

14 March 2025

*To: The Independent Board Committee and the Independent Shareholders of  
China Ever Grand Financial Leasing Group Co., Ltd.*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO  
SUPPLEMENTAL TEI FRAMEWORK PURCHASE AGREEMENT AND  
2025 TEI FRAMEWORK PURCHASE AGREEMENT**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2025 TEI Framework Purchase Agreement, the ratification of the 2024 Transactions under the Supplemental TEI Framework Purchase Agreement, and the transactions contemplated thereunder, including the proposed annual caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 14 March 2025 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 17 February 2025, according to which, on 17 February 2025, the Company entered into (i) the Supplemental TEI Framework Purchase Agreement to extend the expired TEI Framework Purchase Agreement for one year commencing from 1 January 2024 to 31 December 2024 (both days inclusive) in order to ratify the 2024 Transactions; and (ii) the 2025 TEI Framework Purchase Agreement to continue business relationship with and procurement of Medical and Healthcare Products from TEI.

Principal terms of the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement are set out in the Letter from the Board with the proposed annual caps summarized as below:

|                                               | Year ending 31 December |              |              |
|-----------------------------------------------|-------------------------|--------------|--------------|
|                                               | 2024                    | 2025         | 2026         |
|                                               | HK\$'million            | HK\$'million | HK\$'million |
| Supplemental TEI Framework Purchase Agreement | 55                      | N/A          | N/A          |
| 2025 TEI Framework Purchase Agreement         | N/A                     | 150          | 170          |

TEI is owned by Mr. Ng Tin Shui, who is also an executive Director of the Company, and Ms. Chi Chin as to 50% and 50%, respectively. Mr. Ng Tin Shui and Ms. Chi Chin are spouses of each other. As at the Latest Practicable Date, Mr. Ng Tin Shui and Ms. Chi Chin are also substantial shareholders of the Company who are collectively interested in 220,470,000 Shares, representing 13.07% of the total issued share capital of the Company. Therefore, TEI is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules and the Supplemental TEI Framework Purchase Agreement, the 2025 TEI Framework Purchase Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company. As one or more applicable percentage ratios in respect of each of the 2024 Annual Cap under the Supplemental TEI Framework Purchase Agreement and the Annual Caps under the 2025 TEI Framework Purchase Agreement are over 5%, the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Ng Kwok Sang, Mr. Wu Kai Tang and Mr. Leung Yiu Ming, David, has been established to consider and make a recommendation to the Independent Shareholders on whether the Supplemental TEI Framework Purchase Agreement, the 2025 TEI Framework Purchase Agreement, and the transactions contemplated thereunder, including the annual caps are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. We, Messis Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Messis Capital Limited is not connected with the Directors or substantial shareholders of the Company or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. In the past two years, there was no engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as independent financial adviser, no arrangement exists whereby MESSIS Capital Limited will receive any fees or benefits from the Company or the Directors or substantial shareholders of the Company or any of their respective associates. We are independent 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 connection with the Supplemental TEI Framework Purchase Agreement, the 2025 TEI Framework Purchase Agreement and the transactions contemplated thereunder.

#### **BASIS OF OUR OPINION**

In formulating our opinions and recommendations, we have reviewed, *inter alia*, (i) the TEI Framework Purchase Agreement; (ii) the Supplemental TEI Framework Purchase Agreement; (iii) the 2025 TEI Framework Purchase Agreement; (iv) the announcement of the Company dated 17 February 2025; (v) the interim report of the Company for the six months ended 30 June 2024 (the “**Interim Report**”); and (vi) the annual report of the Company for the year ended 31 December 2023 (the “**FY2023 Annual Report**”). We have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the Management for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management.

The 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 the 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 therein or the document misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Supplemental TEI Framework Purchase Agreement, the 2025 TEI Framework Purchase Agreement, and the transactions contemplated thereunder, together with the proposed annual caps. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

#### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

**1. Background to and reasons for the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement**

The Group is principally engaged in four business segments namely (i) the provision of finance lease consulting services and financing services in the PRC (the “**Financial Leasing Business**”); (ii) investment in properties in the PRC, securities and money lending business in Hong Kong (the “**Investment Business**”); (iii) distribution and sales of medical, health, hygiene products and daily necessities (the “**Distribution Business**”); and (iv) manufacturing and sale of food additives, new food ingredients and nutritional enhancers in the PRC (the “**Manufacturing Business**”). Distribution Business represents a material business segment of the Group that contributed 80% of the total revenue in each of the two financial years ended 31 December 2023. As discussed with the Management, we are given to understand that Wong To Yick Wood Lock Ointment, being one of the best selling products of the Group in the Distribution Business, has been procured from TEI and governed by the TEI Framework Purchase Agreement since FY2023.

During the preparation of the annual results of the Group for the year ended 31 December 2024 and in attempt to review the 2024 Transactions, the financial department of the Group revisited the TEI Framework Purchase Agreement and discovered that the TEI Framework Purchase Agreement had expired on 31 December 2023. Due to miscommunication between the outgoing and incoming management personnels of the Company, there was an inadvertent oversight of the expiry date of the TEI Framework Purchase Agreement and there was no annual cap obtained for the 2024 Transactions in advance, and the management personnels mistakenly believed that an annual cap of HK\$80 million governed by the TEI Framework Purchase Agreement was valid and subsisting for FY2024. Accordingly, the Company failed to renew the TEI Framework Purchase Agreement before its expiration and continued to procure Medical and Healthcare Products including Wong To Yick Wood Lock Ointment from TEI.

In light of the abovementioned non-compliance event, the Management has suspended all procurement of the Group from TEI until Independent Shareholders' approval and ratification on the matter are to be obtained. Having considered the importance of mitigating disruption to the Distribution Business of the Group resulted from suspension of procurement from TEI, we concur with the view of the Directors that procurement of Medical and Healthcare Products has to be resumed and the entering into of the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement are in the interests of the Company and the Independent Shareholders as a whole.

The table below sets forth the revenue generated from four business segments for (i) the six months ended 30 June 2024 and 30 June 2023 respectively as extracted from the Interim Report; and (ii) two years ended 31 December 2023 as extracted from the FY2023 Annual Report:

|                              | Six months ended 30 June |          | Year ended 31 December |          |
|------------------------------|--------------------------|----------|------------------------|----------|
|                              | 2024                     | 2023     | 2023                   | 2022     |
|                              | HK\$'000                 | HK\$'000 | HK\$'000               | HK\$'000 |
| Revenue                      |                          |          |                        |          |
| - Financial Leasing Business | -                        | -        | -                      | -        |
| - Investment Business        | 3,166                    | 2,970    | 6,844                  | 9,134    |
| - Distribution Business [A]  | 42,002                   | 16,230   | 42,948                 | 60,474   |
| - Manufacturing Business     | 1,855                    | 1,291    | 2,910                  | 2,130    |
| Total revenue [B]            | 47,023                   | 20,491   | 52,702                 | 71,738   |
| [A]/[B]                      | 89.3%                    | 79.2%    | 81.5%                  | 84.3%    |

As shown in the table above, revenue contribution of Distribution Business represented approximately 80% of total revenue of the Group for the financial periods/years under review.

#### ***FY2023 vs FY2022***

Revenue decreased by approximately HK\$19.0 million or 26.5% from approximately HK\$71.7 million in FY2022 to approximately HK\$52.7 million in FY2023. With reference to the FY2023 Annual Report, the decrease in revenue in FY2023 was mainly attributable to the decrease in sales in the Distribution Business due to, among other factors, (i) decrease in demand for COVID-19 related products following the containment and relieve of the COVID-19 pandemic; and (ii) drop in sales volume of Wong To Yick Wood Lock Ointment resulted from shortage of supply by the manufacturer. As discussed with the Management, the Company entered into TEI Framework Purchase Agreement in FY2023 and commenced procurement of Medical and Healthcare Products from TEI since then. Products sourced from TEI were distributed by the Group in the PRC and Hong Kong markets. Based on the purchase of Medical and Healthcare Products from TEI of approximately HK\$12.1 million in FY2023, we are given to understand that distribution of TEI products by the Group accounted for approximately 30% of the Distribution Business.

#### ***1H2024 vs 1H2023***

Revenue increased by approximately HK\$26.5 million or 129.5% from approximately HK\$20.5 million in 1H2023 to approximately HK\$47.0 million in 1H2024. With reference to the Interim Report, the increase in revenue in 1H2024 was mainly attributable to the increase in sales in the Distribution Business driven by (i) increase in sales of health and wellness products under the Company's own brand; and (ii) increase in sales volume of Wong To Yick Wood Lock Ointment resulted from stabilization of supply by the manufacturer. As discussed with the Management, the Group commenced procurement from TEI by entering into the TEI Framework Purchase Agreement on 10 January 2023 and distribution of TEI products by the Group during 1H2023 was still at early stage which only accounted for approximately 5% of the Distribution Business. Purchase of Medical and Healthcare Products from TEI gradually increased following the solidification of business collaboration between the Group and TEI as well as the increase in supply of Wong To Yick Wood Lock Ointment by the manufacturer. With reference to the Interim Report, purchases of Medical and Healthcare Products from TEI increased significantly by approximately HK\$24.0 million or over 25 times from approximately HK\$0.9 million in 1H2023 to approximately HK\$24.9 million in 1H2024 which corresponded to the significant increase in sales in the Distribution Business during the period.

Having considered (i) the Distribution Business represents a material business segment of the Group in terms of revenue contribution; and (ii) the Medical and Healthcare Products sourced from TEI represent core product offering that drives the growth of the Distribution Business, the executive Directors consider, and we concur, that the procurement of Medical and Healthcare Products from TEI is in the ordinary and usual course of business of the Company and the entering into of the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement to secure stable supply of Wong To Yick Wood Lock Ointment for sale in Distribution Business is beneficial to the development of the Group.

**2. Principal terms of the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement**

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Date</b>           | 17 February 2025                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Parties</b>        | EGHC, as purchaser<br><br>TEI, as supplier                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Term</b>           | From 1 January 2024 to 31 December 2024<br>(Supplemental TEI Framework Purchase Agreement)<br><br>From the Effective Date to 31 December 2026 (2025<br>TEI Framework Purchase Agreement)                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Subject Matter</b> | The Group purchases the Medical and Healthcare<br>Products from TEI                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Pricing basis</b>  | The price of the Medical and Healthcare Products<br>shall be determined with reference to:<br><br>(i) the prevailing market price of similar Medical<br>and Healthcare Products (if applicable) of<br>comparable quality, ingredients, formula and<br>quantities and applicable foreign exchange rates<br>based on market information collected by the<br>Group from time to time; and<br><br>(ii) the terms agreed with other suppliers who are<br>Independent Third Party of the Group for the<br>Medical and Healthcare Products of comparable<br>quality, ingredients, formula and quantities and<br>applicable foreign exchange rates in recent<br>transactions. |

The price and the terms of the purchase of the Medical and Healthcare Products shall be agreed after arm's length negotiation between the Group and TEI based on normal commercial terms (as defined in the Listing Rules), and in any event shall be no less favourable to the Group than terms purchased by the Group from Independent Third Parties of the Group.

**Maximum Price Offered by TEI**

TEI further agrees that the maximum price of the Medical and Healthcare Products to be offered to the Group must not be higher or equal to the acquisition cost together with 1% markup thereon of the Medical and Healthcare Products as procured by TEI.

Such maximum of 1% margin was considered to be marginal and was determined with reference to the fact that the sales price margin of the Medical and Healthcare Products was inherently low in a trading arrangement. In any event, TEI had supplied the Medical and Healthcare Products at the lowest price to EGHC compared with that offered to its other customers.

For the purpose of proving of the acquisition cost of the Medical and Healthcare Products, EGHC shall have rights to request TEI to produce the underlying purchase orders, invoices or other documents of the Medical and Healthcare Products.

**Payment Terms**

EGHC shall pay the full amount of purchase to TEI prior to the delivery of the Medical and Healthcare Products.

For information, EGHC will also request its customers to pay the full amount to EGHC prior to the delivery of the Medical and Healthcare Products. As far as EGHC understands, TEI offers the same payment terms to all its other customers.

**Annual Caps**

*Supplemental TEI Framework Purchase Agreement:*  
FY2024: HK\$55 million

*2025 TEI Framework Purchase Agreement:*  
FY2025: HK\$150 million  
FY2026: HK\$170 million



As discussed with the Management, we are given to understand that TEI is one of the few authorized distributors of Wong To Yick Wood Lock Ointment in Hong Kong market (i.e. the HK Product) and the only authorized distributor in the PRC market (i.e. the Product). The Directors considered the entering into of TEI Framework Purchase Agreement in FY2023 could secure stable supply of Medical and Healthcare Products including Wong To Yick Wood Lock Ointment from TEI at competitive price. Despite that the responsible management personnels inadvertently overlooked the expiry date of the TEI Framework Purchase Agreement and continued to procure Medical and Healthcare Products from TEI in FY2024, the Directors confirmed that the pricing basis stipulated in the TEI Framework Purchase Agreement has been adhered to during FY2024 where the operating departments of the Company had, on a quarterly basis, reviewed and compared the purchase price of products sourced from TEI with price quotations and/or price list obtained from Independent Third Parties and prevailing market prices of comparable products. For the procurement of the Product where prevailing market prices are not readily available due to the fact that TEI is the only authorized distributor in the PRC market, the operating departments of the Company monitored the purchase price payable by the Group to ensure it is no higher than 101% of the acquisition costs of the Product as procured by TEI.

In order to assess the fairness and reasonableness of the pricing basis under the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement which are identical to the terms of the TEI Framework Purchase Agreement, we have obtained the purchase ledger prepared by the Management that sets out all transactions with TEI in FY2024 (the “**Review Period**”). We have scrutinized the purchase ledger and selected transactions with the largest dollar amount in each month from the purchase ledger (the “**Sample Transactions**”) and reviewed the purchase orders, invoices and delivery notes that aggregately represented approximately 55.8% of purchases from TEI during the Review Period. We consider the selection criteria fair and reasonable because (i) transactions that are material in terms of dollar amount are selected; (ii) Sample Transactions span evenly over the Review Period and are not biased to a particular month; and (iii) the aggregate coverage of approximately 55.8% of purchases from TEI is considered sufficient. Accordingly, we are of the view that the Sample Transactions which include both purchase of the HK Product and the Product from TEI are fair and representative. For the HK Product, we have reviewed and compared the unit purchase price of items purchased from TEI with the price quotations of comparable items from Independent Third Parties obtained in each quarter in FY2024. We noticed that the purchase price of the HK Products sourced from TEI were all lower than that quoted by Independent Third Parties. For the Product, we have reviewed and compared the unit purchase price of items purchased from TEI against the acquisition costs of TEI as set out in invoices received by TEI from the manufacturer. We noticed that the purchase price of the Products sourced from TEI were all lower than 101% of the acquisition costs of TEI. We also notice that payment in advance is required before delivery of both the HK Product and the Product to the Group which is in line with the payment terms imposed by the manufacturer on TEI. Based on our review of the Sample Transactions that adhered to the pricing basis and terms stipulated in the TEI Framework Purchase Agreement, we are of the view that the application of same pricing basis to govern transactions between the Group and TEI under the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement is fair and reasonable.

Having considered that (i) the Supplemental TEI Framework Purchase Agreement is to ratify the 2024 Transactions while the 2025 TEI Framework Purchase Agreement is to succeed the business relationship with TEI in order to secure stable supply of Medical and Healthcare Products including Wong To Yick Wood Lock Ointment for the Group's Distribution Business; (ii) the principal terms in particular that the purchase price charged by TEI on the HK Product is no less favorable to the Group than that charged by Independent Third Parties as evidenced by the fact that purchase price of the HK Products sourced from TEI in the Sample Transactions were all lower than that quoted by Independent Third Parties; and (iii) the principal terms in particular that the purchase price charged by TEI on the Product is marginal and favourable to the Group as evidenced by the fact that purchase price of the Products sourced from TEI in the Sample Transactions were all lower than 101% of the acquisition costs of TEI, we concur with the executive Directors' view that the Supplemental TEI Framework Purchase Agreement and the 2025 TEI Framework Purchase Agreement which inherit the terms and pricing basis of the TEI Framework Purchase Agreement are conducted in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

### 3. The proposed annual caps

As discussed with the Management, the annual cap for FY2024 was set with reference to the actual transaction amount of HK\$54.7 million under the 2024 Transactions while the annual caps for FY2025 and FY2026 are determined based on the historical transaction amounts and potential purchase demands from the existing and new customers. The proposed annual caps are summarized as below:

|                                               | Year ending 31 December |              |              |
|-----------------------------------------------|-------------------------|--------------|--------------|
|                                               | 2024                    | 2025         | 2026         |
|                                               | HK\$'million            | HK\$'million | HK\$'million |
| Supplemental TEI Framework Purchase Agreement | 55                      | N/A          | N/A          |
| 2025 TEI Framework Purchase Agreement         | N/A                     | 150          | 170          |

We have reviewed the management account of the Group in FY2024 and noticed that purchases of the Group from TEI increased significantly by approximately HK\$42.7 million or 354.3% from HK\$12.1 million in FY2023 to HK\$54.7 million in FY2024. Meanwhile, the sales of Medical and Healthcare Products also increased significantly by approximately HK\$44.4 million or 337.7% from HK\$13.2 million in FY2023 to HK\$57.6 million in FY2024. The corresponding increase in purchase from TEI and sales to customers of the Group indicates that there is a strong demand for TEI products whereby the Group has been able to sell additional products sourced from TEI to its customers. As discussed with the Management, we are given to understand that growth in sales of Medical and Healthcare Products in the Distribution Business is largely affected by the supply of products in particular Wong To Yick Wood Lock Ointment by TEI because the products are fast-moving and demand for Wong To Yick Wood Lock Ointment in the PRC and Hong Kong markets has been strong. Summary of the breakdown of the Annual Caps is set out below:

|                   | <b>FY2025</b><br><i>HK\$'million</i> | <b>FY2026</b><br><i>HK\$'million</i> |
|-------------------|--------------------------------------|--------------------------------------|
| The HK Product    | 120                                  | 130                                  |
| Other products    | <u>30</u>                            | <u>40</u>                            |
| Total annual caps | <u><u>150</u></u>                    | <u><u>170</u></u>                    |

In order to assess the fairness and reasonableness of the Annual Caps, we have extracted from the management accounts the actual number of bottles of Wong To Yick Wood Lock Ointment (i.e. the HK Product) sold in FY2023 and FY2024, and the forecast number of bottles of Wong To Yick Wood Lock Ointment to be sold in FY2025 and FY2026 prepared by the Management. A comparison table is set out as below:

|                                                     | <b>Actual</b> |                | <b>Forecast</b> |               |
|-----------------------------------------------------|---------------|----------------|-----------------|---------------|
|                                                     | <b>FY2023</b> | <b>FY2024</b>  | <b>FY2025</b>   | <b>FY2026</b> |
| Number of bottles of the HK Product sold/to be sold | 94,000        | 665,000        | 2,333,000       | 2,592,000     |
| <i>Year-on-year % change</i>                        | <i>N/A</i>    | <i>+607.4%</i> | <i>+250.8%</i>  | <i>+11.1%</i> |

As shown in the table above, sales volume of Wong To Yick Wood Lock Ointment increased dramatically by approximately 607.4% from 94,000 bottles in FY2023 to 665,000 bottles in FY2024. We have reviewed the management account and noticed that the substantial growth in sales volume in FY2024 was mainly driven by sales orders placed by one of the Hong Kong customers whose monthly order size increased from a range of 5,760 bottles to 79,200 bottles (equivalent to order size ranging from 40 boxes to 550 boxes, based on 144 bottles per box) for the first 10 months in FY2024 to 295,200 bottles (equivalent to 2,050 boxes) in November 2024 and 204,480 bottles (equivalent to 1,420 boxes) in December 2024. As discussed with the Management, the drastic increase in monthly sales orders placed by this customer to 2,050 boxes and 1,420 boxes in November and December 2024 respectively was due to the fact that this customer has in the last quarter of FY2024 expanded the operation of online cross border sales platforms. Upon discussion with such customer, the Management expects that demand for Wong To Yick Wood Lock Ointment from end users via online platforms would remain robust in the forthcoming years and therefore supports the large orders placed by customers engaging in e-commerce. With the commencement of online sales platform by the Group's customers, the Management expects that sales volume of the HK Product could reach 1,800 boxes per month and 1,500 boxes per month in FY2025 and FY2026 respectively. Based on the aforementioned development and expected demand, the forecast number of bottles of HK Products to be sold in FY2025 and FY2026 are calculated as below:

|                | Number of boxes<br>per month<br>[A] | Number of boxes<br>per year<br>[B] | Bottles per box<br>[C] | Number of<br>bottles<br>[B] x [C] = [D] |
|----------------|-------------------------------------|------------------------------------|------------------------|-----------------------------------------|
| <b>FY2025</b>  |                                     |                                    |                        |                                         |
| The HK Product | 1,800                               | 16,200<br>(Note 1)                 | 144                    | 2,333,000                               |
| <b>FY2026</b>  |                                     |                                    |                        |                                         |
| The HK Product | 1,500                               | 18,000<br>(Note 1)                 | 144                    | 2,592,000                               |

*Note:*

1. The forecast period for FY2025 covers 9 months from April to December 2025 for the HK Product, starting from the expected effective date of the 2025 TEI Framework Purchase Agreement while the forecast period for FY2026 covers 12 months from January to December 2026.

We have reviewed the management account of the Group in January 2025 and noticed that the sales volume of the HK Product was 383 boxes. As discussed with the Management, we are given to understand that first quarter of the year is typically slow season due to the impact of Chinese New Year holiday. Despite the relatively low sales volume achieved in January 2025 due to seasonal effect, sales volume of the HK Product increased significantly by approximately 283 boxes or 283.0% from 100 boxes in January 2024 to 383 boxes in January 2025. The Management confirmed that all procurement of the Group from TEI and sales of Wong To Yick Wood Lock Ointment have been suspended in February 2025 after the Management discovered the expiry of the TEI Framework Purchase Agreement and operation will only be resumed upon Independent Shareholders' approval and ratification on the matter are obtained. As a result, the sales volume of the HK Product was none in February 2025. While the sales volume in January 2025 are not comparable to the massive sales volume in November and December 2024 due to the negative impact of seasonal effect, we notice the drastic increase in sales volume as compared with January 2024. Moreover, we have sighted an annual indicative order from a customer engaging in e-commerce who forecast to order 2,000 to 3,000 boxes per month of the HK Products from the Group in FY2025. As discussed with the Management, the Group expect to fulfil the demand as soon as approval of the 2025 TEI Framework Purchase Agreement is obtained by the end of March.

Having considered that (i) growth in sales of Medical and Healthcare Products in the Distribution Business is in line with the increase in purchase of the HK Product from TEI indicating that there is a strong demand for TEI products whereby the Group has been able to sell additional products sourced from TEI to its customers; (ii) the sales orders received from customer engaging in e-commerce has boosted up the monthly order size to 2,050 boxes and 1,420 boxes in November and December 2024 respectively; and (iii) the massive annual indicative order received from a customer engaging in e-commerce, the Directors are of the view and we concur that the monthly sales orders projection of 1,800 boxes and 1,500 boxes of the HK Product for FY2025 and FY2026 respectively which are determined with reference to the large actual monthly sales orders received from customers following their expansion of online sales platform, is fair and reasonable. Taking into account our review of the Sample Transactions, we concur with the Directors' view that the unit purchase cost of Wong To Yick Wood Lock Ointment has been stable throughout the year. Accordingly, based on the actual unit purchase cost of the HK Product incurred in FY2024 and the forecast number of bottles of HK Products to be sold as discussed above, the annual caps for HK Product is estimated to be HK\$120 million in FY2025 and HK\$130 million in FY2026.

For the annual caps of other products, we have discussed with the Management and noted that the manufacturer of Wong To Yick Wood Lock Ointment is about to make available a new version of the Product (i.e. the PRC version of Wong To Yick Wood Lock Ointment) in the middle of FY2025. We are also given to understand that the Group is also prepared to expand its portfolio of Medical and Health Products to include some well-known general medical products distributed by TEI including Weisen-U (“胃仙-U”) and Ricqlès Peppermint Cure (“法國雙飛人藥水”). As discussed with Management, sales of the Product also increased significantly from approximately HK\$8.1 million in FY2023 to HK\$20.7 million in FY2024, indicating that there is a strong demand for the Product in the PRC market. Despite that the sales amount of new version of the Product and other general medical products newly added to the portfolio remain to be seen, taking into consideration (i) the strong demand in the PRC market as evidenced by the significant growth in sales of the Product; (ii) the expansion of product offering which includes some well-known brand names and potential demand from customers; and (iii) the fact that annual caps allocated to other products only accounted for a small portion of approximately 20.0% and 23.5% of the entire Annual Caps for FY2025 and FY2026 respectively, the Directors are of the view and we concur that the annual caps for other products are fair and reasonable.

Having considered (i) the substantial growth in sales volume of Wong To Yick Wood Lock Ointment in FY2024 by approximately 607.4% driven by the online sales platform of the Group’s customer; (ii) the reasonable monthly sales orders projection of 1,800 boxes and 1,500 boxes of the HK Product for FY2025 and FY2026 respectively which are determined with reference to the large actual monthly sales orders received from customers following their expansion of online sales platform; (iii) the strong demand in the PRC market as evidenced by the significant growth in sales of the Product; and (iv) the expansion of product offering of Medical and Health Products to include some well-known general medical products distributed by TEI, the Directors are of the view and we concur that the proposed annual caps for FY2025 and FY2026 governed by the 2025 TEI Framework Purchase Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

#### **4. Internal control measures regarding the transactions contemplated under the 2025 TEI Framework Purchase Agreement**

The Company has established various internal control measures to monitor the transactions contemplated under the 2025 TEI Framework Purchase Agreement, including:

- (i) the finance department of the Company will closely monitor the transactions on a monthly basis under the 2025 TEI Framework Purchase Agreement to ensure that the transactions amount will not exceed the Annual Cap for the 2025 TEI Framework Purchase Agreement;

- (ii) the finance department of the Company will conduct regular random checks on a quarterly basis to review and assess whether the transactions contemplated under the 2025 TEI Framework Purchase Agreement are conducted on normal commercial terms, in accordance with the terms set out in the 2025 TEI Framework Purchase Agreement and whether the relevant contract terms are in the interest of the Company and the Shareholders as a whole;
- (iii) the finance department of the Company, on a quarterly basis, will independently verify (i) the prevailing market price of the Medical and Healthcare Products as ascertained by the sourcing team, and (ii) the acquisition costs of the Medical and Healthcare Products purchased from TEI. In order to ensure the price for the purchase of Medical and Healthcare Products from TEI is fair and reasonable and no less favourable than those offered by Independent Third Parties, the finance department will (i) separately seek quotes from Independent Third Parties for the relevant Medical and Healthcare Products, (ii) independently obtain price lists for the Medical and Healthcare Products from Independent Third Parties, and (iii) require TEI to provide the underlying evidence such as purchase orders or contracts for the acquisition cost for the Medical and Healthcare Products purchased by the Group. If the finance department found out any alternative suppliers which might offer more favourable price to the relevant Medical and Healthcare Products, the finance department would inform and seek confirmation from the sourcing team;
- (iv) the Company's external auditor will conduct an annual review of the transactions entered into under the 2025 TEI Framework Purchase Agreement to ensure that the transactions amount is within the Annual Cap and the transactions is in accordance with the terms set out in the 2025 TEI Framework Purchase Agreement; and
- (v) the Company's independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the 2025 TEI Framework Purchase Agreement to ensure that the Company has complied with its internal approval process and the relevant requirements under the Listing Rules.

We have reviewed the internal control manual and randomly selected 3 samples of historical documents and records from 2024 Transactions maintained by the Group for walkthrough purpose to understand the abovementioned internal control measures adopted in the continuing connected transactions of the Group. Despite that the responsible management personnels inadvertently overlooked the expiry date of the TEI Framework Purchase Agreement, the Directors confirm that internal control measures governed by the TEI Framework Purchase Agreement were adhered to for all 2024 Transactions. Therefore, after taking into account that the internal control measures under the 2025 TEI Framework Purchase Agreement are identical to those of the TEI Framework Purchase Agreement, we consider it fair and reasonable to randomly select 3 samples of historical documents and records kept for 2024 Transactions and observed that the Group's personnel with appropriate level of authorities are involved in the approval and/or review process in relation to the continuing connected transactions.

Whilst our scope of work as an independent financial adviser does not include a review of the effectiveness of the internal control measures of the Group, we are of the view that based on our work described above and taking into account the aforementioned reporting requirements attached to the transactions contemplated under the 2025 TEI Framework Purchase Agreement, in particular, (i) the assignment of an experienced supervisor from finance department to monitor the continuing connected transactions; (ii) the restriction of the transaction amounts by way of the 2025 TEI Framework Purchase Agreement and the respective proposed annual caps; and (iii) the on-going review by the independent non-executive Directors and external auditors of the Company of the continuing connected transactions, we are of the view that there exist appropriate and effective measures to monitor the conduct of the continuing connected transactions contemplated under the 2025 TEI Framework Purchase Agreement so as to ensure that the transactions are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole, and thus, the interests of the Independent Shareholders is safeguarded.

## **OPINION AND RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the view that (i) the transactions contemplated under the 2025 TEI Framework Purchase Agreement are in the ordinary and usual course of business of the Company; (ii) the terms of the 2025 TEI Framework Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the entering into of the 2025 TEI Framework Purchase Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.



Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve (i) the 2025 TEI Framework Purchase Agreement; and (ii) the Supplemental TEI Framework Purchase Agreement to ratify the 2024 Transactions, and the proposed annual caps thereof.

Yours faithfully,  
For and on behalf of  
**Messis Capital Limited**



**Earnest Chow**  
*Director*

*Mr. Earnest Chow is a licensed person registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and is regarded as a responsible officer of Mesis Capital Limited. Mr. Earnest Chow has over 10 years of experience in the corporate finance industry.*