



28 July 2025

*To: the independent board committee and the independent shareholders of
GR Life Style Company Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the major and connected transaction contemplated under the Guarantee Agreement and the Mortgage Agreement. Details of the Guarantee Agreement and the Mortgage Agreement are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company to the Shareholders dated 28 July 2025 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 20 March 2025, the Borrower entered into the Facility Agreement with Shengjing Bank, pursuant to which Shengjing Bank agreed to grant the Shengjing Facility in the principal amount of RMB700 million for a term of ten years commencing from 20 March 2025 at the interest rate of 4.0% per annum. As security for the Facility Agreement, the Borrower was requested by Shengjing Bank to provide security and therefore it approached the Group to discuss if the Group can (i) bear joint liability to the repayment obligations of the Borrower under the Shengjing Facility; and (ii) mortgage the KT Property in favour of Shengjing Bank to facilitate the Borrower to obtain the Shengjing Facility in favour of the Borrower in return for guarantee fee.

Kaipeng Technology entered into the Guarantee Agreement and the Mortgage Agreement with Shengjing Bank on 11 April 2025, pursuant to which Kaipeng Technology agreed to (i) bear joint liability to the repayment obligations of the Borrower under the Shengjing Facility; and (ii) mortgage the KT Property in favour of Shengjing Bank to facilitate the Borrower to obtain the Shengjing Facility. In return, the Borrower shall pay Kaipeng Technology a guarantee fee of 1% per annum (the “**Guarantee Fee**”) of the amount of actual drawdown by the Borrower under the Facility Agreement.

According to the Board Letter, the KT Guarantee, which is a financial assistance to the Borrower, constitutes connected transaction for the Company under Chapter 14A of the Listing Rules. Given that the KT Guarantee and the BW Guarantee (for details of the BW Guarantee, please refer to the Board Letter) were both entered into by the Group with borrowers under the same ultimate beneficial owner, Mr. Wei, the KT Guarantee and the BW Guarantee are aggregated as a single transaction pursuant to Rule 14.23 of the Listing Rules. As the highest of all applicable percentage ratios calculated by reference to Rule 14.07 of the Listing Rules in respect of the KT Guarantee and the BW Guarantee on an aggregated basis is more than 25%, the KT Guarantee and the BW Guarantee together constitutes a major transaction for the Company under the Listing Rules and the KT Guarantee is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Tung Woon Cheung Eric, Ms. To Tsz Wan Vivien and Mr. Leung Louis Ho Ming, has been established to make recommendation to the Independent Shareholders in relation to the major and connected transaction contemplated under the Guarantee Agreement and the Mortgage Agreement. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years and were not connected with the Directors, chief executive and substantial shareholder of the Company or any of their respective subsidiaries or their respective associates or connected persons. We are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Apart from the normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. Accordingly, we consider ourselves independent to give independent advice in respect of the Guarantee Agreement and the Mortgage Agreement.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Guarantee Agreement and the Mortgage Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Group, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider 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 investigation into the business and affairs or future prospects of the Group, the Borrower, Mr. Wei, Shengjing Bank or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Guarantee Agreement and the Mortgage Agreement. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update, revise or reaffirm this opinion to take into account events occurring after the Latest Practicable Date. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Guarantee Agreement and the Mortgage Agreement, we have taken into account the principal factors and reasons set out below:

1. Information of the Group

The Group is principally engaged in (i) property management in the PRC and (ii) property development and investment in the PRC, the United States of America and the United Kingdom.

Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2024 as extracted from the Company's annual report for the year ended 31 December 2024 (the "**2024 Annual Report**") and its annual report for the year ended 31 December 2023, respectively:

	For the year ended	
	31 December	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
– Property development and investment	140,201	148,018
– Property management	169,816	204,622
Loss for the year	(919,344)	(129,307)

Revenue from property development and investment

As referred to in the 2024 Annual Report, revenue of property development and investment maintained relatively stable at around HK\$140 million for the two years ended 31 December 2024, as a result of stable contribution of rental income from the operating leases of certain portion of units in the US Complex, Juxon House and Guorui Square Block B.

Revenue from property management

As referred to in the 2024 Annual Report, revenue from property management decreased from approximately HK\$204.6 million for the year ended 31 December 2023 to approximately HK\$169.8 million for the year ended 31 December 2024, primarily due to the recognition of more revenue from contracts with customers for rendering of property management and other services in 2023.

As also depicted by the table above, the net loss of the Group for the year ended 31 December 2024 increased from approximately HK\$129.3 million for the year ended 31 December 2023 to approximately HK\$919.3 million for the year ended 31 December 2024, mainly attributable to (i) the increase in fair value loss of investment properties of approximately HK\$618.7 million for the year ended 31 December 2024; and (ii) the decrease in remeasurement gain upon transfer of certain properties held for sale to investment properties of approximately HK\$189.3 million for the year ended 31 December 2024.

We further noted from the 2024 Annual Report that the net asset value of the Group was approximately HK\$2,132.5 million as at 31 December 2024.

2. Information of Kaipeng Technology

Kaipeng Technology is a limited liability company established in the PRC which is principally engaged in sale of properties and property investment. As at the Latest Practicable Date, Kaipeng Technology was a wholly-owned subsidiary of the Company.

3. Information of the KT Property

The KT Property comprises 129 properties owned by Kaipeng Technology with a gross floor area of approximately 46,164.24 square meters located on Levels 1, 13 to 22, 24 to 33 and 35 to 36 of the Building. As at the Latest Practicable Date, Kaipeng Technology was the owner of the KT Property.

The market value of the KT Property as at 31 December 2024 was RMB1,780 million according to the valuation report prepared by an independent professional valuer.

4. Information of the Borrower and Mr. Wei

The Borrower is a company established under the laws of the PRC with limited liability and is principally engaged in property development and investment business.

Mr. Wei Chunxian, an executive Director and chairman of the Board, the controlling shareholder of the Company, and indirectly owns approximately 82% equity interest in Beijing Guorui Holdings Co. Limited, which is a substantial shareholder of the Company. Beijing Guorui Holdings Co., Limited was established on 9 July 2010 with registered capital of RMB200 million, fully paid up.

From our due diligence review, we further noted that through his shareholdings in Beijing Guorui Holdings Co. Limited, Mr. Wei controls and owns a few property development companies in the PRC, which holds various property development projects including two major residential projects located in Beijing and Changzhou, which were valued at approximately RMB1 billion and RMB880 million, respectively, and with balance of cash and cash equivalents of approximately RMB404 million and RMB23 million, respectively, as at 31 May 2025.

5. Information of Shengjing Bank

Shengjing Bank is a financial institution established in the PRC.

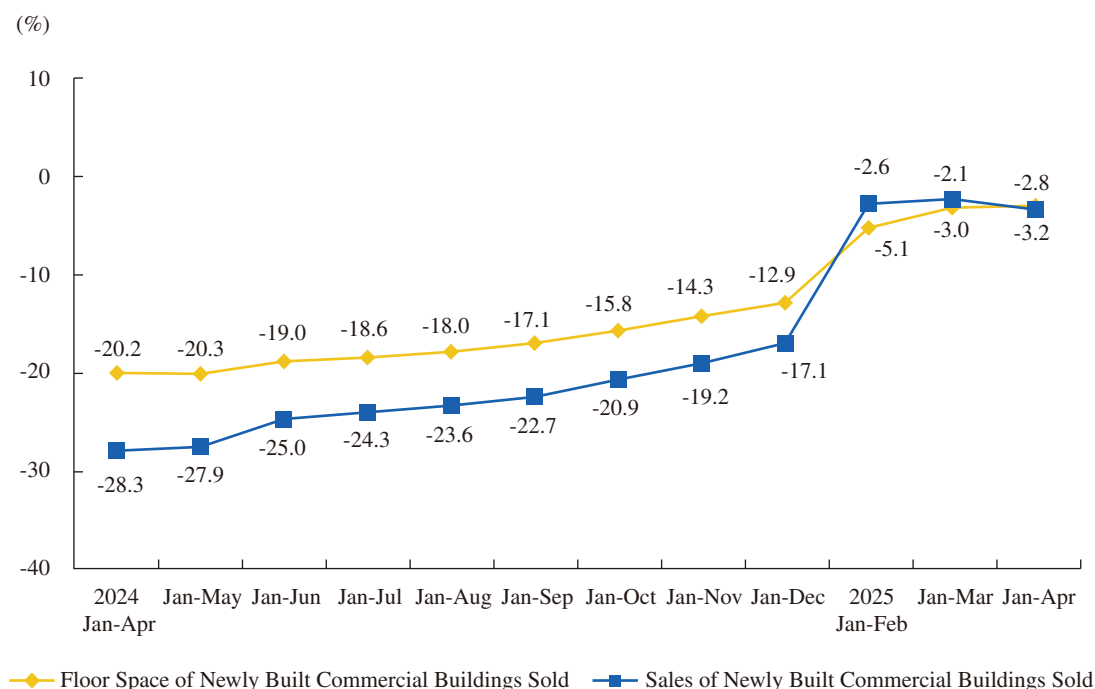
6. Latest updates on the PRC real estate market

It is noted that as affected by multiple factors, the PRC real estate market has demonstrated an obvious downturn in recent years. Given that both the Group and the Borrower are principally engaged in property development and investment in the PRC and their future financial performance is thus highly dependent on the relevant market conditions and prospects, we have independently researched for the latest market statistics to understand the relevant market conditions and prospects. Set out below are the key statistics released by the National Bureau of Statistics of the PRC in May 2025 at stats.gov.cn:

Sales of newly built commercial buildings

From January to April 2025, the floor space of newly built commercial buildings sold was approximately 282.62 million square meters, a year-on-year decrease of approximately 2.8%, with a decline narrowed by 0.2 percentage points as compared to the decrease from January to March 2025. The sales of newly built commercial buildings were approximately RMB2,703.5 billion, down by approximately 3.2%.

Growth Rate of Floor Space and Sales of Newly Built Commercial Buildings Sold

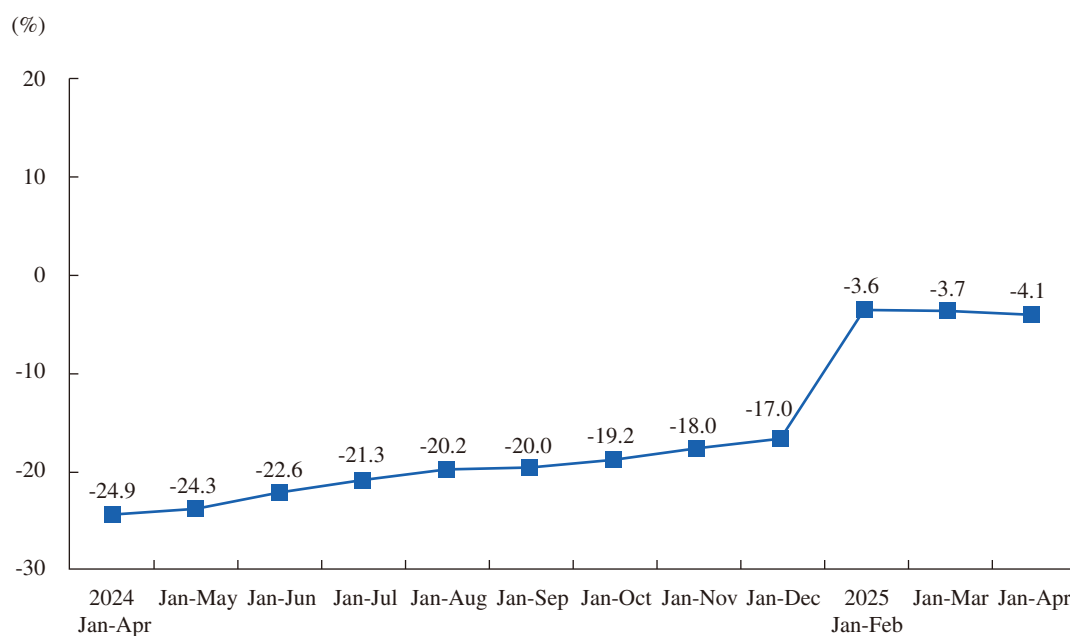


Referring to the chart above, it is noted that while the floor space and sales of newly built commercial buildings sold are still experiencing a downward trend, the extent of the shrink was gradually narrowed throughout 2024, and the year-on-year slump have been substantially alleviated during the first quarter of 2025 as compared to the corresponding period in 2024.

Funds for investment for real estate development enterprises

From January to April 2025, the funds for investment for real estate development enterprises were approximately RMB3,259.6 billion, down by approximately 4.1% year on year. Nevertheless, referring to the chart below, the latest statistics also revealed that the year on year slump of funds for investment for real estate development enterprises has been substantially alleviated during the first quarter of 2025 as compared to the corresponding period in 2024.

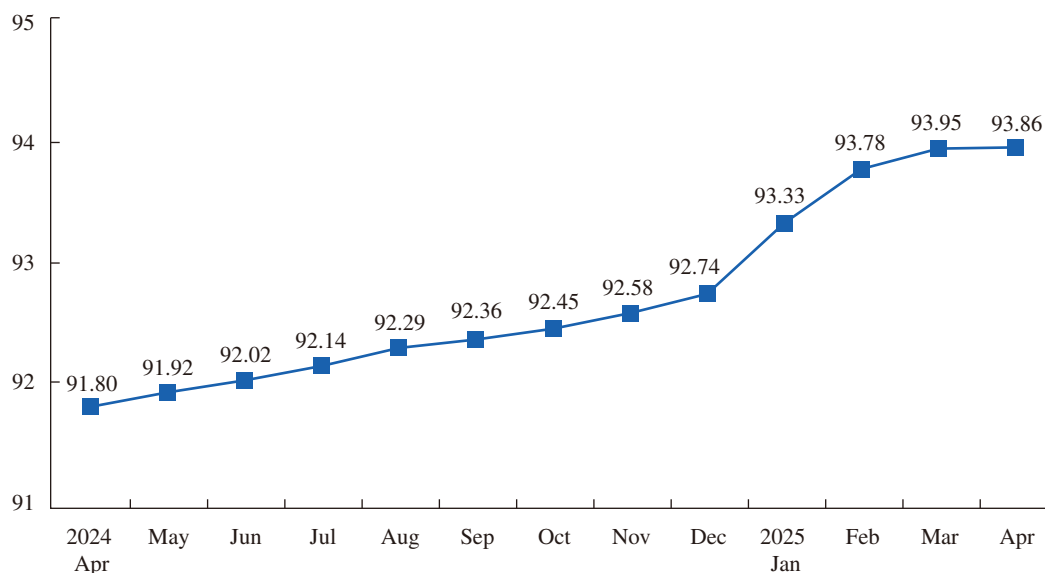
Growth Rate of Funds for Investment This Year for Real Estate Development Enterprises



National Real Estate Climate Index

Referring to the chart below, the National Real Estate Climate Index has illustrated a persistent uprising momentum since April 2024.

National Real Estate Climate Index



From the latest statistics presented above, the downturn of the PRC real estate market may have been stabilized and revitalization of the market in the medium to long run may be cautiously optimistic.

7. Reasons for and benefits of the provision of financial assistance

As discussed in the section headed “2. Information of Kaipeng Technology” of this letter above, Kaipeng Technology is the owner of the KT Property, which is part of Building No. 2 of Kingdom Guorui (國銳 • 金嶺) located at No. 1 Ronghua South Road, Beijing Economic Technological Development Area, Beijing, the PRC. Since the Borrower was the developer of Kingdom Guorui, the Borrower and the Group had built and maintained a good working relationship since they first cooperated in the engineering, renovation, construction and office upgrade work during the development of the Building in early 2021. The Borrower has also recommended and procured a number of quality customers to enter into contracts with the Group for office rental.

As extracted from the Board Letter, the Borrower has applied to Shengjing Bank for the Shengjing Facility to support the loan restructuring of the RMB800 million loan for BCEG Road and Bridge Construction Group Co., Ltd. (for further details of this loan, please refer to the announcement of the Company dated 15 March 2022), and was required by Shengjing Bank to provide security. The Borrower therefore approached Kaipeng Technology to discuss if it can (i) bear joint liability to the repayment obligations of the Borrower under the Shengjing Facility; and (ii) mortgage the KT Property in favour of Shengjing Bank to facilitate the Borrower to obtain the Shengjing Facility in favour of the Borrower in return for guarantee fee.

Furthermore, as extracted from the Board Letter, taking into account the market practice of financing companies in the PRC, the Board considers that the Guarantee Fee at a rate of 1% per annum on actual drawdown is fair and reasonable and is in line with market rates. The Guarantee Fee will provide an additional stable income source to the Group and is in the interests of the Company and the Shareholders as a whole. The KT Guarantee would also strengthen the business relationship and allow further cooperation between the Group and the Borrower.

As extracted from the Board Letter, based on the financial statements of the Borrower for the year ended 31 December 2024 provided by the Borrower, the financial results of the Borrower were as follows:

	For the year ended/ as at 31 December 2024 <i>RMB'million (Approx.)</i>
Revenue	214.5
Net loss before tax	(45.1)
Net loss after tax	(53.0)
Net asset value	5,865

Based on the financial statements of the Borrower for the year ended 31 December 2024 provided by the Borrower, the net asset value of the Borrower was approximately RMB5,865 million as at 31 December 2024. We have further reviewed the composition of the Borrower's net assets and noted that they included a portfolio of investment properties located in the PRC. Specifically, we noted that the Borrower owns two completed investment properties, namely Jin Chang'an (金長安) located in Chaoyang District, Beijing and Guorui Plaza Tower A (國銳廣場A座) located in the Beijing Economic-Technological Development Area. For our due diligence purpose, we have conducted desktop research regarding further information of these two investment properties. Based on the information disclosed at Baidu.com.cn, with a total construction scale of 100,000 square meters, Jin Chang'an (金長安) is a landmark Grade A commercial and office complex located along Chang'an Avenue, consisting of two office buildings (16 floors in Block A and 32 floors in Block C), a hotel (15 floors in Block B1) and a podium with coordinates A and C (5 floors in Block B2). There are also 100 parking spaces above ground and 800 underground. The architectural design of Jin Chang'an (金長安) was carried out by the world-renowned Australian COX Group based on the concept of integrating international style with traditional Chinese elements. Jin Chang'an (金長安) is surrounded by strong and mature business atmosphere with other Grade A office buildings, five-star international hotels and large shopping malls nearby, including but not limited to China Central Place, The Ritz-Carlton Hotel, Marriott Hotel, Wal-Mart Supermarket, Tesco Supermarket,

Lufthansa Outlets, Parkson, Metro City and CBD Golf Club. As for Guorui Plaza (國銳廣場), this project is located at the core area of Yizhuang, Beijing. It is close to the Rongjing East Street Station of the Yizhuang Metro Line and is easily accessible to Beijing's major airports. Guorui Plaza (國銳廣場) is not only a business office space, but also a large-scale high-end business community with a 5A-level office building and a full-featured high-end comprehensive leisure club. The design of the office space of Guorui Plaza (國銳廣場) adheres to the characteristics of the aesthetics of the times. In terms of appearance, the 183-meter-high office building adopts the distinctive architectural form of twin towers, dividing into tower A and B. With a total height of 32 floors, the building is in a three-section structure, each with 100 to 2,000 square meters of free and flexible office units to serve enterprises of different scale. Based also on the information provided by the Borrower, the aforesaid two investment properties comprise a total rentable gross floor area of around 158,000 square meters and generate an aggregate amount of annual rental and property-related income of over RMB200 million. The combined market valuation of these two investment properties is around RMB6.8 billion.

Furthermore, the Borrower's financial statements for the year ended 31 December 2024 showed a net current asset position of approximately RMB4,212 million. This balance comprised cash and bank balances of approximately RMB76 million; (ii) accounts receivables of approximately RMB747 million; and (iii) other receivables of approximately RMB5,300 million, which mainly represented the amounts due from fund provided to or invested in various regional property development projects (further information of those projects are set forth in the next paragraph to follow), which are to be recovered from the returns generated by those properties. According to the information provided by the Borrower, there has been no material impairment recorded on the amounts due from these fund allocations in the last five financial years, and approximately RMB1.3 billion of such amounts are expected to be returned to the Borrower by the end of 2027. As also confirmed by the Borrower, as at the Latest Practicable Date, some properties of the Borrower in Beijing with total size of approximately 80,113.9 square meters were pledged for the Facility Agreement. Save for disclosed above, the Borrower's current assets, including its cash, are not subject to other guarantees or pledges that may affect the priority of the Company's claim.

As advised by the Directors, the Borrower group is currently undertaking property development work for major residential and commercial property projects located in the PRC. For our due diligence purpose, we have requested the project pipeline (including major residential and commercial developments currently underway) of the Borrower group. We noted from the relevant information provided that the Borrower group is currently carrying out several property development projects in Yixing, Sanya and Chengdu. Those projects comprise both residential and commercial developments with total gross floor area of nearly 150,000 square meters. The construction work has commenced from 2020 to 2024, and their phase one presale has also started as planned subsequently from 2022 onwards. As referred to the existing forecast of the Borrower, annual sales income of around RMB1.2 billion, RMB1.1 billion and RMB1.0 billion is expected to be recorded from those projects in 2025, 2026 and 2027, respectively.

We were given to understand that aforesaid forecasts (including the forecast on repayment of other receivables and forecast on annual sales income) were cautiously prepared on a best effort basis by the Borrower based on the remaining saleable area (breaking down into residential units, commercial units and parking spaces) of each of such property development projects, the expected

selling schedule and market condition etc. Nonetheless, we express no opinion as to how closely the actual repayment amounts/ sales income to be recorded by the Borrower will correspond with the aforesaid forecasts given that the forecasts are subject to assumptions and uncertainties which may not be valid or are unpredictable at present.

In order to protect the Company's interest, the Company negotiated with the Borrower and Mr. Wei to enter into the Counter-Guarantee Agreements. The Directors consider that the Counter-Guarantee arrangement can effectively mitigate the Company's risk exposure as the Group can enforce the Counter-Guarantee Agreements in the event that the Group is called upon by Shengjing Bank to fulfil its guarantee obligation for the Borrower if the Borrower defaults. Considering the Counter-Guarantee as well as the financial position of the Borrower with net assets (comprising solid investment properties) of approximately RMB5,865 million as at 31 December 2024, in the scenario of a default of the Borrower, the Company's liabilities under the Guarantee Agreement and the Mortgage Agreement are likely to be covered.

On the other hand, according to the Directors, as a guarantor to the Borrower, while there would be no material impact on the cash-flow of the Group, the Group will generate additional income of up to RMB7 million annually from the Guarantee Fee. In particular, unless the Borrower defaults, the KT Property will remain legally owned by the Group and continue to generate rental income, and the pledge does not affect its day-to-day operations or income-generating capability. If the Borrower defaults on the Shengjing Facility and Shengjing Bank enforces its rights over the KT Property, the Group may lose ownership of the KT Property, which would result in the derecognition of an asset with a market value of around RMB1,780 million and the rental income of approximately RMB39.2 million currently generated from leasing the KT Property. In this relation, we noted that as shown in the section headed "1. Information of the Group" of this letter above, the Company recorded a net asset value of approximately HK\$2,132.5 million as at 31 December 2024. Therefore, Independent Shareholders should note that the derecognition of such asset will have a significant impact on the Group's net asset position. However, as represented by the Directors, the KT Property is primarily used for leasing purposes and generated rental income of approximately HK\$39.2 million in 2024. When compared to the Company's total revenue of approximately HK\$310.0 million for the year ended 31 December 2024, the rental income accounted for around 13% of total revenue. As such, the potential loss of the KT Property, while materially affecting the Company's balance sheet, would have a relatively limited impact on the Company's daily operations and revenue streams.

As further advised by the Directors, it is a common practice for commercial banks or third-party financial institutions in the PRC, as a condition for the provision of loan facilities or financing, to require a guarantor in particular those with solid financial background to provide a guarantee and/or security. This is in line with what we observe based on our independent research. As mentioned above, the Borrower and the Group had built and maintained a good working relationship since they first cooperated in the engineering, renovation, construction and office upgrade work during the development of the Building in early 2021. The Borrower has also recommended and procured a number of quality customers to enter into contracts with the Group for office rental. From our independent research, we noted that the Group entered into certain services agreements with Beijing Guorui, being the ultimate beneficial owner of the Borrower, in the provision of various services with annual caps of over RMB50 million up to 2026. Moreover, we understand from the Directors that the Group has maintained a long standing business relationship with the Borrower through various commercial arrangements, including the development and

leasing of retail and lifestyle-related properties that are complementary to the Group's core operations. By providing the KT Guarantee, the Group demonstrates its continued support and commitment to this strategic partnership, which in turn enhances mutual trust and long-term cooperation. In this relation, we have requested the Company to provide us the past working relationships with the Borrower together with the list of the Group's customers that were introduced by the Borrower. Upon review of such information, we concur with the Directors that the KT Guarantee would strengthen the business relationship and allow further cooperation between the Group and the Borrower, thereby increasing the likelihood of the Group being invited to participate in future property development and operation projects initiated by the Borrower, such as leasing of prime commercial spaces, co-development of lifestyle and retail zones, and participation in smart city or integrated commercial projects in alignment with the Group's strategic focus. Hopefully, the closer alliance and cooperative relationship between the Group and the Borrower could allow the Group to benefit amid the possible revival of the PRC real estate market in the medium to long run.

In light of the above and our assessment on the existing asset status of the Borrower, we concur with the Directors that the provision of the Counter-Guarantee under the Counter-Guarantee Agreements would provide safeguard to the Group in the provision of the KT Guarantee with respect to the Facility Agreement pursuant to the Guarantee Agreement and the Mortgage Agreement, and the entering into the Guarantee Agreement and the Mortgage Agreement is in the interests of the Company and the Shareholders as a whole from mainly business strategic point of view. Concurrently, as pointed out previously, if the Borrower defaults on the Shengjing Facility and Shengjing Bank enforces its rights over the KT Property, the Group may lose ownership of the KT Property, which would result in the derecognition of an asset with a market value of around RMB1,780 million and the rental income of approximately RMB39.2 million currently generated from leasing the KT Property. Independent Shareholders should note that the derecognition of such asset will have a significant impact on the Group's net asset position and the entering into of the Guarantee Agreement and the Mortgage Agreement may also expose the Group to other possible risks. We are of the view that Independent Shareholders should bear in mind all those risk factors since they may have different risk preferences and risk toleration level.

8. Principal terms of the Guarantee Agreement and the Mortgage Agreement

As extracted from the Board Letter and pursuant to the Guarantee Agreement and the Mortgage Agreement, the major terms of the aforementioned agreements are as follows:

Date:

11 April 2025

Parties to the Guarantee Agreement and the Mortgage Agreement:

- (i) Kaipeng Technology;
- (ii) the Borrower; and
- (iii) Shengjing Bank

Subject Matter:

Pursuant to the Guarantee Agreement, Kaipeng Technology has agreed to bear joint liability to the repayment obligations of the Borrower under the Facility Agreement in order to facilitate the Borrower to obtain the Shengjing Facility of RMB700 million.

Pursuant to the Mortgage Agreement, Kaipeng Technology has agreed to mortgage the KT Property in favour of Shengjing Bank as security in order to facilitate the Borrower to obtain the Shengjing Facility of RMB700 million.

The KT Guarantee will be effective after such approval is obtained at the EGM and will expire upon full repayment of the Shengjing Facility provided that the maximum duration of the KT Guarantee shall not exceed ten years from the date of the Facility Agreement.

Guarantee Fee:

Kaipeng Technology shall charge the Borrower the Guarantee Fee of 1% per annum of the amount of actual drawdown by the Borrower under the Shengjing Facility, which is payable by the Borrower to Kaipeng Technology at the same time of the payment of interest by the Borrower to Shengjing Bank under the Facility Agreement, which are scheduled on a quarterly basis, specifically on the 20th day of the last month of each quarter.

Taking into account of the maximum limit of the Shengjing Facility, the Guarantee Fee to be received by Kaipeng Technology from the Borrower will be up to RMB7 million per year.

9. Principal terms of the Counter-Guarantee Agreements

As extracted from the Board Letter and pursuant to the Counter-Guarantee Agreements, the major terms of the Counter-Guarantee Agreements are as follows:

Date:

16 May 2025/ 19 June 2025

Parties:

The Counter-Guarantee with the Borrower

- (i) Kaipeng Technology; and
- (ii) the Borrower

The Counter-Guarantee with Mr. Wei

- (i) Kaipeng Technology; and
- (ii) Mr. Wei

Subject Matter:

Pursuant to the Counter-Guarantee Agreements, the Borrower and Mr. Wei shall provide a counter-guarantee in favour of Kaipeng Technology for all liabilities and reasonable expenses which may be incurred by Kaipeng Technology under the Guarantee Agreement and the Mortgage Agreement. The scope of the Counter-Guarantee includes: (a) all payment obligations by Kaipeng Technology under the Guarantee Agreement and the Mortgage Agreement; (b) all reasonable expenses which may be incurred by Kaipeng Technology and the Company in the course of fulfilling their respective obligations under the Guarantee Agreement and the Mortgage Agreement; and (c) all damages and compensation payable by Kaipeng Technology and the Company in the event of any breach of the Guarantee Agreement and the Mortgage Agreement.

Term:

The Counter-Guarantee will be effective after the KT Guarantee approval is obtained at the EGM and will expire upon repayment of the Shengjing Facility.

(a) The Guarantee Agreement

We understand from the Directors that the provision of the KT Guarantee is a prerequisite for Shengjing Bank to provide the Facility Agreement to the Borrower. Pursuant to the Guarantee Agreement, the maximum liability of the Group to Shengjing Bank would be limited to RMB700 million, being the guaranteed loan amount, assuming the Borrower draws down the loan facility in the principal amount in full. We noted that pursuant to the Counter-Guarantee Agreements, the Group will be fully indemnified by the Borrower and Mr. Wei in the event of default in the Facility Agreement by the Borrower.

Having considered (i) the provision of the KT Guarantee is a prerequisite to the Facility Agreement as requested by Shengjing Bank; and (ii) during the entire maximum 10-year term of the KT Guarantee, the Group will be fully indemnified by the Borrower and Mr. Wei in the event of default in the Facility Agreement by the Borrower pursuant to the Counter-Guarantee Agreements while earning predictable and stable income from the Guarantee Fee, we are of the view it is acceptable for the Group to provide the KT Guarantee to the Borrower pursuant to the Guarantee Agreement.

(b) The Mortgage Agreement

As set out in the Board Letter, Shengjing Bank has also requested the Group to mortgage the KT Property, which is part of Building No. 2 of Kingdom Guorui (國銳•金嶺) located at No. 1 Ronghua South Road, Beijing Economic Technological Development Area, Beijing, the PRC, in favour of Shengjing Bank to facilitate the Borrower to obtain the Shengjing Facility.

The fair value of the KT Property under the Mortgage Agreement as at 31 December 2024 was RMB1,780 million. We were given to understand that the request of the KT Guarantee by Shengjing Bank was determined based on the internal assessment conducted and approved by Shengjing Bank according to the financial background of the Group and the fair value of the KT Property.

Given that the entering into of the Mortgage Agreement is part and parcel to the Guarantee Agreement after arm's length commercial negotiations, we are of the view that the terms of the Mortgage Agreement are on normal commercial terms.

(c) The Counter-Guarantee Agreements

We noted that, pursuant to the Counter-Guarantee Agreements, the Borrower and Mr. Wei agree to fully indemnify Kaipeng Technology and the Company for all liabilities and reasonable expenses which may be incurred by Kaipeng Technology and the Company under the Guarantee Agreement and the Mortgage Agreement, thereby establishing a legally enforceable right of recourse by the Group against the Borrower and Mr. Wei under PRC law. While the Counter-Guarantee does not eliminate credit risk, it provides a clear legal framework for the Group to pursue recovery in the event of enforcement. Moreover, the Counter-Guarantee Agreements entitle the Group to request relevant information from the Borrower for the purpose of monitoring compliance with the terms of the Shengjing Facility and assessing the Borrower's financial position on an ongoing basis. If there is any adverse change in the financial position of the Borrower, the Company has the right to require the Borrower to procure a replacement guarantor in place of Kaipeng Technology under the KT Guarantee. The replacement of guarantor is subject to approval of both the Borrower and Shengjing Bank, as the new guarantor must meet the requirements under the Facility Agreement and the Guarantee Agreement. If either the Borrower or Shengjing Bank rejects the replacement of guarantor, the Company retains the right to take such action as may be necessary to safeguard its interests, including enforcing its rights under the Counter-Guarantee Agreements and seeking remedies by the Borrower and Mr. Wei.

Despite that the Company does not possess the unilateral right on replacement of guarantor, the Counter-Guarantee Agreements entitle the Company to request and obtain up-to-date financial and operational information from the Borrower on a regular basis, enabling the Group to closely monitor the Borrower's financial position, business performance, and compliance with the terms of the Shengjing Facility. This heightened transparency allows the Group to identify at an early stage any signs of financial distress, adverse developments, or potential defaults by the Borrower.

For the purpose of assessing the asset status of the Borrower and the level of protection under the Counter-Guarantee Agreements, we have performed desktop research based on public records and noted that the Borrower was indirectly interested in 811,738,927 Shares as at the date of the Guarantee Agreement and the Mortgage Agreement, representing approximately 25.21% of the Company's issued share capital. Based on the closing price of HK\$0.60 per Share as at even date, the Borrower's entitlement by way of its indirect interests in 811,738,927 Shares was approximately HK\$487.0 million.

In consideration of the value of the abovementioned Shares held by the Borrower as well as the Borrower's net asset value of RMB5,865 million (comprising high-quality, income-generating assets situated in prime locations with stable tenant demand, which contribute meaningfully to the Borrower's recurring cash flows) as at 31 December 2024, the aggregate of which is substantial and in excess of the maximum amount of RMB700 million that the Borrower can draw down from the Shengjing Facility, we consider the Borrower to be financially capable to provide the Counter-Guarantee to Kaipeng Technology and the Company and that the Borrower would have sufficient resources to honor the Counter-Guarantee if and when necessary. On the other hand, the Directors believe that Mr. Wei's substantial ownership and capital commitment in Beijing Guorui Holdings Co., Limited, together with his longstanding track record in real estate investment and development would provide a solid foundation to support his financial obligations under the Counter-Guarantee. As such, the Counter-Guarantee Agreements are favourable to the Company.

(d) Comparable analysis on the Guarantee Fee

As mentioned in the Board Letter, the Borrower under the Guarantee Agreement shall pay to Kaipeng Technology the Guarantee Fee of 1% of the actual amount drawn down under the Facility Agreement in consideration of the provision of the KT Guarantee to Shengjing Bank. We understand from the Directors that the guarantee fee rate was determined with reference to prevailing market rates of guarantee fees charged by financing companies in the PRC (the "**Guarantee Companies**"). These Guarantee Companies, which are (i) principally engaging in the provision of financial leasing and guarantee services; and (ii) operating their business in the PRC market, provided quotations based on the quantitative background of the Borrower and the terms of the Facility Agreement (including the guaranteed amount, guarantee period, and the Borrower's net asset value). According to their quotations, the typical guarantee fee rate for similar financing guarantee services in the PRC generally ranges from 0.5% to 1.5% per annum, depending on other factors such as the borrower's credit profile, the existence of collateral, the guarantee term, and overall risk exposure. As such, the Guarantee Fee falls within the range thereof. Although the selected Guarantee Companies are not exhaustive, we understand that the Guarantee Companies are principally engaged in the provision of financial leasing and guarantee services in the PRC, and generally possess more sophisticated credit risk assessment systems as compared to the Company. In addition, the nature of the KT Guarantee, being a commercial guarantee backed up by a legally binding counter-guarantee arrangement, aligns in substance with the type of transactions regularly assessed by the Guarantee Companies. Thus, the quoted guarantee fee rate of the Guarantee Companies would be able to reflect the prevailing market rate of guarantee fee.

In order to further assess the fairness and the reasonableness of the Guarantee Fee, we have reviewed the announcements for transactions involving the provision of guarantee services by companies listed on the Stock Exchange as announced within the approximate 18-month period prior to 11 April 2025, being the date of the Facility Agreement and the Mortgage Agreement (the “**Comparables**”). The criteria for selecting the Comparables are as follows: (i) the selected companies are listed on the Stock Exchange; (ii) the transactions involved provision of guarantee services by listed company to borrower(s) in which it has no direct or indirect equity interest; and (iii) the maximum guaranteed amount provided by the guarantor was below RMB1,000 million. To the best of our knowledge and as far as we are aware, we have identified five Comparables which we consider to be exhaustive based on the above criteria and are fair and representative samples.

On a separate note, Shareholders should note that the businesses, operations and prospects of the Group are not the same as the Comparables. Nonetheless, we consider it reasonable to take into account broader market practices to gain a comprehensive understanding of the market landscape in guarantee fees, and the Comparables may offer a reference for the prevailing market practice in different situations.

Details of the Comparables are summarised as follows:

Date of announcement	Stock code	Company name	Maximum guaranteed amount	% of the guarantee fee to the relevant		Duration of the guarantee	Principal business of borrowers	Relationship between the borrowers and guarantors	Connected transaction? (Yes/No)
				guaranteed amount (per annum)	With counter-guarantee?				
16 October 2023	8126	G.A. Holdings Limited	RMB101.1 million	Nil	No	2 years	Sales of motor vehicles in the PRC	Parent company being ultimately beneficially owned by the spouse of a shareholder of the relevant listed company	No

Date of announcement	Stock code	Company name	% of the guarantee fee to the relevant				Duration of the guarantee	Principal business of borrowers	Relationship between the borrowers and guarantors	Connected transaction? (Yes/No)
			Maximum guaranteed amount	guaranteed amount (per annum)	With counter-guarantee?					
3 November 2023	3869	Hospital Corporation of China Limited	RMB50 million	Nil	No	3 years	A local medical services platform offering comprehensive medical services with specialty in oncology and cancer treatments	Managed by a company which is indirectly owned as to 75% by the relevant listed company	No	
29 April 2024	3768	Kunming Dianchi Water Treatment Co., Ltd.	RMB500 million	Nil	No	5 years	A comprehensive large-scale water supply corporation	No relationship	No	
23 December 2024	2098	Zall Smart Commerce Group Ltd	RMB293.2 million	2.0%	Yes	3 years	Property development and related services	No relationship	No	
11 February 2025	893	China Vanadium Titano-Magnetite Mining Company Limited	RMB930 million	1.25%	Yes	Around 3 years	Iron ore mining, iron ore beneficiation and sale of self-produced products	Subsidiaries of a company owned by certain substantial shareholders of the relevant listed company	Yes	
			Maximum	2.0%						
			Minimum	Nil						
			Average	0.65%						
			The Guarantee Fee	1%						

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

As shown in the table above, the guarantee fee rate charged by the Comparables ranged from nil to 2.0% per annum, with an average of approximately 0.65%. Of the five Comparables, three neither charged for a guarantee fee nor required any counter-guarantee arrangement.

Concurrently, upon further review of the background of the provision of guarantees by those five Comparables, we noted that the guarantees provided by Zall Smart Commerce Group Ltd and China Vanadium Titano-Magnetite Mining Company Limited were largely a continuation of their obligation to their respective former subsidiary(ies) before disposal and was part and parcel to the relevant equity disposal agreement. Unlike such background, the guarantees provided by the remaining three Comparables, similar to the KT Guarantee, were initiated more from the business strategic point of view for benefiting the normal business of the relevant listed company.

With the above being the case, the Guarantee Fee of 1% per annum with presence of the Counter-Guarantee arrangement is acceptable to the Company based on the norm of the Comparables. Also, the Guarantee Fee will be locked for a maximum of ten years regardless of any subsequent changes in the economic or market condition. While economic condition may fluctuate over time, we concur with the Directors that locking in the rate provides certainty and stability in income for the Company and avoids the need for future re-negotiations or adjustments that may introduce commercial uncertainty or disputes. Furthermore, the 1% rate is not subject to automatic downward revision should market rates decrease, which also protects the Company's return.

In view of the above, we consider the Guarantee Fee for the KT Guarantee to be fair and reasonable.

In conclusion, we are of the view that the terms of the Guarantee Agreement and the Mortgage Agreement are on normal commercial terms taking into account the following factors: (i) the provision of the KT Guarantee as the security of the Facility Agreement is requested by Shengjing Bank for the Shengjing Facility; (ii) during the entire maximum 10-year term of the KT Guarantee, the KT Guarantee will be secured by the Counter-Guarantee, which would mitigate the Company's risk exposure under the KT Guarantee and the risk of the mortgaged properties being enforced; and (iii) the Guarantee Fee of 1% per annum is fair and reasonable and can bring annual stable income of RMB7 million at maximum to the Group.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the opinion that the terms of the Guarantee Agreement and the Mortgage Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We noted that the entering into of the Guarantee Agreement and the Mortgage Agreement will increase the overall risk exposure of the Group, but as balanced against the possible benefits to be brought as well as the effectiveness of the Counter-Guarantee to mitigate the Company's risk exposure based on the Borrower's existing asset status, we are of the opinion that although the Guarantee Agreement and the Mortgage Agreement are not entered into in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Guarantee Agreement and the Mortgage Agreement.

Yours faithfully
For and on behalf of
VBG Capital Limited

A handwritten signature in black ink that reads "SingRL". The letters are cursive and somewhat stylized, with the "R" and "L" being particularly prominent.

Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in corporate finance.