Lego Corporate
Finance Limited
力高企業融資有限公司

24 January 2025

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to, among others, the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, details of which are set out in the Letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 24 January 2025 (the "**Circular**"), of which this letter forms part. Unless otherwise specified, terms used in this letter shall have the same meanings as those defined in the Circular.

On 15 October 2024, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 389,998,963 New Shares at the total Subscription Price of HK$233,999,377.8, representing HK$0.60 per New Share, to the Subscriber.

Assuming there will be no other change in the number of Shares from the Latest Practicable Date until the date of Completion and after the adjustment for the effect of the Capital Reorganisation, the Subscription Shares represent (i) approximately 900% of the issued share capital of the Company immediately after the Capital Reorganisation becoming effective and prior to the allotment and issue of the Subscription Shares as at the Latest Practicable Date; and (ii) approximately 90% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full. The Subscription Shares will be allotted

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and issued pursuant to the Specific Mandate to be granted by the Independent Shareholders at the SGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

As at the Latest Practicable Date, the Subscriber is a company owned as to 50% by Mr. Chen, a non-executive Director, and 50% by Mr. Wong. Accordingly, the Subscriber is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. Therefore, the transaction contemplated under the Subscription Agreement shall constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, none of the Subscriber Concert Parties has interests in any Shares. Immediately after completion of the Capital Reorganisation and the Subscription but prior to completion of the Placing, the Subscriber Concert Parties will be interested in 389,998,963 New Shares, representing approximately 90.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full.

Pursuant to Rule 26.1 of the Takeovers Code, the acquisition of 30% or more of the voting rights in the Company by the Subscriber as a result of the Subscription would trigger an obligation on the Subscriber to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber Concert Parties), unless the Whitewash Waiver is granted by the Executive. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (a) the approval by at least 75% of the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (b) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Subscription and the underlying transactions, in which (i) the Subscriber Concert Parties, (ii) the Shareholders who are also Creditors, their ultimate beneficial owners, their respective associates and parties acting in concert with any of them, and (iii) the Shareholders who are interested in or involved in the Subscription and the transactions contemplated thereunder including the Specific Mandate, the Debt Restructuring, the Whitewash Waiver, and/or the Placing will abstain from voting on the relevant resolution(s). No Shareholder has any interest in the Subscription and the transactions contemplated thereunder, including the Specific Mandate, the Debt Restructuring, the Whitewash Waiver, and/or the Placing, hence no Shareholder will be required to abstain from voting on any resolution(s) to be proposed at the SGM.

THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 of the Takeovers Code, the Board has established the Independent Board Committee comprising all non-executive Directors and independent non-executive directors who has no direct or indirect interest in the Subscription, the Specific Mandate and the Whitewash Waiver, namely, Ms. Ng Kwok Ying Isabella, Mr. Xu Jinwen, Ms. Chen Weijie, Mr. Mak Tin Sang and Dr. Lowe Chun Yip to advise the Independent Shareholders as to whether the terms of (i) the Subscription Agreement; (ii) the Specific Mandate; and (iii) the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders on how to vote, taking into account our recommendation. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

OUR INDEPENDENCE

Apart from the normal professional fees for our services to the Company in connection with (i) the Subscription Agreement; (ii) the Specific Mandate; and (iii) the Whitewash Waiver and the transactions contemplated thereunder, no other arrangement exists whereby we will receive any fees and/or benefits from the Group or the Subscriber. We have not acted, within the past two years, as an independent financial adviser or a financial adviser to the Company or the Subscriber. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group and the Subscriber and their respective controlling shareholders, controlled companies and/or any party acting, or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence. We are independent under the Takeovers Code and the Listing Rules to act as the independent financial adviser to the Independent Board Committee in connection with (i) the Subscription Agreement; (ii) the Specific Mandate; and (iii) the Whitewash Waiver and the transactions contemplated thereunder.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have reviewed, *inter alia*, the Subscription Agreement, the Announcement, the annual reports of the Company for the year ended 31 December 2022 (the "**2022 Annual Report**") and 31 December 2023 (the "**2023 Annual Report**"), and the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"). We have relied on the statements, information and representations contained or referred to in the Circular and the information provided and representations made to us by the Directors and the management of the Company (the "**Management**"). We have assumed that all the statements, information and representations contained or referred to in the Circular and all information provided and representations made by the Directors and the Management for which they are solely responsible, are true and accurate at the time they were provided and made and as at the Latest Practicable Date. Independent Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information provided and representations made to us by the Directors and the Management. We consider that the information provided and representations made to us are sufficient for us to form a reasonable basis for our opinion. We are not aware of any reason to suspect any relevant information has been withheld; nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. The Directors have confirmed that, having made all reasonable enquiries and to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, incorrect or misleading. We have not carried out any independent verification of the information provided and representations made to us by the Directors and the Management, nor have we conducted any form of in-depth independent investigation into the business and affairs of the Group.

This letter is issued for the purpose of advising the Independent Board Committee regarding the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, and 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 giving our recommendations to the Independent Board Committee, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in the design, development, manufacture, sales and marketing of various electronic products and smart wearable devices. The Group's products are sold to its customers globally. As disclosed in the 2024 Interim Report, the Group's revenue was derived from the PRC, Asia Pacific (excluding the PRC) and the United States of America, accounting for approximately 93.4%, 4.6% and 2.0% of the Group's total revenue for the six months ended 30 June 2024, respectively.

As disclosed in the 2022 Annual Report, due to the effect of the COVID-19 pandemic, the Group decided to discontinue production at its factory in Shenzhen with effect from 5 March 2022 and the tenancy of factory was terminated on 31 May 2022. The Group's operations had been substantially suspended following the close of factory.

Trading of the Shares was suspended since 3 April 2023 pending fulfilment of the Resumption Guidance. With reference to the announcement of the Company dated 1 November 2024 in relation to the fulfilment of resumption guidance and resumption of trading, as all the Resumption Guidance have been fulfilled, trading of the Shares has been resumed on 4 November 2024.

1.1 *Financial information of the Group*

Set out below is a summary of the financial information of the Group for each of the three financial years ended 31 December 2023 as extracted from the 2022 Annual Report and the 2023 Annual Report, and for each of the six months ended 30 June 2023 and 2024 as extracted from 2024 Interim Report, respectively.

Table 1: Financial highlights of the Group

	For the six months ended 30 June		For the year ended 31 December		
	2024	**2023**	**2023**	**2022**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	51,084	–	1,221	2,218	17,144
Gross profit/(loss)	17,436	–	97	(3,030)	1,858
Profit/(loss) for the year/period attributable to owners of the Company	5,619	(6,807)	(14,158)	(21,750)	(84,234)

	As at 30 June	As at 31 December		
	2024	**2023**	**2022**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
Non-current assets	1,579	–	–	11,045
Current assets	52,795	1,820	3,293	70,221
– Bank balances and cash	587	599	430	49,484
Current liabilities	388,511	342,736	330,856	322,502
Non-current liabilities	654	–	–	64,342
Net current liabilities	(335,716)	(340,916)	(327,563)	(252,281)
Net liabilities	(334,791)	(340,916)	(327,563)	(305,578)

For the year ended 31 December 2022

For the year ended 31 December 2022, revenue of the Group decreased substantially by approximately 87.1% to approximately HK$2.2 million from that of approximately HK$17.1 million as recorded for the year ended 31 December 2021, which was chiefly attributed to the suspension of the Group's operation due to the close of its Shenzhen factory which represented the Group's total output per year.

For the year ended 31 December 2022, the Group recorded loss attributable to owners of the Company of approximately HK$21.8 million, which has narrowed by approximately 74.1% from that of approximately HK$84.2 million as recorded for the year ended 31 December 2021. With reference to the 2022 Annual Report, we note that such reduction in loss was primarily resulted from the combined effect of (i) the increase in other income from approximately HK$6.6 million to approximately HK$18.8 million which was mainly derived from the gain on early termination of leases ("**Early Termination of Lease**") in respect of the Group's factory and office spaces in the PRC; (ii) the significant decrease in research expenses and distribution and selling expenses from approximately HK$19.2 million to approximately HK$1.6 million in aggregate; and (iii) the decrease in general administrative expenses as the Company was undergoing its downsizing process, which outweighed the effect of gross loss recorded for the year ended 31 December 2022 as opposed to the gross profit for the previous year which was resulted from inventory write-down in 2022. As the Group had not made any lease payments to the landlord since August 2021, the Group received several notices from the district court in the PRC stating that the landlord of the Shenzhen factory has initiated legal action against several subsidiaries of the Group by claiming the allegedly due and unpaid balance of rental fees. Following the judgement issued by the PRC district court, the Group and the landlord entered into an agreement with respect to the Early Termination of Lease on 31 May 2022 on (i) forfeiting the rental deposit of approximately RMB3,079,000 by the Group; (ii) further settlement to the landlord by the Group of approximately RMB11,593,000 payable within 15 days of agreement; and (iii) the landlord agreed to take up those rental income receivables up to 31 May 2022, which is recorded as finance lease receivables and investment properties under the sub-leasing arrangement of the Group's right-of-use assets. Accordingly, following the recognition with respect to investment properties, finance lease receivables and right-of-use assets of approximately HK$378,000, HK$5,156,000 and HK$3,423,000 respectively and the relevant exchange difference, the Group recorded a gain on Early Termination of Lease of approximately HK$18.7 million.

As at 31 December 2022, the Group recorded net current liabilities and net liabilities of approximately HK$327.6 million and approximately HK$327.6 million, respectively.

For the year ended 31 December 2023

For the year ended 31 December 2023, revenue of the Group further decreased by approximately 45.5% to approximately HK$1.2 million from that of approximately HK$2.2 million as recorded for the year ended 31 December 2022, which was due to the suspension of the Group's operation since 2022 and the adverse market conditions, according to the 2023 Annual Report.

For the year ended 31 December 2023, the Group recorded loss attributable to owners of the Company of approximately HK$14.2 million, which was reduced by approximately 34.9% from that of approximately HK$21.8 million as recorded for the year ended 31 December 2022. With reference to the 2023 Annual Report, we note that such decrease in loss in 2023 was principally resulted from the net effects of (i) the turnaround from gross loss to gross profit due to the absence of write-off of inventories in 2023 following the Early Termination of Lease and the suspension of the Group's operation, coupled with the obsolescence and diminishing marketability arising from changes in market condition, the Group had decided to write off the remaining inventories in 2022 such that there was no inventories held by the Group as at 31 December 2022 and 2023; (ii) the significant decrease in research costs and distribution and selling expenses from approximately HK$1.6 million to approximately HK$0.2 million in aggregate; (iii) the decrease in general administrative expenses from approximately HK$21.9 million to approximately HK$10.6 million as the Company completed its downsizing process; and (iv) the absence of other income derived from the gain on early termination of leases of approximately HK$18.7 million which was recognised in the previous year.

As at 31 December 2023, the Group recorded net current liabilities and net liabilities of approximately HK$340.9 million and approximately HK$340.9 million, respectively.

For the six months ended 30 June 2024

For the six months ended 30 June 2024, the Group recorded revenue of approximately HK$51.1 million while no revenue was recorded for the previous corresponding period, as a result of the resumption of the Group's business operation since December 2023.

For the six months ended 30 June 2024, the Group recorded a profit for the period attributable to owners of the Company of approximately HK$5.6 million against the loss for the period attributable to owners of the Company of approximately HK$6.8 million for the previous corresponding period. Such turnaround was mainly due to the resumption of operation as mentioned above, thereby resulting in a gross profit of approximately HK$17.4 million for the six months ended 30 June 2024 as compared to nil for the previous corresponding period.

As at 30 June 2024, the Group recorded net current liabilities and net liabilities of approximately HK$335.7 million and approximately HK$334.8 million, respectively. The current assets of the Group amounted to approximately HK$52.8 million as at 30 June 2024 from approximately HK$1.8 million as at 31 December 2023, which was resulted from the significant increase of trade and other receivables from approximately HK$1.2 million as at 31 December 2023 to approximately HK$51.1 million as at 30 June 2024 following resumption of the Group's business operation since December 2023.

Disclaimer of opinion by auditors

As noticed from the 2022 Annual Report and the 2023 Annual Report, the auditors of the Company issued a disclaimer of opinion for the consolidated financial statements of the Group for the years ended 31 December 2022 and 2023. According to the disclaimer of opinion for the year ended 31 December 2023, the auditors were concerned with the material uncertainties in relation to the Group that may cast significant doubt on the Group's ability to continue as a going concern, including (i) the Group reported a loss attributable to the owners of the Company of approximately HK$14,158,000 for the year ended 31 December 2023 and recorded net current liabilities and net liabilities of approximately HK$340,916,000 and HK$340,916,000, respectively as at 31 December 2023; (ii) the Group is subject to a number of legal proceedings and is yet to settle majority of such legal proceedings due to lack of sufficient funds; and (iii) the Group's bank balances and cash maintained at a low level of approximately HK$599,000 as at 31 December 2023. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively, and to provide for any further liabilities which might arise. The effects of these adjustments have not been reflected in the consolidated financial statements of the Group. In short, if the Group were to be unable to demonstrate that it can meet its financial obligations when they become due (for instance, in the circumstances of the failure to complete the Subscription and the Debt Restructuring), the balance sheets of the Group is expected to be materially and adversely adjusted and impacted.

1.2 Outlook of the Group

The Group has been engaging in the sales of lifestyle electronic products under the trademark of "Oregon Scientific" for over 20 years, specialising in the design, development, manufacturing and sales of electronic products and smart wearable devices and providing fashionable, healthy and intelligent products and service experience enhancing people's ability to work, live and play and leading social trends. While the outbreak of the COVID-19 pandemic has detrimentally affected the global supply chain and disrupted the business operation of the Company including the cease of factory operation in Shenzhen which was the only factory operated by the Group at the material time, the economic recovery and reopening of markets have allowed the Group to gradually restore its operations to normal trajectory and progression. Based on the 2023 Annual Report, it is noted that since December 2023, the Group has actively reestablished contacts and negotiations with potential customers and suppliers to recommence its business. Following the Company's evaluation of its sales channel, the Group has gradually resumed the sales of electronic products under the trademark of "Oregon Scientific" and has initiated and commenced operation of a number of new online retail platforms, with the aim to enhance market awareness of the "Oregon Scientific" brand as well as to advertise, showcase and distribute its products across a global spectrum of potential customers. As disclosed in the Letter from the Board, the confirmed orders of HK$40 million scheduled for delivery in the fourth quarter of 2024 have been completed and as at the Latest Practicable Date, the Group has secured confirmed orders of approximately HK$40 million expected to be fulfilled and delivered in the first quarter of 2025, of which approximately HK$7.22 million have been completed. Additionally, the Company has received confirmed order from customers for orders of approximately HK$40 million for the second quarter of 2025. In assessing the prospect of the Group, we have primarily considered the general outlook of the consumer electronic industry which the Group is primarily engaged in.

Considering that the Group's revenue is principally derived in the PRC, we have primarily focused our research on the market outlook of consumer electronic industry in the PRC. According to the news article published by Xinhua News Agency, being a leading authoritative news sources in the PRC, based on the data available from the Ministry of Industry and Information Technology of the PRC, the main operating indicators of the consumer electronics industry showed significant improvement in the first half of 2024 when compared to 2023, with production of key products steadily increased and domestic market gradually recovered. According to the data from National Bureau of Statistics, in the first half of 2024, China continued to solidify its position as the world's largest producer of consumer electronics products, with the production of mobile phones reached 752 million units, showing a year-on-year increase of 9.7%. According to ASKCI (中商情報網) (http://www.askci.com), an independent market research and consulting company with over 10 years of experience in industry analysis and consulting services which provides industry analysis, market segment research and consulting services to enterprises, the market size of consumer electronic industry in the PRC amounted to 1,864.9 billion yuan in 2022, showing a compound annual growth rate of 2.97% in the past five years and the market size is forecasted to grow to 1,977.2 billion yuan in 2024. Further, with reference to the 中國消費電子和家電行業趨勢報告 (2024) (China Consumer Electronics and Home Appliance Industry Report*) published by Ernst & Young, China serves as a key manufacturing hub and exporter for consumer electronics and home appliances, accounting for over 22% of the global market share in sales. In particular, consumers in the PRC have a strong inclination towards online purchases of consumer electronics and home appliance products, with the national online retail sales in the PRC reaching 13.8 trillion yuan in 2022, among which 29.1% of consumer electronic sales and 57.8% of home appliance sales were achieved through online channels.

On a global basis, with reference to the statistics and insights available from Statista (*http://www.statista.com/*), a renowned online platform established in 2007 in Germany specialised in data collection and visualisation which offers statistics and reports on over 80,000 topics from 22,500 sources in 170 industries and has operations in 13 locations worldwide and employs around 1,100 professionals, it is reported that the revenue generated in the worldwide consumer electronics market amounted to US$987 billion in 2022, showing a minor contraction of 4.4% from the previous year primarily due to the market saturation of smartphones and a rebound in demand for computing devices, amid the economic slowdown and surging inflation rates which contributed to decreased consumer spending. It is projected that the market will experience a compound annual growth rate of 2.9% from 2024 to 2029. Further, it is predicted that by 2024, online sales will account for 33.5% of the total revenue in the market and will continue to increase its shares in the market going forward.

Accordingly, driven by the gradual recovery of the global economy and potential demand for technological advancement, it is anticipated that the consumer electronic industry will grow steadily in the coming years. Overall, we are of the view that the outlook of the Group's electronic products business is generally positive.

Resumption of the Group's business operation

We note that the Group has been principally engaged in the design, development, manufacturing, marketing and distribution of lifestyle electronic products under the brand "Oregon Scientific" for at least the past ten years. Following the COVID-19 outbreak, the business operations of the Group had been substantially suspended. In particular, the production of the Group's leased factory in Shenzhen was suspended from 5 March 2022 and the tenancy of factory was terminated on 31 May 2022. Since December 2023, the Group has actively reestablished contacts and negotiations with potential customers and suppliers to recommence its business. Following the Company's evaluation of its sales channel, the Group has gradually resumed the sales of electronic products under the trademark of "Oregon Scientific" and has initiated and commenced operation of various new online retail platforms. The production process of the Group is supervised by the production director who has been with the Company before the business suspension. As a result of the collaborated efforts devoted by the Management in resuming the existing business of the Group, as disclosed in the 2024 Interim Report, the Company recorded revenue and profit of approximately HK$51.1 million and HK$5.6 million, respectively, for the six months ended 30 June 2024. Further, as advised by the Management, confirmed orders of HK$76 million and HK$40 million scheduled for delivery in the third and fourth quarters of 2024 respectively have been completed and the Company has received confirmed orders from customers of approximately HK$40 million for the first quarter of 2025.

According to the announcement of the Company dated 1 November 2024, the Company is of the view that its compliance with Rule 13.24 of the Listing Rules is satisfied. As all the Resumption Guidance have been fulfilled, trading of the Shares was resumed on 4 November 2024, which evidenced that the Stock Exchange concurred with the Company that the business of the Group at the time of the trading resumption has substance and/or was viable and sustainable. In view of the above, we have no reason to doubt the viability and sustainability of the Group's business.

Considering the prolonged net liability and limited internal cash of the Group, as well as the difficulties faced by the Group in obtaining external financing with favourable terms as discussed below, the Group does not have sufficient financial resources and may be restricted to further develop and expand its business. In view of the positive outlook of the consumer electronics industry that the Group is principally engaged in, we are of the opinion that upon the successful implementation of the Subscription and accordingly the Debt Restructuring which will alleviate the financial distress of the Group and strengthen its financial position thereby allowing the Group to deploy financial resources to expand and grow its business, the Group will be better positioned to ride on the potential growth of the consumer electronics market in the foreseeable future. Accordingly, we concur with the Directors' view that the implementation of the Subscription and Debt Restructuring are critical to the Company's long-term growth and financial health.

2. Background of the Subscriber

As disclosed in the Letter from the Board, the Subscriber is a company incorporated in Hong Kong on 9 May 2024 with limited liability and is principally engaged in investment holding. On 7 August 2024, Mr. Wong acquired 50% of the issued share capital of the Subscriber from Mr. Chen. As at the Latest Practicable Date, the Subscriber is directly legally and beneficially owned as to 50% by Mr. Chen, who is also the sole director of the Subscriber and a non-executive Director, and 50% by Mr. Wong.

Mr. Chen was appointed as a non-executive Director on 1 February 2024. He received Bachelor of Science in Chemistry from St. Edward's University, United States of America in 2023 and has since been working as an engineer with focus on battery design and manufacturing for electronic devices. Power supply is a vital component that dictates the design and production of electronic products and Mr. Chen intends to share his knowledge and experience in this area in furtherance of the Company's expansion of its business operations. As disclosed in the Letter from the Board, since his appointment to the Board, Mr. Chen has provided constructive ideas on the designs and range of electronic products produced by the Group, as well as on expanding the sales channel to online stores to widen the market share of the Company in the electronic products related industry. The Group has since doubled its products portfolio and will continue to further broaden its products range to accommodate the growing demands in electronic products from customers. He also possesses a successful track record of investments in the electronic products related industry, including a strategic investment in a U.S.-based private company engaged in the development and manufacturing of solid-state batteries, which are new generation of batteries that has higher energy density, faster charging speed, higher level of heat resistance, lower risk of catching fire, longer durability, lower weight and are smaller in size, and are increasingly being used in electronic devices and motor vehicles, in 2019 and has built a robust network with experts in the industry, which he intends to, subject to assessment and approval by the Board in accordance with the terms of reference and internal policies of the Company, invite university professors, researchers, and engineers who possess valuable insights and knowledge in the electronic products related industry to make contributions to the Company through appointment as senior managements or Directors and bring their expertise into the Group to further enhance the future development of the business of the Group.

Mr. Wong has over 8 years of experience in capital markets advisory at various investment banks, specialising in initial public offerings and capital fund raising for companies in Hong Kong. He is a managing director of ZMF Asset Management Limited since September 2023 and had been previously working in several corporate finance advisory companies. Mr. Wong gained extensive experience in restructuring and special situation investment during his tenure at the structured finance department of Zhongtai International Capital Limited. He played a key role in the restructuring of U-Right International Holdings Limited (now known as Japan Kyosei Group Company Limited) (stock code: 00627), which involved a very substantial acquisition and reverse takeover. Mr. Wong also acted as personal advisor to the investors in the restructuring efforts of First Mobile Group Holdings Limited (now known as Jiande International Holdings Limited) (stock code: 00865), which also involved a very substantial acquisition and reverse takeover. His expertise extended to managing various non-performing loan and asset portfolio transactions, as well as overseeing recovery actions for both Zhongtai and ZMF Asset Management Limited. Mr. Wong obtained a bachelor degree in accounting and finance from Lancaster University in the United Kingdom in 2013 and a master degree in management from University College London in the United Kingdom in 2015. Mr. Wong is an independent non-executive director of (i) Ganglong China Property Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 6968), since December 2023, and (ii) Pa Shun International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 574), since May 2024.

Intention of the Subscriber regarding the Group

The Subscriber intends to continue the existing business and the continued employment of the employees of the Group following Completion. The Subscriber also intends to focus on the existing principal business of the Group in the future and explore potential avenues and strategies to achieve growth and expansion in the business operations of the Group. The Subscriber has no intention to introduce any major changes to the existing business and operation of the Group (including any redeployment of the fixed assets of the Group) nor terminate the continued employment of the employees of the Group, other than in the ordinary and usual course of business. The Subscriber intends to nominate new Director(s) to the Board with effect from the time permitted under the Takeovers Code and any such appointment will be made in compliance with the Takeovers Code and the Listing Rules.

3. Reasons for and benefits of the Subscription and use of proceeds

As discussed in the above section headed "1. Background information of the Group", despite the turnaround from loss to profit for the six months ended 30 June 2024, it is noted that the Group has been consecutively loss-making for the previous years and periods and recorded net current liabilities and net liabilities of approximately HK$340.9 million and HK$340.9 million, respectively as at 31 December 2023, and approximately HK$335.7 million and HK$334.8 million, respectively as at 30 June 2024. With reference to the 2023 Annual Report and 2024 Interim Report, the bank balance and cash of the Group only amounted to approximately HK$0.6 million and HK$0.6 million as at 31 December 2023 and 30 June 2024 which were far less than the total borrowings of the Group of approximately HK$255.9 million and HK$256.2 million as at 31 December 2023 and 30 June 2024, respectively. The gearing ratio of the Group, computed by dividing the total borrowings by total assets, was at an extremely high level of approximately 14,216.7% as at 31 December 2023. Following the Group's resumption of operation since December 2023, the total assets of the Group has significantly increased which primarily comprised of trade receivables, resulting in a reduction in gearing ratio to approximately 471.3% as at 30 June 2024 which was still at a high level. In view of the severe financial condition of the Group, the Subscription would therefore provide an opportunity for the Group to partially settle the Debt of HK$215.7 million under the Debt Restructuring. As disclosed in the Letter from the Board, the recent recommencement of the business operation of the Company has provided the Company with sufficient working capital to maintain its current scale of operation. However, the Company considers the successful completion of the Subscription and Debt Restructuring are also critical to the Company's long-term growth and financial health. The proceeds from the Subscription will relieve the Company of its indebtedness and strengthen the financial position of the Group through implementation of the Debt Restructuring, and thus enable the Company to continue to expand its current business operations. The Company anticipates that its net liability position will, upon completion of the Subscription, implementation of the Debt Restructuring and completion of operational restructuring on non-core subsidiaries (thereby removing the borrowing of approximately HK$1.2 million), reverse to a net asset position, providing greater flexibility for external financing options, such as bank facilities and bond issuances. This would significantly enhance the Company's ability to scale operations and pursue growth initiatives. Further, with reference to the Company's announcement dated 19 May 2023, we note that one of the resumption guidance for the Resumption is to demonstrate compliance with Rule 13.24 of the Listing Rules, under which the Group shall carry out a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of its securities. Given that the proceeds from the Subscription would enable the Company to (i) settle part of its indebtedness due to the Creditors under the Debt Restructuring; (ii) satisfy the professional fees incurred in relation to the restructuring and the Resumption which comprised mainly of restructuring advisory fees, legal fees and fee incurred by other professional services; and (iii) facilitate the Group's business operation and development, we understand that the Subscription and the Debt Restructuring form integral parts of the resumption plan of the Company to facilitate the Resumption.

Debt Restructuring

As mentioned above, the Company has been under financial distress and is currently unable to repay certain of its liabilities. As disclosed in the Letter from the Board, as at 30 November 2024, the total estimated indebtedness owed by the Company under the Debt Restructuring amounted to approximately HK$215.7 million, which consists of HK$3.5 million of outstanding professional fees (relates to audit fees, as well as company secretarial fees and other miscellaneous administrative fees etc owed to professional party creditors incurred in prior years), HK$15.6 million in intercompany debts owed to two wholly-owned subsidiaries of the Company, the Shareholder's Loan of approximately HK$196.4 million owed to Creditor A and approximately HK$200,000 in loan provided by Creditor A (the "**Creditor A Loan**") in support of the reactivation of the operation of the Group. The HK$3.5 million outstanding professional fees will be fully paid using existing internal resources of the Company, and the full amount of the HK$15.6 million owed to two wholly-owned subsidiaries will be fully waived as part of the internal restructuring to be conducted by the Company, both to be settled or waived (as the case may be) by 14 February 2025, before a deed of settlement in accordance with the terms and conditions of the Debt Restructuring will be entered into with Creditor A. The Company proposed to implement the Debt Restructuring pursuant to which the Company targets to reach consensus with the Creditors in the manner that (i) the Initial Cash Payment, being part of the net proceeds from the Subscription of approximately HK$100 million, will be distributed to the Creditors holding the Debt proportionately on a *pari passu* basis; and (ii) following the Initial Cash Payment, the Bonds will be issued by the Company in an amount equivalent to 50% of the Remaining Debt to the Creditors as full settlement of the Remaining Debt.

The Debt Restructuring, which is subject to each of the Creditors having entered into legally binding deed of settlement with the Company, will be conditional on all of the conditions precedent to the Subscription Agreement having been fulfilled. As at the Latest Practicable Date, Creditor A has indicated her intention in support of the Debt Restructuring. Following repayment of the HK$3.5 million outstanding professional fees in full using existing internal resources of the Company and settlement of the HK$15.6 million owed to two wholly-owned subsidiaries of the Company which will be fully waived, Creditor A is expected to be the only Creditor subject to the Debt Restructuring. It is therefore anticipated that the Initial Cash Payment of approximately HK$100 million will be made to Creditor A as partial settlement of the Shareholder's Loan and the Creditor A Loan, following which a Bond in an amount of HK$48.3 million, being 50% of the remaining balance of the Shareholder's Loan and the Creditor A Loan, will be issued to Creditor A as full settlement of the Shareholder's Loan and the Creditor A Loan. Upon completion of the Debt Restructuring, the Debt due to the Creditors against the Company and related liabilities of the Company will be compromised, discharged, waived and/or settled in full.

Use of proceeds

The gross proceeds from the Subscription are expected to be HK$233,999,377.8 in aggregate. After deducting related professional fees and all administrative expenses relating to the Subscription and issuance of the Subscription Shares, the net proceeds of the Subscription will amount to approximately HK$230 million and is proposed to be applied towards: (i) approximately HK$100 million for the Initial Cash Payment as discussed above; (ii) approximately HK$40 million for the settlement of professional fees incurred in relation to the restructuring and the Resumption, comprising mainly of restructuring advisory fees, legal fees and fee incurred by other professional services; (iii) approximately HK$50 million for general working capital of the Company, including but not limited to (a) increasing marketing campaigns to enhance market awareness of the "Oregon Scientific" brand; (b) strengthening the Group's research and development efforts to develop new and innovative products and expand its product offerings; and (c) addressing the Group's immediate and ad hoc operational needs, including but not limited to the procurement of raw materials, production facilities lease payments, and other general and administrative expenses, to provide the Group with greater flexibility to accept and fulfil a higher volume of orders; and (iv) approximately HK$40 million for acquisition of new machineries as the initial step towards building or acquiring self-owned factory premises in the future. Following repayment of the HK$3.5 million outstanding professional fees in full and settlement of the HK$15.6 million owed to two wholly-owned subsidiaries of the Company which will be fully waived, Creditor A is expected to be the only Creditor subject to the Debt Restructuring.

Standstill agreement

With reference to the Letter from the Board, if the Subscription Agreement is voted down or if any of the conditions precedent to the Subscription is not fulfilled on or before the Long Stop Date or such other date as the Company and the Subscriber may agree in writing, the Subscription Agreement will terminate with immediate effect. As a result, the Subscription and the Debt Restructuring will not be implemented such that no proceeds will be raised by the Company. In the absence of funds, the Debt which mainly comprised of the Shareholder's Loan owing by the Company to Creditor A shall remain unsettled.

As disclosed in the Letter from the Board, Creditor A has entered into a standstill agreement with the Company pursuant to which Creditor A has agreed not to take any action against the Company in relation to the Shareholder's Loan and the Creditor A Loan pending completion of the Subscription and the Debt Restructuring. In the event the Subscription and the Debt Restructuring do not proceed, Creditor A reserves the right to demand immediate repayment of the Shareholder's Loan and the Creditor A Loan. Accordingly, should the Company fail to honor such outstanding liabilities, Creditor A shall have the right to file a winding-up petition against the Company, which may lead to the potential appointment of provisional liquidator by the court to take over the assets of the Company. In such event, based on the existing indebtedness of the Group, it is expected that the available assets of the Company will be distributed in the priority of settlement of liquidation expenses, followed by payment to secured creditors, preferential creditors and/or unsecured creditors (including Creditor A) of the Company, and lastly to the Shareholders. The Shareholders will only receive distribution if there are remaining assets after all debts have been paid. In light of the net liabilities position of the Group, the residue value to the Shareholders in such circumstances is inevitably minimal, if not none.

Financing alternatives

We understand from the Company that alternative fund-raising methods including additional external debt financing and other equity fundraising methods have been considered, while the Company is of the view that, the Subscription is currently the most feasible option for the Company. As learnt from the Management, the Company has approached a number of financial institutions and securities brokerages to explore the possibility of conducting fundraising through placing of new shares and open offer. However, due to the financial distress position of the Company and the business operation of the Group has only just recommenced, as well as the prolonged suspension of trading of the Shares and the weak operating environment for local banks and financial institutions, all financial institutions approached by the Company have expressed great hesitant in providing financing or participating in fundraising activities in view of the potentially higher level of risks involved in such fundraising exercise with grave uncertainties. To this end, the Company considered that any other equity financing exercises for the Group are not likely attainable at the moment. We have further discussed with the Management on the possibility of external debt financing and were given to understand that attempts have been made to reach out to a number of commercial banks. As advised by the Management, in light of the additional practical difficulties and uncertainties arising from, among others, the adverse financial condition of the Group including the prolonged loss-making performance and net deficit position and the statutory demand received by the Company for the potential lenders to assess the credit position and repayment ability of the Group, no financiers have shown interest to provide debt financing to the

Company and it was also unlikely for the Group to obtain additional borrowings with terms favourable to the Group. Moreover, as confirmed by the Company, save for the Subscriber, no other potential investors have expressed interest in the Group.

In assessing whether the Subscription is the most feasible mean of financing available to the Group, we further note that following the publication of the Announcement in relation to the Subscription, the Company issued a clarification announcement on 6 November 2024 pursuant to which on 28 October 2024, China Huaneng Foundation Construction Investment Ltd. disposed of 753,997,995 Shares (the "**Disposal**"), representing 29% of the total issued share capital of the Company to six independent third parties with each of them holding less than 5% of the issued share capital of the Company at a total consideration of HK$12,101,668.91, with an average purchase price of approximately HK$0.016 per Existing Share. Notwithstanding the Disposal and that the aforesaid purchase price per Existing Share is above the implied subscription price of HK$0.01 per Existing Share (based on the Subscription Price of HK$0.6 per Subscription Share before adjustment for the effect of the Capital Reorganisation) which may indicate that investors are interested in investing in the Company at a price higher than the Subscription Price, considering that (i) the terms of the Subscription and the Debt Restructuring have been agreed following an extended period of negotiations where any alterations of the terms or fundraising structure (including the Subscription Price and the amount of funds to be raised) would result in additional time and costs on the part of the Company; (ii) Creditor A has indicated her intention to support the Debt Restructuring and any changes to the structure and terms of the Subscription would inevitably delay the implementation of the Debt Restructuring; (iii) Creditor A has agreed not to take any action against the Company pending completion of the Subscription and the Debt Restructuring pursuant to a standstill agreement with the Company, any changes to the current fundraising plan will be subject to further negotiation with Creditor A and it is uncertain as to the outcome of such negotiation; and (iv) the funding need of the Group is imminent in view of its severe financial condition as described in the above paragraph while the Subscription would provide the necessary funds required by the Group, we concur with the Company that it is reasonable for the Company to proceed with the Subscription.

Taking into consideration (i) the net deficit position of the Group; (ii) the Subscription demonstrates a firm confidence and support by the Subscriber in the Company's future development despite its unsatisfactory financial performance and prolonged suspension of trading of the Shares; (iii) the Subscription forms a vital part of the corporate rescue and restructuring plan of the Company where without the proceeds from the Subscription, the Company would not be able to implement the Debt Restructuring; (iv) the proceeds from the Subscription would significantly reduce the debt level of the Group, while raising additional working capital to replenish the Group with the necessary funds to carry out its operation and facilitate further expansion and development of current business; and (v) should the Subscription not proceed, Creditor A shall have the right to demand immediate repayment of the

Shareholder's Loan and the Creditor A Loan failing which Creditor A shall have the right to file a winding-up petition against the Company, and any residue value to the Shareholders in such event is expected to be minimal, if not none, we are of the view that the Subscription is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. The Subscription Agreement

Principal terms of the Subscription Agreement

On 15 October 2024, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 389,998,963 New Shares at the total Subscription Price of HK$233,999,377.8, representing HK$0.60 per New Share, to the Subscriber. The Subscription is subject to various conditions under the Subscription Agreement, details of which are set out in the Letter from the Board. The principal terms of the Subscription Agreement are summarised below:

Date	:	15 October 2024
Parties	:	(1) the Company (as issuer); and (2) the Subscriber (as subscriber)
Subscription Price	:	HK$0.60 per New Share
Total consideration for the Subscription	:	HK$233,999,377.8
Number of Subscription Shares to be issued	:	389,998,963 New Shares

Assuming there will be no other change in the number of Shares from the Latest Practicable Date until the date of Completion and after the adjustment for the effect of the Capital Reorganisation, the Subscription Shares represent (i) approximately 900% of the issued share capital of the Company immediately after the Capital Reorganisation becoming effective and prior to the allotment and issue of the Subscription Shares as at the Latest Practicable Date; and (ii) approximately 90% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full. The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be granted by the Independent Shareholders at the SGM.

For further details, please refer to the section headed "Subscription of New Shares" of the Letter from the Board.

Evaluation of the Subscription Price

The total Subscription Price is HK$233,999,377.8, representing HK$0.60 per Subscription Share (assuming the Capital Reorganisation became effective), which represents:

(i) a discount of approximately 52.38% to the theoretical closing price of HK$1.26 per New Share as adjusted for the effect of the Capital Reorganisation based on the closing price of HK$0.021 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 54.95% to the theoretical average closing price of HK$1.332 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK$0.0222 per Existing Share for the last five trading days as quoted on the Stock Exchange up to and including the Latest Practicable Date;

(iii) a discount of approximately 59.51% to the theoretical average closing price of HK$1.482 per New Share as adjusted for the effect of the Capital Reorganisation based on the average closing price of HK$0.0247 per Existing Share for the last 10 trading days as quoted on the Stock Exchange up to and including the Latest Practicable Date;

(iv) a premium of approximately HK$8.5 over the theoretical audited consolidated net liabilities attributable to owners of the Company as at 31 December 2023 of approximately HK$7.9 per New Share as adjusted for the effect of the Capital Reorganisation; and

(v) a premium of approximately HK$8.3 over the theoretical audited consolidated net liabilities attributable to owners of the Company as at 30 June 2024 of approximately HK$7.7 per New Share as adjusted for the effect of the Capital Reorganisation.

As disclosed in the Letter from the Board, the Subscription Price was determined after arm's length negotiations between the Company and the Subscriber with reference to, among others, (i) the financial position of the Group with net liabilities and low liquidity for the two years ended 31 December 2022 and 2023 and for the six months ended 30 June 2024; (ii) the recent market conditions; (iii) the prolonged suspension of trading in the Shares on the Stock Exchange since 3 April 2023; and (iv) the fact that the Subscriber is willing to provide the Company with fresh money to proceed with its restructuring plan and continue its operations.

In assessing the fairness and reasonableness of the Subscription Price and considering that the Shares have resumed trading as at the Latest Practicable Date, we have conducted comparison of the Subscription Price against the prevailing market valuation of industry peers based on the trading multiples of companies ("**Market Comparables**") listed on the Stock Exchange which are primarily engaged in similar business activities as the Group. We have considered common valuation benchmark namely (i) the implied price-to-sales ratio ("**PS ratio**"); (ii) the implied price-to-earnings ratio ("**PE ratio**"); and (iii) the implied price-to-book ratio ("**PB ratio**") of the Subscription. However, as the Group recorded a net liability position as at 30 June 2024, the implied PB ratio was not applicable. Nevertheless, we have computed each of the PS ratio, PE ratio and PB ratio of the Market Comparables for our analysis purpose.

We have identified the Market Comparables based on the selection criteria that they (i) are principally engaged in the manufacture and sales of consumer electronic products which accounted for over 50% of total revenue; (ii) derived over 50% of revenue from the PRC; (iii) are profit-making from continuing operation for the latest financial year; (iv) have a market capitalisation of not more than HK$1,000 million as at the Latest Practicable Date; and (v) are not under trading suspension as at the Latest Practicable Date. Based on the aforesaid selection criteria, no company was identified. In order to obtain a sufficient sample size for a meaningful assessment, we have extended our criteria to include comparable companies regardless of the geographical location of revenue derived. On this basis, we have identified an exhaustive list of three Market Comparables, details of which are set out below:

Table 2: Summary of the Market Comparables

Company name (stock code)	Principal business	Market capitalisation *(Note 1)* *HK$' million*	PS ratio *(Note 2)* *times*	PE ratio *(Note 3)* *times*	PB ratio *(Note 4)* *times*
Suga International Holdings Limited (912)	Research and development, manufacturing and sales of electronic products (including professional audio equipment, products with IoT technology, telephones for the hearing-impaired, telecommunication products, general household consumer appliances, smart payment products), pet food and other pet-related products	341.7	0.3	10.7	0.4

Company name (stock code)	Principal business	Market capitalisation *(Note 1)* *HK$' million*	PS ratio *(Note 2)* *times*	PE ratio *(Note 3)* *times*	PB ratio *(Note 4)* *times*
Fujikon Industrial Holdings Limited (927)	Design, manufacturing, marketing and trading of electro-acoustic products, accessories and other electronic products and property holding	289.6	0.3	16.9	0.5
China Energy Storage Technology Development Limited (1143)	i) Provision of electronic manufacturing services for communication and non-communication products ii) Marketing and distribution of communications products iii) Provision of real estate advisory service and real estate purchase service and energy storage products iv) Equity investment, property agency service and other operations v) Provision of loan services by licensed corporation	66.2	0.1	12.6	0.1
		The Company	0.3 *(Note 5)*	2.3 *(Note 6)*	Not applicable
		Maximum	0.3	16.9	0.5
		Minimum	0.1	2.3	0.1
		Average	0.2	10.6	0.4

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

Notes:

1. The market capitalisation of the Market Comparables is calculated based on their respective closing share price as at the Latest Practicable Date and the total number of issued shares based on their latest published monthly return available on the website of the Stock Exchange.

2. The PS ratios of the Market Comparables are computed by dividing the market capitalisation as at the Latest Practicable Date by the total revenue based on the latest published annual reports.

3. The PE ratios of the Market Comparables are computed by dividing the market capitalisation as at the Latest Practicable Date by the profit attributable to owners based on the latest published annual reports.

4. The PB ratios of the Market Comparables are computed by dividing the market capitalisation as at the Latest Practicable Date by the net assets attributable to owners based on the latest published interim reports.

5. The implied PS ratio of the Company is computed based on (a) the Subscription Price of HK$0.6 per New Share multiplied by 43,333,218 New Shares (as adjusted for the effect of the Capital Reorganisation based on 2,599,993,088 Existing Shares in issue as at the Latest Practicable Date); and (b) the revenue of approximately HK$102,168,000 (as annualised based on the revenue of the Company for the six months ended 30 June 2024 of approximately HK$51,084,000).

6. The implied PE ratio of the Company is computed based on (a) the Subscription Price of HK$0.6 per New Share multiplied by 43,333,218 New Shares (as adjusted for the effect of the Capital Reorganisation based on 2,599,993,088 Existing Shares in issue as at the Latest Practicable Date); and (b) the profit attributable to owners of the Company of approximately HK$11,238,000 (as annualised based on the profits attributable to owners of the Company for the six months ended 30 June 2024 of approximately HK$5,619,000).

As shown in Table 2 above, (i) the PS ratios of the Market Comparables and the Company ranged from approximately 0.1 times to 0.3 times with an average of 0.2 times; and (ii) the PE ratios of the Market Comparables and the Company ranged from approximately 2.3 times to approximately 16.9 times with an average of approximately 10.6 times on the Latest Practicable Date. The implied PS ratio of the Company (as computed based on the annualised revenue of the Company for the year ended 31 December 2024 using its revenue for the six months ended 30 June 2024) of 0.3 times is at the highest end of the aforesaid range, while the implied PE ratio of the Company (as computed based on the annualised profits attributable to owners of the Company for the year ended 31 December 2024 using its profits attributable to owners for the six months ended 30 June 2024) of approximately 2.3 times is the lowest of the aforesaid range.

Taking into consideration (i) the implied PS ratio of the Company is at the highest end among those of the Market Comparables; (ii) unlike the Market Comparables, the Group is under financial distress with net deficit position and was loss-making for at least the past three years; (iii) the Subscriber is willing to take up the inherent risks to subscribe for the Shares of the Company with a net liability status; (iv) offering a lower market valuation against the industry peers would incentivise the Subscriber in conducting the Subscription and supporting the Company's future development; (v) the Subscription was entered into during the prolonged suspension of trading of the Shares where no prevailing relevant share price was then available for reference; (vi) the imminent funding need required by the Company to implement its restructuring plan, reactivate its business operation and potentially turnaround the unsatisfactory financial performance; and (vii) that Mr. Chen has contributed and played an important role in reviving the business of the Group since his appointment as non-executive Director by providing constructive ideas on the designs and range of electronic products of the Group and expanding the sales channel to online stores, it is expected that the engineering background and expertise of Mr. Chen as well as his established network within the electronic products related industry will benefit the Company in furtherance of its business apart from the financial support through the Subscription, we are of the view that the Subscription Price is justifiable.

5. Possible dilution effect on the shareholding interests of the existing public Shareholders

Pursuant to Rule 7.27B of the Listing Rules, a listed issuer may not undertake a rights issue, open offer or specific mandate placing that would result in a theoretical dilution effect of 25% or more, unless the Stock Exchange is satisfied that there are exceptional circumstances. In view of the liquidity and heavily indebted financial position of the Group as well as the prolonged suspension of the trading in the Shares on the Stock Exchange, the closing price of the Shares on 31 March 2023, being the last full trading day prior to the suspension of trading in the Shares on the Stock Exchange, does not reasonably reflect the existing condition of the Company and the financial position of the Company and there are practical difficulties to issue the Subscription Shares without a substantial discount. The Subscription will provide funds to partially settle the Debt against the Company under the Debt Restructuring and to continue the Group's business operations.

The Subscription will also result in the public float of the Shares falling below the requirements under Rule 8.08(1) of the Listing Rules. In general, the Stock Exchange would not grant the listing of, and permission to deal in new Shares where the issue of such new Shares would cause or facilitate a breach of requirement(s) under the Listing Rules. The Subscriber originally entered into a placing agreement with Gaoyu Securities Limited on 15 October 2024 to conduct the Placing. In view of the lower placing fee offered by Metaverse Securities Limited and it having already secured sufficient interest from potential placees, the Subscriber had accordingly terminated the placing agreement with Gaoyu Securities Limited and entered into the Placing Agreement with Metaverse Securities Limited to undertake the Placing, where a placing commission of 1% on the aggregate placing price placed pursuant to the Placing will be borne by the Subscriber, to ensure that a sufficient public float exists for the Shares upon Completion, failing which the Subscription Agreement will not become unconditional and the Subscription will not proceed. Completion of the Placing is conditional on all the conditions under the Subscription Agreement having been fulfilled and completion of the Placing and the Subscription will take place simultaneously to restore the minimum public float as required under the Listing Rules.

With reference to the shareholding table in the section headed "Effects on the shareholding structure of the Company" as set out in the Letter from the Board, the shareholding interests of the existing public Shareholders would be diluted from approximately 78.6% to approximately 7.9% immediately after completion of the allotment and issue of the Subscription Shares. It is noted that, assuming completion of the Subscription, the resultant dilution of the public Shareholders' interest will be approximately 89.9%.

In assessing the fairness and reasonableness of the dilution to the public Shareholders as a result of the Subscription, we have identified comparable companies listed on the Stock Exchange which (i) were in prolonged suspension for more than six months prior to the date of the relevant circulars; (ii) conducted resumption plan which involved subscription of shares, debt restructuring or creditors' schemes and application of whitewash waiver (excluding resumption plan involving rights issue or open offer which the existing public shareholders are provided with pre-emptive rights to participate in); (iii) the relevant circulars were issued in the past two years between 15 October 2022 and the date of the Subscription Agreement; and (iv) have fulfilled all underlying resumption conditions and resumed trading as at the Latest Practicable Date. As only one comparable company was identified based on the aforesaid criteria, we have extended our review period to cover four years from 15 October 2020 and up to the date of the Subscription Agreement in order to obtain a sufficient number of companies for a meaningful analysis. We have identified an exhaustive list of five companies (the "**Dilution Comparables**") which met our selection criteria.

We note that the market capitalisation, business and operation, financial performance, financial position and the transaction background of the Dilution Comparables are not identical to the Group. Nonetheless, considering that the subscriptions conducted by the Dilution Comparables and the Subscription were all entered into during the trading suspension period, we are of the view that the Dilution Comparables can demonstrate the general dilution effects of similar restructuring transactions conducted by companies under prolonged trading suspension during our review period. Set out below are the results of the Dilution Comparables:

Table 3: Summary of the Dilution Comparables

Date of circular	Company name (stock code)	Market capitalisation as at the date of suspension of trading of the shares	Trading suspension period before resumption	Principal business as at the date of circular	Maximum dilution to the existing public shareholders *(Note)*
		HK$' million	*Approximate months*		*Approximate %*
3 March 2023	China Health Technology Group Holding Company Limited (1069)	110.2	21.8	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	84.6

Date of circular	Company name (stock code)	Market capitalisation as at the date of suspension of trading of the shares *HK$' million*	Trading suspension period before resumption *Approximate months*	Principal business as at the date of circular	Maximum dilution to the existing public shareholders *(Note)* *Approximate %*
5 August 2022	China Wood International Holding Co., Limited (1822)	22.3	18.8	(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	90.1
31 December 2021	C&D Newin Paper & Pulp Corporation Limited (731)	416.5	18.8	(i) Paper manufacturing and trading business; (ii) fast moving consumer goods business; (iii) property development and investment business; and (iv) other businesses including trading of consumable aeronautic parts and provision of related services, and provision of logistic services and marine services	91.9
26 May 2021	Arta TechFin Corporation Limited (279)	168.1	20.1	Financial services sector including the provision of securities and futures brokerage services, placing, underwriting and margin financing services, and the provision of insurance brokerage and financial planning services	91.2

Date of circular	Company name (stock code)	Market capitalisation as at the date of suspension of trading of the shares	Trading suspension period before resumption	Principal business as at the date of circular	Maximum dilution to the existing public shareholders *(Note)*
		HK$' million	*Approximate months*		*Approximate %*
19 March 2021	Century Energy International Holdings Limited (8132)	59.3	23.9	(i) Manufacture and sales of power and data cords business; (ii) trading of refined oil and chemicals business; and (iii) trading of commodities	85.0
				Maximum	91.9
				Minimum	84.6
				Average	88.6
				The Subscription	89.9

Note: For the purpose of our analysis and where applicable, shares held by existing public shareholders excluded the shares to be placed to independent placees for the purpose of fulfilling the minimum public float requirement under the Listing Rules.

As shown in Table 3 above, the maximum dilution of the public Shareholders' interest as a result of the Subscription of approximately 89.9% falls within the range of maximum dilution of the respective public shareholders of the Dilution Comparables of approximately 84.6% to 91.9% and approximates to the average maximum dilution of approximately 88.6%.

Having considered that (i) the Company has been under dire financial distress and is in lack of sufficient financial resources to repay certain of its liabilities given its prolonged net deficit position and extremely high gearing ratio; (ii) the proceeds from the Subscription would allow the Group to settle part of the Debt, and thereby strengthen the financial position of the Group; (iii) completion of the Subscription forms part of the resumption plan seeking resumption of trading in the Shares; (iv) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (v) the dilution effect to the existing public shareholders upon completion of the Subscription is within the range of and approximates to the average dilution effect of the Dilution Comparables, we are of the opinion that the dilution impact to the public Shareholders as a result of the Subscription is acceptable.

6. Financial effect of the Subscription

Net assets/(liabilities) and gearing

As disclosed in the 2023 Annual Report and the 2024 Interim Report, the gearing ratio of the Group, which was calculated as a percentage of total borrowings (including loans from other creditors or shareholder) over total assets, amounted to approximately 14,216.7% and 471.3% as at 31 December 2023 and 30 June 2024, respectively. The allotment and issue of the Subscription Shares to partially settle the indebtedness due to the Creditors would reduce the liabilities of the Company. Hence, it is expected that the gearing ratio of the Group will be lowered, resulting in an overall improvement of financial position of the Group.

Working capital

As the indebtedness due to the Creditors under the Debt Restructuring would be partly settled by the proceeds from the Subscription as to approximately HK$100 million for the Initial Cash Payment and 50% of the Remaining Debt would be settled by issuance of the Bonds as full settlement of the Remaining Debt, which forms part of the debt restructuring to be implemented by the Company, substantial future cash outflow from the Group would be avoided in repayment of the Debt. Upon completion of the Subscription and following payment of the Initial Cash Payment, the indebtedness due to the Creditors would be reduced and the liabilities of the Group is expected to decrease, which would improve the working capital and thereby relieve the financial burden of the Group.

It should be noted that the abovementioned analysis is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the completion of the Subscription.

7. The Whitewash Waiver

As at the Latest Practicable Date, none of the Subscriber Concert Parties has interests in any Shares. Immediately after completion of the Capital Reorganisation and the Subscription but prior to completion of the Placing, the Subscriber Concert Parties will be interested in 389,998,963 New Shares, representing approximately 90.0% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full.

Pursuant to Rule 26.1 of the Takeovers Code, the acquisition of 30% or more of the voting rights in the Company by the Subscriber as a result of the Subscription would trigger an obligation on the Subscriber to make a mandatory general offer for all the issued shares and other securities of the Company (other than those already owned or agreed to be acquired by the Subscriber Concert Parties), unless the Whitewash Waiver is granted by the Executive.

An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (a) the approval by at least 75% of the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (b) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Subscription and the underlying transactions, in which (i) the Subscriber Concert Parties, (ii) the Shareholders who are also Creditors, their ultimate beneficial owners, their respective associates and parties acting in concert with any of them, and (iii) the Shareholders who are interested in or involved in the Subscription and the transactions contemplated thereunder including the Specific Mandate, the Debt Restructuring, the Whitewash Waiver, and/or the Placing will abstain from voting on the relevant resolution(s). No existing Shareholder has a material interest in the Subscription, the Specific Mandate, the Debt Restructuring, the Whitewash Waiver, and/or the Placing and therefore no Shareholder is required to abstain from voting on any resolution(s) to be proposed at the SGM. The Executive has indicated that it would, subject to approval by the Independent Shareholders at the SGM by way of poll, grant the Whitewash Waiver. As it is a condition precedent to Completion in the Subscription Agreement that the Whitewash Waiver is granted by the Executive, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders at the SGM.

As stated in the Letter from the Board, completion of the Subscription is conditional upon, among other things, the Independent Shareholders' approval and the Executive having granted the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved by the Independent Shareholders, the Subscription Agreement will terminate forthwith.

Taking into account that (i) the Subscription is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Subscription Agreement are fair and reasonable; and (iii) the approval of the Whitewash Waiver by the Independent Shareholders is one of the conditions precedent to the Subscription Agreement which cannot be waived, we are of the view that the grant of the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned as it would allow the Subscription Agreement and the transactions contemplated thereunder to proceed.

RECOMMENDATIONS

Having considered the abovementioned principal factors and reasons, in particular:

(i) despite the recent improving revenue and turnaround from underlying loss to profit for the first half of 2024, the Group has been under dire financial distress given its loss-making performance in the past years and net deficit position, and has been unable to generate sufficient cashflow from its principal business operation to repay its indebtedness;

(ii) the Management's efforts in reviving the existing business of the Group, the confirmed orders fulfilled in the second half of 2024 and expected to be fulfilled by the Group in the first quarter of 2025 and that trading of the Shares was resumed on 4 November 2024 which evidenced that the business of the Group has substance and/or is viable and sustainable;

(iii) the Subscription demonstrates a firm confidence and support by the Subscriber in the Company's future development despite its unsatisfactory financial performance and prolonged suspension of trading of the Shares;

(iv) the Subscription forms a vital part of the corporate rescue and restructuring plan of the Company where without the proceeds from the Subscription, the Company would not be able to implement the Debt Restructuring;

(v) the proceeds from the Subscription would significantly reduce the debt level of the Group, while the additional working capital would replenish the Group with the necessary funds to carry out its business operation and development;

(vi) the dilution to the shareholding interests of the existing public shareholders as a result of the Subscription of approximately 89.9% is within the range of dilution effect of the Dilution Comparables which ranged from 84.6% to 91.9% and approximates to the average of 88.6%; and

(vii) the approval of the Whitewash Waiver by the Independent Shareholders is one of the conditions precedent to the Subscription Agreement which is crucial to the implementation of the Debt Restructuring.

We consider that although the Subscription is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement and the transactions contemplated thereunder, the Specific Mandate as well as the Whitewash Waiver are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription Agreement, the Specific Mandate and the Whitewash Waiver.

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

Joshua Liu
Managing Director

Note: Mr. Joshua Liu is a licensed person registered with the SFC and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 25 years of experience in the securities and investment banking industries.

* *For identification purpose only*