.1 (Note 8)
21 October 2024	8370	Zhi Sheng Group Holdings Limited	Yes (Note 1)	13,500,000	49.6	(60.5) (Note 8)	(50.6) (Note 8)
10 October 2024	1520	Virtual Mind Holding Company Limited	Yes	10,000,000	4.0	13.6	38.9
4 October 2024	8051	CircuTech International Holdings Limited	Yes (Note 2)	20,304,418	11.1	26.6	30.3
4 October 2024	8051	CircuTech International Holdings Limited	Yes (Note 2)	7,815,000	22.2	(2.6)	0.3
4 September 2024	8646	China Hongguang Holdings Limited	Yes (Note 3)	75,000,000	54.5	(42.8)	(34.4)
2 September 2024	8350	Well Link Securities Holdings Limited	Yes	40,000,000	20.0	65.6 (Note 8)	66.9 (Note 8)
8 July 2024	209	Winshue Science Company Limited	Yes	4,600,000	18.8	(9.1)	(9.1)
17 June 2024	1176	Zhuguang Holdings Group Company Limited	Yes	325,000,000	22.5	21.2	18.3
7 June 2024	1802	Wenye Group Holdings Limited	Yes (Note 4)	13,068,000	40.0	(3.5)	(14.1)
22 May 2024	8391	Cornerstone Technologies Holdings Limited	Yes	16,005,120	2.8	12.3	20.8
26 April 2024	2250	B.Duck Semk Holdings International Limited	No	17,000,000	1.6	(6.0)	(5.7)
19 April 2024	515	China Silver Technology Holdings Limited	No	35,640,000	41.1	(16.3)	(16.2)
15 March 2024	860	Apollo Future Mobility Group Limited	Yes (Note 5)	205,000,000	77.3	(9.8)	(16.4)
7 March 2024	931	China HK Power Smart Energy Group Limited	Yes	300,000,000	11.7	0	1.42
9 February 2024	618	Peking University Resources (Holdings) Company Limited	Yes	34,200,000	5.8	(9.5)	(19.0)
2 February 2024	1520	Virtual Mind Holding Company Limited	No	40,000,000	18.7	(23.7)	(24.8)
30 January 2024	274	Renaissance Asia Silk Road Group Limited	No	22,400,000	37.9	(39.1)	(31.7)
26 January 2024	6680	JL Mag Rare-earth Co., Ltd.	Yes (Note 6)	220,273,523	2.0	10.4	6.6
12 January 2024	2309	ZO Future Group	Yes (Note 7)	93,600,000	5.7	(15.0)	(11.4)

Date of announcement	Stock code	Company name	Connected transaction	Gross proceeds	Subscription shares as a percentage of the then issued shares (approx. %)	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/ up to and including the date of agreement (approx. %)	Premium/ (Discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/ up to and including the date of agreement (approx. %)
22 December 2023	8391	Cornerstone Technologies Holdings Limited	Yes	16,003,120	2.2	17.0	14.0
30 November 2023	468	Greatview Aseptic Packaging Company Limited	No	114,206,760	5.3	(4.7)	(3.6)
24 November 2023	1797	East Bay Holding Limited	Yes	1,630,434,783	5.1	0	5.9
17 November 2023	1420	Chuan Holdings Limited	Yes	15,339,549	20.0	0	0.54
14 November 2023	863	BC Technology Group Limited	No	712,880,000	42.8	(22.76)	(4.8)
		Maximum				26.6	38.9
		Minimum				(42.8)	(34.4)
		Average				(3.9)	(2.4)
		Median				(3.5)	(3.6)
		The Subscription		33,180,000	88.3	0.0	(1.0)

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

Notes:

- On 21 October 2024, Zhi Sheng Group Holdings Limited entered into two separate subscription agreements with a connected person and an independent third-party subscriber, respectively. Although the two separate subscription agreements with the connected person and the independent third-party subscriber are not inter-conditional to each other, the terms of the subscription provided by Zhi Sheng Group Holdings Limited to the connected person and the independent third-party subscriber are the same, they are considered as one sample in our analysis.
- On 4 October 2024, CircuTech International Holdings Limited entered into one subscription agreement with two batches of subscription shares with the connected person. The two batches of subscription shares are under the same subscription agreement, but they are (i) inter-conditional to each other and (ii) under different subscription prices, they are considered as two separate samples in our analysis.
- On 4 September 2024, China Hongguang Holdings Limited entered into two separate subscription agreements with a connected person and independent third-party subscribers, respectively. Although the two separate subscription agreements with the connected person and the independent third-party subscribers are not inter-conditional to each other, the terms of the subscription provided by China Hongguang Holdings Limited to the connected person and the independent third-party subscribers are the same, they are considered as one sample in our analysis.
- On 7 June 2024, Wenye Group Holdings Limited entered into two separate subscription agreements with two connected persons and three separate subscription agreements with three independent third party subscribers. Although the subscription agreements with the two connected persons and the subscription agreements with the three independent third-party subscribers are not inter-conditional to each other, the terms of the subscription provided by Wenye Group Holdings Limited to the two connected persons and the three independent third-party subscribers are the same, they are considered as one sample in our analysis.

5. On 15 March 2024, Apollo Future Mobility Group Limited entered into one subscription agreement with two connected persons and seven independent third-party subscribers. All subscription shares are under the same subscription agreement and the terms of the subscription provided by Apollo Future Mobility Group Limited to the connected persons and the independent third-party subscribers are the same, they are considered as one sample in our analysis.
6. On 26 January 2024, JL Mag Rara-earth Co., Ltd. announced the proposed issuance of shares to target subscribers including the connected person and independent third-parties subscribers. Although save for the share subscription agreement with the connected person, JL Mag Rara-earth Co., Ltd. has not yet identified any other investors or placing agent as at the date of announcement, it is expected that the terms of the subscription agreements to be entered with independent third-parties subscribers shall be under the same terms of the share subscription agreement entered to the connected person. Thus, they are considered as one sample in our analysis.
7. On 12 January 2024, ZO Future Group entered into two separate subscription agreements with a connected person and an independent third-party subscriber, respectively. Although the two separate subscription agreements with the connected person and the independent third-party subscriber are not inter-conditional to each other, the terms of the subscription provided by ZO Future Group to the connected person and the independent third-party subscriber are the same, they are considered as one sample in our analysis.
8. These figures have been excluded from the computations as they appear to be abnormally high or low as compared to the rest of the Comparables and are considered as outliers which may skew the overall results.

As illustrated in the table above, the subscription price of the Comparables:

- (i) ranged from a discount of approximately 42.8% to a premium of approximately 26.6% (the “**Market Range**”), with an average of a discount of approximately 3.9% (the “**Market Average**”) and a median of a discount of approximately 3.5% (the “**Market Median**”), to/over their respective closing prices on/prior to the date of agreement;
- (ii) ranged from a discount of approximately 34.4% to a premium of approximately 38.9% (the “**5-Day Market Range**”), with an average of a discount of approximately 2.4% (the “**5-Day Market Average**”) and a median of a discount of approximately 3.6% (the “**5-Day Market Median**”), to/over their average closing prices for the five (5) consecutive trading days prior to/up to and including the date of agreement.

Comparing with the Comparables:

- (i) the Subscription Price represents the closing price of HK\$0.158 per Share after the Share Consolidation becoming effective as quoted on the Stock Exchange on 12 November 2024, being the date of the Subscription Agreement, and is within the Market Range; and
- (ii) the discount of the Subscription Price to the last five trading days up to and including the Last Trading Day is within the 5-Day Market Range.

Notwithstanding that the Market Range and the 5-Day Market Range are wide, having considered the following factors:

- (i) the financial performance and position of the Group, in particular, the drop in the Group's turnover and profit for the year ended 31 December 2023 and the six months ended 30 June 2024, as well as the low bank and cash balance position of approximately HK\$6.1 million as at 30 June 2024, as discussed in the paragraph headed "2. Reasons for and benefits of the Loan Capitalisation and use of proceeds";
- (ii) the Subscription Price falls within the historical closing price range during the Review Period as illustrated in the paragraph headed "4 (a) Analysis on historical Share price performance";
- (iii) the premium/discount of Subscription Price of 0% over/to the closing price of HK\$0.158 per Share after the Share Consolidation becoming effective as quoted on the Stock Exchange on 12 November 2024, being the date of the Subscription Agreement, is above the Market Average and Market Median;
- (iv) the discount of the Subscription Price to the last five trading days up to and including the Last Trading Day is above the 5-Day Market Average and 5-Day Market Median;
- (v) the decreasing trend of the Share price during the Review Period as illustrated in the paragraph headed "4 (a) Analysis on historical Share price performance"; and
- (vi) the relatively low liquidity of the Shares as discussed in the paragraph headed "4 (b) Review on trading liquidity of the Shares" above,

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

5. Potential dilution effect on the shareholding of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the completion of the Loan Capitalisation; (iii) immediately after the completion of the Loan Capitalisation and upon full exercise of the subscription rights attaching to the unlisted warrants held by Karfond, assuming that there are no changes in the total number of issued Shares between the Latest Practicable Date, the completion of the Loan Capitalisation and the date of the completion of the Loan Capitalisation upon full exercise of the Subscription rights attaching to the unlisted warrants held by Karfond, for illustration purposes only:

Shareholder	As at the Latest Practicable Date		Immediately after the completion of the Loan Capitalisation (Note 1)		Immediately after the completion of the Loan Capitalisation and upon full exercise of the subscription rights attaching to the unlisted warrants held by Karfond (Notes 2,3 and 4)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
The Subscriber	125,297,293	52.71	335,297,293	74.89	335,297,293	70.32
Ms. Chiu Lai Kuan						
Susanna	50,000	0.02	50,000	0.01	50,000	0.01
Public shareholders						
Karfond	3,064,200	1.29	3,064,200	0.69	32,143,147	6.74
Other public Shareholders (Note 6)	<u>109,304,306</u>	<u>45.98</u>	<u>109,304,306</u>	<u>24.41</u>	<u>109,304,306</u>	<u>22.93</u>
Total	<u>237,715,799</u>	<u>100.00</u>	<u>447,715,799</u>	<u>100.00</u>	<u>476,794,746</u>	<u>100.00</u>

Notes:

1. The completion of the Loan Capitalisation is conditional upon, among others, the Capital Reorganisation having become effective. The Share Consolidation, the Capital Reduction and the Sub-division were approved by the Shareholders at the extraordinary general meeting of the Company held on 30 September 2024. The Share Consolidation have become effective on 3 October 2024, whereas the Capital Reduction and Sub-division are expected to become effective on 30 December 2024, subject to the conditions thereto being fulfilled, details of which are set out in the announcement and circular of the Company dated 3 September 2024 and 6 September 2024, respectively.
2. On 29 June 2022, the Company issued a total of 581,578,947 unlisted warrants issued to Karfond conferring rights to subscribe for 581,578,947 underlying Shares (the "Warrants"). For further details of the Warrants, please refer to the announcement and circular of the Company dated 28 March 2022 and 7 June 2022, respectively.
3. The maximum number of Shares that Karfond may subscribe for (assuming that Karfond exercises the subscription rights attaching to the Warrants in full) under the terms of the Warrants becomes 29,078,947 Shares.

4. Pursuant to the terms of the Warrants, the rights attaching thereto for the subscription of Shares shall not be exercised unless immediately after such exercise there will be sufficient public float of the Company in accordance with the Listing Rules. Assuming the rights attaching thereto for the subscription of Shares are fully exercised after the completion of the Loan Capitalisation, the number of Shares that will be allotted and issued to Karfond is 29,078,947 Shares, as a result of which Karfond will hold a total of 32,143,147 Shares, representing approximately 6.74% of the enlarged issued share capital of the Company.
5. Save for the Warrants, the Company does not have any outstanding options, warrants or other convertible securities that are convertible into the Shares.
6. This includes the 350,000 Shares held in the estate of Mr. Wan Yim Keung, Daniel, who was an executive Directors before he passed away in August 2024. For further details, please refer to the announcement of the Company dated 28 August 2024.

As illustrated in the above table, the shareholding of other public shareholders will be reduced from approximately 45.98% as at the Latest Practicable Date to approximately 24.41% immediately after the allotment and issue of the Subscription Shares or approximately 22.93% immediately after the allotment and issue of Shares upon full exercise of the subscription rights attaching to the unlisted warrants held by Karfond (subject to the compliance with the public float requirement), assuming there are no other change in the total number of issued Shares between the Latest Practicable Date, the allotment and issue of the Subscription Shares and the date of the allotment and issue of Shares upon full exercise of the Subscription rights attaching to the unlisted warrants held by Karfond.

Nevertheless, taking into account (i) the reasons for and benefits of the Loan Capitalisation as discussed above; (ii) the Subscription is an appropriate settlement method currently available to the Group; and (iii) the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the aforementioned dilution effect on the shareholding of the Group is acceptable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder (including the grant of Specific Mandate) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Group, the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder (including the grant of Specific Mandate) 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 resolution(s) to be proposed at the EGM to approve the Subscription Agreement, the Loan Capitalisation, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder (including the grant of Specific Mandate).

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited



Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 20 years of experience in the securities and investment banking industries.