

14 April 2025

*To: The Independent Board Committee and the Independent Shareholders of
Xinjiang La Chapelle Fashion Co., Ltd.*

Dear Sirs,

**(1) ENTERING INTO OF THE REORGANISATION INVESTMENT
AGREEMENT INVOLVING SUBSCRIPTION AND ISSUANCE OF
DOMESTIC SHARES BY WAY OF CONVERSION OF
CAPITAL RESERVE IN BANKRUPTCY REORGANISATION;
(2) APPLICATION FOR WHITEWASH WAIVER; AND
(3) REORGANISATION INVESTMENT ARRANGEMENT.**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver, details of which are set out in the circular dated 14 April 2025 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms a part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

References are made to the 24 July Announcement and the following announcements (i.e. collectively, the Announcements):

- A. the announcements of the Company published on the Stock Exchange’s (these announcements are available on the Stock Exchange’s website under delisted securities (stock code: 6116)) and Company’s websites dated:
1. 14 October 2022 in relation to the petition for liquidation of the Company by a Creditor;
 2. 3 February 2023 in relation to the decision of the Court to accept the petition from a Creditor for liquidation of the Company and the clarification announcement dated 6 February 2023;

3. 7 February 2023 in relation to the designation of the Administrator of bankruptcy liquidation of the Company by the Court and suspension of trading;
 4. 3 September 2024 in relation to, among other things, the decision of the Listing Committee on cancellation of listing;
 5. 8 November 2024 in relation to, among other things, the decision of the Listing Review Committee and the cancellation of listing; and
 6. 13 September 2024, 10 October 2024, 8 November 2024 in relation to the monthly update and progress of the Company;
- B. the announcements of the Administrator published on the Stock Exchange's (these announcements are available on the Stock Exchange's website under delisted securities (stock code: 6116)) and Company's websites dated:
1. 8 February 2023 in relation to the notice of filing claims of the Creditors and the convening of the first Creditors' meeting;
 2. 24 May 2023 in relation to the information regarding the convening of the first Creditors' meeting of the Company;
 3. 5 June 2023 in relation to the voting results of the first Creditors' meeting of the Company;
 4. 20 June 2023 in relation to the pre-invitation for intended investors for the bankruptcy liquidation case of the Company;
 5. 30 August 2023 in relation to the application for reorganisation of the Company;
 6. 13 September 2023 in relation to the Court's ruling on reorganisation of the Company;
 7. 15 September 2023 in relation to the invitation for reorganisation investors for the Company;
 8. 12 January 2024 in relation to the progress of the Company's entering into the bankruptcy reorganisation procedure;
 9. 12 March 2024 in relation to the Court's decision on the extension for submission of Draft Reorganisation Scheme;
 10. 22 May 2024 in relation to the change of Administrator;
 11. 6 June 2024 in relation to the progress of the Company's entering into the bankruptcy reorganisation procedure;

12. 7 June 2024 in relation to the extension of deadline for submission of the Draft Reorganisation Scheme; and
 13. 17 July 2024 in relation to the receipt of the decision from the Court;
- C. the announcements of the Company published on the SFC's and Company's websites dated:
1. 6 December 2024, 13 January 2025, 12 February 2025 in relation to the monthly update and progress of the Company;
 2. 13 December 2024 in relation to the further delay in despatch of circular;
 3. 27 February 2025 in relation to the progress of the Company's entering into the bankruptcy reorganisation procedure;
 4. 17 March 2025 in relation to the progress of the Company's entering into the bankruptcy reorganisation procedure; and
 5. 10 April 2025 in relation to the progress of the Company's entering into the bankruptcy reorganisation procedure.

A Creditor of the Company had presented a liquidation petition to the Court for the reason that the Company was unable to repay its debts as they fell due. On 2 February 2023, the Court decided to accept the case. On 3 February 2023, the Court designated King & Wood Mallesons (Beijing), Shanghai Branch* (北京市金杜律師事務所上海分所) to act as the Administrator. On 22 May 2024, the Company received the second issue of the (2023) Hu 03 Po 64 Decision* ((2023)滬03破64號之二《決定書》) issued by the Court. As King & Wood Mallesons (Beijing), Shanghai Branch* (北京市金杜律師事務所上海分所) has a stake in the case, in order to ensure the reorganisation procedures of the Company is carried out in an orderly manner, upon random lottery by the Shanghai Higher People's Court, JunHe LLP, Shanghai Office* (君合律師事務所上海分所) was re-determined as the Administrator. On 17 July 2024, the Company received the third issue of the (2023) Hu 03 Po 64 Decision* ((2023)滬03破64號之三《決定書》) from the Court, in which the Court gave approval to the Company to perform the information disclosure obligations independently under the supervision of the Administrator.

The first Creditors' meeting of the case of the bankruptcy liquidation of the Company was held at 2:00 p.m. on 24 May 2023. The Administrator published the Announcement on Pre-Invitation for Intended Investors for the Bankruptcy Liquidation Case of the Company* (《公司破產清算案意向投資人預招募公告》) on 20 June 2023. The Company submitted application for reorganisation to the Court on 29 August 2023. The Court ruled the Company to enter into reorganisation procedure on 12 September 2023. The Administrator published the Announcement on Invitation for Reorganisation Investors for the Bankruptcy Reorganisation Case of the Company* (《公司破產重整案重整投資人招募公告》) on 15 September 2023. For details, please refer to the Announcements.

At the request of the Company, following the designation of the Administrator, trading in the Foreign Shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 7 February 2023. The Company received a letter from the Stock Exchange respectively dated 2 March 2023 and 19 April 2023 in relation to the resumption guidance for the Company. The Company received a letter from the Stock Exchange dated 23 August 2024 stating that the Listing Committee has decided to cancel the Company's listing under Rule 6.01A(1) of the Listing Rules as the Company had failed to fulfil all the resumption guidance. On 3 September 2024, the Company submitted an application requesting the decision be referred to the Listing Review Committee for review pursuant to Chapter 2B of the Listing Rules.

The Company received a letter from the Stock Exchange dated 1 November 2024 stating that the Listing Review Committee has decided to uphold the Listing Committee's decision to cancel the listing of the Company's Foreign Shares pursuant to Rule 6.01A(1) of the Listing Rules. On 4 November 2024, the Company was further informed by the Stock Exchange that the last day of listing of the Company's Foreign Shares is 13 November 2024 and the listing of the Company's Foreign Shares has been cancelled with effect from 9:00 a.m. on 14 November 2024.

The Subscription

After the reorganisation investor invitation and selection procedure, the Reorganisation Investment Consortium formed by the Investors has been officially selected as the reorganisation investors of the Company. On 24 July 2024, the Company entered into the Reorganisation Investment Agreement with the Investors and the Administrator. The Draft Reorganisation Scheme is prepared based on the reorganisation investment proposal submitted by the Investors, and the Subscription will be implemented in accordance with the Reorganisation Scheme as approved by the Court as part of the Reorganisation Investment Arrangement.

Subscription Shares

Pursuant to the Reorganisation Investment Agreement, subject to the Reorganisation Scheme and satisfaction of the conditions precedent as stipulated therein, the Company will implement the Conversion of Capital Reserve, converting its capital reserve into share capital on the basis of 57.50 new Domestic Shares for every 10 existing Domestic Shares, representing a total expected increase of 1,893,524,692 new Domestic Shares upon completion of the Conversion of Capital Reserve based on the 329,308,642 existing Domestic Shares (excluding the Repurchased Shares, which are subject to cancellation procedures in accordance with PRC laws) in the Company's share capital as at the Latest Practicable Date, among which 1,584,455,037 new Domestic Shares will be used for the Subscription and 309,069,655 new Domestic Shares will be used for the Loan Conversion. Upon completion of the Conversion of Capital Reserve, the total issued share capital of the Company is expected to be increased to 2,437,623,134 Shares (excluding the Repurchased Shares, which are subject to cancellation procedures in accordance with PRC laws), which is subject to the Reorganisation Scheme and registration with CSDC Beijing.

Pursuant to the Reorganisation Investment Agreement, subject to the satisfaction (or waiver, if applicable) of the conditions precedent, the Company has agreed to allot and issue by way of Conversion of Capital Reserve, and Guangsui Gold has agreed to subscribe for, 1,584,455,037 Subscription Shares with a par value of RMB1.00 each and an aggregate nominal value of RMB1,584,455,037, at the Subscription Consideration of RMB220 million, implying the Subscription Price of approximately RMB0.1388 per Subscription Share. The Subscription Shares will be registered under the name of the Subscriber, which is ultimately majority-controlled by Wang Guoliang.

In accordance with common registration method for bankruptcy and reorganisation of enterprises in the PRC, after the Court's approval of the Reorganisation Scheme, the Subscription Shares will be issued to the designated securities account of the Subscriber, which is ultimately majority-controlled by Wang Guoliang, while the Loan Conversion Shares will be issued to the Administrator before distribution to each of the Creditors individually upon calculation of each individual Creditor's Loan Conversion Shares entitlement pursuant to the settlement plan for the Creditors of the Reorganisation Scheme approved by the Court. For details of the Loan Conversion, please refer to the section headed "The Loan Conversion" in this letter from the Board.

As at the Latest Practicable Date, the Company has 547,671,642 Shares in issue, comprising 214,789,800 Foreign Shares and 332,881,842 Domestic Shares (including the Repurchased Shares, which are subject to cancellation procedures in accordance with PRC laws), representing approximately 39.22% and 60.78% of the total issued share capital of the Company, respectively. The Subscription Shares represent:

- (i) approximately 475.98% of the existing issued Domestic Shares of the Company as at the Latest Practicable Date (including the Repurchased Shares);
- (ii) approximately 481.15% of the existing issued Domestic Shares of the Company as at the Latest Practicable Date (assuming the Repurchased Shares have been cancelled);
- (iii) approximately 289.31% of the total issued share capital of the Company as at the Latest Practicable Date (including the Repurchased Shares);
- (iv) approximately 291.21% of the total issued share capital of the Company as at the Latest Practicable Date (assuming the Repurchased Shares have been cancelled);
- (v) approximately 71.17% of the enlarged issued Domestic Shares of the Company upon completion of the Subscription and the Loan Conversion (including the Repurchased Shares and assuming there is no change to the number of issued Shares (other than the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares));

- (vi) approximately 71.28% of the enlarged issued Domestic Shares of the Company upon completion of the Subscription and the Loan Conversion (assuming the Repurchased Shares have been cancelled and there is no change to the number of issued Shares (other than the cancellation of the Repurchased Shares, the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares));
- (vii) approximately 64.90% of the total enlarged issued share capital of the Company upon completion of the Subscription and the Loan Conversion (including the Repurchased Shares and assuming there is no change to the number of issued Shares (other than the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares)); and
- (viii) approximately 65.00% of the total enlarged issued share capital of the Company upon completion of the Subscription and the Loan Conversion (assuming the Repurchased Shares have been cancelled and there is no change to the number of issued Shares (other than the cancellation of the Repurchased Shares, the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares)).

Subscription Consideration and Payment Arrangement

The Subscription Consideration is RMB220 million, out of which RMB20 million has been paid in cash to the designated account of the Administrator by Guangsui Gold as the Deposit and the remaining RMB200 million shall be paid in cash by the Subscriber to the designated account of the Administrator within five (5) Business Days upon approval of the Reorganisation Scheme by the Court.

For the purpose hereof, all figures in HK\$ are calculated based on the exchange rate of HK\$1 to RMB0.86314 as quoted by the PBOC as at the Last Trading Day. The Subscription Price of approximately RMB0.1388 (equivalent to HK\$0.1608) per Subscription Share:

- (i) represents a discount of approximately 35.68% to the closing price of HK\$0.25 per Foreign Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) represents a discount of approximately 35.88% to the average closing price of HK\$0.2508 per Foreign Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) represents a premium of RMB6.2100 per Share over the audited net assets per Share of approximately RMB-6.0712 of the Group as at 31 December 2023 based on the Company's annual results announcement for the financial year ended 31 December 2023 and the number of Shares in issue as at the Latest Practicable Date; and

- (iv) represents a premium of RMB5.9847 per Share over the unaudited net assets per Share of approximately RMB-5.8459 of the Group as at 30 June 2024 based on the Company's interim results announcement for the six months ended 30 June 2024 and the number of Shares in issue as at the Latest Practicable Date.

The Loan Conversion

As part of the Reorganisation Investment Arrangement and as disclosed above, the Creditors' Claims will be partly repaid by cash, and the Company will allot and issue, by way of Conversion of Capital Reserve, approximately 309,069,655 Loan Conversion Shares for offsetting remaining claims, details of which (including the criteria for categorisation of Creditors into those to be repaid in cash and those to be repaid by way of the Loan Conversion, and the final amount of debt to be offset by the Loan Conversion Shares) will be determined by the Company and the Administrator based on the Reorganisation Scheme as approved by the Court and the claims as confirmed by the Court. The allotment and issuance of the Loan Conversion Shares will be conducted only after the Loan Conversion, as part of the Reorganisation Investment Arrangement and as included in the Draft Reorganisation Scheme, is approved by both the Creditors' meeting and the Court.

The Liquidity Support from Orient Securities Innovation

As part of the Reorganisation Investment Arrangement, Orient Securities Innovation has been invited by Guangsui Gold to be the financial investor and has agreed to participate in the reorganisation of the Company by providing a non-interest-bearing Liquidity Support of RMB199 million through a designated entity to the Company after the Draft Reorganisation Scheme has been approved by the Court, details of which such as conditions to the provision will be separately agreed by the Company and Orient Securities Innovation in writing after the Draft Reorganisation Scheme having been approved by the Court. In return of the provision of the non-interest-bearing Liquidity Support by Orient Securities Innovation (through a designated entity), Guangsui Gold agreed to independently bear certain expenses of capital of Orient Securities Innovation or its designated entity.

The Operation Plan

As part of the Reorganisation Investment Arrangement, Guangsui Gold has agreed to help improve the operation capacity of the Company after its reorganisation pursuant to the operation plan as set out in the reorganisation investment proposal submitted by the Investors, which is proposed to include, among others, optimize the company's asset structure and business model, dealing with inefficient or redundant assets and subsidiaries within the Group and revitalizing existing assets of the Group. The Operation Plan will form part of the Draft Reorganisation Scheme and will be subject to the Reorganisation Scheme as approved by the Court.

The Disposal of Assets

As part of the Reorganisation Investment Arrangement, within fifteen (15) days after the Reorganisation Scheme has been approved by the Court, the Company will initiate the disposal of certain existing assets with low relevance to the main business of the Group or

long-term idle inefficient assets by public disposal based on the terms of the Reorganisation Scheme, and the actual disposal of such assets through public disposal is expected to take place during the implementation period after the Draft Reorganisation Scheme is approved. Actual terms of the assets disposal, including without limitation the scope of assets subject to such disposal, has not yet been finalized as of the Latest Practicable Date and will be subject to approval by (among others) the Creditors and the Court as part of the Draft Reorganisation Scheme. The proceeds from the disposal will be used for supplementary settlement of certain debts of the Company, details of which will also be subject to the Reorganisation Scheme as approved by the Court.

Use of proceeds of the Subscription, the Liquidity Support and the Disposal of Assets

It is intended that (i) proceeds from the Subscription will be used for settlement of debts of the Company and expenses relating to the reorganisation of the Company; (ii) the Liquidity Support will be used for supplementing the working capital of the Company; and (iii) proceeds from the Disposal of Assets will be used for supplementary settlement of certain debts of the Company. The above use of proceeds will be subject to the Reorganisation Scheme having been approved by the Court.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, neither (i) Guangsui Gold and the Subscriber; (ii) any parties acting in concert with any of Guangsui Gold and the Subscriber; nor (iii) Orient Securities Innovation holds or is interested in any Shares. Immediately upon completion of the Subscription, Guangsui Gold and the Subscriber and parties acting in concert with any of them will hold 1,584,455,037 Domestic Shares, representing (i) 82.64% of the total number of Domestic Shares and 74.31% of the total number of Shares in issue as enlarged by the allotment and issuance of the Subscription Shares (assuming there is no change to the number of issued Shares other than the issuance and allotment of the Subscription Shares); and (ii) 71.17% of the total number of Domestic Shares and 64.90% of the total number of Shares in issue as enlarged by the allotment and issuance of the Subscription Shares and the Loan Conversion Shares (assuming there is no change to the number of issued Shares other than the issuance and allotment of the Subscription Shares and the Loan Conversion Shares). Under Rule 26.1 of the Takeovers Code, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by Guangsui Gold and the Subscriber and parties acting in concert with any of them unless the Whitewash Waiver is granted by the Executive. An application has been made by the Subscriber to the Executive for the Whitewash Waiver in respect of the allotment and issuance of the Subscription Shares. The Executive has indicated that it is minded to grant the Whitewash Waiver, subject to approval by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be subject to, among other things, the approval of at least 75% of the votes of the Independent Shareholders present and voting (either in person or by proxy) in respect of the Whitewash Waiver and more than 50% of the votes of the Independent Shareholders present and voting (either in person or by proxy) in respect of the Subscription at the EGM by way of poll. As required by the

Bankruptcy Law of the PRC, the “Adjustment Plan of the Capital Contributors’ Rights and Interests in the Draft Reorganisation Scheme”, which includes the Subscription, shall be approved by more than two-thirds of the votes of the Independent Shareholders.

Shareholders and potential investors should be aware that if the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, upon completion of the Subscription, Guangsui Gold and the Subscriber and parties acting in concert with any of them will hold more than 50% of the issued share capital of the Company. Hence, Guangsui Gold and the Subscriber and parties acting in concert with any of them may increase their shareholding of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

As at the Latest Practicable Date, the Directors have confirmed that there is no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholders on one hand; (ii) and the Company, its subsidiaries or associated companies on the other hand.

As at the Latest Practicable Date, the Company does not believe that the Subscription will give rise to any concern in relation to the compliance with other applicable rules or regulations. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription does not comply with other applicable rules and regulations.

RESERVATION OF RIGHT TO WAIVE THE WHITEWASH WAIVER CONDITION AND COMMENCEMENT OF THE OFFER PERIOD

Under the Reorganisation Investment Agreement, Guangsui Gold has reserved its right to waive the conditions in relation to the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders. Accordingly, the offer period has commenced as at the date of the 24 July Announcement. The results of the EGM will be announced in accordance with the relevant requirements under the Takeovers Code following the conclusion of the EGM. If the Independent Shareholders do not approve the grant of the Whitewash Waiver at the EGM, Guangsui Gold will consider whether to proceed with the Subscription and make a general offer, which will be solely in cash, for all the outstanding issued Shares of the Company in accordance with Rule 26.1 of the Takeovers Code. Guangsui Gold will disclose its intention in the results announcement of the EGM. If Guangsui Gold announces its intention to complete the Subscription and make an offer for all the outstanding Shares in issue in the results announcement of the EGM, the offer period will continue until such offer completes or lapses.

WARNINGS

The transactions contemplated under the Reorganisation Investment Arrangement, including the Reorganisation Investment Agreement, are subject to the fulfilment of various conditions and therefore may or may not materialise. The release of the Circular is not an indication that (a) the resumption of trading in the Foreign Shares has been or will be approved, or (b) the conditions precedent to the Reorganisation

Investment Agreement have been or will be fulfilled, or (c) the completion of the Subscription, the Loan Conversion, the Liquidity Support, the Operation Plan and the Disposal of Assets will take place.

There is uncertainty as to whether the adjustment plan of the capital contributors' rights and interests can be approved by the capital contributors group meeting (i.e. the EGM), whether the Draft Reorganisation Scheme can be approved by the Court, and whether the Reorganisation Scheme can be successfully implemented in the future. If the Draft Reorganisation Scheme is not approved by the Court or the Reorganisation Scheme cannot be implemented, the Court will terminate the reorganisation procedure of the Company, and the Company will be declared bankrupt by the Court and then the Administrator will commence liquidation of the Company based on laws and deregister the Company from its registration authority after obtaining the ruling on completion of bankruptcy procedures from the Court, which would result in the existing Shareholders' equity interests being zeroed out after the deregistration of the Company (i.e. a "total loss" for existing Shareholders).

Shareholders and potential investors of the Company should exercise caution when dealing in the Shares and are recommended to consult their professional advisers if they are in doubt about their position and as to the actions that they should take.

THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising the non-executive Director and all of the independent non-executive Directors, has been established to advise the Independent Shareholders regarding the Subscription and the Whitewash Waiver.

We, Red Solar Capital Limited, have been appointed as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver, such appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

OUR INDEPENDENCE

During the two years immediately preceding the date of the 24 July Announcement and up to the Latest Practicable Date, save for this engagement of us as the Independent Financial Adviser, no other relationship has been formed and no direct engagement has been performed between us and (i) the Company; (ii) the counter parties to the Reorganisation Investment Agreement (including Guangsui Gold, the Subscriber and Orient Securities Innovation); (iii) their respective controlling shareholder(s); (iv) any party acting, or presumed to be acting, in concert with any of the above; nor (v) any company controlled by any of it/them (collectively, the "**Relevant Parties**"). As at the Latest Practicable Date, (i) we did not have any relationship with, or interest in, the Relevant Parties that could reasonably be regarded as relevant to our independence; (ii) we were not in the same group with the financial or other professional advisers to the Relevant Parties; and (iii) we did not have significant connection, financial or otherwise, with the Relevant Parties within the two

years immediately prior to the date of the 24 July Announcement and up to the Latest Practicable Date of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of our advice under the Takeovers Code. Apart from the normal advisory fee payable to us by the Company in connection with our engagement as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Relevant Parties. Accordingly, we considered that we are independent to act as the Independent Financial Adviser pursuant to Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and the management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiry. We considered that we have reviewed sufficient information and documents, including but not limited to (i) the Announcements; (ii) the Circular; (iii) the annual reports of the Company for the year ended 31 December 2021, 2022 and 2023, respectively (the “**2021 Annual Report**”, “**2022 Annual Report**” and “**2023 Annual Report**”, respectively); (iv) the interim reports of the Company for the six months ended 30 June 2023 and 2024, respectively (the “**2023 Interim Report**” and “**2024 Interim Report**”, respectively); (v) unaudited consolidated management accounts of the Company from 1 January 2024 to 31 December 2024 (both date inclusive), being the period subsequent to 31 December 2023, the date up to which the last published audited financial statements of the Company covered, up to the latest practicable date up to which the unaudited consolidated management accounts of the Company have been prepared, (vi) other relevant documents in relation to the Subscription and the Whitewash Waiver provided by the Company, including but not limited to historical documents, records and calculations; and (vii) relevant market data and information available from public sources to formulate our opinion and recommendation.

We have no reason to believe that any material information has been omitted or withheld, or 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 or Guangsui Gold or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true, accurate and complete in all material respects and not misleading or deceptive up to the time of the Latest Practicable Date, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than the information in relation to the Subscriber and Guangsui Gold) and confirm, having made all reasonable enquiries, that to

the best of their knowledge, opinions expressed (other than those expressed by the sole director of Guangsui Gold) in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

As of the Latest Practicable Date, the Subscriber does not have any directors and the sole director of Guangsui Gold is Wang Guoliang.

The information in relation to the Subscriber and Guangsui Gold contained in the Circular has been supplied by the sole director of Guangsui Gold. The sole director of Guangsui Gold accepts full responsibility for the accuracy of the information contained in the Circular (other than the information in relation to the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed (other than those expressed by the Directors) in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We considered that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group nor the Independent Shareholders as a result of the Subscription and the Whitewash Waiver. The Shareholders will be notified of any material changes to or update of facts, circumstances and this letter of opinion after the Latest Practicable Date as soon as possible. This letter, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Subscription and the Whitewash Waiver, we have considered the following principal factors and reasons:

I. Background information of the Company and the Group

The Company is a joint stock company incorporated in the PRC with limited liability, whose Foreign Shares are formerly listed on the Main Board of the Stock Exchange (former stock code: 06116, which have been delisted with effect from 14 November 2024) and whose Domestic Shares are listed on the National Equities Exchange and Quotations (stock code: 400116). The Group is a multi-brand and omnichannel operated fashion group in the PRC that designs, markets and sells apparel products with a focus on mass-market casualwear.

With reference to the 24 July Announcement, the circumstances leading to the entering into of the Reorganisation Investment Agreement are summarized below.

Liquidation petition and designation of Administrator

A Creditor of the Company had presented a liquidation petition to the Court for the reason that the Company was unable to repay its debts as they fell due. On 2 February 2023, the Court decided to accept the case. On 3 February 2023, the Court designated King & Wood Mallesons (Beijing), Shanghai Branch* (北京市金杜律師事務所上海分所) to act as the Administrator. On 22 May 2024, the Company received the second issue of the (2023) Hu 03 Po 64 Decision* ((2023)滬03破64號之二《決定書》) issued by the Court. As King & Wood Mallesons (Beijing), Shanghai Branch* (北京市金杜律師事務所上海分所) has a stake in the case, in order to ensure the reorganisation procedures of the Company is carried out in an orderly manner, upon random lottery by the Shanghai Higher People's Court, JunHe LLP, Shanghai Office* (君合律師事務所上海分所) was re-determined as the Administrator. On 17 July 2024, the Company received the third issue of the (2023) Hu 03 Po 64 Decision* ((2023)滬03破64號之三《決定書》) from the Court, in which the Court gave approval to the Company to perform the information disclosure obligations independently under the supervision of the Administrator.

The bankruptcy reorganisation of the Company

The first Creditors' meeting of the case of the bankruptcy liquidation of the Company was held at 2:00 p.m. on 24 May 2023. The Administrator published the Announcement on Pre-Invitation for Intended Investors for the Bankruptcy Liquidation Case of the Company* (《公司破產清算案意向投資人預招募公告》) on 20 June 2023. The Company submitted application for reorganisation to the Court on 29 August 2023. The Court ruled the Company to enter into reorganisation procedure on 12 September 2023. The Administrator published the Announcement on Invitation for Reorganisation Investors for the Bankruptcy Reorganisation Case of the Company* (《公司破產重整案重整投資人招募公告》) on 15 September 2023. For details, please refer to the Announcements.

As set out in the indicative announcement of the Administrator in relation to the progress of the Company's entering into the bankruptcy reorganisation procedure dated 12 January 2024, after the reorganisation investor invitation and selection procedure, the official reorganisation investor of the bankruptcy reorganisation case of the Company has been selected. We have further enquired with the Company and were given the understanding that such selection of reorganisation investor and reorganisation proposal is a procedure supervised by the Court following the relevant rules and court-mandated procedures. The selection procedure consists of an objective review process and a subjective review process.

Pursuant to the Bankruptcy Law of the PRC, after the reorganisation investors are confirmed, a Draft Reorganisation Scheme (which sets out, among others, the Reorganisation Investment Arrangement of the Company) will be formulated based on the reorganisation investment proposal from the Investors and is required to be submitted to the Court and be put forward at a meeting of the Creditors within six months (the Court may grant a three-month extension if there were justifiable grounds) after the Court's ruling on the reorganisation of the Company. Given the Company was

ruled to enter into the reorganisation procedure on 12 September 2023, the deadline for the Company to submit its Draft Reorganisation Scheme would be by 12 March 2024 (or by 12 June 2024 if a three-month extension is sought and granted). On 12 March 2024, the Company received sixth issue of (2023) Hu 03 Po No. 64 Civil Judgement* ((2023) 滬03破64號之六《民事裁定書》) issued by the Court, in which the Court decided to extend the deadline for submission of the Draft Reorganisation Scheme of the Company to 12 June 2024. On 5 June 2024, the Administrator submitted an application to the Court for a two-month extension for submission of the Draft Reorganisation Scheme. On 7 June 2024, the Court decided to extend the deadline for submission of the Draft Reorganisation Scheme to 12 August 2024. On 5 August 2024, the Administrator received the application of 40 Creditors from the Court for the substantive consolidation in reorganisation (實質合併重整) of the Company with 32 related companies. The Court agreed to the Administrator's application that the period for review of the substantive consolidation in reorganisation will not be included in the calculation of deadline stipulated in Article 79 of the Bankruptcy Law of the PRC. On 22 October 2024, the Company received the eighth of (2023) Hu 03 Po No. 64 Civil Judgement* ((2023) 滬03破64號之八《民事裁定書》) from the Court, ruling that the applicant's application for the substantive consolidation in reorganisation of the Company and its related companies was not accepted. On 1 November 2024, the Company received notices of appeal from the Court. The applicants disagreed with the judgement that the application for the substantive consolidation was not accepted and submitted appeals. On 3 January 2025, the Company received the (2024) Hu Po Jian No. 3 Notice of Response* ((2024) 滬破監3號《應訴通知書》) from the Shanghai High People's Court (the "**Shanghai High Court**"), pursuant to which the Shanghai High Court has accepted the applicants' appeal against the ruling of the Court not to accept the substantive consolidation in reorganisation. On 25 February 2025, the Shanghai High Court has made the ruling rejecting the applicants' review petition. It is the final ruling. On 13 March 2025, the Company was informed by the Administrator that as approved by the Court, the creditors' meeting will be held on 1 April 2025 via off-site method (in writing), and arrange for the Creditors to vote on the Draft Reorganisation Scheme. The creditors' meeting has been held on 1 April 2025 via off-site method (in writing), and each of the creditors group for employee claims, the creditors group for tax expenses, and the creditors group for ordinary claims approved the Draft Reorganisation Scheme.

The approvals to which the Draft Reorganisation Scheme will be subject to are as follows:

- (a) *Approval by the Creditors:* the Draft Reorganisation Scheme will be put forward to a meeting of the Creditors for approval. The creditors' meeting has been held on 1 April 2025 via off-site method (in writing), and each of the creditors group for employee claims, the creditors group for tax expenses, and the creditors group for ordinary claims approved the Draft Reorganisation Scheme.
- (b) *Approval by the Shareholders:* Apart from approval by the Creditors, pursuant to the Bankruptcy Law of the PRC, in the event the Draft Reorganisation Scheme involved an adjustment in the equity interests of the

Company's capital contributors (i.e. the Shareholders), such transaction or proposal that involved the adjustment in the equity interests shall be subject further to approval by the Shareholders. Given both the Subscription and the Loan Conversion (which form part of the Company's reorganisation, with details of which disclosed below) involve adjustments being made to the equity interests of the Company's capital contributors (i.e. the dilution of the equity interests held by the Company's existing Shareholders), the Subscription and the Loan Conversion will be subject to the approval of the Shareholders.

- (c) *Approval by the Court:* Upon obtaining approvals by both the Creditors and the Shareholders, the Company or its Administrator shall apply to the Court for approval of the Draft Reorganisation Scheme. Nevertheless, pursuant to the Bankruptcy Law of the PRC, even if the Shareholders do not approve the Subscription and the Loan Conversion, in the event the Court considers that the adjustments being made to the equity interests of the Company's capital contributors are fair and reasonable, the Court has the jurisdiction to approve the Draft Reorganisation Scheme and proceed with the Draft Reorganisation Scheme, which includes the Subscription.

Upon approval by the Court of the Draft Reorganisation Scheme, the Draft Reorganisation Scheme will become the Reorganisation Scheme of the Company, and the Company will then enter into an implementation period, where the transactions under the Reorganisation Scheme (including the Subscription pursuant to the Reorganisation Investment Arrangement) will then be carried out in accordance with the terms of the Reorganisation Scheme.

Pursuant to the Bankruptcy Law of the PRC, the Company's assets or proceeds from the reorganisation process shall be distributed in the following sequence:

- (1) the expenses incurred for the bankruptcy process of the Company and common interest debts (共益債務) (under the Bankruptcy Law of the PRC). The expenses and common interest debts (共益債務) incurred for the bankruptcy process mainly represent litigation expenses payable to courts, expenses incurred for the continuance of the Company's business operations and fees payable to the Administrator, legal advisors, accountants and other professional advisors to the Company;
- (2) any wages, benefits for medical treatment and disability, comfort and compensatory funds gratuity that fell due, basic pension fund payables and basic medical insurance payables that shall have been transferred into the employees' personal accounts, compensation for the employees as prescribed by the relevant laws and administrative regulations (the "**Employee's Claims**"). The aggregate amount of Employee's Claims to the employees of the Company that have been or expect to be reviewed and confirmed as of 28 February 2025 is approximately RMB1.31 million;

- (3) any tax that fell due and any social insurance security expenses that fell due. The aggregate amount of tax and social security expenses fell due that have been or expect to be reviewed and confirmed as of 28 February 2025 is approximately RMB86.64 million;
- (4) creditors' ordinary claims (the "**Creditors' Claims**"). The aggregate amount of Creditors' Claims that have been or expect to be reviewed and confirmed as of 28 February 2025 is approximately RMB3.42 billion; and finally;
- (5) creditors' inferior claims (the "**Inferior Claims**") from related parties of the Company. The aggregate amount of Inferior Claims that have been or expect to be reviewed and confirmed as of 28 February 2025 is approximately RMB1.21 billion.

Given the declaration and review of debt claims are still underway as of the Latest Practicable Date, the aforementioned liabilities or claims amounts are still subject to change, and the final liabilities or claims amounts to be satisfied through the bankruptcy reorganisation shall be subject to the Court's final adjudication. Liabilities and claims under categories (1) to (3) above shall be satisfied in cash, while certain of the Creditors' Claims under category (4) shall first be satisfied by cash, with the remaining unsatisfied part to be satisfied through capitalisation of such debt and issuance of Domestic Shares to the relevant Creditors. Details of the repayment will be subject to the Reorganisation Scheme as approved by the Court.

Cancellation of listing of the Company's Foreign Shares

At the request of the Company, following the designation of the Administrator, trading in the Foreign Shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 7 February 2023. The Company received a letter from the Stock Exchange respectively dated 2 March 2023 and 19 April 2023 in relation to the resumption guidance for the Company. The Company received a letter from the Stock Exchange dated 23 August 2024 stating that the Listing Committee has decided to cancel the Company's listing under Rule 6.01A(1) of the Listing Rules as the Company had failed to fulfil all the resumption guidance. On 3 September 2024, the Company submitted an application requesting the decision be referred to the Listing Review Committee for review pursuant to Chapter 2B of the Listing Rules.

The Company received a letter from the Stock Exchange dated 1 November 2024 stating that the Listing Review Committee has decided to uphold the Listing Committee's decision to cancel the listing of the Company's Foreign Shares pursuant to Rule 6.01A(1) of the Listing Rules. On 4 November 2024, the Company was further informed by the Stock Exchange that the last day of listing of the Company's Foreign Shares is 13 November 2024 and the listing of the Company's Foreign Shares has been cancelled with effect from 9:00 a.m. on 14 November 2024.

(i) **Historical financial performances and positions of the Group**

The following tables set out key financial performances and positions of the Group for / as at the end of each of the three years ended 31 December 2023 (the “FY2021”, “FY2022” and “FY2023”, respectively) and the six months ended 30 June 2023 and 2024, respectively (the “6M2023” and “6M2024”), as extracted from the 2021 Annual Report, 2022 Annual Report, 2023 Annual Report, 2023 Interim Report and 2024 Interim Report:

| | For the 6M2024 RMB'000 (unaudited) | For the 6M2023 RMB'000 (unaudited) | For the FY2023 RMB'000 (audited) | For the FY2022 RMB'000 (audited) | For the FY2021 RMB'000 (audited) |
|-------------------------------------|---|---|---|---|---|
| Revenue | 69,354 | 83,988 | 170,233 | 197,841 | 430,128 |
| Less: | | | | | |
| Cost of sales | 15,856 | 20,925 | 47,086 | 61,761 | 219,366 |
| Taxes and surcharges | 574 | 1,398 | (5,251) | 12,201 | 20,116 |
| Selling (and distribution) expenses | 34,370 | 50,613 | 102,806 | 81,179 | 215,376 |
| Administrative expenses | 20,945 | 43,945 | 93,794 | 129,047 | 158,473 |
| Finance expenses | 37,810 | 47,057 | 88,641 | 181,703 | 199,731 |
| Add: | | | | | |
| Other income | 237 | 14,080 | 1,462 | 17,690 | 108,431 |
| Investment income | (13,902) | (457,311) | (390,037) | (629,545) | 31,792 |
| Gain/(Loss) on fair value changes | (1,252) | (330) | 4,907 | (9,433) | 7,591 |
| Credit impairment losses | 1,642 | 17,176 | 14,358 | (27,890) | (186,505) |
| Asset impairment losses | (8,517) | (4,976) | (20,807) | (22,577) | (310,182) |
| Gain/(Loss) on disposal of assets | (562) | 413 | (28,472) | (2,218) | 7,209 |
| Operating loss | (62,555) | (510,898) | (575,432) | (942,023) | (724,598) |
| Add: Non-operating income | 73 | 142 | 500 | 1,822 | 7,813 |
| Less: Non-operating expenses | 5,946 | 67,783 | 175,899 | 134,023 | 118,901 |
| Loss before tax | (68,428) | (578,539) | (750,831) | (1,074,224) | (835,686) |
| Less: Income tax expenses | (28,026) | 293 | 2,479 | (450) | (12,924) |
| Net loss | (40,402) | (578,832) | (753,310) | (1,073,774) | (822,762) |

| | As at 30 June 2024 RMB'000 (unaudited) | As at 31 December 2023 RMB'000 (audited) | As at 31 December 2022 RMB'000 (audited) | As at 31 December 2021 RMB'000 (audited) |
|---|---|--|--|--|
| Current assets: | | | | |
| Monetary Funds | 36,839 | 49,930 | 100,238 | 167,456 |
| Accounts receivables | 9,894 | 9,253 | 42,580 | 88,718 |
| Prepayments | 4,078 | 1,472 | 5,004 | 11,050 |
| Other receivables | 5,831 | 5,469 | 11,298 | 53,453 |
| Inventories | 31,568 | 38,857 | 38,699 | 60,865 |
| Other current assets | 85,696 | 83,226 | 32,288 | 26,544 |
| Total current assets | 173,906 | 188,207 | 230,107 | 408,086 |
| Non-current assets: | | | | |
| Long-term equity investments | 73,813 | 87,313 | 106,264 | 144,603 |
| Other equity instruments investments | — | — | — | 2,580 |
| Other non-current financial assets | 95,475 | 96,727 | 92,208 | 101,641 |
| Fixed assets | 107,180 | 110,972 | 526,254 | 1,516,195 |
| Construction in progress | 67,868 | 67,868 | 69,778 | 75,000 |
| Right-of-use assets | 2,152 | 8,988 | 36,427 | 3,837 |
| Intangible assets | 34,248 | 35,355 | 91,125 | 152,674 |
| Long-term prepaid expenses | 1,238 | 2,419 | 4,028 | 2,247 |
| Total non-current assets | 381,974 | 409,642 | 926,084 | 1,998,777 |
| TOTAL ASSETS | 555,880 | 597,849 | 1,156,191 | 2,406,863 |
| Current liabilities: | | | | |
| Short-term borrowings | 1,077,598 | 1,077,598 | 1,147,748 | 1,149,220 |
| Accounts payable | 1,127,881 | 1,121,143 | 893,963 | 826,501 |
| Advance from customers | 417 | 782 | 267 | 10,851 |
| Contract liabilities | 3,069 | 5,170 | 4,408 | 20,395 |
| Payroll payable | 6,334 | 11,216 | 10,563 | 9,833 |
| Tax payables | 106,836 | 134,175 | 201,028 | 203,777 |
| Other payables | 1,106,506 | 1,082,453 | 958,932 | 914,134 |
| Non-current liability due within a year | 1,370 | 3,219 | 10,348 | 349,910 |
| Other current liabilities | 375 | 488 | 578 | 1,874 |
| Total current liabilities | 3,430,386 | 3,436,244 | 3,227,835 | 3,486,495 |
| Non-current liabilities: | | | | |
| Lease liabilities | 1,008 | 5,328 | 26,673 | 1,897 |
| Estimated liabilities | 485,546 | 476,875 | 469,473 | 420,032 |
| Deferred tax liabilities | — | — | — | 2,110 |
| Other non-current liabilities | 4,350 | 4,500 | 5,419 | 5,899 |
| Total non-current liabilities | 490,904 | 486,613 | 501,565 | 429,938 |
| TOTAL LIABILITIES | 3,921,290 | 3,922,857 | 3,729,400 | 3,916,433 |
| NET LIABILITIES | (3,365,410) | (3,325,008) | (2,573,209) | (1,509,570) |

(ii) Discussions on material fluctuations in the financial performance of the Group

Comparing 6M2024 with 6M2023

Revenue

The Group's revenue decreased by approximately RMB14.63 million, or approximately 17.42%, from approximately RMB83.99 million for the 6M2023 to approximately RMB69.35 million for the 6M2024. As set out in the 2024 Interim Report, such decrease in revenue was mainly attributable to the decrease in the number of stores of the Group. In particular, the number of retail points of the Group decreased from 200 as at 30 June 2023 to 155 as at 30 June 2024, representing a decrease of 22.50%.

The distribution channel of the Group's apparel products mainly consists of concessionaire counters, standalone retail outlets, online platform, franchise/associates and wholesale. The Group's aggregate revenue from concessionaire counters and standalone retail outlets amounted to approximately RMB35.34 million and RMB20.53 million for the 6M2023 and 6M2024, respectively, representing a decrease of approximately 41.91%. It could be attributed to the decrease in the number of stores of the Group between 30 June 2023 and 2024, respectively, as discussed above. The Group's revenue from online platform also decreased from approximately RMB6.38 million to RMB1.27 million, respectively, for the 6M2023 and 6M2024. Meanwhile, the Group's revenue from franchise/associates increased from approximately RMB7.41 million to RMB11.88 million for the 6M2023 and 6M2024, respectively, and the Group's revenue from wholesale slightly increased from approximately RMB0.22 million to RMB0.26 million for the 6M2023 and 6M2024, respectively.

The Group's revenue from brand-integrated services, which was primarily relating to the licensing of brands to third parties in return for royalties, increased from approximately RMB24.56 million for the 6M2023 to approximately RMB30.19 million for the 6M2024.

The Group's revenue from others, being mainly the Group's leasing business, decreased from approximately RMB10.08 million for the 6M2023 to approximately RMB5.22 million for the 6M2024.

Cost of sales

The Group's overall cost of sales decreased by approximately RMB5.07 million, or approximately 24.22%, from approximately RMB20.93 million for the 6M2023 to approximately RMB15.86 million for the 6M2024. Both the Group's cost of sales of principal business and other business decreased from 6M2023 to 6M2024, which was generally in line with the decrease in the Group's revenue between the same periods.

Gross profit and gross profit margin

The Group's overall gross profit decreased by approximately RMB9.57 million, or 15.17% from approximately RMB63.06 million for the 6M2023 to approximately RMB53.50 million for the 6M2024.

The Group's gross profit margin for sales of apparel products from concessionaire counters and standalone retail outlets decreased by 8.4 percentage points and 6.4 percentage points to 66.9% and 68.4%, respectively, for the 6M2024 when compared with those for the 6M2023. Nonetheless, the Group's gross profit margin for sales of apparel products from online platform increased by 21.9 percentage points to 53.0% for the 6M2024 when compared with that for the 6M2023. The Group's gross profit margin from franchise/associates and wholesale also increased by 4.4 percentage points and 0.5 percentage points to 48.7% and 99.6%, respectively, for the 6M2024 when compared with those for the 6M2023. The Group's gross profit margin from brand-integrated services remained at 100% as it has no cost of sales. The Group's gross profit margin from others business decreased by 11.8 percentage points to 52.4% for the 6M2024 when compared with that for the 6M2023.

Taxes and surcharge

The Group's taxes and surcharge expenses decreased by approximately RMB0.82 million, or 58.94% from approximately RMB1.40 million for the 6M2023 to approximately RMB0.57 million for the 6M2024.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately RMB16.24 million, or 32.09% from approximately RMB50.61 million for the 6M2023 to approximately RMB34.37 million for the 6M2024, which primarily consisted of, among other things, employee benefits expenses, department store expenses, marketing expenses, depreciation of fixed assets, amortization of long-term prepaid expenses and depreciation of right of use assets, all of which decreased during 6M2023 and 6M2024.

Administrative expenses

The Group's administrative expenses decreased by approximately RMB23.00 million, or 52.34% from approximately RMB43.95 million for the 6M2023 to approximately RMB20.95 million for the 6M2024, among which employee benefits expenses, consulting expenses and rental fees decreased significantly between 6M2023 and 6M2024. Other administrative expenses of the Group such as office expenses, amortization of intangible assets, and utilities expenses also decreased between 6M2023 and 6M2024.

Finance expenses

The Group's finance expenses decreased by approximately RMB9.25 million from approximately RMB47.06 million for the 6M2023 to approximately RMB37.81 million for the 6M2024, which was primarily interest expenses.

Investment loss

The Group's investment loss decreased by approximately RMB443.41 million, or 96.96% from approximately RMB457.31 million for the 6M2023 to approximately RMB13.90 million for the 6M2024, which was mainly because the Group did not record gain or loss on change in scope of consolidation for the 6M2024 while it recorded loss on change in scope of consolidation of approximately RMB464.46 million for the 6M2023.

Gain/(Loss) on fair value changes

The Group recorded loss on fair value changes of RMB0.33 million and RMB1.25 million for the 6M2023 and 6M2024, respectively.

Credit impairment losses

The Group recorded a reversal of credit impairment losses of approximately RMB1.64 million for the 6M2024 while compared to that of approximately RMB17.18 million for the 6M2023. It mainly consisted of bad debt losses of accounts receivables and other receivables.

Asset impairment losses

The Group recorded asset impairment losses of approximately RMB4.98 million and RMB8.52 million for the 6M2023 and 6M2024. The asset impairment losses mainly consist of impairment of inventories.

Gain/(Loss) on disposal of assets

The Group recorded loss on disposal of assets of approximately RMB0.56 million for the 6M2024 when compared to gain on disposal of assets of RMB0.41 million for the 6M2023.

Non-operating expenses

The Group's non-operating expenses decreased from approximately RMB67.78 million to RMB5.95 million for the 6M2023 and 6M2024, respectively. It was mainly because of the Group's compensation for litigation reduced from approximately RMB61.13 million to approximately RMB4.98 million between the aforementioned periods.

Net Loss

Because of the aforesaid, the Group's net loss decreased by approximately RMB538.43 million, or 93.02%, from approximately RMB578.83 million for the 6M2023 to approximately RMB40.40 million for the 6M2024.

Comparing FY2023 with FY2022

Revenue

The Group's revenue decreased by approximately RMB27.61 million, or approximately 13.95%, from approximately RMB197.84 million for the FY2022 to approximately RMB170.23 million for the FY2023. The decrease in revenue was mainly due to the decrease in revenue derived from lease of approximately RMB40.56 million but partially offset by the increase in revenue derived from brand-integrated services of approximately RMB25.02 million.

The Group's revenue derived from sales of apparel products remained stable during FY2022 and FY2023, which was approximately RMB107.47 million and RMB101.40 million, respectively. The selling channel of the Group's apparel products mainly consists of concessionaire counters, standalone retail outlets, online platform and Franchise /Associates. The sales from concessionaire counters and standalone retail outlets decreased by RMB16.55 million from approximately RMB80.71 million for the FY2022 to approximately RMB64.16 million for the FY2023, which was mainly due to the decrease in number of retail points located in first-tier, second-tier and third-tier cities, from total 172 retail points as at December 31, 2022 to total 136 retail points as at December 31, 2023 but partially offset by the increase in sales from online platform by approximately RMB10.30 million for the FY2023. In general, the Group faced keen competition in first-tier cities, second-tier cities and third-tier cities, and the revenue from first-tier cities, second-tier cities and third-tier cities decreased by approximately RMB58.62 million, or 37.16% from approximately RMB157.75 million for the FY2022 to approximately RMB99.13 million for the FY2023.

The Group's revenue derived from lease decreased by approximately RMB40.56 million from approximately RMB50.24 million for the FY2022 to approximately RMB9.68 million for the FY2023, which was mainly due to (i) two subsidiaries of the Company entered into liquidation bankruptcy and reorganization bankruptcy during the years, which was no longer consolidated into consolidated statements and (ii) one of the Group's property was disposed during the FY2023, which resulted in the revenue from leasing business.

The Group's revenue derived from brand-integrated services was relating brand licensing and increased by RMB25.02 million from approximately RMB28.34 million for the FY2022 to approximately RMB53.36 million for the FY2023.

Cost of sales

The Group's overall cost of sales decreased by approximately RMB14.68 million, or 23.76% from approximately RMB61.76 million for the FY2022 to approximately RMB47.09 million for the FY2023, which was mainly due to the decrease in cost of sales from other business by approximately RMB24.48 million but partially offset by the increase in cost of sales from principal business by approximately RMB9.80 million.

The Group's cost of sales from principal business increased by approximately RMB9.80 million, or 33.25% from approximately RMB29.48 million for the FY2022 to approximately RMB39.28 million for the FY2023, while the Group recorded a decrease in revenue derived from sales of apparel products by approximately RMB6.07 million, or 5.65%.

The Group's cost of sales from other business decreased by approximately RMB24.48 million, or 75.81% from approximately RMB32.28 million for the FY2022 to approximately RMB7.81 million for the FY2023, which was generally in line with the decrease in revenue from other business by approximately RMB46.56 million, or 75.05%.

Gross profit and gross profit margin

The Group's overall gross profit decreased by approximately RMB12.93 million, or 9.50% from approximately RMB136.08 million for the FY2022 to approximately RMB123.15 million for the FY2023, which was mainly due to (i) the decrease in gross profit from sales of apparel products by approximately RMB6.07 million and (ii) decrease in revenue and gross profit from other business by approximately RMB46.56 million and RMB22.09 million for the FY2023, respectively, but partially offset by (iii) the increase in revenue derived from brand-integrated services by approximately RMB53.36 million for the FY2023 with 100.00% gross profit margin as it did not have any respective cost of sales.

The Group's gross profit margin for sales of apparel products decreased from approximately 72.57% for the FY2022 to approximately 61.26% for the FY2023, which was mainly due to the keen competition in in first-tier cities, second-tier cities and third-tier cities with a decrease in gross profit margin from approximately 73.1%, 75.0% and 51.4% for the FY2022 to approximately 64.0%, 59.6% and 53.1% for the FY2023, respectively.

The Groups' gross profit margin for other business remained stable at approximately 47.96% and 49.55% for the FY2022 and FY2023, respectively.

Taxes and surcharge

The Group's taxes and surcharge expenses decreased by approximately RMB17.45 million, or 143.04% from approximately RMB12.20 million for the FY2022 to a reversal of surcharges expenses of approximately RMB5.25 million for the FY2023, which was mainly due to the reversal of surcharges did not need to be paid by the deregistered subsidiaries during the year.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately RMB21.63 million, or 26.64% from approximately RMB81.18 million for the FY2022 to approximately RMB102.81 million for the FY2023, consisting primarily of department store expenses, sales staff salaries and benefits, depreciation of fixed assets, and e-commerce expenses. The increase in selling and distribution expenses was mainly due to (i) the increase in the department store expenses by approximately RMB34.89 million from approximately RMB6.74 million for the FY2022 to approximately RMB41.63 million for the FY2023, which was mainly due to the Group's closure of loss-making and inefficient stores and (ii) the increase in e-commerce expenses by approximately RMB3.37 million, which was in line with the increase in sales of apparel products from online platforms.

Administrative expenses

The Group's administrative expenses decreased by approximately RMB35.25 million, or 27.32% from approximately RMB129.05 million for the FY2022 to approximately RMB93.79 million for the FY2023, consisting primarily of administrative employee salaries, depreciation of fixed assets, consulting service fees and rental fees. The decrease in administrative expenses was mainly due to the decrease in depreciation of fixed assets by approximately RMB38.41 million from approximately RMB39.59 million, which was mainly due to one subsidiary of the Group was no longer consolidated into the consolidated statements as it entered into liquidation procedures and was taken over by an administrator in August 2022.

Finance expenses

The Group's finance expenses decreased by approximately RMB93.06 million from approximately RMB181.70 million for the FY2022 to approximately RMB88.64 million for the FY2023. The Group faced a high level of overdue debts of approximately RMB1,147.75 million and RMB1,077.60 million as of December 31, 2022 and 2023, which resulted in interests on debts and overdue penalty interests of approximately total RMB182.10 million and RMB88.60 million, respectively.

Investment loss

The Group's investment loss decreased by approximately RMB239.51 million, or 38.04% from approximately RMB629.55 million for the FY2022 to approximately RMB390.04 million for the FY2023, which was mainly due to the decrease in the loss on derecognition resulting from the former subsidiaries of the Group's entering bankruptcy liquidation or bankruptcy reorganisation procedure.

Gain/(Loss) on fair value changes

The Group recorded a gain on fair value changes of approximately RMB4.91 million for the FY2023, which was mainly due the fair value gain from non-current financial assets.

Credit impairment losses

The Group recorded a reversal of credit impairment losses of approximately RMB14.36 million for the FY2023 from credit impairment losses of approximately RMB27.89 million for the FY2022. The reversal of credit impairment losses was mainly due to the decrease in the provisions for expected credit losses on accounts receivables and other receivables for the FY2023.

Asset impairment losses

The Group recorded asset impairment losses of approximately RMB22.58 million and RMB20.81 million for the FY2022 and FY2023. The asset impairment losses mainly consist of impairment of inventories, construction in progress and long-term equity investments.

Gain/(Loss) on disposal of assets

The Group recorded loss on disposal of fixed assets of approximately RMB2.22 million and RMB28.47 million for the FY2022 and FY2023.

Non-operating expenses

The Group recorded non-operating expenses of approximately RMB134.02 million and RMB175.90 million for the FY2022 and FY2023, which mainly consists of compensation for litigation.

Net Loss

The Group's net loss decreased by approximately RMB320.46 million, or 29.84%, from approximately RMB1,073.77 million for the FY2022 to approximately RMB753.31 million for the FY2023. It was primarily attributable to the (i) decrease in the Group's administrative expenses by approximately RMB35.25 million for the FY2023; (ii) decrease in the Group's finance expenses by approximately RMB93.06 million for the FY2023 and (iii) decrease in investment loss of approximately RMB239.51 million for the FY2023.

Disclaimer of opinion for FY2022 and FY2023

According to Note 3 to Rule 2 of the Takeovers Code, we would like to draw your attention that the auditors of the Company have issued disclaimer of opinion on the financial statements of the Company for the FY2022 and FY2023, respectively, which comprise:

1. the consolidated and parent company's balance sheet as of December 31, 2022 and 2023, respectively;
2. the consolidated and parent company's income statements for the FY2022 and FY2023, respectively;
3. the consolidated and parent company's cash flow statements for the FY2022 and FY2023, respectively;
4. the consolidated and parent company statements of changes in shareholders' equity for the FY2022 and FY2023, respectively; and
5. notes to the financial statements for the FY2022 and FY2023, respectively.

For the FY2022, as stated in the 2022 Annual Report, the basis for the disclaimer of opinion mainly comprised (i) significant uncertainty of going concern; and (ii) litigation matters.

For the FY2023, as stated in the 2023 Annual Report, the basis for the disclaimer of opinion mainly comprised (i) going concern; and (ii) recognition of the amount of claims and debts related to the litigation.

In general, with reference to the 2022 Annual Report and 2023 Annual Report, the Group's consolidated financial statements for the FY2022 and FY2023 were prepared on a going concern basis, the validity of which is dependent on the outcomes of events such as whether the Company's reorganisation proposal will be approved by the creditors, whether the corresponding reorganisation plan will be approved by the court and whether the bankruptcy reorganisation proceedings will be successfully terminated. As a result of these multiple uncertainties and the possible impact thereof, the auditors of the Company disclaimed their opinion in

respect of the material or significant uncertainty relating to the going concern basis, and that they were unable to obtain sufficient and appropriate audit evidence to determine the appropriateness of the same.

For detailed information on the basis of disclaimer for FY2022 and FY2023, relevant financial year or period and action taken or to be taken, please refer to the paragraphs headed “I. Disclaimer of opinion” and “II. Basis for the disclaimer of opinion” in the 2022 Annual Report and 2023 Annual Report, respectively.

We have reviewed the principal terms of the Reorganisation Investment Agreement (which includes the Subscription) and the Directors confirmed that the Reorganisation Investment Agreement (which includes the Subscription) is not conditional on the auditor’s opinion on the Group’s financial statements. However, the Directors considered, and we concurred, that the auditor’s disclaimer of opinion may affect the ability of the Group in raising capital from means other than the Reorganisation Investment Agreement (which includes the Subscription). As such, we were of the view that the auditor’s disclaimer of opinion does not have implication on the Subscription, being a part of the Reorganisation Investment Agreement, and that the Subscription being able to provide capital to the Company under the auditor’s disclaimer of opinion is in the interests of the Company and Independent Shareholders as a whole.

Comparing FY2022 with FY2021

Revenue

The Group’s revenue decreased by approximately RMB232.29 million, or approximately 54.00%, from approximately RMB430.13 million for the FY2021 to approximately RMB197.84 million for the FY2022. The decrease in revenue was mainly due to (i) the decrease in revenue derived from sales of apparel products by approximately 195.22 million and (ii) the decrease in revenue derived from brand-integrated services by approximately RMB32.11 million.

The decrease in revenue derived from sales of apparel products was mainly attributed to (i) the decrease in total number of the Group’s retail points from total 300 as at December 31, 2021 to 217 as at December 31, 2022 and (ii) the decrease in sales of apparel products from online platform and wholesale distribution by approximately RMB13.28 million and RMB29.29 million, respectively. Due to the impact of COVID-19 pandemic, the sales of apparel products from all distribution channels of Group decreased, resulting in a decrease in revenue from sales of apparel products by approximately 54.00% for the FY2022.

The Group’s revenue derived from brand-integrated services was relating brand licensing and decreased by RMB32.11 million from approximately RMB60.45 million for the FY2021 to approximately RMB28.34 million for the FY2022.

Cost of sales

The Group's overall cost of sales decreased by approximately RMB157.61 million, or 71.85% from approximately RMB219.37 million for the FY2021 to approximately RMB61.76 million for the FY2022, which was mainly due to the decrease in cost of sales from sales of apparel products by approximately RMB154.40 million, or 83.97% and in line with the decrease in revenue derived from sales of apparel products of approximately 64.50% for the FY2022.

Gross profit and gross profit margin

The Group's overall gross profit decreased by approximately RMB74.68 million, or 35.43% from approximately RMB210.76 million for the FY2021 to approximately RMB136.08 million for the FY2022, which was mainly due to (i) the decrease in revenue and gross profit from sales of apparel products by approximately RMB195.22 million and RMB40.82 million for the FY2022, respectively, and (ii) decrease in revenue derived from brand-integrated services by approximately RMB32.11 million for the FY2022 with 100.00% gross profit margin as it did not have any respective cost of sales.

The Group's overall gross profit margin increased from approximately 49.00% for the FY2021 to approximately 68.78% for the FY2022 which was mainly due to the increase in the Group's gross profit margin for sales of apparel products from approximately 39.25% for the FY2021 to approximately 72.57% for the FY2022.

The Groups' gross profit margin for other business remained stable at approximately 47.03% and 47.96% for the FY2021 and FY2022, respectively.

Taxes and surcharge

The Group's taxes and surcharge expenses decreased by approximately RMB7.92 million, or 39.35% from approximately RMB20.12 million for the FY2021 to approximately RMB12.20 million for the FY2022, which was in line with the decrease in revenue of approximately 54.00%.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately RMB134.20 million, or 62.31% from approximately RMB215.38 million for the FY2021 to approximately RMB81.18 million for the FY2022, consisting primarily of department store expenses, sales staff salaries and benefits, depreciation of fixed assets, and utilities and electricity fees. The decrease in selling and distribution expenses was mainly due to (i) the decrease in the department store expenses by approximately RMB67.44 million from approximately RMB74.18 million for the FY2021 to approximately RMB6.74 million for the FY2022, which was mainly due to the Group's closure of loss-making and inefficient stores,

resulting in a drop in rental fees; (ii) the decrease in employee benefits expenses by approximately RMB17.00 million and (iii) the decrease in utilities and electricity fees by approximately RMB10.8 million.

Administrative expenses

The Group's administrative expenses decreased by approximately RMB29.43 million, or 18.57% from approximately RMB158.47 million for the FY2021 to approximately RMB129.05 million for the FY2022, consisting primarily of administrative employee salaries, depreciation of fixed assets and consulting service fees. The decrease in administrative expenses was generally due to the overall decrease in employee benefits expenses, depreciation of fixed assets and consulting expenses by approximately RMB9.50 million, RMB7.34 million and RMB4.73 million, respectively.

Finance expenses

The Group's finance expenses remained stable at approximately RMB199.73 million and RMB181.70 million for the FY2021 and FY2022. The Group faced a high level of overdue debts of approximately RMB1,149.22 million and RMB1,147.75 million as of December 31, 2021 and 2022, which resulted in interests on debts and overdue penalty interests of approximately total RMB209.67 million and RMB182.10 million, respectively.

Other income

The Group's other income decreased by approximately RMB90.74 million, or 83.69% from approximately RMB108.43 million for the FY2021 to approximately RMB17.69 million for the FY2022, which was mainly due to the decrease in debt restructuring income generated by the settlement of debts with goods compared to the FY2021.

Investment loss/Income

The Group's investment income decreased by approximately RMB661.34 million, or 2,080.20% from an investment income of approximately RMB31.79 million for the FY2021 to an investment loss of approximately RMB629.55 million for the FY2022, which was mainly due to the loss on derecognition resulting from the former subsidiaries of the Group's entering bankruptcy liquidation procedure.

(Loss)/Gain on fair value changes

The Group recorded a loss on fair value changes of approximately RMB9.43 million for the FY2022, which was mainly due the fair value loss from non-current financial assets.

Credit impairment losses

The Group recorded a credit impairment losses of approximately RMB27.89 million for the FY2022, which was mainly due to the expected bad debt losses on accounts receivables and other receivables for the FY2022.

Asset impairment losses

The Group recorded asset impairment losses of approximately RMB22.58 million for the FY2022. The asset impairment losses mainly consist of impairment of inventories and construction in progress.

Gain/(Loss) on disposal of assets

The Group recorded loss on disposal of fixed assets of approximately RMB2.22 million for the FY2022.

Non-operating expenses

The Group recorded non-operating expenses of approximately RMB118.90 million and RMB134.02 million for the FY2021 and FY2022, which mainly consists of compensation for litigation and tax late payment.

Net Loss

The Group's net loss increased by approximately RMB251.01 million, or 30.51%, from approximately RMB822.76 million for the FY2021 to approximately RMB1,073.77 million for the FY2022. It was primarily attributable to the (i) decrease in the Group's gross profit by approximately RMB74.68 million for the FY2022 and (ii) the Group's investment loss of approximately RMB629.55 million for the FY2022 but partially offset by (iii) the decrease in selling and distribution expenses of approximately RMB134.20 million for the FY2022.

(iii) Discussions on selected key items in the financial positions of the Group

Monetary Funds

The Group's monetary fund amounted to approximately RMB167.46 million, RMB100.24 million, RMB49.93 million and RMB36.84 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, which mainly consisted of bank deposits and bank deposits temporarily sealed or frozen due to the judicial order. The decrease in monetary fund was mainly due to the Group entered into judicial procedures and the funds were transferred to the administrator account opened by the bankruptcy administrator.

Accounts receivables

The Group's accounts receivable amounted to approximately RMB88.72 million, RMB42.58 million, RMB9.25 million and RMB9.89 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively. The general decrease in accounts receivables was mainly because of provision for bad debt.

Other receivables

The Group's other receivables amounted to approximately RMB53.45 million, RMB11.30 million, RMB5.47 million and RMB5.83 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, which mainly consists of deposits and security deposits and current accounts receivables. The general decrease in other receivables was mainly because of provision for bad debt.

Inventories

The Group's inventories amounted to approximately RMB60.87 million, RMB38.70 million, RMB38.86 million and RMB31.57 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, which mainly consists of finished goods of approximately RMB52.72 million, RMB34.83 million, RMB35.28 million and RMB31.39 million respectively.

The Group's book balance of the finished goods decreased by approximately RMB155.36 million, or 52.14% from approximately RMB298.00 million as at 31 December 2021 to approximately RMB142.64 million as at 31 December 2022 and further decreased by approximately RMB44.62 million, or 31.29% to approximately RMB98.01 million as at 31 December 2023. It then decreased by approximately RMB4.45 million, or 4.76% to approximately RMB93.56 million as at 30 June 2024.

The Group accrues for impairment of inventories based on the age of the inventory and also uses the principle of lower of net realizable value or cost to provide for impairment and provides for impairment based on the principle of prudence. The impairment allowance of the finished goods amounted to approximately RMB245.27 million, RMB107.80 million, RMB62.73 million and RMB62.17 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, which was approximately 82.31%, 75.58%, 64.00% and 66.45% to the book balance of the finished goods. The generally decreasing trend in percentage of impairment allowance was mainly due to the Group's efforts to sell aged inventories during the years.

Other current assets

The Group's other current assets amounted to approximately RMB26.54 million, RMB32.29 million, RMB83.23 million and RMB85.70 as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, while the gross amount of the Group's other current assets amounted to RMB725.70 million, RMB427.98 million, RMB593.92 million and RMB596.39 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively.

The gross amount of other current assets of approximately RMB596.39 million as 30 June 2024 mainly consisted of borrowing to related parties of approximately 47.87 million, entrusted loan of approximately 42.40 million and long-term investments expected to be disposed of approximately RMB413.06 million. The Group has recorded approximately RMB510.69 million impairment loss for other current assets due to following reasons:

Borrowing to related parties

As at 30 June 2024, the Group had provided loans of total approximately RMB40.00 million to a related party. Due to the poor operating conditions of the enterprise and liquidity problems, the Group considered that the loans are difficult to recover and therefore fully accrued impairment.

Entrusted loan

As at 30 June 2024, the Company had provided loans of total approximately RMB37.40 million to a former subsidiary. The Group considered that it could hardly recover the amount and accrued a full impairment of the loans.

Long-term investments expected to be disposed

The Group's three wholly-owned subsidiaries were filed for bankruptcy and liquidation by their creditors due to insolvency, and have been taken over by the court-appointed administrators during the year. According to the Group's understanding, the possibility of the parent company being compensated as a shareholder in the bankruptcy liquidation of the above subsidiaries was basically zero. Therefore, full provision for impairment was made for long-term equity investments transferred to other current assets for disposal during the year.

Fixed Assets

The Group's fixed assets decreased from approximately RMB1,516.20 million as at 31 December 2021 to approximately RMB526.25 million as at 31 December 2022, to approximately RMB110.97 million as at 31 December 2023 and further to approximately RMB107.18 million as at 30 June 2024, which was mainly due to the Group's entering into bankruptcy liquidation procedures or bankruptcy reorganization procedures and were no longer consolidated into the consolidated statements, resulting in the decrease in properties and plants.

Intangible assets

The Group's intangible assets decreased from approximately RMB152.67 million as at 31 December 2021 to approximately RMB91.13 million as at 31 December 2022, approximately RMB35.36 million as at 31 December 2023 and approximately RMB34.25 million as at 30 June 2024, which was mainly due to the Group's entered into bankruptcy liquidation procedures or bankruptcy reorganization procedures and were no longer consolidated into the consolidated statements, resulting in the decrease in land use right.

Short-term borrowings

The Group's short-term borrowings amounted to approximately RMB1,149.22 million, RMB1,147.75 million, RMB1,077.60 million and RMB1,077.60 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, all of which were overdue with an overdue interest rate ranging from approximately 6.50% to 10.50%, 6.30% to 10.50%, 6.30% to 10.50% and 6.30% to 10.50%, respectively.

Accounts payable

The Group's accounts payable amounted to approximately RMB826.50 million, RMB893.96 million, RMB1,121.14 million and RMB1,127.88 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, which was payable for procurement.

Other payables

The Group's other payables amounted to approximately RMB914.13 million, RMB958.93 million, RMB1,082.45 million and RMB1,106.51 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively. The Group's other payables as at 30 June 2024 consisted of (i) interests payable of short-term borrowings of approximately RMB410.32 million; and (ii) other payables which mainly comprised litigation defaults, fees, and interests of approximately RMB222.69 million, payable to external related parties of approximately RMB188.79 million and payables for construction and decoration of department stores of approximately RMB93.71 million, among other things.

Net current liabilities and net liabilities

The Group recorded net current liabilities, being its total current assets subtracted by its total current liabilities, of approximately RMB3,078.41 million, RMB2,997.73 million, RMB3,248.04 million and RMB3,256.48 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively, and a net liabilities of approximately RMB1,509.57 million, RMB2,573.21 million, RMB3,325.01 million and RMB3,365.41 million as at the same dates, respectively.

(iv) Prospect of the Group

The Group is a multi-brand and omnichannel operated fashion group in the PRC that designs, markets and sells apparel products with a focus on mass-market casualwear.

To assess the recent development and trend of the apparel industry in China, we have reviewed the Briefing on the Economic Operation of China's Apparel Industry from January to December 2024¹ (2024年1-12月中國服裝行業經濟運行簡報) (the "Briefing") published by the China National Textile And Apparel Council, a national-level textile and apparel industry organization whose members primarily comprise associations and legal entities from the textile and apparel industry and whose main objectives include, among other things: (i) to investigate the current situation and development trends of domestic and international textile and apparel industries, and put forward economic, technical and legislative suggestions and proposals; and (ii) to conduct industry statistics; collect, analyze and issue industry information; carry out industry surveys in accordance with the law, and organize activities on e-commerce of the industry, according to its website². We also noted that the Briefing quoted its statistics from the National Bureau of Statistics, which we considered a reliable source of statistics and information.

According to the Briefing, during year 2024, although faced with a complicated and challenging economic environment and slowed down in term of growth when compared with year 2023, the Chinese apparel industry maintained steady in performance with supporting factors such as recovery in the demand from domestic and overseas markets and favourable government policies to stimulate internal demand and consumptions. In particular, the retail sales of apparel products in China amounted to RMB1,071.6 billion for year 2024, representing a slight growth of 0.1% when compared with that for year 2023. Among this, the online portion of the retail sales of apparel products in China for year 2024 grew by 1.5% when compared with that for year 2023.

Moreover, the Briefing disclosed that during year 2024, the aggregate revenue of the 13,820 apparel enterprises in China with annual revenue exceeding RMB20 million amounted to approximately RMB1,269.92 billion, representing a growth of 2.76% when compared with that for year 2023, while the aggregate profit of such apparel enterprises in China also grew by 1.54% when compared with that for year 2023.

It is also set out in the Briefing that the confidence of apparel enterprises in China in making investments are recovering in year 2024. For year 2024, the amount of completed investments in fixed assets by apparel enterprises in China grew by 18.0% when compared with that for year 2023. Such investments were primarily applied in areas such as intelligent manufacturing, business model innovation, brand building and strategic development, with the aims to raise supply chain management

¹ https://www.cntac.org.cn/zixun/shuju/202502/t20250220_4376583.html

² <https://www.cntac.org.cn/aboutUs/jianjie/>

efficiency, optimize manufacturing processes, increase product quality and lower operational costs. It could reflect that the apparel enterprises in China is overall confident about the future development and opportunities of the industry.

Looking forward, the China National Textile And Apparel Council expected that the apparel industry in China will be primarily fueled by the recovery of domestic economies, consumption confidence and market vitality in China. It is also expected that favourable government policies to stimulate internal demand and innovations of the apparel industry itself will support its development in the Chinese market. On the other hand, while it is noted that the current government of the United States of America will likely raise the tariff rates of products of China, including apparel products, which will have adverse impacts on the export of apparel products of China. Nonetheless, it is believed that the export of apparel products of China will continue to be supported by the supply chain advantage and modernized manufacturing capability of the apparel industry in China, as well as the strong growth in its e-commerce environment.

Considering all of the above, while we noted that the apparel industry in China faced challenges and future uncertainties, we believed that it will remain a major and vital market in China, having over one trillion RMB worth of sales per annum, with ample business and development opportunities, and will continue to be supported by the Chinese government's policies to stimulate internal demand and the steady recovery of the Chinese economies. Therefore, we considered that it will be in the interests of the Company and the Independent Shareholders as a whole that the Group continues to carry out its businesses of apparel design, marketing and sales.

II. Information of the Investors, the Subscriber and the Reorganisation Investment Consortium

Guangsui Gold is a company incorporated in the PRC with limited liability and respectively owned as to 80% and 20% by Guangsui Gold Investment (Hainan) Enterprise Management Partnership (Limited Partnership)* (廣穗金投(海南)企業管理合夥企業(有限合夥)) and Wang Guoliang (王國良). Guangsui Gold Investment (Hainan) Enterprise Management Partnership (Limited Partnership) is a limited partnership established in the PRC and respectively owned as to 99% by Wang Guoliang as the general partner and 1% by Wang Yanhong (王艷紅) as the limited partner. Wang Guoliang founded Hangzhou Guangsui E-commerce Co., Ltd.* (杭州廣穗電子商務有限公司) (“**Guangsui E-commerce**”) in 2012 and has served as its chief executive officer since its establishment. Wang Yanhong joined Guangsui E-commerce in 2012 and is currently the director of Data Analysis Department and Customer Service Department of Guangsui E-commerce. Guangsui E-commerce mainly focuses on providing brands with solutions, including product design, supply chain building, distributor recruitment and management, online store operation, IT data central control platform and customer service. As at the Latest Practicable Date, Guangsui Gold is a holding company and holds 100% equity interest in Guangsui E-commerce.

The Subscriber, Hangzhou Jinsui Fenghua Enterprise Management Partnership (Limited Partnership)* (杭州金穗豐華企業管理合夥企業(有限合夥)), is a limited partnership established in the PRC, which is respectively owned as to 1% by Guangsui Gold as the general partner and 99% by Wang Guoliang as the limited liability partner.

Orient Securities Innovation is a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Orient Securities Co., Ltd. (東方證券股份有限公司), whose A shares and Foreign Shares are respectively listed on the Shanghai Stock Exchange (stock code: 600958) and the Main Board of the Stock Exchange (stock code: 3958). As at the Latest Practicable Date, Orient Securities Co., Ltd. (東方證券股份有限公司) does not have any controlling shareholder. Its single largest shareholder is Shenergy (Group) Company Limited (申能(集團)有限公司), which held 26.63% shareholding in Orient Securities Co., Ltd. and is 100% controlled by the Shanghai State-owned Assets Supervision and Administration Commission. Orient Securities Innovation is principally engaged in venture capital, financial product investment, investment management and investment advisory.

Pursuant to bankruptcy practice in the PRC, Guangsui Gold and Orient Securities Innovation have signed the Framework Agreement, to form the Reorganisation Investment Consortium to participate in the reorganisation of the Company as set out in the section headed “Introduction” in this letter from the Board, pursuant to which, among other things, (i) Guangsui Gold and Orient Securities Innovation have agreed to advance the reorganisation of the Company together; (ii) Guangsui Gold has agreed to subscribe for the Subscription Shares; and (iii) Orient Securities Innovation has agreed to provide through a designated entity the Liquidity Support and will not have any shareholding relationship with the Company.

The Investors, the Subscriber and their respective beneficial owners are parties independent of the Company.

Intention of the Subscriber

Upon completion of the Subscription, the Subscriber will become the controlling Shareholder.

The Subscriber considers and confirms that:

1. it is intended that the Group will continue with its existing business following completion of the Subscription;
2. it shares the view of the Directors as disclosed in the section headed “Reasons for and Benefits of Entering into the Reorganisation Investment Agreement” above, in which it is mentioned that the entering into of the Reorganisation Investment Agreement will be in the interest of the Company and the Shareholders as a whole; and
3. there is no intention to introduce any major changes to the existing business of the Group or the continued employment of the Group’s employees and there is no intention to redeploy the fixed assets of the Group other than in its ordinary course of business after completion of the Subscription.

III. Reasons for and benefits of the Subscription (as a part of the Reorganisation Investment Arrangement)

As set out in the Circular, the entering into of the Reorganisation Investment Agreement is a necessary part for the reorganisation, and the Company, the Administrator and the Investors will actively facilitate the fulfillment of the conditions precedent in the Reorganisation Investment Agreement, at which time the Draft Reorganisation Scheme will be prepared and submitted to the Court and the Creditors' meeting in accordance with the reorganisation investment proposal submitted by the Investors and the Reorganisation Investment Agreement, and the Draft Reorganisation Scheme will be voted by the Creditors. Separately, according to the Bankruptcy Law of the PRC, a capital contributors group meeting shall be convened if the Draft Reorganisation Scheme involves the adjustment of rights and interests of the capital contributors, i.e. the Shareholders. Therefore, the Company will convene a capital contributors group meeting to vote on the adjustment plan of the capital contributors' rights and interests in the Draft Reorganisation Scheme, i.e., the EGM. If the reorganisation of the Company is smoothly carried out and implemented, it will be conducive to (i) resolving the risk of bankruptcy liquidation, and avoiding existing Shareholders' equity interests being zeroed out, (ii) optimizing the Company's asset-liability structure, and improving the Company's continuous operation, and (iii) improving the repayment rate of Creditors, safeguarding the interests of all Creditors, and releasing the value of core assets of the Company.

Having considered the factors above, the Board is of the view that the entering into of the Reorganisation Investment Agreement will be in the interest of the Company and the Shareholders as a whole.

In assessing the reasons for and benefits of the Subscription, being a part of the Reorganisation Investment Arrangement, we have considered the followings:

(i) The circumstances leading to the Reorganisation Investment Arrangement

As set out in the section headed "I. Background information of the Company and the Group – The bankruptcy reorganisation of the Company" above in this letter, upon the presentation of liquidation petition against the Company to the Court, the designation of the Administrator, and the publication of the Announcement on Invitation for Reorganisation Investors for the Bankruptcy Reorganisation Case of the Company* (《公司破產重整案重整投資人招募公告》) by the Administrator, the Company's bankruptcy reorganisation procedure entered into the reorganisation investor invitation and selection procedure. We understood from the Company that such selection of reorganisation investor and reorganisation proposal is a procedure supervised by the Court following the relevant rules and court-mandated procedures, and consisted of, in general, objective review process in accordance with the rules of selection as prepared by the Administrator and subjective review process by a professional selection committee and the Creditors.

In this sense, the Investors and the Reorganisation Investment Arrangement (which includes the Subscription) were selected after reviews by the Administrator, the professional selection committee and the Creditors according to the procedure supervised by the Court following the relevant rules and court-mandated procedures.

Besides, the confirmation of reorganisation Investors and formulation of Draft Reorganisation Scheme were essential for the Company to obtain approval of and implement its final Reorganisation Scheme and avoid being bankrupt. Pursuant to the Bankruptcy Law of the PRC, after the reorganisation investors are confirmed, a Draft Reorganisation Scheme (which sets out, among others, the Reorganisation Investment Arrangement of the Company) will be formulated based on the reorganisation investment proposal from the Investors and is required to be submitted to the Court and be put forward at a meeting of the Creditors within certain timeframe (on which the Court may grant extensions if there were justifiable grounds) after the Court's ruling on the reorganisation of the Company. Without reorganisation Investors and thus its reorganisation investment proposal and Draft Reorganisation Scheme, the Company will be unable to proceed with its bankruptcy reorganisation procedure and may be ruled bankrupt by the Court because of the debt claims of the Creditors.

We also noted that the Draft Reorganisation Scheme will be subject to approvals by (i) the Creditors; (ii) the Shareholders; and (iii) the Court. Upon approval by the Court (upon obtaining approvals by both the Creditors and the Shareholders) of the Draft Reorganisation Scheme, the Draft Reorganisation Scheme will become the Reorganisation Scheme of the Company, and the Company will then enter into an implementation period, where the transactions under the Reorganisation Scheme (including the Subscription pursuant to the Reorganisation Investment Arrangement) will then be carried out in accordance with the terms of the Reorganisation Scheme.

Having considered that (i) the Court has accepted the petition from a Creditor for liquidation of the Company and the Administrator of the Company has been designated by the Court; (ii) as required by law, a Draft Reorganisation Scheme (which sets out, among others, the Reorganisation Investment Arrangement of the Company) must be formulated based on the reorganisation investment proposal from the Investors and is required to be submitted to the Court and be put forward at a meeting of the Creditors within required time, and will eventually be subject to approval by the Creditors, the Shareholders and the Court before implementation; (iii) the Investors and the Reorganisation Investment Arrangement (which includes the Subscription) were selected after reviews by the Administrator, the professional selection committee and the Creditors according to the procedure supervised by the Court following the relevant rules and court-mandated procedures; (iv) the confirmation of reorganisation Investors and its reorganisation investment proposal and Draft Reorganisation Scheme were essential for the Company to proceed with its bankruptcy reorganisation procedure, without which the Company may be ruled bankrupt by the Court because of the debt claims of the Creditors; and (v) the Shareholders have the opportunity to express their opinion on the Investors and Draft Reorganisation Scheme by approving (or otherwise rejecting) the aforesaid, we were of the view that (i) the Reorganisation Investment Arrangement (which includes the Subscription), as an outcome of the aforesaid procedure supervised by the Court following the relevant rules and court-mandated

procedures, is the only remedial measure available to the Company which is under bankruptcy reorganisation procedure; (ii) the Reorganisation Investment Arrangement (which includes the Subscription), though being the only remedial measure available to the Company, has been selected under a careful procedure consisting of objective review process in accordance with the rules of selection as prepared by the Administrator and subjective review process by a professional selection committee and the Creditors; (iii) the Draft Reorganisation Scheme will be subject to approvals by the Creditors, the Shareholders and the Court, and so that the Shareholders can still express their opinion on the Draft Reorganisation Scheme which contains, among other things, the Reorganisation Investment Arrangement (which includes the Subscription); (iv) the Reorganisation Investment Arrangement (which includes the Subscription), if approved and implemented, could improve the Company's financial positions and might help the Company improve its businesses and operations as well; (v) without the Reorganisation Scheme which contains, among other things, the Reorganisation Investment Arrangement (which includes the Subscription), the Company may be ruled bankrupt by the Court because of the debt claims of the Creditors such that the Shareholders' investments in the Company could be lost. Based on the above, we considered that the Subscription (being a part of the Reorganisation Investment Arrangement) is the best available option to the Company and is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(ii) The poor performance and net liabilities position of the Company

As discussed in the section headed "I. Background information of the Company and the Group" above in this letter, the Company (i) has been in continuous loss-making positions for the FY2021, FY2022, FY2023 and 6M2024; (ii) had net current liabilities of approximately RMB3,078.41 million, RMB2,997.73 million, RMB3,248.04 million and RMB3,256.48 million as at 31 December 2021, 2022 and 2023, and 30 June 2024, respectively; and (iii) had net liabilities of approximately RMB1,509.57 million, RMB2,573.21 million, RMB3,325.01 million and RMB3,365.41 million as at the same dates, respectively. Based on the above, we considered that (i) the Company is in need to alleviate its liabilities and turnaround its prolonged loss-making positions, which will require funds and resources; (ii) the Company, however, may not have the funds and resources required as mentioned above; (iii) notwithstanding that the Reorganisation Investment Arrangement (including the Subscription) is the only remedial measure available to the Company which is under bankruptcy reorganisation procedure, even if the Company could approach other financing means, it is unlikely that the Company would receive financing offers without harsh conditions taking into account the poor performance and financial positions of the Company; and (iv) the Reorganisation Investment Arrangement (including the Subscription) could provide the Group with the much needed funds and resources for alleviating its liabilities and improving its businesses and operations. Therefore, we were of the view that the successful implementation of the Reorganisation Investment Arrangement (including the Subscription) is essential for rescuing the Company, and that the Subscription is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(iii) Financing alternatives considered by the Company

As explained above, the selection of reorganisation investor and reorganisation proposal is a procedure supervised by the Court following the relevant rules and court-mandated procedures, and consisted of, in general, objective review process in accordance with the rules of selection as prepared by the Administrator and subjective review process by a professional selection committee and the Creditors. In this sense, the Investors and the Reorganisation Investment Arrangement (which includes the Subscription) were selected after reviews by the Administrator, the professional selection committee and the Creditors according to the procedure supervised by the Court following the relevant rules and court-mandated procedures.

Therefore, procedurally, the Company cannot consider nor decide financing alternatives other than the aforesaid procedure supervised by the Court and the resulting Reorganisation Investment Arrangement (which includes the Subscription).

Even without regard to the above, the Company may find it hard to approach other fund-raising exercise by means of equity or debt instruments given the current net liabilities position of the Group.

Therefore, we considered that the Reorganisation Investment Arrangement (which includes the Subscription) is the only option available to the Company, and is an appropriate one reviewed by the Administrator, the professional selection committee and the Creditors and to be eventually approved by the Shareholders if see fit.

(iv) The benefits of introducing Guangsui Gold and the Subscriber into the shareholder base of the Company

The Subscriber is ultimately majority-controlled by Wang Guoliang. Guangsui Gold is owned as to 80% and 20% by Guangsui Gold Investment (Hainan) Enterprise Management Partnership (Limited Partnership)* (廣穗金投(海南)企業管理合夥企業(有限合夥)) and Wang Guoliang (王國良). Guangsui Gold Investment (Hainan) Enterprise Management Partnership (Limited Partnership) is owned as to 99% by Wang Guoliang as the general partner and 1% by Wang Yanhong (王艷紅) as the limited partner.

We noted that Wang Guoliang founded Hangzhou Guangsui E-commerce Co., Ltd.* (杭州廣穗電子商務有限公司) (“**Guangsui E-commerce**”) in 2012 and has served as its chief executive officer since its establishment. Wang Yanhong joined Guangsui E-commerce in 2012 and is currently the director of Data Analysis Department and Customer Service Department of Guangsui E-commerce. Guangsui E-commerce mainly focuses on providing brands with solutions, including product design, supply chain building, distributor recruitment and management, online store operation, IT data central control platform and customer service. As at the Latest Practicable Date, Guangsui Gold is a holding company and holds 100% equity interest in Guangsui E-commerce.

We believed that the experience and expertise of Wang Guoliang and Guangsui E-commerce in E-commerce, supply chain building, distributor recruitment and management, online store operation and customer service, among his other experience and knowledge, could contribute to the business and development of the Group considering these aspects are also important parts of the Group in its course of business of apparel design, marketing and sales.

We also believed that the intention of the Subscriber to become the controlling Shareholder under the Subscription would present a positive sign to the market and the customers, suppliers and business partners of the Group, which is conducive to its continuing operation and stability.

Considering all of the above, we considered the Subscription, being a part of the Reorganisation Investment Arrangement, to be the best available option to the Company and fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

IV. Principal terms of the Subscription

1. The Subscription Shares

Pursuant to the Reorganisation Investment Agreement, subject to the Reorganisation Scheme and satisfaction of the conditions precedent as stipulated therein, the Company will implement the Conversion of Capital Reserve, converting its capital reserve into share capital on the basis of 57.50 new Domestic Shares for every 10 existing Domestic Shares, representing a total expected increase of 1,893,524,692 new Domestic Shares upon completion of the Conversion of Capital Reserve based on the 329,308,642 existing Domestic Shares (excluding the Repurchased Shares, which are subject to cancellation procedures in accordance with PRC laws) in the Company's share capital as at the Latest Practicable Date, among which 1,584,455,037 new Domestic Shares will be used for the Subscription and 309,069,655 new Domestic Shares will be used for the Loan Conversion. Upon completion of the Conversion of Capital Reserve, the total issued share capital of the Company is expected to be increased to 2,437,623,134 Shares (excluding the Repurchased Shares, which are subject to cancellation procedures in accordance with PRC laws), which is subject to the Reorganisation Scheme and registration with CSDC Beijing.

Pursuant to the Reorganisation Investment Agreement, subject to the satisfaction (or waiver, if applicable) of the conditions precedent, the Company has agreed to allot and issue by way of Conversion of Capital Reserve, and Guangsui Gold has agreed to subscribe for, 1,584,455,037 Subscription Shares with a par value of RMB1.00 each and an aggregate nominal value of RMB1,584,455,037, at the Subscription Consideration of RMB220 million, implying the Subscription Price of approximately RMB0.1388 per Subscription Share. The Subscription Shares will be registered under the name of the Subscriber, which is ultimately majority-controlled by Wang Guoliang.

In accordance with common registration method for bankruptcy and reorganisation of enterprises in the PRC, after the Court's approval of the Reorganisation Scheme, the Subscription Shares will be issued to the designated securities account of the Subscriber, which is ultimately majority-controlled by Wang Guoliang, while the Loan Conversion Shares will be issued to the Administrator before distribution to each of the Creditors individually upon calculation of each individual Creditor's Loan Conversion Shares entitlement pursuant to the settlement plan for the Creditors of the Reorganisation Scheme approved by the Court. For details of the Loan Conversion, please refer to the section headed "The Loan Conversion" in this letter from the Board.

As at the Latest Practicable Date, the Company has 547,671,642 Shares in issue, comprising 214,789,800 Foreign Shares and 332,881,842 Domestic Shares (including the Repurchased Shares, which are subject to cancellation procedures in accordance with PRC laws), representing approximately 39.22% and 60.78% of the total issued share capital of the Company, respectively. The Subscription Shares represent:

- (i) approximately 475.98% of the existing issued Domestic Shares of the Company as at the Latest Practicable Date (including the Repurchased Shares);
- (ii) approximately 481.15% of the existing issued Domestic Shares of the Company as at the Latest Practicable Date (assuming the Repurchased Shares have been cancelled);
- (iii) approximately 289.31% of the total issued share capital of the Company as at the Latest Practicable Date (including the Repurchased Shares);
- (iv) approximately 291.21% of the total issued share capital of the Company as at the Latest Practicable Date (assuming the Repurchased Shares have been cancelled);
- (v) approximately 71.17% of the enlarged issued Domestic Shares of the Company upon completion of the Subscription and the Loan Conversion (including the Repurchased Shares and assuming there is no change to the number of issued Shares (other than the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares));
- (vi) approximately 71.28% of the enlarged issued Domestic Shares of the Company upon completion of the Subscription and the Loan Conversion (assuming the Repurchased Shares have been cancelled and there is no change to the number of issued Shares (other than the cancellation of the Repurchased Shares, the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares));

- (vii) approximately 64.90% of the total enlarged issued share capital of the Company upon completion of the Subscription and the Loan Conversion (including the Repurchased Shares and assuming there is no change to the number of issued Shares (other than the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares)); and
- (viii) approximately 65.00% of the total enlarged issued share capital of the Company upon completion of the Subscription and the Loan Conversion (assuming the Repurchased Shares have been cancelled and there is no change to the number of issued Shares (other than the cancellation of the Repurchased Shares, the issuance and allotment of the Subscription Shares and all the Loan Conversion Shares are issued together with the Subscription Shares)).

2. The Subscription Consideration and Subscription Price

The Subscription Consideration is RMB220 million, out of which RMB20 million has been paid in cash to the designated account of the Administrator by Guangsui Gold as the Deposit and the remaining RMB200 million shall be paid in cash by the Subscriber to the designated account of the Administrator within five (5) Business Days upon approval of the Reorganisation Scheme by the Court.

For the purpose of the Circular, all figures in HK\$ are calculated based on the exchange rate of HK\$1 to RMB0.86314 as quoted by the PBOC as at the Last Trading Day. The Subscription Price of approximately RMB0.1388 (equivalent to HK\$0.1608) per Subscription Share:

- (i) represents a discount of approximately 35.68% to the closing price of HK\$0.25 per Foreign Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) represents a discount of approximately 35.88% to the average closing price of HK\$0.2508 per Foreign Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (iii) represents a premium of RMB6.2100 per Share over the audited net assets per Share of approximately RMB-6.0712 of the Group as at 31 December 2023 based on the Company's annual results announcement for the financial year ended 31 December 2023 and the number of Shares in issue as at the Latest Practicable Date; and
- (iv) represents a premium of RMB5.9847 per Share over the unaudited net assets per Share of approximately RMB-5.8459 of the Group as at 30 June 2024 based on the Company's interim results announcement for the six months ended 30 June 2024 and the number of Shares in issue as at the Latest Practicable Date.

V. Our analysis on the Subscription Consideration and Subscription Price

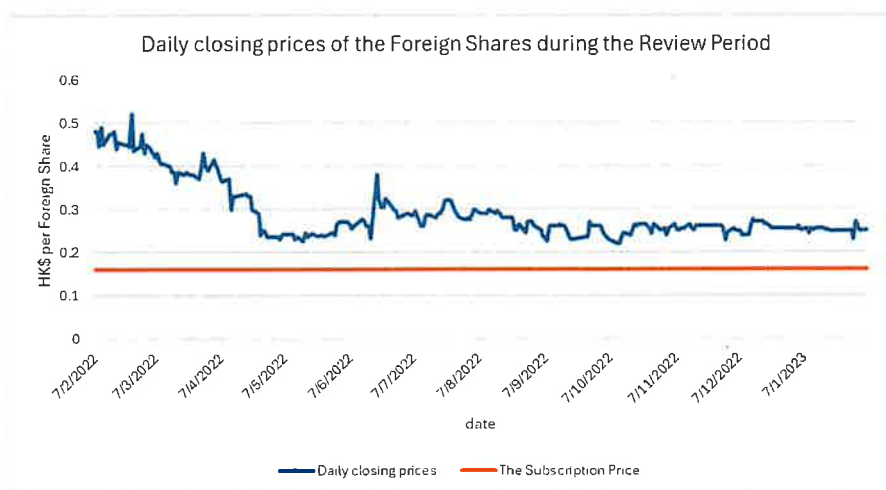
As set out in the Letter from the Board, considering that (i) the Company is currently in bankruptcy reorganisation procedure, and if it is unable to introduce investors and complete the bankruptcy reorganisation, the reorganisation procedure of the Company will be terminated by the Court and the Company will be declared bankrupt by the Court, which will further damage the interests of the Creditors and other stakeholders of the Company and result in existing Shareholders' equity interests being zeroed out; (ii) the Group has recorded consecutive large losses for several years, and its net assets and net assets per share attributable to Shareholders (excluding the Repurchased Shares, which are subject to cancellation procedures in accordance with PRC laws) as of 31 December 2023 amounted to approximately RMB-3.325 billion and RMB-5.96, respectively; (iii) the Subscription Consideration translates to the total number of issued Shares being valued at approximately RMB340 million, which is higher than the market capitalization of the Shares being approximately RMB118 million before suspension as at the Last Trading Day; (iv) as part of the reorganisation investment proposal submitted by the Investors, Orient Securities Innovation has agreed to provide through a designated investment entity to be set up by Orient Securities Innovation a non-interest-bearing Liquidity Support of RMB199 million to the Company to supplement its working capital; and (v) it is expected that Guangsui Gold, as an industrial investor, can bring various benefits such as development resources and business cooperation opportunities to the Company, the reorganisation investment proposal (including the Subscription Consideration) submitted by the Investors is in the interests of the Company, the Shareholders and the Creditors as a whole, and the substantial discount of the Subscription Price to the market price of the Foreign Shares would be necessary to attract the Investors to participate in the Subscription for the rescue of the Company.

(i) Historical price performance of the Foreign Shares

At the request of the Company, following the designation of the Administrator, trading in the Foreign Shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 7 February 2023. The Company received a letter from the Stock Exchange respectively dated 2 March 2023 and 19 April 2023 in relation to the resumption guidance for the Company. The Company received a letter from the Stock Exchange dated 23 August 2024 stating that the Listing Committee has decided to cancel the Company's listing under Rule 6.01A(1) of the Listing Rules as the Company had failed to fulfil all the resumption guidance. On 3 September 2024, the Company submitted an application requesting the decision be referred to the Listing Review Committee for review pursuant to Chapter 2B of the Listing Rules.

The Company received a letter from the Stock Exchange dated 1 November 2024 stating that the Listing Review Committee has decided to uphold the Listing Committee's decision to cancel the listing of the Company's Foreign Shares pursuant to Rule 6.01A(1) of the Listing Rules. On 4 November 2024, the Company was further informed by the Stock Exchange that the last day of listing of the Company's Foreign Shares is 13 November 2024 and the listing of the Company's Foreign Shares has been cancelled with effect from 9:00 a.m. on 14 November 2024.

Despite that trading in the Foreign Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 7 February 2023 and the listing of the Foreign Shares has been cancelled with effect from 9:00 a.m. on 14 November 2024, for the purpose of assessing the fairness and reasonableness of the Subscription Price around the time it has been determined, we have reviewed the daily closing prices of the Foreign Shares for the period from 7 February 2022 (being 12 months prior to the Last Trading Day) and up to 6 February 2023, the Last Trading Day (the “**Review Period**”). We considered the Review Period to be (i) already the nearest period to the Last Trading Day and the subsequent date of the 24 July Announcement which set out, among other things, details of the Reorganisation Investment Arrangement including the Subscription Price; (ii) adequate to illustrate the price movement of the Foreign Shares prior to the announcement of the Subscription Price for conducting a reasonable comparison between the historical closing prices of the Foreign Shares prior to the Last Trading Day and the Subscription Price; (iii) and that such comparison is relevant for assessing the fairness and reasonableness of the Subscription Price, as the Foreign Share price before the Last Trading Day represents a fair market value of the Company which the Shareholders expected. The following chart sets out the daily closing prices of the Foreign Shares on the Stock Exchange during the Review Period:



The daily closing prices of the Foreign Shares ranged from HK\$0.22 to HK\$0.52 per Foreign Share during the Review Period. We noted that the daily closing prices of the Foreign Shares were generally decreasing during the Review Period. After reaching its peak during the Review Period of HK\$0.52 per Foreign Share on 24 February 2022, the daily closing prices of the Foreign Shares started to drop significantly, reaching HK\$0.232 per Foreign Share on 17 June 2022. After bouncing back to HK\$0.325 per Foreign Share on 24 June 2022, the daily closing prices of the Foreign Shares dropped again, reaching its bottom during the Review Period of HK\$0.22 per Foreign Share on 11 October 2022, and remained below HK\$0.275 per Foreign Share thereafter.

We noted that the Subscription Price of approximately HK\$0.1608 (equivalent of approximately RMB0.1388) was below the daily closing prices of the Foreign Shares during the Review Period. However, it should be taken into account that (i) liquidation petition has been presented against the Company to the Court, and the Administrator has been designated and the Company has entered into bankruptcy reorganisation procedure subsequent to the Last Trading Day; (ii) the Company had poor performance and been in net current liabilities and net liabilities positions for / as at the end of the FY2021, FY2022, FY2023 and 6M2024; and (iii) trading in the Foreign Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 7 February 2023 and, at the material time, it was uncertain if trading in the Foreign Shares on the Stock Exchange can resume, such that we considered it fair and reasonable for the Subscriber to propose the Subscription Price at a discount of the daily closing prices of the Foreign Shares during the Review Period.

We have further considered that (i) the Investors and the Reorganisation Investment Arrangement (which includes the Subscription) were selected after reviews by the Administrator, the professional selection committee and the Creditors according to the procedure supervised by the Court following the relevant rules and court-mandated procedures; (ii) the Reorganisation Investment Arrangement, including the Subscription, is the best available option to the Company; (iii) the confirmation of reorganisation Investors and formulation of Draft Reorganisation Scheme were essential for the Company to obtain approval of and implement its final Reorganisation Scheme and avoid being bankrupt which, if materialize, could mean a total loss of the Shareholders' investments in the Foreign Shares; and (iv) the listing of the Company's Foreign Shares has been cancelled with effect from 9:00 a.m. on 14 November 2024, which will inevitably further lower the market value of the Foreign Shares when compared with its daily closing prices during the Review Period where it was still listed.

Based on the above, although the Subscription Price was below the daily closing prices of the Foreign Shares during the Review Period, we considered it to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(ii) **Historical trading liquidity of the Shares**

We have also reviewed the trading liquidity of the Foreign Shares during the Review Period, which is set out in the following table:

| Month/period | Number of trading days | Average number of Foreign Shares traded daily (Approximately) | % of average number of Foreign Shares traded daily to the total number of Foreign Shares in issue as at the end of the month/period (Note) |
|--|------------------------|--|---|
| 2022 | | | |
| February (since and including 7 February 2022) | 16 | 359,263 | 0.1673% |
| March | 23 | 248,417 | 0.1157% |
| April | 18 | 126,922 | 0.0591% |
| May | 20 | 31,810 | 0.0148% |
| June | 21 | 92,276 | 0.0430% |
| July | 20 | 46,550 | 0.0217% |
| August | 23 | 53,878 | 0.0251% |
| September | 21 | 51,543 | 0.0240% |
| October | 20 | 17,760 | 0.0083% |
| November | 22 | 17,491 | 0.0081% |
| December | 20 | 16,340 | 0.0076% |
| 2023 | | | |
| January | 18 | 21,711 | 0.0101% |
| February (up to and including 6 February 2023) | 4 | 43,700 | 0.0203% |
| Average | | 86,743 | 0.0404% |
| Maximum | | 359,263 | 0.1673% |
| Minimum | | 16,340 | 0.0076% |

Note: Based on 214,789,800 Foreign Shares in issue during 7 February 2022 up to 6 February 2023.

From the table above, it is observed that the percentage of average number of Foreign Shares traded daily to the total number of Foreign Shares in issue as at the end of the month/period during the Review Period ranged from 0.0076% to 0.1673% only, with an average of 0.0404% only. We considered such liquidity to be low, and that it may reflect the lack of market interest in trading the Foreign Shares. The low liquidity of the Foreign Shares could make it difficult for the Company to conduct equity financing activities, as potential investors could be hindered by the lack of market interest in the Foreign Shares and hesitate in participating in equity financing activities of the Company. Therefore, we considered the Subscription, being a part of the Reorganisation Investment Arrangement, to be a good equity financing opportunity for the Company to settle its liabilities, reorganize its assets and improve its businesses.

(iii) Comparable transactions

Although listing of the Company's Foreign Shares has been cancelled with effect from 9:00 a.m. on 14 November 2024, the Foreign Shares were still listed as at the date of the 24 July Announcement. Therefore, in assessing the fairness and reasonableness of the Subscription Price, we identified an exhaustive list of comparable transactions that fulfill the following criteria: (i) it involved an issuer listed on the Main Board of the Stock Exchange; (ii) it involved subscription / issue of new shares of the issuer with whitewash waiver application; (iii) the issuer was involved in winding-up petitions / creditors' scheme and with administrator / liquidator appointed at the time the subscription is carried out, and the subscription is a part of the restructuring scheme or proposal of the issuer; and (iv) the subscription is published by way of circular by the issuer during the period from 25 July 2022 to 24 July 2024, being the two year period immediately prior to the 24 July Announcement. Based on these criteria, we identified four comparable transactions (the "**Comparable Transactions**") as below and they are an exhaustive list of comparable transactions that fulfill the criteria above. We considered the selection criteria above fair and reasonable, and the Comparable Transactions appropriate, for the purpose of comparison with the Reorganisation Investment Arrangement (including the Subscription) because (i) the issuers of the Comparable Transactions were in similar conditions with the Company; (ii) the Comparable Transactions involved issue or subscription of new shares of the issuers for fund / resources / capital to be used for restructuring of the issuers, which is similar in principle to the Subscription under the Reorganisation Investment Arrangement; and (iii) the Comparable Transactions were published by circular within the two years immediately prior to the 24 July Announcement, a period we considered sufficient and close enough to reflect the then prevailing market conditions, such that we considered the Comparable Transactions to be appropriate comparisons with the Reorganisation Investment Arrangement (including the Subscription).

| Date of the circular | Company name | Stock code | Principal business | (Discount) of conversion price/ subscription price/issue price to closing share price/theoretical closing share price on/over Last trading day | Last five trading days | Dilution effect of the relevant restructuring scheme or proposal (Note) |
|----------------------|---|------------|---|--|---------------------------|--|
| 30 November 2023 | SoftMedx Healthcare Limited | 648 | (i) The distribution of medical equipment and products in Hong Kong involving dental equipment and products; (ii) the provision of obstetric and gynecological services and in-vitro fertilization treatment in Hong Kong; (iii) the operation of eyecare and optical retail shops in Hong Kong; and (iv) the operation of sports and healthcare clubhouses in the PRC. | (97.4%) | (97.4%) | 84.8% |
| 23 June 2023 | Fullsun International Holdings Group Co., Limited | 627 | Development and sale of residential and commercial properties in the PRC including Hong Kong. | (93.6%) | (92.4%) | 92.0% |
| 3 March 2023 | China Bozza Development Holdings Limited | 1069 | Forestry management (i.e. plantation, logging and sale of timber related products), ginseng-related business (i.e. plantation and sale of ginseng) and investment holding. | (87.1%) | (87.6%) | 84.6% |
| 5 August 2022 | China Wood International Holding Co., Limited | 1822 | (i) Sale and distribution of furniture wood, manufacturing and sales of antique style wood furniture and imported timber flooring processing businesses; and (ii) car rental business in the PRC. | (32.3%) | (29.5%) | 90.1% |

| Date of the circular | Company name | Stock code | Principal business | (Discount) of conversion price/ subscription price/issue price to closing share price/theoretical closing share price on/over | Last trading day | Last five trading days | Dilution effect of the relevant restructuring scheme or proposal (Note) |
|----------------------|--------------|------------|--------------------------------------|--|------------------|---------------------------|--|
| 14 April 2025 | The Company | - | Apparel design, marketing and sales. | | | | |
| | | | | Maximum | (97.4%) | (97.4%) | 92.0% |
| | | | | Minimum | (32.3%) | (29.5%) | 84.6% |
| | | | | Average | (77.6%) | (76.7%) | 87.9% |
| | | | | Median | (90.4%) | (90.0%) | 84.7% |
| | | | | | (35.68%) | (35.88%) | 77.57% |

Note: Calculated by (shareholding percentage of the respective public shareholders upon completion of the relevant restructuring scheme or proposal – shareholding percentage of the respective public shareholders immediately prior to the relevant restructuring scheme or proposal) then divided by the shareholding percentage of the respective public shareholders immediately prior to the relevant restructuring scheme or proposal. Any subsequent place down action is not considered.

As illustrated in the table above, the discount of conversion price/subscription price/issue price to closing share price/theoretical closing share price of the Comparable Transactions (i) on the last trading day ranged from 32.3% to 97.4%, with an average of approximately 77.6% and a median of approximately 90.4%; and (ii) over the five trading days immediately prior to the last trading day ranged from 29.5% to 97.4%, with an average of approximately 76.7% and a median of approximately 90.0%. The discount represented by the Subscription Price over the closing price of the Foreign Shares on the Last Trading Day and the average closing price of the Foreign Share for the five (5) consecutive trading days up to and including the Last Trading Day of 35.68% and 35.88%, respectively, are within the respective range of the Comparable Transactions, lower than their respective average and median, and are at the lower ends in terms of discount rate. Taken into account the above, and that (i) the low liquidity of the Foreign Shares during the Review Period which may reflect the lack of market interest in trading the Foreign Shares; (ii) that the Reorganisation Investment Arrangement, including the Subscription, is currently the best available option to the Company as discussed in the section headed “(iii) Financing alternatives considered by the Company” in this letter, we were of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

VI. Potential dilution effect of the Subscription

As illustrated in the table in the section headed “Effects on the shareholding structure of the Company” in the Letter from the Board, the shareholding in the Company held by existing public Shareholders would be reduced from approximately 65.89% as at the Latest Practicable Date to approximately 16.93% immediately after the Subscription and approximately 14.78% immediately after the Subscription together with Loan Conversion, which represented a dilution effect of approximately 74.31% and 77.57% to the public Shareholders. Moreover, the Subscription will enable the Subscriber to acquire a controlling stake in the Company immediately upon Completion.

Nonetheless, we noted that the Company is in imminent need of funding to facilitate the bankruptcy reorganisation and support the capital requirements of the Group. We also noted that the Reorganisation Investment Arrangement (including the Subscription) is the best available option to the Company. We further noted that the dilution effects of the Comparable Transactions were all higher than the dilution effect of the Reorganisation Investment Arrangement (including the Subscription).

Therefore, we are of the view that the benefits of the Subscription outweigh the deep dilution effect of the Subscription and is acceptable.

VII. Whitewash Waiver

As at the Latest Practicable Date, neither (i) Guangsui Gold and the Subscriber; (ii) any parties acting in concert with any of Guangsui Gold and the Subscriber; nor (iii) Orient Securities Innovation holds or is interested in any Shares. Immediately upon completion of the Subscription, Guangsui Gold and the Subscriber and parties acting in concert with any of them will hold 1,584,455,037 Domestic Shares, representing (i) 82.64% of the total number of Domestic Shares and 74.31% of the total number of Shares in issue as enlarged by the allotment and issuance of the Subscription Shares (assuming there is no change to the number of issued Shares other than the issuance and allotment of the Subscription Shares); and (ii) 71.17% of the total number of Domestic Shares and 64.90% of the total number of Shares in issue as enlarged by the allotment and issuance of the Subscription Shares and the Loan Conversion Shares (assuming there is no change to the number of issued Shares other than the issuance and allotment of the Subscription Shares and the Loan Conversion Shares). Under Rule 26.1 of the Takeovers Code, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by Guangsui Gold and the Subscriber and parties acting in concert with any of them unless the Whitewash Waiver is granted by the Executive. An application has been made by the Subscriber to the Executive for the Whitewash Waiver in respect of the allotment and issuance of the Subscription Shares. The Executive has indicated that it is minded to grant the Whitewash Waiver, subject to approval by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be subject to, among other things, the approval of at least 75% of the votes of the Independent Shareholders present and voting (either in person or by proxy) in respect of the Whitewash Waiver and more than 50% of the votes of the Independent Shareholders present and voting (either in person or by proxy) in respect of the Subscription at the EGM by way of poll. As required by the Bankruptcy Law of the PRC, the “Adjustment Plan of the Capital Contributors’ Rights and Interests in the Draft Reorganisation Scheme”, which includes the Subscription, shall be approved by more than two-thirds of the votes of the Independent Shareholders.

Shareholders and potential investors should be aware that if the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, upon completion of the Subscription, Guangsui Gold and the Subscriber and parties acting in concert with any of them will hold more than 50% of the issued share capital of the Company. Hence, Guangsui Gold and the Subscriber and parties acting in concert with any of them may increase their shareholding of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

In view of that (i) the Subscription, being a part of the Reorganisation Investment Agreement, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole, due to the reasons set out in the section headed “III. Reasons for and benefits of the Subscription” in this letter; (ii) the Reorganisation Investment Arrangement, including the Subscription, is currently the best available option to the Company as discussed in the section headed “(iii) Financing alternatives considered by the Company” in this letter; and (iii) the terms of the Subscription are fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver is in the interests of the

Company and the Independent Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned for the purpose of proceeding with the Subscription, being a part of the Reorganisation Investment Arrangement.

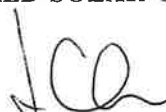
RECOMMENDATION

Based on the above principal factors and reasons, we are of the opinion that, despite the Subscription, being a part of the Reorganisation Investment Arrangement, not being in the ordinary and usual course of business of the Group, (i) the terms of the Subscription are on normal commercial terms and (ii) the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Subscription and the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,

For and on behalf of

RED SOLAR CAPITAL LIMITED



Leo Chan

Managing Director



Ernest Lam

Managing Director

Mr. Leo Chan is a licensed person and responsible officer of Red Solar Capital Limited registered with the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 16 years of experience in corporate finance industry.

Mr. Ernest Lam is a licensed person and responsible officer of Red Solar Capital Limited registered with the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.