

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sterling Group Holdings Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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Sterling Group Holdings Limited
美臻集團控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1825)

- (1) MAJOR AND CONNECTED TRANSACTION;
(2) CONTINUING CONNECTED TRANSACTION AND
CONNECTED TRANSACTION;
(3) MAJOR TRANSACTION;
(4) CONTINUING CONNECTED TRANSACTION;
AND
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders**



SOMERLEY CAPITAL LIMITED

A notice convening the EGM to be held at 19/F., Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong on 14 March 2025 at 3:00 p.m. is set out on pages 82 to 85 of this circular. A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.sterlingapparel.com.hk. Whether or not you are able to attend such meeting, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of the power of attorney or authority, to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjourned meeting thereof (as the case may be) should you so wish.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	7
Letter from the Independent Board Committee	40
Letter from the Independent Financial Adviser	42
Appendix I — Financial Information of the Group	75
Appendix II — General Information	78
Notice of Extraordinary General Meeting	82

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Agreement”	the agreement dated 30 August 2024 entered into among the SAL, Santai and JPO (as supplemented by the extension letter dated 20 February 2025 entered into among the parties to the Agreement)
“Agreements”	collectively the Loan Agreement, the Agreement, the Second Agreement and the Guaranty Fee Agreement
“Announcements”	the announcements of the Company dated 24 November 2023, 3 June 2024 and 30 August 2024
“Asiamax”	Asiamax Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday and/or a Sunday and/or any public holiday or days on which a tropical cyclone warning No. 8 or above or a “black rainstorm signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 6:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Chiefway”	Chiefway International Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by the Company
“Citibank Facilities”	various facilities with aggregate facilities limit of not exceeding US\$3,850,000 (equivalent to approximately HK\$30,030,000) granted by Citibank Hong Kong to SAL and Chiefway
“Company”	Sterling Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 1825)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 19/F, Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong on Friday, 14 March 2025 at 3:00 p.m. for the Independent Shareholders to, among other things, consider and, if thought fit, approve the Loan Agreement, the Agreement, the Second Agreement, the Guaranty Fee Agreement and the transactions contemplated thereunder
“Facilities”	collectively, the HS Facilities, the HSBC Facilities and the Citibank Facilities
“First Letter of Support”	the first letter of support executed by SAL in favour of JPO dated 18 November 2022, in relation to, among other things, (i) supply of Inventories to JPO; and (ii) non-enforcement of SAL’s right to collect from JPO any Trade Payables until JPO receives its initial public offering proceeds
“Fourth Novation Agreement”	the fourth novation agreement entered into between Santai, JPO and SAL dated 1 October 2023
“Group”	the Company and its subsidiaries from time to time
“Guarantors”	collectively, the First Guarantor and the Second Guarantor
“Guaranty Fee Agreement”	the guaranty fee agreement entered into among Mr. Choi, Ms. Wong and the Company dated 30 August 2024 (as supplemented by the extension letter dated 20 February 2025 entered into among the parties to the Guaranty Fee Agreement)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HS Facilities”	various facilities with aggregate facilities limit of not exceeding HK\$145,000,000 granted by Hang Seng Bank Limited to SAL and Chiefway

DEFINITIONS

“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“HSBC Facilities”	various facilities with aggregate facilities limit of not exceeding HK\$75,000,000 granted by HSBC to SAL and Chiefway
“Independent Board Committee”	the independent committee of the Board formed by the Company, which comprises all the independent non-executive Directors, namely Ms. Zhang Lingling, Mr. Chow Yun Cheung and Mr. Zhao Chuan
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Shareholders and the Independent Board Committee in respect of the Loan Agreement, the Agreement, the Second Agreement, the Guaranty Fee Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than any Shareholders or any of their respective associates with a material interest in the Loan Agreement, the Agreement, the Second Agreement and the Guaranty Fee Agreement who are required to abstain from voting at the EGM under the Listing Rules
“Inventories”	the inventories including apparel products, and such other products of SAL as shall be agreed in writing by the parties hereto from time to time
“JPO”	JP Outfitters Inc., a company incorporated in Delaware, the U.S.
“JPO LLC”	JP Outfitters, LLC, a company incorporated in Delaware, the U.S., with limited liability and was converted to JPO as a Delaware corporation in December 2022

DEFINITIONS

“JPO Shares Charge”	the charge of 3,139,367 shares of JPO, the value of which is sufficient to cover the aggregate of (i) the entire amount of the Santai Advances; (ii) the entire amount of the Financial Assistance; and (iii) the entire amount of the Second Financial Assistance, by Santai in favour of SAL executed by Santai on 10 January 2025 (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders’ approval of the Agreements at the EGM) as a collateral to ensure the due performance by Santai of its obligations under the Loan Agreement, the Agreement and the Second Agreement
“Latest Practicable Date”	20 February 2025, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“Letters of Support”	a total of three letters of support executed by SAL in favour of JPO dated 13 April 2023, 20 September 2023 and 28 December 2023, in relation to, among other things, non-enforcement of SAL’s right to collect from JPO any MT Trade Payables
“License Agreement”	the license agreement dated 30 May 2019 entered into between Asiamax and JPO LLC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan Agreement”	the loan agreement dated 30 August 2024 entered into between SAL and Santai, as supplemented by the Supplemental Agreement
“Mr. Choi” or “First Guarantor”	Mr. Choi Siu Wai William
“Mr. Siu”	Mr. Siu Yik Ming, an executive Director
“Ms. Wong” or “Second Guarantor”	Ms. Wong Mei Wai Alice, an executive Director
“MT Repayment Date”	being the date falling two (2) years from the date of the Second Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance)

DEFINITIONS

“MT Term”	a period starting from 13 April 2023 and ending on the date of termination of the Letters of Support (i.e. 30 August 2024, being the date of the Second Agreement)
“MT Trade Payables”	JPO’s trade payables for Inventories supplied by SAL to JPO during the MT Term
“Purchase Order”	an order for the purchase of the Inventories given by the JPO to SAL in the manner specified in the Agreement
“Purchase Price”	the purchase price with reference to the existing prices of similar Inventories in the market in respect of each Inventory as agreed between JPO and SAL from time to time
“Repayment Date”	the date falling two (2) years from the date of the Loan Agreement
“SAL”	Sterling Apparel Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by the Company
“Sales Cap”	the maximum amount of Inventories supplied by SAL to JPO during the Supply Term
“Santai”	Santai Global Asset Management Ltd, a company incorporated in Hong Kong with limited liability
“Santai Advances”	the advances made by the Group to Santai or JPO and payments made by the Group on behalf of JPO from 15 December 2022 to 27 October 2023 in the aggregate sum of US\$4,212,811 (equivalent to approximately HK\$32,859,926)
“Second Agreement”	the second agreement dated 30 August 2024 entered into among the SAL, Santai and JPO (as supplemented by the extension letter dated 20 February 2025 entered into among the parties to the Second Agreement)
“Share(s)”	ordinary Share(s) of the Company
“Shareholder(s)”	the holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Supplemental Agreement”	the supplemental agreement to the Loan Agreement dated 20 February 2025 entered into between SAL and Santai
“Supply Term”	a period starting from 18 November 2022 and ended on 23 March 2023
“Term”	term of the Guaranty Fee Agreement, being two years
“Third Novation Agreement”	the third novation agreement entered into between Santai, JPO and SAL dated 30 June 2023
“TP Repayment Date”	being the date falling two (2) years from the date of the Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance)
“Trade Payables”	JPO’s trade payables for Inventories supplied by SAL to JPO during the Supply Term
“U.S.”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

For the purpose of this circular, all amounts denominated in US\$ have been translated (for information only) into HK\$ using the exchange rate of US\$1.00:HK\$7.80. Such translation shall not be construed as a representation that amounts of US\$ were or may have been converted.

LETTER FROM THE BOARD

Sterling Group Holdings Limited

美臻集團控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1825)

Executive Directors:

Ms. Wong Mei Wai Alice (Chairperson)

Mr. Siu Yik Ming

Mr. Chung Sam Kwok Wai

Mr. Leung Ka Wai

Mr. Ma Jian

Registered Office:

3rd Floor, Century Yard

Cricket Square

P.O. Box 902

Grand Cayman KY1-1103

Cayman Islands

Independent non-executive Directors:

Ms. Zhang Lingling

Mr. Chow Yun Cheung

Mr. Zhao Chuan

Headquarters and principal of business

in Hong Kong:

18-19/F., Win Plaza

9 Sheung Hei Street

San Po Kong

Kowloon

Hong Kong

26 February 2025

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION;
(2) CONTINUING CONNECTED TRANSACTION AND
CONNECTED TRANSACTION;
(3) MAJOR TRANSACTION;
(4) CONTINUING CONNECTED TRANSACTION;
AND
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcements. The purpose of this circular is to provide you with, among other things, (i) further details of the Loan Agreement, the Agreement, the Second Agreement and the Guaranty Fee Agreement; (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser; and (iv) a notice of EGM.

* For identification purpose only

LETTER FROM THE BOARD

(1) MAJOR AND CONNECTED TRANSACTION

In accordance with Rule 14A.34 of the Listing Rules, SAL (a wholly-owned subsidiary of the Company) entered into the Loan Agreement with Santai, pursuant to which the Company and Santai agreed to, among other things, set out the terms of the Santai Advances in the aggregate sum of US\$4,212,811 (equivalent to HK\$32,859,926) subject to and upon the terms and conditions of the Loan Agreement (as supplemented by the Supplemental Agreement).

Loan Agreement

The principal terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are as follows:

Date:	30 August 2024
Parties:	(1) Sterling Apparel Limited (as the lender); and (2) Santai Global Asset Management Company Limited (as the borrower)
Principal amount of the Santai Advances:	US\$4,212,811 (equivalent to HK\$32,859,926)
Repayment:	Santai shall repay the Santai Advances in full in one lump sum together with all outstanding interest accrued thereon on the Repayment Date, being the date falling two (2) years from the date of the Loan Agreement. There is no penalty for prepayment of principal and relevant interest amount at any time.
Interest Rate:	Interest on the Santai Advances shall accrue from and including the date of the Loan Agreement at the interest rate of 7% per annum on the principal amount of the Santai Advances. All interest accrued will be payable in arrears in one lump sum as stipulated in the Loan Agreement when full repayment of the Santai Advances and the outstanding interests accrued thereon shall be repaid by Santai. Interest shall be calculated on the actual number of days elapsed and accrued on a daily basis.

LETTER FROM THE BOARD

The rate of interest of 7% per annum is determined after arm's length negotiation between SAL and Santai after taking into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans.

On the Repayment Date, SAL will be entitled to receive approximately HK\$4.6 million under the Loan Agreement.

If Santai fails to pay any sum payable under the Loan Agreement when due, Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis.

The rate of default interest of 10.5% per annum is determined after arm's length negotiation between the SAL and Santai after taking into account (i) the interest rate of 7% per annum on the principal amount of the Santai Advances; and (ii) premium to be charged by SAL to compensate for the default.

Conditions Precedent:

The Loan Agreement (as supplemented by the Supplemental Agreement) shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Loan Agreement and the transactions contemplated hereunder;
- (2) SAL having received from Santai (i) the original documentation(s) in relation to the JPO Shares Charge duly executed by Santai as a collateral to ensure the due performance by Santai of its obligations under the Loan Agreement; and (ii) a copy certified as true and correct by a director of Santai of the resolution(s) of the director(s) of Santai authorising the execution, delivery and performance of the Loan Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Loan Agreement and the JPO Shares Charge;

LETTER FROM THE BOARD

- (3) the representations and warranties given by Santai under the Loan Agreement remaining true and accurate in all respects; and
- (4) the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Loan Agreement).

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Loan Agreement may agree), the Loan Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder.

For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee have entered into a stock pledge agreement (the “**Stock Pledge Agreement**”), which is governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders’ approval of the Agreements at the EGM) and the condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied.

SAL is entitled to request Santai for immediate repayment of the principal amount and accrued interest (if any) of the Santai Advances in the event the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Loan Agreement may agree).

LETTER FROM THE BOARD

Completion of the Loan Agreement (as supplemented by the Supplemental Agreement) is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Loan Agreement).

Security:

The principal amount of the Santai Advances is secured by the JPO Shares Charge, being the charge of 3,139,367 shares of JPO, the value of which is sufficient to cover the aggregate of (i) the entire amount of the Santai Advances; (ii) the entire amount of the Financial Assistance; and (iii) the entire amount of the Second Financial Assistance, by Santai in favour of SAL executed by Santai (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) on 10 January 2025 as a collateral to ensure the due performance by Santai of its obligations under the Loan Agreement, the Agreement and the Second Agreement.

The aggregate number of JPO shares charged by Santai to SAL of 3,139,367 JPO shares was calculated based on the value of US\$2.71 per JPO share. The value of US\$2.71 per JPO share is based on the latest valuation of the fair market value of the common equity of JPO as at 1 June 2024 conducted by an independent professional valuer.

The aggregate number of JPO shares is determined based on the aggregate value of the collateral (i.e. 3,139,367 JPO shares of US\$2.71 per share in the total value of approximately US\$8,507,684) representing the total amount of the Santai Advances, the Financial Assistance and the Second Financial Assistance (i.e. HK\$66,359,926 or US\$8,507,683).

LETTER FROM THE BOARD

Having considered different valuation methodologies including income approach, market approach and cost approach, the valuer has adopted the income approach as the primary methodology used in arriving at a value for JPO's equity. The valuation methodology adopted by the independent valuer (recommended by JPO's Public Company Accounting Oversight Board ("PCAOB") auditor) follows the guidelines as required by SEC in JPO's SEC filing.

(i) After reviewing the valuation report and the underlying valuation methodologies; (ii) having considered JPO's PCAOB auditor and SEC accepted the valuation methodology; and (iii) considering the fact that JPO's valuation under this methodology was given a lower valuation (despite significant improvement in their financial conditions) simply because of their lack of current S-1 filing, compared with the last valuation requested by S-1 when JPO was an active S-1 filer, the Board (other than the independent non-executive Directors whose views are subject to the consideration of the Independent Financial Adviser's letter) considered the valuation to be fair and reasonable.

The Company would like to highlight that as mentioned by the independent valuer in its valuation report, there is no universal formula to determine an appropriate value for an illiquid, non-controlling interest in a closely held company and in arriving at a conclusion of value for the JPO shares, although the income approach was the primary methodology used, the valuer has also used public company market multiple method and similar transactions method of the market approach as a reasonable check to the income approach.

The total number of 3,139,367 pledged shares of common stock of JPO only represent approximately 20.9% of total issued share capital of JPO and therefore the valuation report and the underlying valuation methodologies will not constitute a profit forecast in respect of a company which will be a subsidiary of the Company and Rule 14.60A of the Listing Rules is not applicable.

LETTER FROM THE BOARD

Undertaking by Santai:

Santai undertakes to SAL that it will provide SAL with the original documentation(s) in relation to the JPO Shares Charge and the relevant copy certified as true and correct by a director of Santai of the resolution(s) of the director(s) of Santai authorising the execution, delivery and performance of the Loan Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Loan Agreement and the JPO Shares Charge as soon as practicable after the entering into of the Loan Agreement and by no later than the Latest Practicable Date. As at the Latest Practicable Date, SAL has not obtained the relevant original documentations in relation to the JPO Shares Charge and the certified true copies of the relevant resolutions. As per the discussion with Santai, the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM.

Santai further undertakes to SAL that, for so long as any part of the Santai Advances or interest thereon or any other amounts payable under the Loan Agreement remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;
- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and
- (3) it will procure JPO to produce and deliver to the SAL a copy of the financial statements of JPO upon request by SAL.

Events of default:

There shall be an event of default of the Loan Agreement if any one of the following events shall have occurred or is continuing:

- (1) Non-payment: Santai fails to pay any principal amount due from it under the Loan Agreement in the manner specified therein on the due date for payment, or fails to pay any accrued interest on the due date of payment; or

LETTER FROM THE BOARD

- (2) Other obligations: Santai commits any breach of or omits to observe any of its undertakings or obligations under the Loan Agreement and such breach or omission, if capable of remedy, is not remedied within ten (10) Business Days of notice to Santai from SAL requiring remedy of the same; or
- (3) Breach of representation: any representation or warranty made by Santai pursuant to the Loan Agreement is or proves to have been incorrect in any material respect when made and, if capable of remedy at the absolute discretion of SAL, is not remedied within ten (10) Business Days of notice to Santai from SAL requiring remedy of the same.

Upon the occurrence of an event of default and at any time thereafter, SAL may by notice in writing to Santai declare the Santai Advances, all interest accrued thereon and all other monies payable under the Loan Agreement to be forthwith due and payable whereupon the same shall be forthwith due and payable.

Supplemental Agreement

Asiamax, a wholly-owned subsidiary of the Company and JPO LLC entered into the License Agreement pursuant to which, among other things, Asiamax has been appointed as the exclusive manufacturer and/or sourcing agent for all apparel products and fashion accessories sold by JPO LLC bearing, incorporating or using any of the relevant intellectual property listed in the License Agreement for an initial term of 20 years (i.e. from 31 May 2019 to 31 May 2039). Details of the License Agreement are summarised in the announcement of the Company dated 31 May 2019.

The Company and Santai are of the view that the License Agreement would in effect give SAL the exclusive right to be the supplier of JPO with the first right of refusal for the purchase of apparel, garment accessories, textiles and other relevant products from manufacturers/factories and all other sources of supply worldwide and therefore render the condition precedent (3) of the Loan Agreement redundant and duplicative. SAL and Santai have therefore agreed to enter into the Supplemental Agreement to make certain amendments to the Loan Agreement.

LETTER FROM THE BOARD

The principal terms of the Supplemental Agreement are set out below:

Date: 20 February 2025

Parties: (1) Sterling Apparel Limited (as the lender); and
(2) Santai Global Asset Management Company Limited (as the borrower)

The Amendments

The Loan Agreement is hereby amended as follows:

- (a) the condition precedent (3) “SAL having entered into a written agreement with JPO to appoint SAL as its exclusive supplier with the first right of refusal for the purchase of apparel, garment accessories, textiles and other products as may be agreed by the parties from time to time from manufacturers/factories and all other sources of supply worldwide for a term of five years” of the Loan Agreement be deleted in its entirety; and
- (b) the long stop date for the satisfaction of the conditions precedent of the Loan Agreement be extended from 30 November 2024 to a date falling on or before 30 April 2025.

The long stop date of the Loan Agreement has been extended to 30 April 2025 after taking into account (i) the additional time required for the preparation of certain information in the circular, including but not limited to the statement of indebtedness; (ii) the notice period for convening an extraordinary general meeting of the Company; and (iii) the time required for pre-vetting of the circular.

Save as disclosed above, all other terms and conditions of the Loan Agreement remain unchanged and in full force and effect in all respects.

Reasons for and Benefits of Entering into the Loan Agreement

The Loan Agreement is entered into by SAL and Santai in accordance with Rule 14A.34 of the Listing Rules. The terms and conditions of the Loan Agreement, including the interest rate of 7% per annum, were negotiated and arrived at after arm’s length negotiations between SAL and Santai, having taken into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans. The Loan Agreement is entered into by SAL having regard to (i) the reasons and benefits of the grant of the Santai Advances as detailed in the Announcements; (ii) the interest income per annum to be received by SAL under the Loan Agreement being more favourable than that offered by banks in Hong Kong for a 1-year fixed deposit; and (iii) the repayment obligation of Santai under the Loan Agreement is secured by the JPO Shares Charge.

LETTER FROM THE BOARD

Based on the latest financial position of Santai and JPO and the discussions with Santai and JPO, it is revealed that Santai and JPO may not be able to repay in full the aggregate sum of the Santai Advances, the Financial Assistance and the Second Financial Assistance at the moment. As such, it leaves SAL with no option but either to agree with the entering into of the Agreements (which provides SAL with interest returns and the JPO Shares Charge as security) or initiate legal proceedings to wind up Santai and JPO.

The Company considers that it would be costly and time consuming to initiate legal proceedings to wind up JPO and Santai and such costs would be substantial and would have immediate adverse effect of the cashflow position of the Group. In addition, it would not be reasonable or commercially justifiable for the Company to initiate legal proceedings at present given that (i) based on the latest financial position of Santai and JPO, in case of initiating legal proceedings to wind up Santai and JPO, the Company will not be able to recover any substantial amount from them as a result of liquidation of Santai or JPO; (ii) JPO is preparing to apply for a Nasdaq listing in 2025; and (iii) JPO has shown a turnaround in financial performance, reporting a net income position for the year ended 31 August 2024, compared to a net loss position for the same period in 2023.

Whereas, the entering into of the Agreements will allow JPO to have sufficient time to improve its financial position and cash flow by recapitalising its business via a listing on Nasdaq and improving its business and financial performance. The Agreements would also allow SAL to enjoy commercial terms which are more favourable to SAL.

SAL will enjoy an interest rate of 7% per annum under the Agreements and the Agreements would generate interest income of approximately HK\$9.29 million for SAL. JPO Shares Charge has been executed by Santai (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) as a collateral to ensure the due performance by Santai of its obligations under the Agreements (which is a condition precedent under each of the Agreements) and it has put SAL and the Company in a better position than having no security at all. If Santai fails to perform its obligations under the Agreements and upon occurrence of any events of default, SAL will be fully entitled to enforce the JPO Shares Charge.

The JPO Shares Charge represents one feature of protection for SAL in case of default by Santai and JPO, whereby SAL is fully entitled to exercise the JPO Shares Charge immediately upon default of repayment and seize the relevant JPO Shares and dispose of them. The management will decide the best course of action prior to and in case of a default of repayment. Whilst exercising the JPO Shares Charge is one potential action, this course will be taken only if this is the best outcome to the Company and its Shareholders as a whole. The management of the Group has been and will continue to monitor the performance and financial position of JPO closely, taking into account its proposed plan of fund-raising and public offering.

LETTER FROM THE BOARD

Considering (i) the value of JPO shares under the JPO Shares Charge in the amount of approximately US\$8,507,684 is sufficient to cover the aggregate of the entire amount of the Santai Advance, the Financial Assistance and the Second Financial Assistance; and (ii) Santai has no other material assets other than its ownership of JPO, there is no other pledge of assets provided by Santai. Upon the enforcement of the JPO Shares Charge, all monies received in respect of the disposition of the pledged JPO shares will be applied towards payment of the Santai Advance, the Financial Assistance and the Second Financial Assistance and if such proceeds are insufficient, this will not prejudice the rights of the Company to claim against other assets of Santai (including but not limited to other JPO shares held by Santai, which represent approximately 79.1% of total issued share capital of JPO with a value of approximately US\$32,154,000 based on the value of US\$2.71 per JPO share) to cover for such deficiency.

In view of the above, the executive Directors consider that the Agreements not only serve the purpose of rectifying the non-compliance of the Company, but also provide interest income to the Company and put the Company in a better position with the JPO Shares Charge as security and hence, the Agreements and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Taking into account the above, the Directors (with the views of the independent non-executive Directors set out in the section headed "Letter from the Independent Board Committee" in this circular) are of the view that the terms and conditions of the Loan Agreement are on normal commercial terms, fair and reasonable and the Loan Agreement is in the interests of the Company and the Shareholders as a whole. The Loan Agreement has been duly approved by the Board (other than Ms. Wong and Mr. Siu who had shareholding interests in JPO, Mr. Chung Sam Kwok Wai who has an option to acquire shares of JPO and the independent non-executive Directors whose views are set out in this circular after obtaining the advice from the Independent Financial Adviser and they abstained from voting on the resolution to approve the Loan Agreement) on the date of Loan Agreement.

Listing Rules Implications

As the highest applicable percentage ratio in respect of the aggregate amount of the Santai Advances made within a 12-month period in the amount of US\$4,212,811 (equivalent to approximately HK\$32,859,926) exceeds 25%, the Santai Advances and the entering of the Loan Agreement constituted a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio in respect of the aggregate amount of the Santai Advances (when aggregated with the Financial Assistance and the Second Financial Assistance) exceeds 25%, the entering into of the Loan Agreement, the Agreement and the Second Agreement constituted a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Santai is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holdings. It is wholly owned by Ever Peace Asia Limited who acquired the entire share capital of Santai from Lo Yuk Lam, who is a third party independent of the Group, on 1 September 2022. Ever Peace Asia Limited is owned as to 50% by Mr. Choi and 50% by Ms. Cheung Shui Lin (the spouse of Mr. Choi).

Mr. Choi was a former non-executive director of the Company who resigned on 23 March 2022 and had sold his entire shareholding in July 2021. Santai was an associate of Mr. Choi at the material time when the Santai Advances were made. As such, the four advances made to Santai (i.e. advances made on 15 December 2022, 19 December 2022, 26 January 2023 and 14 March 2023) in the total amount of US\$2,050,000 (equivalent to approximately HK\$15,990,000) constituted connected transactions of the Company under Chapter 14A of the Listing Rules given that Mr. Choi was a director of the Company in the last 12 months. The Loan Agreement has covered all tranches of the Santai Advances made which remained outstanding as at the date of Loan Agreement and the Latest Practicable Date in order to rectify the Santai Advances and for the purpose of compliance with the requirements under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The advances made to Santai were connected only because of the interest of Mr. Choi, being a former non-executive director of the Company who resigned in the last 12 months. As at the Latest Practicable Date, Santai legally and beneficially owns 100% of the issued share capital of JPO.

(2) CONTINUING CONNECTED TRANSACTION AND CONNECTED TRANSACTION

SAL executed the First Letter of Support dated 18 November 2022 in favour of JPO, pursuant to which SAL agreed (i) to continue to supply Inventories to JPO; and (ii) not to enforce its right to collect from JPO any trade payable for Inventories supplied until the earlier of 1 January 2024 or JPO receives its initial public offering proceeds (the “**Financial Assistance**”).

In accordance with Rule 14A.34 of the Listing Rules, on 30 August 2024, SAL entered into the Agreement with Santai and JPO, pursuant to which the parties agreed to, among other things, terminate the First Letter of Support and set out the terms and conditions of (i) supply of Inventories; and (ii) provision of Financial Assistance, subject to the terms and conditions of the Agreement.

LETTER FROM THE BOARD

The principal terms of the Agreement are set out below:

The Agreement

Date: 30 August 2024

Parties:

- (1) Sterling Apparel Limited;
- (2) Santai Global Asset Management Company Limited; and
- (3) JP Outfitters Inc.

Supply of Inventories

Pursuant to the terms of the Agreement, SAL agreed to sell and/or supply and JPO agreed to purchase the Inventories at the Purchase Price pursuant to such Purchase Order as may from time to time be given by JPO and accepted by SAL during the Supply Term and the actual sale during the Supply Term was approximately HK\$6,000,000 and hence, the Sales Cap is set in the amount of HK\$6,000,000 for the purpose of Rule 14.53 of the Listing Rules.

The Purchase Price was determined after arm's length negotiations between the parties with reference to (i) the existing prices of similar Inventories in the market in respect of each Inventory as agreed between JPO and SAL from time to time; and (ii) comparable selling prices of similar Inventories to other customers of SAL. In any event, the Purchase Price was no more favourable than those provided by SAL to third-party customers.

In determining pricing for the products the Company sells to all our customers, the Company has adopted a strict guideline in the costing and quotation process to ensure the selling prices of the products are no less favourable to the Company than those offered to, or quoted by, independent customers. The Company establishes a minimum gross margin of 15% for the merchandising team, calculated as follows:

$$\text{Gross Margin} = \frac{\text{Selling Price} - \text{Direct Product Cost}}{\text{Selling Price}} = 15\%$$

The 15% minimum for gross margin is a number determined by the management of the Company to be competitive with the market and the lowest the Company can accept for production. The actual percentage may vary from 15% to 25% depending on the quality requirements, the technical difficulty in making the products, the order quantity, the perceived competition and market condition.

LETTER FROM THE BOARD

The 15% was the minimum gross margin criterion that the management sets for the merchandising team whose job is to liaise with the customers on the order details, figure out the consumption and pricing of the materials, determine the correct CM (cut-make) charge by working with the factories and/or our technical and product development center, and then negotiate with the customers on pricing of the products. If the final price yields a gross margin of less than 15%, the merchandising team will need to seek the CEO's approval to ensure that any exceptions are scrutinised and justified. Otherwise, the merchandising team can confirm the final pricing with the customer. Merchandising team's pricing decision and gross margin calculations will also be monitored and analysed periodically, no less frequently than at least twice a year. These are the internal control policies over the pricing mechanism and process for all products and for all customers. The Company wishes to stress that at the time of the transactions, management of the Company or the merchandising team was not aware that JPO was a connected party and hence the negotiation process would not have been any different.

For FOB (Free On Board) business, the direct product cost is the price paid to the outsourced factory. For products manufactured in-house, the direct product cost would be the BOM (Bill of Materials) cost, which includes the total costs of all materials plus the cut-make cost (the "CM Cost"). The CM Cost is determined by the merchandising team based on their knowledge of the prevailing market rate for a particular product and negotiations with the factory.

For the years ended 31 March 2023 and 2024, the sales from the Group to JPO were HK\$19,950,802 and HK\$28,339,746, respectively.

Financial Assistance

Pursuant to the First Letter of Support, SAL agreed not to enforce its right to collect from JPO any trade payable for Inventories supplied after the entering into of the First Letter of Support until the earlier of 1 January 2024 or JPO received its initial public offering proceeds (i.e. the Financial Assistance).

The maximum amount of Trade Payables during the Supply Term was approximately HK\$6,000,000 and hence, the amount of Financial Assistance provided under the First Letter of Support was approximately HK\$6,000,000.

Pursuant to the Agreement, Santai or JPO shall repay the Financial Assistance (i.e. HK\$6,000,000) in full in one lump sum together with all outstanding interest accrued thereon on the TP Repayment Date, being the date falling two (2) years from the date of the Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance). There is no penalty for prepayment of the Financial Assistance and the relevant interest amount at any time.

The Financial Assistance is secured by the JPO Shares Charge, being a charge of shares of JPO, the value of which is sufficient to cover the aggregate of (i) the entire amount of the Santai Advances; (ii) the entire amount of the Financial Assistance; and (iii) the entire amount of the Second Financial Assistance, by Santai

LETTER FROM THE BOARD

in favour of SAL executed by Santai (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) on 10 January 2025 as a collateral to ensure the due performance by Santai of its obligations under the Agreement. Santai undertakes to SAL that it will provide SAL with the original documentation(s) in relation to the JPO Shares Charge and the relevant copy certified as true and correct by a director of Santai of the resolution(s) of the director(s) of Santai authorising the execution, delivery and performance of the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the JPO Shares Charge as soon as practicable after the entering into of the Agreement. As at the Latest Practicable Date, SAL has not obtained the relevant original documentations in relation to the JPO Shares Charge and the certified true copies of the relevant resolutions.

Interest on the Financial Assistance (i.e. HK\$6,000,000) shall accrue from and including the date of the Agreement at the interest rate of 7% per annum (which is no less favourable than the market rate and having taken into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans) up to the TP Repayment Date. All interest will be payable in arrears in one lump sum on the TP Repayment Date. Interest shall be calculated on the actual number of days elapsed and accrued on a daily basis. On the TP Repayment Date, SAL will be entitled to receive approximately HK\$833,000 under the Agreement.

The Trade Payables in the amount of approximately HK\$6,000,000 were novated from JPO to Santai pursuant to the Third Novation Agreement.

If JPO or Santai fails to pay any sum payable under the Agreement when due, JPO or Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis. The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL, JPO and Santai after taking into account (i) the interest rate of 7% per annum; and (ii) premium to be charged by SAL to compensate for the default.

Termination of the First Letter of Support

Each of SAL and JPO agrees, confirms and ratifies the termination of the First Letter of Support with immediate effect from the date of the Agreement.

Each of SAL and JPO agrees that all the rights, interests, obligations and liabilities whatsoever of SAL and JPO to the First Letter of Support arising thereunder or in relation to the First Letter of Support shall cease and determine and no party to the First Letter of Support shall have any claim against the other party in respect of any matter arising out of or in connection with the First Letter of Support.

Undertakings by Santai and JPO

Santai undertakes to SAL that it will provide SAL with the original documentation(s) in relation to the JPO Shares Charge and the relevant copy certified as true and correct by a director of JPO and Santai of the resolution(s) of the

LETTER FROM THE BOARD

director(s) of JPO and Santai authorising the execution, delivery and performance of the Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Agreement and the JPO Shares Charge as soon as practicable after the entering into of the Agreement and by no later than the Latest Practicable Date. As per the discussion with Santai, the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM.

Santai further undertakes to SAL that, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable hereunder remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;
- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and
- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.

JPO further undertakes to SAL that, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable hereunder remain outstanding:

- (1) it will not charge, pledge or dispose of its intellectual properties and other major assets as long as it remains a private company; and
- (2) it will produce and deliver to SAL a copy of its financial statements upon request by SAL.

Conditions Precedent

The Agreement shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Agreement and the transactions contemplated hereunder;
- (2) SAL having received from JPO and Santai (i) the original documentation(s) in relation to the JPO Shares Charge duly executed by Santai as a collateral to ensure the due performance by Santai of its obligations under the Agreement; and (ii) a copy certified as true and correct by a director of JPO and Santai of the resolution(s) of the director(s) of JPO and Santai authorising the execution, delivery and performance of the Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Agreement and the JPO Shares Charge;

LETTER FROM THE BOARD

- (3) the representations and warranties given by JPO and Santai under the Agreement remain true and accurate in all respect; and
- (4) the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Agreement).

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Agreement may agree), the Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder. SAL is entitled to request Santai and/or JPO for immediate repayment of the principal amount and accrued interest (if any) of the Financial Assistance in the event the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Agreement may agree).

For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee will enter into the Stock Pledge Agreement, which will be governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) and the condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied.

Completion of the Agreement is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Agreement).

Reasons For and Benefits of The Agreement

The Agreement was entered into by SAL, Santai and JPO in accordance with Rule 14A.34 of the Listing Rules. The execution of the First Letter of Support was to serve as an acknowledgment of the positive feedback of JPO, leading to increased trust and more opportunities for business growth of JPO and more collaborative business relationship between JPO and SAL. The terms and conditions of the Agreement, including the interest rate of 7% per annum, were negotiated and arrived at after arm's length negotiations between SAL, Santai and JPO, having taken into account the prevailing market interest rates and practices, including the

LETTER FROM THE BOARD

interest rate of approximately 6-7% per annum offered by commercial banks for loans. The Agreement was entered into by SAL having regard to (i) the interest income per annum to be received by SAL under the Agreement being more favourable than that offered by banks in Hong Kong for a 1-year fixed deposit; (ii) the continuous business relationship between SAL, Santai and JPO; and (iii) the support given to JPO such that JPO can turnaround from its financial difficulties which will eventually enhance the recoverability of the other receivables from JPO.

Taking into account the above, the Directors (with the views of the independent non-executive Directors set out in the section headed “Letter from the Independent Board Committee” in this circular) are of the view that the terms and conditions of the Agreement are on normal commercial terms, fair and reasonable and the Agreement is in the interests of the Company and the Shareholders as a whole. The Agreement has been duly approved by the Board (other than Ms. Wong and Mr. Siu who had shareholding interests in JPO, Mr. Chung Sam Kwok Wai who has an option to acquire shares of JPO and the independent non-executive Directors whose views are set out in this circular after obtaining the advice from the Independent Financial Adviser and they abstained from voting on the resolution to approve the Agreement) on the date of the Agreement.

Listing Rules Implications

The Group is an apparel manufacturer headquartered in Hong Kong providing a one-stop apparel manufacturing solution for its customers. SAL is a wholly-owned subsidiary of the Company and is principally engaged in trading of apparel products.

JPO is mainly engaged in the business of direct to consumer multi-channel apparel retailing mainly in 2 brands, J. Peterman and Territory Ahead. To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, JPO is beneficially owned as to 100% by Santai. Ms. Wong and Mr. Siu respectively acquired 6.67% and 5% of the entire issued shares of JPO from Santai on 19 October 2023 and subsequently sold their then respective shareholding of approximately 6.7% and 5% in JPO to Santai in September 2024. As at the Latest Practicable Date, save as Ms. Wong and Mr. Siu, each of Santai, JPO and their ultimate beneficial owners are third parties independent of the Company.

Mr. Choi was a former non-executive director of the Company who resigned on 23 March 2022 and JPO was an associate of Mr. Choi at the material time when the First Letter of Support was executed. As such, (i) the supply of Inventories contemplated under the First Letter of Support constituted continuing connected transaction of the Company under Chapter 14A of the Listing Rules; and (ii) the provision of Financial Assistance contemplated under the First Letter of Support constituted a connected transaction of the Company under Chapter 14A of the Listing Rules, given that Mr. Choi was a director of the Company in the last 12 months prior to the date of the First Letter of Support.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Sales Cap exceed 5% and are less than 25% and the relevant

LETTER FROM THE BOARD

monetary amount is less than HK\$10 million, the supply of Inventories contemplated under the Agreement constitutes a continuing connected transaction under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Financial Assistance exceed 5% and are less than 25% and the relevant monetary amount is less than HK\$10 million, the Financial Assistance contemplated under the Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the aggregate amount of the Financial Assistance (when aggregated with the Santai Advances and the Second Financial Assistance) exceeds 25%, the entering into of the Agreement, the Loan Agreement and the Second Agreement constituted a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Despite the above Listing Rules implications, as part of the remedial actions to prevent the occurrence of similar non-compliance incident in the future, the Company will convene the EGM for the Independent Shareholders to, among other things, consider, approve and ratify the Loan Agreement, the Agreement and the Second Agreement and the transactions contemplated thereunder and the Agreement is therefore subject to the circular (including independent financial advice) and Independent Shareholders' approval at the EGM.

(3) MAJOR TRANSACTION

SAL executed the Letters of Support in favour of JPO, pursuant to which SAL agreed, among other things, not to enforce its right to collect from JPO any MT Trade Payables for the Inventories supplied until (a) the earlier of 1 January 2024 or JPO receives its initial public offering proceeds (for the Letter of Support dated 13 April 2023); and (b) JPO receives its initial public offering proceeds (for the Letters of Support dated 20 September 2023 and 28 December 2023).

On 30 August 2024, SAL entered into the Second Agreement with Santai and JPO, pursuant to which the parties agreed to, among other things, terminate the Letters of Support and set out the terms and conditions of provision of Second Financial Assistance, subject to the terms and conditions of the Second Agreement.

From the date of the first Letters of Support (i.e. 13 April 2023) up to the date of termination of the Letters of Support (i.e. the date of the Second Agreement), the maximum amount of outstanding MT Trade Payables during the MT Term was approximately HK\$27,500,000 (the "Second Financial Assistance").

LETTER FROM THE BOARD

The principal terms of the Second Agreement are set out below:

The Second Agreement

Date: 30 August 2024

Parties:

- (1) Sterling Apparel Limited;
- (2) Santai Global Asset Management Company Limited; and
- (3) JP Outfitters Inc.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, as at the Latest Practicable Date, each of Santai and JPO and their ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company.

Second Financial Assistance

Pursuant to the Second Agreement, Santai or JPO shall repay the Second Financial Assistance (i.e. HK\$27,500,000) in full in one lump sum together with all outstanding interest accrued thereon on the MT Repayment Date, being the date falling two (2) years from the date of the Second Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance). There is no penalty for prepayment of the Second Financial Assistance and the relevant interest amount at any time.

The principal amount of the Second Financial Assistance of HK\$27,500,000 is arrived at based on the actual MT Trade Payables incurred and repaid up to the date of the Second Agreement and thereafter SAL will not provide further Inventories to JPO.

Interest on the Second Financial Assistance (i.e. HK\$27,500,000) shall accrue from and including the date of the Second Agreement at the interest rate of 7% per annum (which is no less favourable than the market rate and having taken into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans) up to the MT Repayment Date. All interest will be payable in arrears in one lump sum on the MT Repayment Date. Interest shall be accrued on a daily basis and calculated on the actual number of days elapsed on the basis of a 365-days year. On the MT Repayment Date, SAL will be entitled to receive approximately HK\$3.86 million under the Second Agreement.

The Second Financial Assistance is secured by the JPO Shares Charge, being the charge of shares of JPO, the value of which is sufficient to cover the aggregate of (i) the entire amount of the Santai Advances; (ii) the entire amount of the Financial Assistance; and (iii) the entire amount of the Second Financial Assistance, by Santai

LETTER FROM THE BOARD

in favour of the SAL executed by Santai (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) on 10 January 2025 as a collateral to ensure the due performance by Santai of its obligations under the Second Agreement. Santai undertakes to SAL that it will provide SAL with the original documentation(s) in relation to the JPO Shares Charge and the relevant copy certified as true and correct by a director of Santai of the resolution(s) of the director(s) of Santai authorising the execution, delivery and performance of the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the JPO Shares Charge as soon as practicable after the entering into of the Second Agreement. As at the Latest Practicable Date, SAL has not obtained the relevant original documentations in relation to the JPO Shares Charge and the certified true copies of the relevant resolutions.

Some of the MT Trade Payables in the amount of HK\$6,800,000 were novated from JPO to Santai pursuant to the Third Novation Agreement and the Fourth Novation Agreement.

If JPO or Santai fails to pay any sum payable under the Second Agreement when due, JPO or Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis. The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL, JPO and Santai after taking into account (i) the interest rate of 7% per annum; and (ii) premium to be charged by SAL to compensate for the default.

Termination of the Letters of Support

Each of SAL and JPO agrees, confirms and ratifies the termination of the Letters of Support with immediate effect from the date of the Second Agreement.

Each of SAL and JPO agrees that all the rights, interests, obligations and liabilities whatsoever of SAL and JPO to the Letters of Support arising thereunder or in relation to the Letters of Support shall cease and determine and no party to the Letters of Support shall have any claim against the other party in respect of any matter arising out of or in connection with the Letters of Support.

Undertakings by Santai and JPO

Santai undertakes to SAL that it will provide SAL with the original documentation(s) in relation to the JPO Shares Charge and the relevant copy certified as true and correct by a director of JPO and Santai of the resolution(s) of the director(s) of JPO and Santai authorising the execution, delivery and performance of the Second Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Second Agreement and the JPO Shares Charge as soon as practicable after the entering into of the Second Agreement and by no later than the Latest Practicable Date. As per the discussion with Santai, the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM.

LETTER FROM THE BOARD

Santai further undertakes to SAL that, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable hereunder remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;
- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and
- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.

JPO further undertakes to SAL that, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable hereunder remain outstanding:

- (1) it will not charge, pledge or dispose of its intellectual properties and other major assets as long as it remains a private company; and
- (2) it will produce and deliver to SAL a copy of its financial statements upon request by SAL.

Conditions Precedent

The Second Agreement shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Second Agreement and the transactions contemplated hereunder;
- (2) SAL having received from JPO and Santai (i) the original documentation(s) in relation to the JPO Shares Charge duly executed by Santai as a collateral to ensure the due performance by Santai of its obligations under the Second Agreement; and (ii) a copy certified as true and correct by a director of JPO and Santai of the resolution(s) of the director(s) of JPO and Santai authorising the execution, delivery and performance of the Second Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Second Agreement and the JPO Shares Charge;
- (3) the representations and warranties given by JPO and Santai under the Second Agreement remaining true and accurate in all respects; and
- (4) the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Second Agreement).

LETTER FROM THE BOARD

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Second Agreement may agree), the Second Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder. SAL is entitled to request Santai and/or JPO for immediate repayment of the principal amount and accrued interest (if any) of the Second Financial Assistance in the event the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Second Agreement may agree).

For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee have entered into the Stock Pledge Agreement, which is governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) and the condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied.

Completion of the Second Agreement is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Second Agreement).

Reasons for and Benefits of the Second Agreement

The terms and conditions of the Second Agreement, including the interest rate of 7% per annum, were negotiated and arrived at after arm's length negotiations between SAL, Santai and JPO, having taken into account (i) the terms and conditions of the Agreement; and (ii) the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans. The Second Agreement was entered into by SAL having regard to (i) the interest income per annum to be received by SAL under the Second Agreement being more favourable than that offered by banks in Hong Kong for a 1-year fixed deposit; (ii) the continuous business relationship between SAL, Santai and JPO; and (iii) the support given to JPO such that JPO can turnaround from its financial difficulties which will eventually enhance the recoverability of the other receivables from JPO.

LETTER FROM THE BOARD

Taking into account the above, the Directors (with the views of the independent non-executive Directors set out in the section headed “Letter from the Independent Board Committee” in this circular) are of the view that the terms and conditions of the Second Agreement are on normal commercial terms, fair and reasonable and the Second Agreement is in the interests of the Company and the Shareholders as a whole. The Second Agreement has been duly approved by the Board (other than Ms. Wong and Mr. Siu who had shareholding interests in JPO, Mr. Chung Sam Kwok Wai who has an option to acquire shares of JPO and the independent non-executive Directors whose views are set out in this circular after obtaining the advice from the Independent Financial Adviser and they abstained from voting on the resolution to approve the Second Agreement) on the date of the Second Agreement.

Listing Rules Implications

As the highest applicable percentage ratio in respect of the aggregate amount of the Second Financial Assistance exceeds 25% but is less than 100%, the entering into of the Second Agreement constituted a major transaction of the Company and is subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio in respect of the aggregate amount of the Second Financial Assistance (when aggregated with the Santai Advances and the Financial Assistance) exceeds 25%, the entering into of the Second Agreement, the Loan Agreement and the Agreement constituted a major transaction of the Company and is subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

Despite the above Listing Rules implications, as part of the remedial actions to prevent the occurrence of similar non-compliance incident in the future, the Company will convene the EGM for the Independent Shareholders to, among other things, consider, approve and ratify the Loan Agreement, the Agreement and the Second Agreement and the transactions contemplated thereunder and the Second Agreement is therefore subject to the circular (including independent financial advice) and Independent Shareholders’ approval at the EGM.

(4) CONTINUING CONNECTED TRANSACTION

On 30 August 2024, SAL (a wholly-owned subsidiary of the Company), Mr. Choi as the First Guarantor and Ms. Wong as the Second Guarantor entered into the Guaranty Fee Agreement, pursuant to which the Company, Mr. Choi and Ms. Wong agreed to, among other things, set out the terms and conditions to compensate and pay the Guarantors a guaranty fee.

LETTER FROM THE BOARD

The principal terms of the Guaranty Fee Agreement are set out below:

Date: 30 August 2024

Parties:

- (1) Sterling Apparel Limited;
- (2) Mr. Choi Siu Wai William (as the First Guarantor); and
- (3) Ms. Wong Mei Wai Alice (as Second Guarantor)

The reasons for combining the guarantees given by the First and Second Guarantor in the same Guaranty Fee Agreement are primarily to streamline documentation, ensure consistency in terms and reduce administrative and legal costs.

Guaranty Fees

In consideration of (a) the First Guarantor will provide a personal guarantee to secure the HSBC Facilities; (b) the Second Guarantor has been providing various personal guarantees and properties pledge to secure the Facilities; and (c) the Second Guarantor will provide a pledge of her other one property to secure the HSBC Facilities, the Company agrees to pay the Guarantors a guaranty fee in accordance with the terms and conditions of the Guaranty Fee Agreement.

Subject to the fulfilment of the conditions precedent and the limitations set out below, the First Guarantor is entitled to receive a guaranty fee, such guaranty fee shall, commencing from the date of provision of the personal guarantee by the First Guarantor in favour of HSBC, accrue at a rate of 2.5% per annum on the amount of the personal guarantee to be provided by the First Guarantor in favour of HSBC. The guaranty fee payable to the First Guarantor shall, commencing from the date of provision of the personal guarantee by the First Guarantor in favour of HSBC, be accrued on a daily basis and calculated on the basis of the actual number of days elapsed on the basis of a 365-day year.

Subject to the fulfilment of the conditions precedent and the limitations set out below, the Second Guarantor is entitled to receive a guaranty fee, such guaranty fee shall, commencing from the date of the Guaranty Fee Agreement (given the Second Guarantor has been providing various personal guarantees and properties pledge to secure the Facilities as at the date of the Guaranty Fee Agreement), accrue at a rate of 2.5% per annum on the aggregate amount of guarantee provided by the Second Guarantor to secure the Facilities (including various personal guarantees and properties pledge provided by the Second Guarantor to secure the Facilities as at the date of the Guaranty Fee Agreement). The guaranty fee payable to the Second Guarantor shall, commencing from the date of the Guaranty Fee Agreement (given the Second Guarantor has been providing various personal guarantees and properties pledge to secure the Facilities as at the date of the Guaranty Fee

LETTER FROM THE BOARD

Agreement), be accrued on a daily basis and calculated on the basis of the actual number of days elapsed on the basis of a 365-day year.

Should the amount of the guarantee provided by the First Guarantor and/or the Second Guarantor be adjusted at the request of relevant banks, the guaranty fee already accrued based on the previous amount of the guarantee provided by the First Guarantor and/or the Second Guarantor will not be affected but once the amount of the guarantee provided by the First Guarantor and/or the Second Guarantor has been effectively adjusted, the guaranty fee payable to the Guarantors in the above manner shall accrue based on the adjusted amount of the guarantee provided by the First Guarantor and/or the Second Guarantor.

The drawdown amount (i.e. the outstanding balance) under the HSBC Facilities as at 31 March 2023 and 31 March 2024 were approximately HK\$44 million and HK\$71 million, respectively, the maximum for which is HK\$75 million. The drawdown amount (i.e. the outstanding balance) under the HS Facilities as at 31 March 2023 and 31 March 2024 were approximately HK\$91.2 million and HK\$97.3 million respectively, the maximum for which is HK\$145 million. The drawdown amount (i.e. the outstanding balance) under the Citibank Facilities (which became available to the Group at the end of 2023) as at 31 March 2023 and 31 March 2024 were HK\$Nil and approximately HK\$20.7 million respectively, the maximum for which is HK\$30 million.

Limitations

Upon the occurrence of any of the following events, no guaranty fees of the relevant Guarantors shall accrue further:

- (a) the relevant Guarantors cease to provide any security/collateral/guarantee to secure the relevant Facilities; or
- (b) the relevant Facilities are terminated by the relevant banks; or
- (c) the expiry of the Term.

Payment: The accrued guaranty fee shall be payable to the Guarantors on the date falling two (2) years from the date of the Guaranty Fee Agreement.

Term: The Guaranty Fee Agreement has a term of two years.

Conditions Precedent

The Guaranty Fee Agreement shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Guaranty Fee Agreement and the transactions contemplated hereunder; and

LETTER FROM THE BOARD

- (2) the satisfaction of all conditions precedent set out in (i) the Loan Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement); (ii) the Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement); and (iii) the Second Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement).

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Guaranty Fee Agreement may agree), the Guaranty Fee Agreement shall cease and determine. Thereafter the Guarantors will not be entitled to any guarantee fee under the Guaranty Fee Agreement and no parties shall have any obligations and liabilities towards the others thereunder save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, none of the above conditions precedent has been satisfied.

Completion of the Guaranty Fee Agreement is inter-conditional with the completion of the Loan Agreement, the Agreement and the Second Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Loan Agreement, the Agreement and the Second Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement).

The First Guarantor was a former director of the Company and he controls Santai, which in turn controls JPO, being a wholly owned subsidiary of Santai. The Second Guarantor is the chairperson, executive director and chief executive officer of the Company and she has been supporting the Company for many years. As at the date of the Guaranty Fee Agreement, the Second Guarantor has been providing various personal guarantees in the aggregate amount of up to HK\$120,958,000 and a pledge of her two properties with a value of HK\$97,600,000 as at 31 March 2024 to secure the Facilities.

The First Guarantor is willing to provide a personal guarantee in the amount of not less than HK\$40 million and no more than HK\$50 million (subject to further agreement with HSBC) as an additional security for the HSBC Facilities and the Second Guarantor is also willing to provide a pledge of her other one property with a value of HK\$39,800,000 (or such other property of her with a value of approximately HK\$50 million if it is so requested by HSBC) as an additional security for the HSBC Facilities in consideration of the financial support made by the Company to Santai and JPO from time to time as recognised by the Loan Agreement, the Agreement and the Second Agreement. Therefore, the Guaranty Fee Agreement is designed to be inter-conditional with the Loan Agreement, the Agreement and the Second Agreement.

LETTER FROM THE BOARD

As disclosed in this circular, as at 31 March 2024, the cash and bank balances of the Group amounted to approximately HK\$26,965,000. The Group has secured total credit facilities of HK\$250,030,000 under the Facilities, which are intended to be utilised for the Group's business operations and general working capital requirements. The credit facilities granted to the Company under the Facilities allow the Group to manage short-term cash flow fluctuations and is crucial to the Group's operational flexibility and financial resilience.

The terms of the Agreements were negotiated among the parties involved as a whole and designed to be inter-conditional so as to strategically align the interests of all parties. Since Santai's involvement in JPO is initiated by the Company and its executive Directors to help support the finances of JPO and its planned listing on Nasdaq, Santai paid off US\$3.5 million of the Company's receivable from JPO upon becoming its shareholder of JPO in March 2023. While Ms. Wong is not a party of JPO and Santai, all parties involved in the Agreements (including Ms. Wong) intend to achieve a collective goal and outcome, that is, to maintain a stable working capital position for the Group (via securing the Facilities) and to make sure JPO survive and prosper so that it can pay off the Company's receivables or otherwise utilise the value of Santai's ownership in JPO to repay the Company so as to enhance the recoverability of the Group's receivables from JPO and Santai. The Independent Financial Adviser considers the inter-conditionality of the Agreements is acceptable.

Hence, the Guaranty Fee Agreement (including the inter-conditionality clause which is a commercial term arrived at by the Guarantors and SAL after arm's length negotiation) is in the interest of the Company and its shareholders as a whole.

The Company would like to supplement that the Second Guarantor has entered into a counter-indemnity deed on 5 December 2024 pursuant to which the Second Guarantor agreed to provide a counter-indemnity in favour of the Company regarding the corporate guarantees provided by the Company to secure the obligations, indebtedness and liabilities of the subsidiaries of the Company under the relevant Facilities.

Proposed annual cap and basis for determination

For the purpose of Rule 14A.53 of the Listing Rules, the annual cap of the guaranty fee payable to the Second Guarantor pursuant to the Guaranty Fee Agreement is HK\$7 million, which is equivalent to a rate of 2.5% per annum on the aggregate amount of the existing guarantees provided by the Second Guarantor to secure the Facilities (i.e. HK\$218,558,000 as at the date of the Guaranty Fee Agreement) and the value of the property with a value of approximately HK\$39.8 million (or such other property of her with a value of approximately HK\$50 million if it is so requested by HSBC) as at August 2024 to be pledged by the Second Guarantor as an additional security for the HSBC Facilities.

LETTER FROM THE BOARD

Reasons for and Benefits of the Guaranty Fee Agreement

The First Guarantor was a former director of the Company and he controls Santai, which in turn controls JPO, being a wholly-owned subsidiary of Santai.

The Second Guarantor is the chairperson, executive director and chief executive officer of the Company and she has been supporting the Company for many years. As at the date of the Guaranty Fee Agreement, the Second Guarantor has been providing various personal guarantees in the aggregate amount of up to HK\$120,958,000 and a pledge of her two properties with a value of HK\$97,600,000 as at 31 March 2024 to secure the Facilities.

The First and Second Guarantors were former business partners and controlling shareholders of the Company and have always acted in the best interest of the Company and its shareholders as a whole such as waiving their shareholders' loans to the Company in the amount of approximately HK\$47 million in 2021 and 2022 (following the impact of COVID and bankruptcy filing under Chapter 11 of U.S. bankruptcy code of its largest customer in 2020), and have continued to support the Company, even after they ceased to be shareholders of the Company, in acquiring bank facilities by providing personal guarantees and personal properties as collaterals, without which the Company would be unable to secure sufficient bank facilities to support its apparel manufacturing business. All these actions by the First and Second Guarantors were not planned to be self-serving but were initiated to serve the best interest of the Company and its shareholders under the circumstances. Therefore, considering the strategic alignment of interests as explained above, just as JPO and Santai are expected to pay interest on the advances from the Company, it is only fair and reasonable for the Company to pay a guarantee fee in recognition of the substantial support that the First and Second Guarantors have provided, which has been essential for the Company's operations, stability and growth.

It is now requested by HSBC to provide additional security/collateral/guarantee to secure the HSBC Facilities. In consideration of the financial support made by the Company to Santai and JPO from time to time as recognised by the Loan Agreement, the Agreement and the Second Agreement, the First Guarantor is willing to provide a personal guarantee in the amount of not less than HK\$40 million and not more than HK\$50 million (subject to further agreement with HSBC) as an additional security for the HSBC Facilities.

In view of the request by HSBC, the Second Guarantor is willing to provide a pledge of her another property with a value of approximately HK\$39.8 million as at August 2024 (or such other property of her with a value of approximately HK\$50 million if it is so requested by HSBC) as an additional security for the HSBC Facilities.

LETTER FROM THE BOARD

As at 31 March 2024, the cash and bank balances of the Group amounted to approximately HK\$26,965,000. The Group has secured total credit facilities of HK\$250,030,000 under the Facilities, which are intended to be utilised for the Group's business operations and general working capital requirements. The credit facilities granted to the Company under the Facilities allow the Group to manage short-term cash flow fluctuations and is crucial to the Group's operational flexibility and financial resilience.

The Guaranty Fee of 2.5% is charged at the amount of the guarantee provided by the First Guarantor and/or the Second Guarantor instead of the maximum facility amount under the Facilities. The calculation and the rate of the Guaranty Fee have been established after cross checking with various independent providers of credit and other listed companies. The executive Directors believe that the guarantee provided by the Guarantors functions as a form of credit insurance for the bank, protecting against the non-performance of the underlying facilities agreement. In line with market practice, the insurance premium is calculated based on the contracted liability amount that the insurer is at risk for. Additionally, the guaranty company usually charges a guarantee fee to its customers. Other examples of this include standby letters of credit, construction bonds, and customs bonds. For instance, a customs broker may request a customs bond of US\$100,000 before opening an account, which covers the import duties funded by the broker on behalf of the importer. The fee for the bond is determined by the bond amount, rather than the actual duties paid or outstanding at any given time. Hence, the executive Board considers that the calculation of the Guaranty Fee is fair and reasonable.

In consideration of (a) the First Guarantor will provide a personal guarantee to secure the HSBC Facilities; (b) the Second Guarantor has been providing various personal guarantees and properties pledge to secure the Facilities; and (c) the Second Guarantor will provide a pledge of her other property to secure the HSBC Facilities, the Directors (with the views of the independent non-executive Directors set out in the section headed "Letter from the Independent Board Committee" in this circular) consider that it is fair and reasonable to compensate and pay the Guarantors a guaranty fee subject to the term and conditions of the Guaranty Fee Agreement. The terms and conditions of the Guaranty Fee Agreement were negotiated on an arm's length basis between the parties with reference to the prevailing market rates for other guaranty fee transactions.

Taking into consideration of the aforesaid, the Directors (with the views of the independent non-executive Directors set out in the section headed "Letter from the Independent Board Committee" in this circular) consider that the terms and conditions of the Guaranty Fee Agreement are on normal commercial terms and are fair and reasonable and that the entering into of the Guaranty Fee Agreement is in the interests of the Company and the Shareholders as a whole. Given that Mr. Siu is the son of Ms. Wong, each of Ms. Wong and Mr. Siu had abstained from voting on the board resolution approving the Guaranty Fee Agreement.

LETTER FROM THE BOARD

Listing Rules Implications

As at the Latest Practicable Date, Ms. Wong, the Second Guarantor, is an executive Director of the Company and is a connected person of the Group as defined under Chapter 14A of the Listing Rules. Therefore, the transactions with the Second Guarantor contemplated under the Guaranty Fee Agreement constitute continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the highest proposed annual cap for the guaranty fee payable to the Second Guarantor under the Guaranty Fee Agreement is less than 25% and the total consideration is less than HK\$10 million, the provision of guaranty fee payable to the Second Guarantor under the Guaranty Fee Agreement is subject to the reporting, annual review and announcement but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Despite the above Listing Rules implications, as the Guaranty Fee Agreement is inter-conditional with the Loan Agreement, the Agreement and the Second Agreement, the Company will convene the EGM for the Independent Shareholders to, among other things, consider and approve the Guaranty Fee Agreement and the transactions contemplated thereunder and the Guaranty Fee Agreement is therefore subject to the circular (including independent financial advice) and Independent Shareholders' approval at the EGM.

GENERAL

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Loan Agreement, the Agreement, the Second Agreement, the Guaranty Fee Agreement and the transactions contemplated thereunder.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder.

EGM

A notice convening the EGM to be held at 19/F., Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong on Friday, 14 March 2025 at 3:00 p.m. is set out on pages 82 to 85 of this circular.

VOTING

Each of Ms. Wong and Mr. Siu had shareholding interests in JPO, Mr. Chung Sam Kwok Wai who has an option to acquire shares of JPO and the independent non-executive Directors whose views shall be set out in the circular after obtaining the advice from the independent financial adviser and they abstained from voting at the Board meeting to approve the resolutions for approving the Loan Agreement, the Agreement and the Second Agreement.

LETTER FROM THE BOARD

Given that Mr. Siu is the son of Ms. Wong, each of Ms. Wong and Mr. Siu had abstained from voting on the board resolution approving the Guaranty Fee Agreement. Save as disclosed above, to the best knowledge of the Directors having made all reasonable enquiries, no other Directors had a material interest in the Guaranty Fee Agreement and thus was required to abstain from voting on the board resolution approving the Guaranty Fee Agreement.

To the best knowledge, information and belief of the Directors, no Shareholders or any of their respective associates have a material interest in (i) the Loan Agreement and the transactions contemplated thereunder; (ii) the Agreement and the transactions contemplated thereunder; (iii) the Second Agreement and the transactions contemplated thereunder; or (iv) the Guaranty Fee Agreement and the transactions contemplated thereunder, and no Shareholder is required to abstain from voting at the EGM.

ACTION TO BE TAKEN

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.sterlingapparel.com.hk. Whether or not you are able to attend the EGM in person, you are requested to complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of the power of attorney or authority, to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish and in such event, your appointment of proxy under any proxy form shall be deemed to be revoked.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, all the resolutions proposed at the EGM will be taken by way of poll.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorised representative, shall have one vote for every Share held which is fully paid or credited as fully paid.

After the conclusion of the EGM, the poll vote results will be published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.sterlingapparel.com.hk.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) are of the view that the entering into of the Loan Agreement, the Agreement, the Second Agreement and the Guaranty Fee Agreement and the resolutions proposed for consideration and approval by the Shareholders at the EGM are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 11 March 2025 to 14 March 2025 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the meeting, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 10 March 2025.

GENERAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Sterling Group Holdings Limited
Wong Mei Wai Alice
Chairperson

Sterling Group Holdings Limited

美臻集團控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1825)

26 February 2025

To the Independent Shareholders

Dear Sir or Madam.

**(1) MAJOR AND CONNECTED TRANSACTION;
(2) CONTINUING CONNECTED TRANSACTION AND
CONNECTED TRANSACTION;
(3) MAJOR TRANSACTION; AND
(4) CONTINUING CONNECTED TRANSACTION**

We refer to the circular dated 26 February 2025 (the “**Circular**”) issued by the Company to the Shareholders, of which this letter forms part. Capitalized terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in its opinion the terms of the Loan Agreement, the Agreement, the Second Agreement, the Guaranty Fee Agreement (the “**Agreements**”) and the transactions contemplated thereunder are fair and reasonable, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the board, as set out on pages 7 to 39 of the Circular and the text of a letter of advice from the Independent Financial Adviser, as set out on pages 42 to 74 of the Circular, both of which provide details of the Agreements and the transactions contemplated thereunder.

Having considered (i) the Agreements and the transactions contemplated thereunder; (ii) the advice from Somerley Capital Limited; and (iii) the relevant information contained in the letter from the Board, we are of the opinion that the terms of the Agreements and the transactions contemplated thereunder are on normal commercial terms, although not in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Agreements and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For and on behalf of
The Independent Board Committee of
Sterling Group Holdings Limited

Ms. Zhang Lingling
Independent Non-executive Director

Mr. Chow Yun Cheung
Independent Non-executive Director

Mr. Zhao Chuan
Independent Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor, China Building
29 Queen's Road Central
Hong Kong

26 February 2025

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

- (1) MAJOR AND CONNECTED TRANSACTION;
(2) CONTINUING CONNECTED TRANSACTION AND
CONNECTED TRANSACTION;
(3) MAJOR TRANSACTION; AND
(4) CONTINUING CONNECTED TRANSACTION**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement and Guaranty Fee Agreement (i.e. the Agreements) and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 26 February 2025 (the "Circular"), of which this letter forms part. Unless otherwise specified, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

(i) The Loan Agreement, Agreement and Second Agreement

As at the Latest Practicable Date, Santai is wholly-owned by Ever Peace Asia Limited, which in turn is owned as to 50% by Mr. Choi and 50% by Ms. Cheung Shui Lin (the spouse of Mr. Choi). Mr. Choi was a former non-executive Director who resigned on 23 March 2022 and had sold his entire shareholding in the Company in July 2021. Santai was an associate of Mr. Choi and a connected person of the Company at the material time when the Santai Advances were made. As such, four advances made to Santai (i.e. advances made on 15 and 19 December 2022, 26 January 2023 and 14 March 2023) constituted connected transactions of the Company under Chapter 14A of the Listing Rules. The Loan Agreement covers all tranches of the Santai Advances made (which remained outstanding as at the date of Loan Agreement and the Latest Practicable Date) and was entered into for the purpose of rectifying the Santai Advances and re-compliance with the requirements under the Listing Rules, which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors, JPO is wholly-owned by Santai. JPO was an associate of Mr. Choi and considered a connected person of the Company at the material time when the First Letter of Support (which constituted the Financial Assistance) was executed in November 2022, due to the fact that Mr. Choi was a Director in the last 12 months prior to the date of the First Letter of Support. For the purpose of rectifying the Financial Assistance and re-compliance with the requirements under the Listing Rules, the Agreement was entered into for termination of the First Letter of Support and set out the terms and conditions of, among other things, the provision of the Financial Assistance.

Subsequently, SAL executed three Letters of Support in favour of JPO from April 2023 to December 2023 (i.e. the Second Financial Assistance) which constitute major transactions of the Company under Chapter 14 of the Listing Rules. For the purpose of rectifying the Second Financial Assistance and re-compliance with the requirements of the Listing Rules, the Second Agreement was entered into for termination of the Letters of Support and to set out the terms and conditions of the provision of the Second Financial Assistance.

As the highest percentage ratio under the Listing Rules in respect of the aggregate amount of the Santai Advances, Financial Assistance and Second Financial Assistance exceeds 25%, the entering into of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

As part of the remedial actions to prevent the occurrence of similar non-compliance incidents in the future, the Company will convene the EGM for the Independent Shareholders to, among other things, consider, approve and rectify the above transactions and therefore details of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement are contained in the circular and subject to the Independent Shareholders' approval at the EGM.

(ii) The Guaranty Fee Agreement

As at the Latest Practicable Date, Ms. Wong, the Second Guarantor, is an executive Director of the Company and is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transactions with the Second Guarantor contemplated under the Guaranty Fee Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio under the Listing Rules for the proposed annual cap for the guaranty fee payable to the Second Guarantor under the Guaranty Fee Agreement is less than 25% and the total consideration is less than HK\$10 million, the provision of guaranty fee payable to the Second Guarantor under the Guaranty Fee Agreement is subject to the reporting, annual review and announcement but is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the Guaranty Fee Agreement is inter-conditional with the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement, the Company will convene the EGM for the Independent Shareholders to, among other things, consider and approve the Guaranty Fee Agreement and the transactions contemplated thereunder and the Guaranty Fee Agreement is therefore subject to Independent Shareholders' approval at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Zhang Lingling, Mr. Chow Yun Cheung and Mr. Zhao Chuan, has been established to advise the Independent Shareholders as to (a) whether the terms of the Agreements are fair and reasonable; (b) whether the Agreements are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (c) how the Independent Shareholders should vote at the EGM with respect to the resolutions relating to the Agreements. Somerley Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, there were no engagements between the Company and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group, Santai group, JPO group and Ms. Wong that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, Santai group, JPO group and Ms. Wong nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the principal factors and reasons set out below:

A. The Loan Agreement, Agreement and Second Agreement

1. *Information on the parties to the Loan Agreement, Agreement and Second Agreement*

(i) *The Company and SAL*

The Company is an investment holding company and the Group is an apparel manufacturer headquartered in Hong Kong providing a one-stop apparel manufacturing solution for its customers. The Group manufactures a wide range of apparel products such as outerwear, bottoms, tops and other products. The majority of the customers are international apparel brands that are headquartered in the U.S. with their products sold around the world. For the year ended 31 March 2024, the Group's revenue from the U.S. market accounted for approximately 99% of its total revenue. As set out in the Company's 2024 annual report, in recent years, in order to reduce reliance on its largest customer, the Group has actively diversified its customer base and product portfolio having secured several new customers, including high-end fashion brands from the U.S.

For the year ended 31 March 2024, the Group recorded revenue of approximately HK\$571.4 million, representing a decrease of approximately 8.3% compared to that of the previous year as a result of the challenging macro-economic environment of high interest rates and weakening consumer confidence. The decrease in sales was from both newer accounts which the Company developed in recent years in order to have a more diversified customer base, and from its long-term and largest customer, the sales revenue from which was lower by around 7% compared to previous year.

For the year ended 31 March 2024, the Group recorded a loss after tax of approximately HK\$18.4 million, primarily as a result of decrease in gross profit of approximately HK\$15.8 million and increase in expected credit loss recognised on trade and other receivables of approximately HK\$23.7 million, compared to a profit of approximately HK\$19.9 million in the previous year.

SAL is a company incorporated in Hong Kong with limited liability and is wholly-owned by the Company. It is principally engaged in trading of apparel products.

(ii) *Santai & JPO*

Santai is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holdings. As at the Latest Practicable Date, Santai is wholly-owned by Ever Peace Asia Limited, which in turn is owned as to 50% by Mr. Choi and 50% by Ms. Cheung Shui Lin (the spouse of Mr. Choi). Mr. Choi was a former non-executive Director who resigned on 23 March 2022 and had sold his entire shareholding in the Company in July 2021.

As at the Latest Practicable Date, Santai legally and beneficially owns 100% of the issued share capital of JPO (which is the only investment of Santai). Ms. Wong and Mr. Siu, each being an executive Director of the Company, had sold their then respective shareholding of approximately 6.7% and 5% in JPO to Santai in September 2024. According to the latest SEC Form S-1 filed with the Securities and Exchange Commission (SEC) in January 2024 (the “**Prospectus**”), JPO is a Delaware, U.S. registered company and is a collection of purpose-led, lifestyle brands offering apparel and accessories for men and women through its two complementary brands, The J. Peterman Company and the Territory Ahead. JPO’s products are available to customers online through JPO-owned websites, including its newly created online outlet store beginning in May 2023 and through the use of third parties that provide logistics and fulfilment services. JPO looks to grow primarily via developing its existing brands and acquisitions of additional loyalty-inducing brands. The business relationships between The J. Peterman Company (the predecessor company to JPO) and the Group began in the 1990’s where the Group has been a trusted supplier of garments and related products to the J. Peterman brand. Pursuant to the License Agreement entered into between Asiamax, a wholly-owned subsidiary of the Company and JPO LLC in May 2019, the Group shall be the exclusive manufacturer and/or sourcing agent for all apparel products and fashion accessories sold by JPO LLC under the J. Peterman brand. The License Agreement has a term of twenty (20) years and possible successive ten (10) year renewal. As set out in the Prospectus, for the year ended 31 December 2022, JPO recorded revenue and net loss of approximately US\$26.1 million and US\$6.1 million respectively. JPO has sustained working capital deficits (approximately US\$10.4 million as at 31 December 2022 and approximately US\$8.3 million as at 30 September 2023) in recent years impacted by inflation and the pandemic. As advised by the executive Directors, JPO has plan to re-file its listing application and currently targets to list on NASDAQ by 2025.

2. *Background to and reasons for the Loan Agreement, Agreement and Second Agreement*

As disclosed in the Announcements, the Santai Advances (with outstanding amount of approximately US\$4.2 million as at the date of the Loan Agreement) were (i) advances made by the Group to Santai and/or JPO; and (ii) payment made by the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group on behalf of JPO in tranches from the period from December 2022 to October 2023. As discussed with the executive Directors, JPO faced cashflow difficulties and the Santai Advances provided by the Company were made to support JPO's business and ultimately in its efforts to recapitalise its business via a listing on NASDAQ so that JPO would succeed in its growth strategy of brand acquisitions. It is currently expected by the executive Directors that JPO will be listed on NASDAQ by 2025. The executive Directors believe that a recapitalised and growing JPO (which in turn benefits Santai through liquidity of the JPO shares) will enhance the recoverability of the Company's receivables from JPO and Santai.

The Santai Advances, when made, were interest-free, uncollateralised, had no fixed repayment date and are payable on demand. In order to rectify the Santai Advances and to re-comply with the relevant Listing Rules as further detailed in the "Letter from the Board" of the Circular, the Company and Santai entered into the Loan Agreement on 30 August 2024. Further details of the terms of the Loan Agreement are set out in the "Letter from the Board" of the Circular and this letter below.

As set out in the section headed "Continuing Connected Transaction and Connected Transaction" in the "Letter from the Board" of the Circular, on 18 November 2022, SAL executed the First Letter of Support in favour of JPO, pursuant to which SAL agreed (i) to continue to supply Inventories to JPO; and (ii) not to enforce its right to collect from JPO any trade payable for Inventories supplied until the earlier of 1 January 2024 or JPO receives its initial public offering proceeds, which constituted a financial assistance provided by SAL to JPO (the "**Financial Assistance**"). For the purpose of rectifying the Financial Assistance and re-compliance with the Listing Rules, on 30 August 2024, SAL entered into the Agreement with Santai and JPO, pursuant to which the parties agreed to, among other things, terminate the First Letter of Support and set out the terms and conditions of (i) the supply of Inventories; and (ii) provision of the Financial Assistance. The amount of Trade Payables during the Supply Term (i.e. a period starting from 18 November 2022 and ended on 23 March 2023) was approximately HK\$6 million and therefore, the amount of the Financial Assistance provided under the First Letter of Support was HK\$6 million.

Furthermore, on 13 April, 20 September and 28 December 2023, SAL executed the second Letter of Support, the third Letter of Support and the fourth Letter of Support (collectively the "**Letters of Support**") respectively in favour of JPO, pursuant to which SAL agreed, among other things, not to enforce its right to collect from JPO any trade payable for Inventories supplied until JPO receives its initial public offering proceeds. From the date of the second Letter of Support up to the date of the Second Agreement, the maximum amount of outstanding Trade Payables during the MT Term (i.e. a period starting from 13 April 2023 and ending on 30 August 2024) was approximately HK\$27.5 million. SAL agreed not to enforce its right to collect this amount from JPO under the Letters of Support which constituted financial assistance provided by SAL to JPO (the "**Second Financial Assistance**"). For the purpose of rectifying the Second Financial Assistance and re-compliance with the Listing Rules, on 30 August 2024, SAL, Santai and JPO entered into the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Second Agreement to, among others, terminate the Letters of Support and set out the terms and conditions of the provision of the Second Financial Assistance (i.e. HK\$27.5 million).

The total amount of the Santai Advances, Financial Assistance and Second Financial Assistance amounted to HK\$66,359,926 or US\$8,507,683. Based on the information provided by the Company, JPO and Santai have made payment to settle outstanding amount due to the Group in an aggregate amount of approximately US\$0.6 million since the making of the Santai Advances up to the Latest Practicable Date, which represents approximately 7% of the total amount of the Santai Advances, Financial Assistance and Second Financial Assistance of approximately US\$8.5 million. Since March 2024, the Group stopped accepting new orders from JPO except for any goods paid by cash before delivery.

We discussed with the executive Directors and understood that the Group has been actively liaising with Santai and JPO regarding settlement of the outstanding amount due to the Group. A demand letter was sent by the Group to each of Santai and JPO respectively on 25 July and 26 July 2024, details of which are set out in the announcement of the Company dated 29 July 2024. Santai/JPO indicated to the Group that they would pay down the outstanding amount due to the Group from their own cashflows. We noted from the Prospectus that, under the impact of inflation and the pandemic, JPO recorded a net loss of approximately US\$6.1 million for the year ended 31 December 2022 and had sustained working capital deficits of approximately US\$10.4 million as at 31 December 2022 and approximately US\$8.3 million as at 30 September 2023. We further understand from the executive Directors that JPO's financial performance has adversely affected the repayment schedule of Santai and JPO.

As JPO faced cashflow difficulties as mentioned above, based on current assessment by the executive Directors, immediate repayment of the Santai Advances, Financial Assistance and Second Financial Assistance by Santai and/or JPO, which in total amount to approximately HK\$66.4 million or US\$8.5 million, is highly unlikely. As at 31 March 2024, included in the Group's trade and other receivables are gross balances of approximately HK\$141.3 million and HK\$28.7 million due from Santai and JPO (approximately HK\$170 million in total). Allowance for expected credit losses of approximately HK\$63.3 million and HK\$6.7 million have been provided to such trade and other receivables due from Santai and JPO respectively (approximately HK\$70 million in total). This results in net balances due from Santai and JPO of approximately HK\$78.0 million and HK\$22.0 million as at 31 March 2024 (approximately HK\$100 million in total). We understand from the executive Directors that the assessment of the unlikelihood of immediate repayment of the Santai Advances, Financial Assistance and Second Financial Assistance of approximately HK\$66.4 million by Santai/JPO is in line with the assessment made for determining the accumulated allowance of expected credit loss of approximately HK\$70 million recorded by the Group as at 31 March 2024 for receivables due from Santai and JPO. Based on the executive Directors' assessment of the current situation, the costs of taking legal action against Santai/JPO for the outstanding amount due to the Group may not be justifiable at this stage.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the “Letter from the Board” of this Circular, JPO has plans to re-file its listing application and currently targets to get listed on NASDAQ by 2025. A successful listing of JPO would be expected to enhance its cashflow level with the listing proceeds to be received and therefore enhance the recoverability of the Group’s receivables from JPO and Santai. However, there is no assurance that the listing application will be successful. The Group has been actively liaising with Santai and JPO regarding settlement of the outstanding amount due to the Group. Nevertheless, the entering into of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement enable valid legal documents to be in place creating binding documentation to govern the rights of the Group with respect to the Santai Advances, Financial Assistance and Second Financial Assistance under these agreements. Such rights would remain legally enforceable regardless of the success of the initial public offering of JPO.

The Santai Advances, Financial Assistance and Second Financial Assistance provided by the Group to JPO and/or Santai are currently interest-free, uncollateralised and have no fixed repayment date. Entering into the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement, and approving such agreements at the EGM enable valid legal documents to be in place to govern the lending terms of the Santai Advances, Financial Assistance and Second Financial Assistance, including but not limited to, repayment period, interest rate, amount of security and events of default, which is an improvement to the Group as a lender, as compared to the case without these agreements being entered into.

Considering the above, particularly (i) the purpose of entering into of the Loan Agreement, Agreement and Second Agreement is to re-comply the relevant Listing Rules and rectify the Santai Advances, Financial Assistance and Second Financial Assistance (which are currently interest-free, uncollateralised and without fixed repayment term) by enabling legal documents to be in place to govern the lending terms for the interests of the Company and its Shareholders; (ii) based on the Directors’ current assessment, the immediate repayment of the Santai Advances, Financial Assistance and Second Financial Assistance from Santai/JPO is highly unlikely in view of JPO’s current financial position as discussed above; and (iii) the terms of the Agreements have been negotiated on arm’s length basis and are considered fair and reasonable (further details of which are discussed in this letter below), we are of the view that the entering into of the Loan Agreement, Agreement and Second Agreement, although not in the ordinary and usual course of business of the Group, is 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 ordinary resolutions to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. *Principal terms of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement and Second Agreement*

(i) *The Loan Agreement and Supplemental Agreement*

The principal terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are summarized below. Further details of the Loan Agreement are set out in the section headed “(1) Major and Connected Transaction” of the Circular.

Date: 30 August 2024

Parties: (1) SAL (as the lender); and
(2) Santai (as the borrower)

Principal amount of the Santai Advances: US\$4,212,811 (equivalent to HK\$32,859,926)

Repayment: Santai shall repay the Santai Advances in full in one lump sum together with all outstanding interest accrued thereon on the Repayment Date, being the date falling two (2) years from the date of the Loan Agreement. There is no penalty for prepayment of principal and relevant interest amount at any time.

Interest Rate: Interest on the Santai Advances shall accrue from and including the date of the relevant advances made at the interest rate of 7% per annum on the principal amount of the Santai Advances. All interest accrued will be payable in arrears in one lump sum as stipulated in the Loan Agreement when full repayment of the Santai Advances and the outstanding interests accrued thereon shall be repaid by Santai. Interest shall be calculated on the actual number of days elapsed and accrued on a daily basis.

On the Repayment Date, SAL will be entitled to receive approximately HK\$4.6 million under the Loan Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The rate of interest of 7% per annum is determined after arm's length negotiation between SAL and Santai after taking into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans to the Group.

If Santai fails to pay any sum payable under the Loan Agreement when due, Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis.

The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL and Santai after taking into account (i) the interest rate of 7% per annum on the principal amount of the Santai Advances; and (ii) premium to be charged by SAL to compensate for the default.

**Conditions
Precedent:**

The Loan Agreement shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Loan Agreement and the transactions contemplated hereunder;
- (2) SAL having received from Santai (i) the original documentation(s) in relation to the JPO Shares Charge duly executed by Santai as a collateral to ensure the due performance by Santai of its obligations under the Loan Agreement; and (ii) a copy certified as true and correct by a director of Santai of the resolution(s) of the director(s) of Santai authorising the execution, delivery and performance of the Loan Agreement and the JPO Shares Charge and authorising a person or person(s) to sign on its behalf the Loan Agreement and the JPO Shares Charge;
- (3) the representations and warranties given by Santai under the Loan Agreement remaining true and accurate in all respects; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (4) the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Loan Agreement).

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as SAL and Santai may agree), the Loan Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder.

For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee have entered into a stock pledge agreement (the “**Stock Pledge Agreement**”), which is governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders’ approval of the Agreements at the EGM) and condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied.

SAL is entitled to request Santai for immediate repayment of the principal amount and accrued interest (if any) of the Santai Advances in the event the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Loan Agreement may agree).

Completion of the Loan Agreement (as supplemented by the Supplemental Agreement) is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Loan Agreement).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Security:

The principal amount of the Santai Advances is secured by the JPO Shares Charge, being the charge of 3,139,367 shares of JPO, the value of which will be sufficient to cover the aggregate of (i) the entire amount of the Santai Advances; (ii) the entire amount of the Financial Assistance; and (iii) the entire amount of the Second Financial Assistance (i.e. HK\$66,359,926 or US\$8,507,683), by Santai in favour of SAL duly executed by Santai on 10 January 2025 as a collateral to ensure the due performance by Santai of its obligations under the Loan Agreement, Agreement and Second Agreement.

The aggregate number of JPO shares charged by Santai to SAL of 3,139,367 JPO shares was calculated based on the value of US\$2.71 per JPO share. The value of US\$2.71 per JPO share is based on latest valuation of the fair market value of the common equity of JPO as at 1 June 2024 conducted by an independent professional valuer.

The aggregate number of JPO shares is determined based on the aggregate value of the collateral (i.e. 3,139,367 JPO shares of US\$2.71 per share in the total value of approximately US\$8,507,684) representing the total amount of the Santai Advances, Financial Assistance and Second Financial Assistance (i.e. HK\$66,359,926 or US\$8,507,683).

**Undertakings by
Santai:**

Santai undertakes to SAL that, among other things, for so long as any part of the Santai Advances or interest thereon or any other amounts payable under the Loan Agreement remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;
- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and
- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Events of default: There shall be an event of default of the Loan Agreement if any one of the following events shall have occurred or is continuing:

- (1) Non-payment: Santai fails to pay any principal amount due from it under the Loan Agreement in the manner specified therein on the due date for payment, or fails to pay any accrued interest on the due date for payment; or
- (2) Other obligations: Santai commits any breach of or omits to observe any of its undertakings or obligations under the Loan Agreement and such breach or omission, if capable of remedy, is not remedied within ten (10) Business Days of notice to Santai from SAL requiring remedy of the same; or
- (3) Breach of representation: any representation or warranty made by Santai pursuant to the Loan Agreement is or proves to have been incorrect in any material respect when made and, if capable of remedy at the absolute discretion of SAL, is not remedied within ten (10) Business Days of notice to Santai from SAL requiring remedy of the same.

Upon the occurrence of an event of default and at any time thereafter, SAL may by notice in writing to Santai declare the Santai Advances, all interest accrued thereon and all other monies payable under the Loan Agreement to be forthwith due and payable whereupon the same shall be forthwith due and payable.

Asiamax, a wholly-owned subsidiary of the Company and JPO LLC entered into the License Agreement pursuant to which, among other things, the Group shall be the exclusive manufacturer and/or sourcing agent for all apparel products and fashion accessories sold by JPO LLC under the J. Peterman brand. The License Agreement has a term of twenty (20) years and possible successive ten (10) year renewal. Details of the License Agreement are summarised in the announcement of the Company dated 31 May 2019.

The Company and Santai are of the view that the License Agreement would in effect give SAL the exclusive right to be the supplier of JPO with the first right of refusal for the purchase of apparel, garment accessories, textiles and other relevant products from manufacturers/factories and all other sources of supply worldwide and therefore render the condition precedent (3) of the Loan Agreement redundant and duplicative. SAL and Santai have therefore agreed to enter into the Supplemental Agreement to make certain amendments to the Loan Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The principal terms of the Supplemental Agreement are summarized below. Further details of the Supplemental Agreement are set out in the paragraph headed “Supplemental Agreement” of the Circular.

Date: 20 February 2024

Parties: (1) SAL (as the lender); and

(2) Santai (as the borrower)

Amendments: (a) the condition precedent (3) “SAL having entered into a written agreement with JPO to appoint SAL as its exclusive supplier with the first right of refusal for the purchase of apparel, garment accessories, textiles and other products as may be agreed by the parties from time to time from manufacturers/factories and all other sources of supply worldwide for a term of five years” of the Loan Agreement be deleted in its entirety; and

(b) the long stop date for the satisfaction of the conditions precedent of the Loan Agreement be extended from 30 November 2024 to a date falling on or before 30 April 2025.

Save as disclosed above, all other terms and conditions of the Loan Agreement remain unchanged and in full force and effect in all respects.

Commentary

As noted from the Company’s 2024 annual report, the effective interest rate on bank borrowings of the Group is approximately 5.4% to 7.2%. According to the facility letters issued by commercial banks to members of the Group, the effective interest rates on the Group’s existing borrowings from April to August 2024 ranged from approximately 6.7% to 7.1% with an average of approximately 6.9%. Furthermore, as noted from the official website of HSBC, the latest published Hong Kong dollar best lending rate is 5.25% per annum as at 20 December 2024. The interest rate of 7% per annum under the Loan Agreement (i) is above the average of the recent effective interest rates charged by commercial banks on the Group’s existing borrowings; (ii) approximates the upper range of the Group’s cost of capital as set out in the Company’s 2024 annual report; and (iii) is above the benchmark lending rate in Hong Kong.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, the principal amount of the Santai Advances is secured by the JPO Shares Charge in favour of the Company, being the charge of 3,139,367 shares of JPO, the value of which (at US\$2.71 per JPO share) covers 100% of the amount of the Santai Advances, Financial Assistance and Second Financial Assistance (i.e. HK\$66,359,926 or US\$8,507,683). The value per JPO share is determined based on the latest valuation of the fair market value of the common equity of JPO as at 1 June 2024 conducted by an independent professional valuer. It is proposed under the Stock Pledge Agreement that upon completion of the anticipated initial public offering of JPO, the number of shares of the pledged stock shall be equitably adjusted based upon the JPO per share price of its common stock in the initial public offering with annual adjustment thereafter. This mechanism allows the sufficient number and value of JPO shares to be pledged in favour of SAL to cover 100% of the total value of the Santai Advances, Financial Assistance and Second Financial Assistance. The executive Directors consider that the JPO Shares Charge serves as a protective mechanism for the benefit of the Group as lender based on arm's length negotiation, which we concur in this regard. The management will decide the best course of action prior to and in case of a default of repayment. Whilst exercising the JPO Shares Charge is one potential action, this course will be taken only if this is the best outcome to the Company and its Shareholders as a whole. The management of the Group has been and will continue to monitor the performance and financial position of JPO closely, taking into account its proposed plan of fund-raising and public offering. Upon the enforcement of the JPO Shares Charge, all monies received in respect of the disposition of the pledged JPO shares will be applied towards payment of the Santai Advance, Financial Assistance and Second Financial Assistance and if such proceeds are insufficient, this will not prejudice the rights of the Company to claim against other assets of Santai (including but not limited to other JPO shares held by Santai, which represent approximately 79.1% of total issued share capital of JPO with a value of approximately US\$32,154,000 based on the value of US\$2.71 per JPO share) to cover for such deficiency.

Under the Loan Agreement, Santai shall repay the Santai Advances in full in one lump sum together with all outstanding interest accrued thereon on the date falling two (2) years from the date of the Loan Agreement. If Santai fails to pay any principal amount or any accrued interest on the due date of payment (being one of the events of default), SAL may by notice in writing to Santai declare the Santai Advances and all payables under the Loan Agreement to be forthwith due and payable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account the above, in particular, (i) the background of and reasons to the Loan Agreement as set out in the section headed “Reasons for and Benefits of Entering into the Loan Agreement” in the “Letter from the Board” of the Circular and the sub-section headed “Background to and reasons for the Loan Agreement, Agreement and Second Agreement” in this letter above; (ii) the purpose of the Loan Agreement to re-comply the relevant Listing Rules and rectify the Santai Advances (which are currently interest-free, uncollateralised and without fixed repayment term) by enabling a legal document to be in place to govern the lending terms which is an improvement to the Group as a lender compared to the case without such agreement being entered into; (iii) the analysis on interest rate and JPO Shares Charge as discussed above; and (iv) the repayment term and events of default under the Loan Agreement to legalise the recoverability of the Santai Advances as discussed above, the executive Directors consider, and we concur, that the terms of the Loan Agreement (as supplemented by the Supplemental Agreement) are fair and reasonable in the circumstances in which the Company finds itself.

(ii) The Agreement

The principal terms of the Agreement are summarised below. Further details of the Agreement are set out in the section headed “(2) Continuing Connected Transaction and Connected Transaction” of the Circular.

Date: 30 August 2024

Parties: (1) SAL;
(2) Santai; and
(3) JPO

(a) Supply of Inventories

Pursuant to the terms of the Agreement, SAL agreed to sell and/or supply and JPO agreed to purchase the Inventories at the Purchase Price pursuant to such Purchase Order as may from time to time be given by JPO and accepted by SAL during the Supply Term and the actual sale during the Supply Term was approximately HK\$6,000,000 and hence, the Sales Cap is set in the amount of HK\$6,000,000 for the purpose of Rule 14.53 of the Listing Rules.

The Purchase Price was determined after arm’s length negotiations between the parties with reference to (i) the existing prices of similar Inventories in the market in respect of each Inventory as agreed between JPO and SAL from time to time; and (ii) comparable selling prices of similar Inventories to other customers of SAL. In any event, the Purchase Price was no more favourable than those provided by SAL to third-party customers. For the years ended 31 March 2023 and 2024, the sales from the Group to JPO were HK\$19,950,802 and HK\$28,339,746, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed an analysis of the Group's gross profit margin obtained from the Company for the year ended 31 March 2023, which covers the Supply Term as stipulated in the Agreement. The gross profit ratio of sales to JPO for 2023 is higher than the gross profit ratio of total sales to customers other than JPO. Accordingly, the basis for determining the Purchase Price charged to JPO was no more favourable than those offered by the Group to other customers for 2023 and the pricing basis for the supply of Inventories under the Agreement is considered fair and reasonable.

(b) The Financial Assistance

Financial Assistance Amount: HK\$6,000,000

Repayment: Santai or JPO shall repay the Financial Assistance in full in one lump sum together with all outstanding interest accrued thereon on the TP Repayment Date, being the date falling two (2) years from the date of the Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance). There is no penalty for prepayment of the Financial Assistance and the relevant interest amount at any time.

Interest Rate: Interest on the Financial Assistance shall accrue from and including the date of the Agreement at the interest rate of 7% per annum (which is no less favourable than the market rate and having taken into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans) up to the TP Repayment Date. All interest shall be payable in arrears in one lump sum on the TP Repayment Date. Interest shall be calculated on the actual number of days elapsed and accrued on a daily basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If JPO or Santai fails to pay any sum payable under the Agreement when due, JPO or Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis. The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL, JPO and Santai after taking into account (i) the interest rate of 7% per annum; and (ii) premium to be charged by SAL to compensate for the default.

On the TP Repayment Date, SAL will be entitled to receive approximately HK\$833,000 interest under the Agreement.

**Conditions
Precedent:**

The Agreement shall be conditional upon, among others, the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Agreement and the transactions contemplated hereunder; and the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Agreement).

None of the conditions is waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as SAL, Santai and JPO may agree), the Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder.

SAL is entitled to request Santai and/or JPO for immediate repayment of the principal amount and accrued interest (if any) of the Financial Assistance in the event the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Agreement may agree).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee will enter into the Stock Pledge Agreement, which will be governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) and condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied. Completion of the Agreement is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Agreement).

Security:

The Financial Assistance is secured by the JPO Shares Charge, being a charge of shares of JPO by Santai in favour of SAL duly executed by Santai on 10 January 2025 as a collateral to ensure the due performance by Santai of its obligations under the Agreement.

**Undertakings by
Santai and JPO:**

Santai undertakes to SAL that, among other things, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable under the Agreement remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and
- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.

JPO further undertakes to SAL that, for so long as any part of the Financial Assistance or interest thereon or any other amounts payable under the Agreement remain outstanding:

- (1) it will not charge, pledge or dispose of its intellectual properties and other major assets as long as it remains a private company; and
- (2) it will produce and deliver to SAL a copy of its financial statements upon request by SAL.

Commentary

The amount of the Financial Assistance is equal to the maximum amount of Trade Payables during the Supply Term under the Letter of Support, representing the actual amount of the supply of inventories by SAL to JPO during the Supply Term (i.e. the Sales Cap). In view of (i) the background of and reasons to the Agreement as set out in the section headed “Reasons for and Benefits of the Agreement” in the “Letter from the Board” of the Circular; (ii) the purpose of the Agreement to re-comply the relevant Listing Rules and to rectify the supply of Inventories and the Financial Assistance (which are currently interest-free, uncollateralised and without fixed repayment term) by creating binding documentation to govern the lending terms which is an improvement to the Group as a lender, and to terminate the First Letter of Support; (iii) the pricing policy of the Supply of Inventories, under which the Purchase Price was no more favourable to JPO than those provided by SAL to third-party customers as mentioned above; (iv) the interest rate and the JPO Shares Charge (as a protective measure) as discussed in the paragraph headed “Commentary” under the section headed “(i) The Loan Agreement and Supplemental Agreement” of this letter above; and (v) the repayment term of two (2) years under the Agreement to legalise the recoverability of the Financial Assistance, the executive Directors consider, and we concur, that the terms of the Agreement are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) The Second Agreement

The principal terms of the Second Agreement with respect to the Second Financial Assistance are summarised below. Further details of the Second Agreement are set out in the section headed “Major Transaction” of the Circular.

Date: 30 August 2024

Parties: (1) SAL;
(2) Santai; and
(3) JPO

Second Financial Assistance Amount: HK\$27,500,000

Repayment: Santai or JPO shall repay the Second Financial Assistance in full in one lump sum together with all outstanding interest accrued thereon on the MT Repayment Date, being the date falling two (2) years from the date of the Second Agreement (or such earlier date as may be notified in writing by Santai or JPO to SAL in advance). There is no penalty for prepayment of the Second Financial Assistance and the relevant interest amount at any time.

Interest Rate: Interest on the Second Financial Assistance shall accrue from and including the date of the Second Agreement at the interest rate of 7% per annum (which is no less favourable than the market rate and having taken into account the prevailing market interest rates and practices, including the interest rate of approximately 6-7% per annum offered by commercial banks for loans to the Group) up to the MT Repayment Date. All interest shall be payable in arrears in one lump sum on the MT Repayment Date. Interest shall be accrued on a daily basis and calculated on the actual number of days elapsed and accrued on the basis of a 365-days year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If JPO or Santai fails to pay any sum payable under the Second Agreement when due, JPO or Santai shall pay a default interest from and including the due date to the date of actual payment at the rate of 10.5% per annum calculated on the actual number of days elapsed and accrued on a daily basis. The rate of default interest of 10.5% per annum is determined after arm's length negotiation between SAL, JPO and Santai after taking into account (i) the interest rate of 7% per annum; and (ii) premium to be charged by SAL to compensate for the default.

On the MT Repayment Date, SAL will be entitled to receive approximately HK\$3.86 million interest under the Second Agreement.

**Conditions
Precedent:**

The Second Agreement shall be conditional upon, among others, the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Second Agreement and the transactions contemplated hereunder; and the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Second Agreement).

None of the conditions is waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Second Agreement may agree), the Second Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder.

SAL is entitled to request Santai and/or JPO for immediate repayment of the principal amount and accrued interest (if any) of the Second Financial Assistance in the event the conditions have not been satisfied on or before 30 April 2025 (or such later date as SAL, Santai and JPO may agree).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the purpose of the JPO Shares Charge, Santai as pledgor and SAL as pledgee have entered into the Stock Pledge Agreement, which will be governed by the laws of the State of Delaware, USA and the Company is advised by its US lawyers that the Stock Pledge Agreement shall become effective upon the complete execution of the Stock Pledge Agreement by both parties and the delivery of original stock certificate(s) representing the pledged stock to SAL and the Stock Pledge Agreement is legal, valid, binding, and enforceable against the parties thereto in accordance with its terms.

As at the Latest Practicable Date, save as condition precedent (2) that the JPO Shares Charge has been executed (but the delivery of the share certificates for those charged shares of JPO will be made after Independent Shareholders' approval of the Agreements at the EGM) and condition precedent (3) which remains satisfied, all other conditions precedent are remained to be satisfied.

Completion of the Second Agreement is inter-conditional with the completion of the Guaranty Fee Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Guaranty Fee Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Second Agreement).

Security:

The Second Financial Assistance is secured by the JPO Shares Charge, being a charge of shares of JPO by Santai in favour of SAL executed by Santai as a collateral to ensure the due performance by Santai of its obligations under the Second Agreement.

**Undertakings by
Santai and JPO:**

Santai undertakes to SAL that, among other things, for so long as any part of the Second Financial Assistance or interest thereon or any other amounts payable under the Second Agreement remain outstanding:

- (1) it will procure JPO not to charge, pledge or dispose of its intellectual properties and other major assets as long as JPO remains a private company;
- (2) it will maintain not less than 50% shareholding interest in JPO as long as JPO remains a private company; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (3) it will procure JPO to produce and deliver to SAL a copy of the financial statements of JPO upon request by SAL.

JPO further undertakes to SAL that, for so long as any part of the Second Financial Assistance or interest thereon or any other amounts payable under the Second Agreement remain outstanding:

- (1) it will not charge, pledge or dispose of its intellectual properties and other major assets as long as it remains a private company; and
- (2) it will produce and deliver to SAL a copy of its financial statements upon request by SAL.

Commentary

The principal amount of the Second Financial Assistance is arrived at based on the actual MT Trade Payables incurred during the MT Term. In view of (i) the background of and reasons for the Second Agreement as set out in the section headed “Reasons for and Benefits of the Second Agreement” in the “Letter from the Board” of the Circular; (ii) the purpose of the Second Agreement to re-comply the relevant Listing Rules and rectify the Second Financial Assistance (which are currently interest-free, uncollateralised and without fixed repayment term) by creating binding documentation to govern the lending terms which is an improvement to the Group as a lender, and to terminate the Letters of Support; (iii) the interest rate and the JPO Shares Charge (as a protective measure) as discussed in the paragraph headed “Commentary” under the section headed “(i) The Loan Agreement and Supplemental Agreement” of this letter above; and (iv) the repayment term of two (2) years under the Second Agreement to legalise the recoverability of the Second Financial Assistance, the executive Directors consider, and we concur, that the terms of the Second Agreement are fair and reasonable.

B. The Guaranty Fee Agreement

(i) Background of and reasons for the Guaranty Fee Agreement

As outlined in the “Chairperson’s Statement” of the Company’s 2024 annual report, the long trade cycle of the Group’s business requires significant bank facilities and the banks have turned conservative as the economic environment of Hong Kong is less than robust. The Group has secured total credit facilities of approximately HK\$250 million under the Facilities, in which approximately 76% of the total credit facilities amount, i.e. approximately HK\$189 million, has been drawn down by the Group as at 31 March 2024. The total drawdown amount of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approximately HK\$189 million is regarded as current liabilities of the Company as at 31 March 2024 and to be due within one year. The Second Guarantor (i.e. Ms. Wong) has been providing various personal guarantees and properties pledge amounted to approximately HK\$218.6 million to secure the Facilities and at the bank's request will provide a pledge of her other one property with a value of approximately HK\$50 million to secure the HSBC Facilities. The First Guarantor (i.e. Mr. Choi), at the bank's request, will also provide a personal guarantee of not less than HK\$40 million and not more than HK\$50 million to secure the HSBC Facilities.

As discussed with the management of the Company, the credit facilities granted to the Company under the Facilities allow the Group to manage short-term cash flow fluctuations and are crucial to the Group's operational flexibility and financial resilience. The cash balances of the Group only amounted to approximately HK\$27 million as at 31 March 2024. According to the Company's announcement dated 8 January 2025, a placing was completed and the net proceeds receivable by the Group amounted to approximately HK\$3.95 million. With limited cash amount on hand, the Group needs to secure the Facilities to fulfil the Group's working capital requirement and for renewal of existing loans with the banks. According to the cash flows statement in the Company's 2024 annual report, the net cash used by the Group in operating activities amounted to approximately HK\$16.8 million for the year ended 31 March 2024. Other than the working capital requirement, the Facilities is essential for the Group to renew the bank borrowings of approximately HK\$189 million to be due within one year of 31 March 2024 as mentioned above.

The terms and conditions of the Guaranty Fee Agreement were negotiated on an arm's length basis between the parties with reference to the prevailing market rates for other guaranty fee transactions. Considering the necessity of the Facilities for the Group to maintain its working capital and renew the bank borrowings, the executive Directors consider that it is fair and reasonable to compensate and pay the Guarantors a guaranty fee subject to the terms and conditions of the Guaranty Fee Agreement. With limited cash amount available to the Group, we concur with the executive Directors that the continuation of the Facilities is crucial to the Group's financial stability and allows the Group to have flexibility with its working capital and cash flow management for its operations and development. Approving the Guaranty Fee Agreement and the transactions contemplated thereunder at the EGM enables the Group to maintain the Facilities which require various guarantees from the Guarantors by compensating the Guarantors with a guarantee fee. As set out in the paragraph headed "Analysis of the guaranty fee basis and rate" below, we consider the calculation of guaranty fee based on the aggregate amount of guarantee provided to secure the Facilities is not unreasonable, and the guaranty fee rate is fair and reasonable. On this basis, we consider that although the entering into of the Guaranty Fee Agreement is not in the ordinary and usual course of business of the Group, it is beneficial to the Group's operations from working capital perspective by maintaining the Facilities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the executive Directors that the terms of the Agreements were negotiated among the parties as a whole, to maintain a stable working capital position for the Group (via securing the Facilities), while enhancing the recoverability of the Group's receivable from JPO and Santai. The First and Second Guarantors were former business partners and controlling shareholders of the Company. Ms. Wong has been pivotal in developing the Group's business since the early 1990s. After the Guarantors ceased to be shareholders of the Company, they continued to show support to the Company by providing personal guarantees and personal properties as collaterals in order for the Group to secure bank facilities to support the Group's working capital. All parties involved in the Agreements (including Ms. Wong) acknowledged the strategic alignment of interests of all parties to achieve an outcome in the interest of the Company as mentioned above. Having taken into account (i) the reasons and purposes of the Agreements (that is, to allow the Group to maintain sufficient bank facilities to meet its operational and working capital needs, and enhancing the recoverability of the Group's receivable from JPO and Santai); and (ii) the terms of the Agreements to be fair and reasonable as discussed in this letter, we consider the inter-conditionality of the Agreements is acceptable.

(ii) Principal terms of the Guaranty Fee Agreement

A summary of the principal terms of the Guaranty Fee Agreement is set out below. Further details of the Guaranty Fee Agreement are set out in the section headed "(4) Continuing Connected Transaction" of the Circular.

Subject:

On 30 August 2024, SAL, Mr. Choi as the First Guarantor and Ms. Wong as the Second Guarantor entered into the Guaranty Fee Agreement, pursuant to which the Company, Mr. Choi and Ms. Wong agreed to, among other things, set out the terms and conditions to compensate and pay the Guarantors a guaranty fee.

Guaranty Fees:

The First Guarantor, Mr. Choi (the former non-executive Director who resigned on 23 March 2022), will provide a personal guarantee to secure the HSBC Facilities. Subject to the fulfilment of the conditions precedent and the limitations set out in the Guaranty Fee Agreement, the First Guarantor is entitled to receive a guaranty fee, and such guaranty fee shall, commencing from the date of provision of the personal guarantee by the First Guarantor in favour of HSBC, accrue at a rate of 2.5% per annum on the amount to be provided by the First Guarantor to secure the HSBC Facilities.

The Second Guarantor, Ms. Wong (the chairperson, executive Director and chief executive officer of the Company), has been providing various personal guarantees and properties pledge to secure the Facilities, and will provide a pledge of a further property to secure the HSBC Facilities. Subject to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the fulfilment of the conditions precedent and the limitations set out in the Guaranty Fee Agreement, the Second Guarantor is entitled to receive a guaranty fee, and such guaranty fee shall, commencing from the date of the Guaranty Fee Agreement, accrue at a rate of 2.5% per annum on the aggregate amount of guarantee provided by the Second Guarantor to secure the Facilities (including various personal guarantees and properties pledge provided by the Second Guarantor to secure the Facilities as at the date of the Guaranty Fee Agreement).

The guaranty fee shall be accrued on a daily basis and calculated on the basis of the actual number of days elapsed on the basis of a 365-day year. Should the amount of the guarantee provided by the First Guarantor and/or the Second Guarantor be adjusted at the request of relevant banks and has been effectively adjusted, the guaranty fee payable to the Guarantors in the above manner shall accrue based on the adjusted amount of the guarantee provided by the First Guarantor and/or the Second Guarantor.

The drawdown amount (i.e. the outstanding balance) under the HSBC Facilities as at 31 March 2023 and 31 March 2024 were approximately HK\$44 million and HK\$71 million, respectively, the maximum for which is HK\$75 million. The drawdown amount (i.e. the outstanding balance) under the HS Facilities as at 31 March 2023 and 31 March 2024 were approximately HK\$91.2 million and HK\$97.3 million respectively, the maximum for which is HK\$145 million. The drawdown amount (i.e. the outstanding balance) under the Citibank Facilities (which became available to the Group at the end of 2023) as at 31 March 2023 and 31 March 2024 were HK\$Nil and approximately HK\$20.7 million respectively, the maximum for which is HK\$30 million.

Limitations:

Upon the occurrence of any of the following events, no guaranty fee of the relevant Guarantors shall accrue further: (a) the relevant Guarantors cease to provide any security/collateral/guarantee to secure the relevant Facilities; or (b) the relevant Facilities are terminated by the relevant banks; or (c) the expiry of the Term.

Payment and Term:

The Guaranty Fee Agreement has a term of two years. The accrued guaranty fee shall be payable to the Guarantors on the date falling two (2) years from the date of the Guaranty Fee Agreement.

Conditions Precedent:

The Guaranty Fee Agreement shall be conditional upon:

- (1) the Independent Shareholders having passed a resolution at the EGM to be convened and held to approve the Guaranty Fee Agreement and the transactions contemplated hereunder; and

- (2) the satisfaction of all conditions precedent set out in (i) the Loan Agreement; (ii) the Agreement; and (iii) the Second Agreement (for all of the above agreements, save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement).

None of the above conditions are waivable and if the above conditions have not been satisfied on or before 30 April 2025 (or such later date as the parties to the Guaranty Fee Agreement may agree), the Guaranty Fee Agreement shall cease and determine. Thereafter the Guarantors will not be entitled to any guaranty fee under the Guaranty Fee Agreement and no parties shall have any obligations and liabilities towards the others thereunder save for any antecedent breaches of the terms thereof. As at the Latest Practicable Date, none of the above conditions has been satisfied.

Completion of the Guaranty Fee Agreement is inter-conditional with the completion of the Loan Agreement, Agreement and Second Agreement and is conditional upon, amongst others, the satisfaction of all conditions precedent set out in the Loan Agreement, Agreement and Second Agreement (save for the condition in relation to the satisfaction of all conditions precedent of the Guaranty Fee Agreement).

(iii) Analysis of the guaranty fee basis and rate

Pursuant to the Guaranty Fee Agreement, the guaranty fee accrues at a rate of 2.5% per annum on the aggregate amount of guarantee provided by the Guarantors to secure the Facilities.

As at the date of the Guaranty Fee Agreement, the Second Guarantor provided existing guarantees of approximately HK\$218.6 million to secure the Facilities of approximately HK\$250.0 million, and a property with a value of approximately HK\$50 million is going to be pledged by the Second Guarantor as an additional security for the HSBC Facilities at the bank's request.

The existing guarantees of approximately HK\$218.6 million provided by the Second Guarantor comprised of (a) the pledging of two properties with a value of HK\$97.6 million; and (b) personal guarantees in the aggregate amount of approximately HK\$121.0 million. Granting of the Facilities by the banks were conditional upon the properties pledged and personal guarantee provided by the Second Guarantor. The properties pledged by the Second Guarantor shall be held by the bank until the Facilities are terminated. The Second Guarantor has no rights to transfer the legal titles or carry out refinancing on the properties without consent of the bank.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The guaranty fee, calculated on the aggregate amount of guarantee provided by the Guarantors to secure the Facilities, serve to compensate the total risk exposure of the Guarantors. Based on our analysis below, the guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is considered fair and reasonable. Also, the payment of guaranty fee based on the aggregate amount of guarantee provided to secure the Facilities forms part of the arm's length commercial terms for the Guarantors to continue to provide guarantee to the Group for maintaining a sound credit condition.

Considering (a) the continuation of the Facilities is crucial to the Group's financial stability and allows the Group to have flexibility with its working capital and cash flow management for its operations and development; (b) the terms of the Guaranty Fee Agreement are on normal commercial terms and are fair and reasonable; (c) guarantees provided by the Guarantors are pre-conditions for the granting of Facilities by the banks; and (d) amount of properties pledged and amount guaranteed by the Second Guarantor represent her total risk exposure, the calculation of guaranty fee based on the aggregate amount of guarantee provided to secure the Facilities is not unreasonable.

The guaranty fee rate under the Guaranty Fee Agreement is 2.5% per annum based on the aggregate amount of the existing guarantees provided by the Guarantors. To assess the reasonableness of the guaranty fee rate under the Guaranty Fee Agreement, we have conducted a search on Bloomberg and identified four companies listed on the Main Board of the Stock Exchange that were engaged in the provision of financial guarantee services for the financial year ended 31 December 2023, and identified guaranty fee rates which are publicly disclosed by the aforesaid four listed companies in their (i) latest published annual reports; and/or (ii) announcements from 1 January 2021 up to the date immediately before the Latest Practicable Date (together, the "**Reference Cases**"). Details of the guaranty free rates disclosed in the Reference Cases are set out below:

(a) Guaranty fee rates disclosed in annual report

Company	Date of annual report	Guaranty fee rate disclosed
China Success Finance Group Holdings Limited (stock code: 3623)	28 March 2024	Between approximately 0.3% and 3.5% of the total sum guaranteed by the group

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Guaranty fee rates disclosed in announcements*

Company	Date of announcement	Guaranty fee rate disclosed
Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (stock code: 1543)	6 February 2024	Not exceeding 4.8% of the guaranteed amount per annum
	30 March 2023	Not exceeding 4.8% of the guaranteed amount per annum
	6 March 2023	2.5% of the guaranteed amount per annum
	22 December 2022	Not exceeding 8% of the guaranteed amount per annum
	8 December 2022	2.3% of the guaranteed amount per annum
	17 August 2022	Not exceeding 8% of the guaranteed amount per annum
	29 October 2021	Maximum 4% per annum based on the actual principal of the facilities
	8 September 2021	4% per annum based on the actual principal of the facilities
Differ Group Auto Limited (stock code: 6878)	2 March 2021	3.1% of the guaranteed amount per annum
SY Holdings Group Limited (stock code: 6069)	4 January 2022	0.5% of the weighted average balance of guaranteed amount per annum
	Average	4.2% per annum
	Median	4.0% per annum
	Maximum	8.0% per annum
	Minimum	0.5% per annum
	The guaranty fee rate under the Guaranty Fee Agreement	2.5% per annum

Source: The website of the Stock Exchange (hkexnews.hk) and Bloomberg

Based on the table above, the guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is below the average and the median of the guaranty fee rates disclosed in the announcements of the Reference Cases. Furthermore, we have noted in the latest published annual report of China Success Finance Group Holdings Limited (stock code: 3623) (“**China Success**”) that it charged its customers a fee of approximately 0.3% to 3.5% of the total sum guaranteed by China Success group. The guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is within the range of the guaranty fee rates charged by China Success. Based on the above, we are of the view that the guaranty fee rate of 2.5% per annum under the Guaranty Fee Agreement is fair and reasonable.

(iv) Proposed annual cap

The annual cap of the guaranty fee payable to the Second Guarantor pursuant to the Guaranty Fee Agreement is HK\$7 million, which is equivalent to a rate of 2.5% per annum charged on the aggregate amount of the existing guarantees provided by the Second Guarantor of approximately HK\$218.6 million to secure the Facilities as at the date of the Guaranty Fee Agreement and a property with a value of approximately HK\$50 million to be pledged by the Second Guarantor as an additional security for the HSBC Facilities.

We have reviewed the banking facilities letters with respect to the Facilities, correspondence with the bank regarding the HSBC Facilities, and the valuation on the properties pledged by the Second Guarantor to secure the Facilities as at 31 March 2024, and note that the value of the guarantees provided/to be provided by the Second Guarantor to secure the Facilities is consistent with the figure adopted by the Company in estimation of the proposed annual cap. Taking into account the above and our view that guaranty fee rate is fair and reasonable as stated in the paragraph headed “Analysis of the guaranty fee basis and rate” above, we concur with the executive Directors that the basis for determining the proposed annual cap for payment of the guaranty fee to the Second Guarantor is reasonable.

(v) Conditions of the continuing connected transaction

In compliance with the Listing Rules, the transactions contemplated under the Guaranty Fee Agreement are subject to a number of conditions which include, among other things:

- (i) the proposed annual cap for the transactions contemplated under the Guaranty Fee Agreement for a term of two years will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the transactions contemplated under the Guaranty Fee Agreement and confirm in the Company’s annual report whether the transaction contemplated under the Guaranty Fee Agreement have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the Guaranty Fee Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the transactions contemplated under the Guaranty Fee Agreement and they must confirm in a letter to the Board whether anything has come to their attention that causes them to believe that the transactions contemplated under the Guaranty Fee Agreement: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

contemplated under the Guaranty Fee Agreement involve the provision of goods or services by the Group; (c) were not entered into, in all material respects, in accordance with the Guaranty Fee Agreement governing the transactions; and (d) have exceeded the proposed annual cap with respect to the transactions contemplated under the Guaranty Fee Agreement;

- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that the Second Guarantor allows, the auditors of the Company sufficient access to their records of the transactions contemplated under the Guaranty Fee Agreement for the purpose of the auditors' reporting on the transactions contemplated under the Guaranty Fee Agreement. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the transactions contemplated under the Guaranty Fee Agreement exceed the relevant proposed annual cap, or that there is any material amendment to the terms of the Guaranty Fee Agreement.

In light of the conditions imposed on the transactions contemplated under the Guaranty Fee Agreement, in particular, (1) the limit of the value of the transactions contemplated under the Guaranty Fee Agreement by way of the relevant proposed annual cap; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the transactions contemplated under the Guaranty Fee Agreement; and (3) the on-going review by the auditors of the Company confirming the relevant proposed annual cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the Guaranty Fee Agreement and to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (a) the terms of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement and Guaranty Fee Agreement are on normal commercial terms and are fair and reasonable; and (b) although not in the ordinary and usual course of business of the Group, the entering into of the Loan Agreement (as supplemented by the Supplemental Agreement), Agreement, Second Agreement and Guaranty Fee Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

Ms. Stephanie Chow is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the Securities and Futures Ordinance to carry out Type I (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over sixteen years' experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The annual report of the Company for the year ended 31 March 2024 is announced by the Company on 24 July 2024 and the audited consolidated financial statements of the Company for the three years ended 31 March 2022, 31 March 2023 and 31 March 2024 together with the relevant notes to the financial statements of the Company can be found on pages 43 to 133 of the annual report of the Company for the year ended 31 March 2022, pages 43 to 131 of the annual report of the Company for the year ended 31 March 2023 and page 44 to 123 of the annual report of the Company for the year ended 31 March 2024, respectively. Please also see below the hyperlinks to the annual reports of the Company for the three years ended 31 March 2022, 31 March 2023 and 31 March 2024, respectively.

Please also see below the hyperlinks to the annual reports of the Company for the three years ended 31 March 2022, 31 March 2023 and 31 March 2024, respectively.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0722/2022072200451.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0728/2023072800611.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0724/2024072400740.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2024, being the indebtedness date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness were as follows:

Bank Borrowings

As at 31 December 2024, the Group had total secured and guaranteed bank borrowings with a carrying amount of approximately HK\$125.6 million.

Lease liabilities

As at 31 December 2024, the Group had lease liabilities of HK\$4.6 million which were secured.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 December 2024, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Group did not have other outstanding mortgages, charges, debentures or other loan capital issued and outstanding, and authorised or otherwise created but unissued, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or other material contingent liabilities.

3. OTHER INFORMATION ABOUT THE INDEBTEDNESS POSITION OF THE GROUP

Reference is made to the announcement of the Company dated 28 June 2024 in relation to the breach of certain financial covenants (the “**Breach**”) under the Citibank Facilities and HSBC Facilities. The Group has notified the Citibank and HSBC (the “**Lenders**”) about the Breach and as at the Latest Practicable Date, (i) HSBC has granted a waiver in respect of the breach under the HSBC Facilities; and (ii) the Citibank Facilities have been repaid by SAL and Chiefway in full and there are no outstanding amounts remaining under the Citibank Facilities.

4. SUFFICIENCY OF WORKING CAPITAL

Taking into account the Agreements and the financial resources available to the Group, including the internally generated funds, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, which is for at least the next 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2024, the date to which the latest published audited financial statements of the Group were made up.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is principally engaged in OEM manufacturing and trading of premium apparel products for the U.S. market, with production bases in China, the Philippines and Sri Lanka. The bulk of our production comes from the Company’s two own factories in Sri Lanka and the outsourced factories in the Philippines, whereas the China operation specialises in smaller production runs or more high-end products, and otherwise serves as the Company’s technical and development center. A predominant portion of our sales revenue is derived from an iconic four-decade-old American brand, with which the Company or its predecessor companies have been doing business since the early 1990’s. To date, the Company is among the top woven vendors of this most long-standing customer. There is every reason to believe that our relationship remains strong in the foreseeable future, and that the foundation of our business, namely, delivering unparalleled quality in fit and workmanship at the prices we offer remains solid. As such, we envision steady development of our business in line with the sales growth of this customer.

With our singular reliance on the U.S. market, the Company's sales performance is invariably tied to the consumer confidence, and its propensity to spend on discretionary purchases. In 2024, the US consumer spending has held up well with interest rates trending down and a modest decrease in unemployment rate. With the new administration in the U.S. in January 2025 and the rapid roll out of trade tariffs and initiatives to reduce government spending and improve its efficiency, the immediate impact is uncertainty in the market place notwithstanding the long term economic benefits. This may not bode well for discretionary purchases like apparels. There is a general expectation that inflation may go back up, since tariffs on imports will translate into higher prices for the consumers. Reduced government spending reduces consumption in general. The Company has noticed a certain cautiousness on the part of importers in their order placement, lengthening the ordering process and preferring chase orders at a later date rather than excess inventory.

At the same time, the incremental tariffs on goods of China origin will definitely benefit offshore production. Conceivably, there will be opportunities to outsource our apparel orders to Sri Lanka where we have had our presence about ten years ago. This may be additional business we can pursue. In addition, we will continue with our cost cutting measures and explore different avenues for efficiency in face of the uncertainty in the economy. The objective is to have a lower cost structure or fixed costs to cope with the variability in sales revenue.

Looking ahead, the Group will continue to strive for sale orders from existing and new customers, although there is always uncertainty in the global economic and geopolitical outlook, as well as how the preference for certain Country of Origin may affect our China based production. The Group will also look for other business opportunities to improve the Group's profitability and long term development.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTEREST**(a) Interests of Directors and chief executive of the Company**

As at the Latest Practicable Date, none of our Directors nor the chief executives of our Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interest of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, chief executives and Supervisors of the Company, no person (other than the Directors, chief executives or Supervisors of the Company) had an interest or short position in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, save as Mr. Chung Sam Kwok Wai who has an option to acquire shares of JPO, none of the Directors or controlling shareholders or their respective associates had any business or interest which competes or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

6. INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2024 the date to which the latest published audited accounts of the Group were made up.

There was no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the business of the Group as a whole.

7. MATERIAL CONTRACTS

Below are the material contracts the Company entered into after the date falling two years immediately preceding the date of the announcement dated 30 August 2024 and up to the Latest Practicable Date.

- (a) the placing agreement dated 26 October 2022 entered into between the Company and Grand China Securities Limited as placing agent in relation to a placing on a best effort basis, of up to 40,000,000 new Shares pursuant to a general mandate;
- (b) the placing agreement dated 30 July 2024 entered into between the Company and Zijing Capital Limited as placing agent in relation to a placing on a best effort basis, of up to 48,000,000 new Shares pursuant to a general mandate; and
- (c) the placing agreement dated 17 December 2024 entered into between the Company and Zijing Capital Limited as placing agent in relation to a placing on a best effort basis, of up to 57,600,000 new Shares pursuant to a general mandate.

Save for the above and the Agreements, no contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by members of the Group, have been entered into by members of the Group after the date falling two years immediately preceding the date of the announcement of the Company dated 30 August 2024 and up to the Latest Practicable Date.

8. GENERAL

- (i) The English text of this circular shall prevail over the Chinese text in case of inconsistency.
- (ii) The company secretary of the Company is Mr. Wong Sai Hung who has been a practicing solicitor in Hong Kong since 2010 and is currently a partner of a law firm in Hong Kong.
- (iii) The authorised representatives of the Company are (a) Mr. Chung Sam Kwok Wai; and (b) Mr. Leung Ka Wai.
- (iv) The registered office of the Company is 3rd Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.
- (v) The headquarter and principal place of business in Hong Kong of the Company is 18-19/F, Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong.
- (vi) The branch share register and transfer office in Hong Kong is Tricor Investor Services limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

9. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	Qualifications
Somerley Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, opinion, logo and qualifications, in the form and context in which they appear.

As at the Latest Practicable Date, the above expert:

- (a) did not have any direct or indirect, interest in any assets which have been since 31 March 2024 (being the date which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or lease to, any member of the Group; and

- (b) did not have any shareholding, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Group.

10. DOCUMENTS ON DISPLAY

Copies of the following document will be published on the website of the Stock exchange (www.hkexnews.hk) and the Company (<http://www.sterlingapparel.com.hk/>) from the date of this circular up to and including the date of the EGM (being not less than 14 days):

- (a) the Loan Agreement;
- (b) the Agreement;
- (c) the Second Agreement;
- (d) the Guaranty Fee Agreement;
- (e) the JPO Shares Charge;
- (f) written consent referred to in the paragraph head “Expert and consent” in this appendix;
- (g) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” of this circular;
- (h) the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this circular: and
- (i) the letter from the Independent Financial Adviser, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Sterling Group Holdings Limited 美臻集團控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1825)

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting of shareholders of Sterling Group Holdings Limited (the “**Company**”) will be held at 19/F., Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong on Friday, 14 March 2025 at 3:00 p.m. for the following purposes:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the loan agreement dated 30 August 2024 (the “**Loan Agreement**”) (a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked “A”) entered into between Sterling Apparel Limited (“**SAL**”), a wholly-owned subsidiary of the Company, as lender, and Santai Global Asset Management Ltd (“**Santai**”), as borrower in relation to advances made by the Company to Santai in the principal sum of US\$4,212,811 (equivalent to approximately HK\$32,859,926) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any one or more of the directors in the Company be and is/are hereby authorised to take all steps necessary or expedient in his/her opinion to implement and/or give effect to the Loan Agreement and the transactions contemplated thereunder; and
- (c) any act done or document executed (if necessary, under the common seal of the Company) by any directors of the Company in relation to or for the purpose of giving effect to the Loan Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified.”

2. “**THAT:**

- (a) the agreement dated 30 August 2024 (the “**Agreement**”) (a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked “B”) entered into between SAL, Santai and JP Outfitters Inc. (“**JPO**”) in relation to (i) the termination of the first letter of support executed by SAL in favour of JPO dated 18 November 2022; (ii) supply of inventories; and (iii) provision of financial assistance, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the sales cap of HK\$6,000,000 in relation to the Agreement be and is hereby approved, confirmed and ratified;
- (c) any one or more of the directors in the Company be and is/are hereby authorised to take all steps necessary or expedient in his/her opinion to implement and/or give effect to the Agreement and the transactions contemplated thereunder; and
- (d) any act done or document executed (if necessary, under the common seal of the Company) by any directors of the Company in relation to or for the purpose of giving effect to the Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified."

3. "THAT:

- (a) the agreement dated 30 August 2024 (the "**Second Agreement**") (a copy of which, signed by the chairman of the meeting for the purposes of identification, has been produced to the meeting marked "C") entered into between SAL, Santai and JPO in relation to (i) the termination of the three letters of support executed by SAL in favour of JPO dated 13 April 2023, 20 September 2023 and 28 December 2023; and (ii) provision of the second financial assistance. and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any one or more of the directors in the Company be and is/are hereby authorised to take all steps necessary or expedient in his/her opinion to implement and/or give effect to the Second Agreement and the transactions contemplated thereunder; and
- (c) any act done or document executed (if necessary, under the common seal of the Company) by any directors of the Company in relation to or for the purpose of giving effect to the Second Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified."

4. "THAT:

- (a) the guaranty fee agreement dated 30 August 2024 (the "**Guaranty Fee Agreement**") (a copy of which, signed by the Chairman of the meeting for the purposes of identification, has been produced to the meeting marked "D") entered into between SAL, Mr. Choi Siu Wai William as the first guarantor and Ms. Wong Mei Wai Alice as the second guarantor (the "**Second Guarantor**") in relation to the guaranty fees payable to the above guarantors and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the annual cap of the guaranty fee payable to the Second Guarantor pursuant to the Guaranty Fee Agreement of HK\$7 million be and is hereby approved, confirmed and ratified;
- (c) any one or more of the directors in the Company be and is/are hereby authorised to take all steps necessary or expedient in his/her opinion to implement and/or give effect to the Guaranty Fee Agreement and the transactions contemplated thereunder; and
- (d) any act done or document executed (if necessary, under the common seal of the Company) by any directors of the Company in relation to or for the purpose of giving effect to the Guaranty Fee Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified.”

By order of the Board
Sterling Group Holdings Limited
Wong Mei Wai Alice
Chairperson

26 February 2025

Notes:

- (1) Any member of the Company entitled to attend and vote at the above meeting may appoint another person as his proxy to attend and to vote instead of him. A proxy need not be a member of the Company.
- (2) All resolutions at the annual general meeting will be taken by way of poll pursuant to the Listing Rules and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
- (3) Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. The vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (4) In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof must be delivered to the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (5) A form of proxy for use at the meeting is being despatched to the shareholders of the Company together with a copy of this notice.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (6) The register of members of the Company will be closed from 11 March 2025 to 14 March 2025 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the meeting, all transfers of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 10 March 2025.