

Set out below is the full text of the letter of advice from Sunny Fortune Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect to the Discloseable and Connected Transaction in relation to the Patent Licence Agreement involving the Issue of Consideration Shares under Specific Mandate.



To the Independent Shareholders,

Dear Sirs and Madams,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE
PATENT LICENCE AGREEMENT
INVOLVING THE ISSUE OF CONSIDERATION SHARES
UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Discloseable and Connected Transaction in relation to the Patent Licence Agreement involving the Issue of Consideration Shares under Specific Mandate, details of which are contained in the circular issued by the Company dated 3 October 2025 (the “**Circular**”), of which this letter forms a part. Sunny Fortune Capital Limited has been appointed to advise the Independent Board Committee as to whether the transactions contemplated under the Patent Licence Agreement and the issue price are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Independent Shareholders as a whole; and how the Independent Shareholders should vote on the resolutions to approve the Discloseable and Connected Transaction in relation to the Patent Licence Agreement at the EGM.

The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise required.

On 25 July 2025 (after trading hours), the Company and the BAGI Research Limited (the “**Licensor**”) entered into the Patent Licence Agreement, pursuant to which the Licensor has conditionally agreed to grant to the Company an exclusive non-transferable licence of the Licensed IP. In consideration of the grant of the Licensed IP, the Company has conditionally agreed to allot and issue the Consideration Shares to the Licensor as a one-off non-refundable licence fee.

With reference to the Board Letter, as at the Latest Practicable Date, the Licensor is indirectly wholly owned by BAGI Group Limited which in turn is controlled by Mr. Chan. As Mr. Chan is the chairman of the Board, the chief executive officer of the Company, an executive Director and a Controlling Shareholder, he is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Patent Licence Agreement will constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The Board has established the Independent Board Committee comprising two of the independent non-executive Directors, namely, Dr. Hung Ting On, John and Prof. Tsui Lap Chee, which has been established to make recommendations to the Independent Shareholders, for the purpose of advising the Patent Licence Agreement (and the transactions contemplated thereunder) and the grant of Consideration Shares under Specific Mandate.

As at the Latest Practicable Date, we did not have any interests or relationships with the Group and the Licensor that could be reasonably regarded as relevant to the independence of us, and hence are independent from the Company pursuant to Rule 13.84 of the Listing Rules. There was no engagement between the Group and us in the last two years and we are not aware of change in any circumstances that would affect our independence. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we have received or will receive any fees or benefits from the Company or any of its subsidiaries. Accordingly, we consider ourselves eligible to give independent advice in respect of the Discloseable and Connected Transaction in relation to the Patent Licence Agreement involving the Issue of Consideration Shares.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company and have assumed that any information and representations made to us are true, accurate and complete in all respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations, statements and opinions contained or referred to in the Circular are complete in all respects, fair and reasonable and have relied on them.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors nor do we have any reason to suspect any material facts or information have been omitted or withheld. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable inquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due enquiry and careful consideration, true and accurate and there are no

other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have researched and considered market data and trends which we regard as relevant to form a reasonable basis for our advice. We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or the Group. We have not carried out any independent verification of the information provided, opinion expressed or representations made by the Directors of the Company.

We have not made any independent evaluation or appraisal of the Licensed IP of the Group, and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report of the Licensed IP (the “**Valuation Report**”) as set out in Appendix I to the Circular. The Valuation Report was prepared by the Independent Valuer. Since we are not experts in the valuation of assets, we have relied upon the Valuation Report and conducted our due diligence for the consideration of the Licensed IP as at 31 May 2025.

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 in-depth investigation into the business and affairs of the Company and its respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the transaction. Our opinion is necessarily based on the financial, economic, market 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 any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders solely for their consideration of: (i) whether the transactions terms contemplated under the Patent Licence Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders; (ii) whether the consideration share issue price is fair and reasonable; and (iii) the entering into of the licence agreement are conducted in the ordinary and usual course of the business and are in the interests of the Company and the Shareholders as a whole. Save for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

I. Background information of the Group

The Company, founded in 1998, is a Hong Kong-based market leader in modernising and internationalising TCM. It specialises in research, development, production, and sales of CCMG products under its brand “Nong’s®”. The Group also operates one of the largest TCM clinic chain in Hong Kong. With innovative insights and advanced technologies, it develops over-the-counter healthcare products, including Oncozac® and Immuzac®.

Set out below a summary of the recent consolidated financial information of the Group for the three years ended 31 December 2024 as extracted from the annual report of the Company for the year ended 31 December 2022 (“FY2022”) (the “2022 Annual Report”) and annual report of the Company for the year ended 31 December 2023 (“FY2023”) (the “2023 Annual Report”) and annual report of the Company for the year ended 31 December 2024 (“FY2024”) (the “2024 Annual Report”):

	FY2022 HKD'000	FY2023 HKD'000	FY2024 HKD'000
Revenue	448,069	406,859	382,090
– China concentrated Chinese medicine granule	117,751	50,807	24,763
– Hong Kong concentrated Chinese medicine granule	192,094	208,428	207,591
– Chinese healthcare products	78,858	81,987	84,302
– Chinese medicine clinics	46,112	53,727	56,313
– Plantation	13,254	11,910	9,121
Gross profit	262,704	216,629	205,142
Finance costs	(24,183)	(27,407)	(23,714)
(Net loss)/net profit	(120,214)	(106,081)	(35,439)

	FY2022 <i>HKD'000</i>	FY2023 <i>HKD'000</i>	FY2024 <i>HKD'000</i>
Non-current assets	530,501	494,395	447,284
Current assets	485,996	349,568	268,441
Total assets	1,016,497	843,963	715,725
Current liabilities	665,406	571,089	491,067
Non-current liabilities	92,802	119,638	113,460
Total liabilities	758,208	690,727	604,527
Net asset	258,289	153,236	111,198
Restricted cash and pledged deposits	31,183	27,095	25,480
Cash and cash equivalents	75,831	20,126	12,794
Interest-bearing bank and other borrowings	458,820	385,116	339,710

As disclosed in the 2023 Annual Report and 2024 Annual Report, the Group achieved revenue of approximately HK\$406.9 million in FY2023, representing a decrease of approximately HK\$41.2 million or 9.2% compared with approximately HK\$448.1 million in FY2022, and achieved revenue of approximately HK\$382.1 million in FY2024, representing a decrease of approximately HK\$24.8 million or 6.1% compared with approximately HK\$406.9 million in FY2023, these decreases were mainly attributable to the decrease in revenue from China CCMG business as a result of the implementation of the new policy of national standards for CCMG and the decrease in FY2023 were also attributable to: (i) the hospitals and clinics delayed the purchase cycle and resumed in second quarter of 2023 and (ii) with the cost of CCMG produced under the prescribed national standards higher than before.

The Group recorded a net loss of approximately HK\$35.4 million in FY2024, representing a decrease of approximately HK\$70.7 million or 66.6% compared with a net loss of approximately HK\$106.1 million in FY2023. As disclosed in the 2024 Annual Report, such significant decrease in the audited consolidated net loss was mainly attributable to: (i) the reduction in the impairment loss on property, plant and equipment and goodwill related to the Group's plantation segment; (ii) the reduction in the fair value loss of the biological assets related to the Group's plantation segment since it had been fully impaired during the year ended 31 December 2023; and (iii) the significant reduction in administrative expenses and selling and distribution expenses as a result of the cost control activities for the Group's operation. The Group recorded a net loss of approximately HK\$106.1 million in FY2023, representing a decrease of approximately HK\$14.1 million or 11.8% compared with a net loss of approximately HK\$120.2 million in FY2022. As disclosed in the 2023 Annual Report, such net loss is mainly attributed to: (i) the implementation of the new policy of national standards for CCMG, which has led to a slowdown in the CCMG business in China and a decrease in revenue; and (ii) the impairment loss on biological assets related to the Group's plantation segment recognised for the year ended 31 December 2023 in the amount of approximately HK\$16.8 million, as compared with the fair value loss on biological assets of approximately HK\$36.7 million last year.

As disclosed in the 2023 Annual Report and 2024 Annual Report, the Group's cash and cash equivalents decreased from approximately HK\$75.8 million in FY2022 to approximately HK\$20.1 million in FY2023 with a decrease of approximately HK\$55.7 million or 73.5%. As advised by the Directors, this decrease was mainly attributable to the repayment of the interest-bearing bank and other borrowings. It was further decreased to approximately HK\$12.8 million in FY2024 with a decrease of approximately HK\$7.3 million or 36.4%, which was mainly attributed to a loss effect of foreign exchange rate changes. The Group's interest-bearing bank and other borrowings decreased from approximately HK\$458.8 million in FY2022 to approximately HK\$385.1 million in FY2023 with a decrease of approximately HK\$73.7 million or 16.1%, and further decreased to approximately HK\$339.7 million in FY2024 with a decrease of approximately HK\$45.4 million or 11.8%. Such decrease was mainly attributable to the repayment of bank borrowings. The Group's net asset decreased from approximately HK\$258.3 million in FY2022 to approximately HK\$153.2 million in FY2023 with a decrease of approximately HK\$105.1 million or 40.7%, and further decreased to approximately HK\$111.2 million in FY2024 with a decrease of approximately HK\$42.0 million or 27.4%, which was mainly due to the net loss in FY2023 and FY2024. The Group was in a net debt position of approximately HK\$301.4 million (calculated by interest-bearing bank and other borrowings minus restricted cash and pledged deposits and cash and cash equivalents) as at 31 December 2024.

II. The Patent Licence Agreement

A. Reasons for and benefits of the Patent Licence Agreement

The Patents were jointly developed between the Licensor and The University of Hong Kong and co-owned by Versitech and the Licensor. Versitech is the commercialisation arm of The University of Hong Kong and its entire issued shares capital is owned by such university. Under the Patent Co-ownership Agreement, the Licensor shall have the exclusive right to grant licenses with respect to the Patents.

The BN101E Project, applying the Patents, focuses on developing an anti-inflammatory botanical drug for treating Rheumatoid Arthritis, leveraging compounds derived from *Cimicifuga sp.* historically used for inflammation and arthritis. Pre-clinical studies, including collagen antibody-induced arthritis mouse models, have demonstrated its ability to reduce inflammation, disease severity, and inflammatory cell infiltration in joints. The BN101E Project has achieved significant milestones, including securing patents for its extraction protocol, obtaining approval for Phase II clinical trials in Canada, and submitting a Pre-Investigational new drug application to the FDA. It is positioned as a disease-modifying anti-rheumatic drug alternative to methotrexate with potentially fewer immunosuppressive side effects. Such achievements in Rheumatoid Arthritis drug development paves that way for the BN101E Project to extend its research on drugs for other autoimmune diseases.

The medication developed by using the Patents, is not limited to use in traditional Chinese medicine and may also be applicable in conventional western medical practice.

Obtaining the licence in respect of the Licensed IP (including the intellectual property rights in the BN101E Project) will represent an important strategic business expansion for the Group to support its long-term vision of modernising traditional medicine through scientific validation and technological advancement. The Group expects that such move will drive sustainable revenue growth, establish a foothold in the high-value Western pharmaceutical market, broaden market reach, and deliver enhanced value to shareholders through increased competitiveness and global expansion. When developed, the licensed products will be indigenously developed local branded drugs and will foster Hong Kong as a leading hub in branded drug and Chinese medicine development. The Patent Licence Agreement also enhances the Group's research and development capabilities and leverage on the screening technologies and botanical drug expertise of the BN101E Project.

Taking into account the above factors, the executive Directors consider, the transaction in respect of the Licensed IP (including the intellectual property rights in the BN101E Project) will enhance the Group's research and development capabilities and leverage on the screening technologies and botanical drug expertise of the BN101E Project, and the payment of the licence fee for the Licensed IP by way of issue of the Consideration Shares to the Licensor will not create any cashflow burden to the Group. Therefore, this transaction is in line with the Company's development strategy and is conducted in the ordinary and usual course of business of the Group.

B. Principal terms of the Patent Licence Agreement

The principal terms of the Patent Licence Agreement are set forth below:

(i) Scope of the Patent Licence Agreement

The Patent Licence Agreement was entered into on 25 July 2025 between the Company and the BAGI Research Limited (as licensor). The Licensor shall grant an exclusive non-transferable licence of the Licensed IP to the Company for further research, design, develop, manufacture, or have manufactured, use and sell or otherwise supply the products manufactured by the Company using the Licensed IP on a worldwide basis.

The Company shall have the right to sub-license the Licensed IP to one or more of the Company's subsidiaries for the purpose as set out in the Patent Licence Agreement, and on terms and conditions to be agreed by the Company and its relevant Subsidiary(ies).

But the Company shall have no right to further grant sub-licenses to any parties (apart from the Company's Subsidiaries) of any of the rights granted to the Company under the Patent Licence Agreement, to use or apply the Licensed IP together with any persons (apart from the Company's Subsidiaries) whatsoever in any circumstances, unless with the prior written consent of the Licensor.

(ii) Terms

The terms of the Patent Licence Agreement shall commence on the date of the Licence Agreement Completion and shall remain in effect until the expiration or abandonment of all of the Patents, unless earlier terminated in accordance with the provisions of the Patent Licence Agreement.

(iii) Background information of the Patent – BN101E

The BN101E Project, applying the Patents, focuses on developing an anti-inflammatory botanical drug for treating Rheumatoid Arthritis, leveraging compounds derived from *Cimicifuga sp.* historically used for inflammation and arthritis. The BN101E Project has achieved significant milestones, including securing patents for its extraction protocol, obtaining approval for Phase II clinical trials in Canada, and submitting a Pre-Investigational new drug application to the FDA.

(iv) Consideration and payment terms

The total consideration for the BN101E Project is a one-off non-refundable licence fee of HKD40.2 million, which shall be fully settled by the Company by the allotment and issue, credited as fully paid, of 93,488,372 Consideration Shares to the Licensor under the Consideration Shares Specific Mandate at the Issue Price of HK\$0.43 per Consideration Share at the Licence Agreement Completion. For the details of the issue price, please refer to the below “Issue price” section.

As advised by the Directors that: (i) the Patent Licence Agreement is entered into upon normal commercial terms following arm’s length negotiations between the Company and the Licensor; (ii) the terms of the Patent Licence Agreement (including the one-off non-refundable licence fee) are fair and reasonable; (iii) the Group preserves its cash resources and avoids any immediate cashflow burden, allowing it to allocate capital toward research, development, and expansion activities; (iv) aligns the interests of the Licensor with those of the Company and its shareholders, fostering a stronger strategic partnership and encouraging long-term collaboration in the development and commercialisation of the BN101E Project and other future innovations; and (v) the equity-based transaction enhances market confidence by demonstrating the Group’s commitment to value creation without incurring debt or reducing operational liquidity. As part of our due diligence, we have reviewed the 2024 Annual Report, and note that: (i) the Group had HK\$12.8 million of cash and cash equivalents as at 31 December 2024; (ii) the Group’s gearing ratio was 3.3 as at 30 June 2025; (iii) the Group had HK\$339.7 million of interest-bearing bank and other borrowings as at 31 December 2024; and (iv) the Group recorded HK\$23.7 million of finance costs in FY2024. Therefore, the Group would not consider using cash as a settlement as it would be prudent to reserve its cash for operational use and not resort to additional bank borrowings for the transaction as it might create additional financial burden for the Company given the current cash balance and gearing ratio and might adversely impact the Company’s financial position. In view of the above, we consider that the consideration paid by the issuance of the consideration shares can preserve cash for future development without further deteriorating the financial position of the Company. Therefore, we are of the view that the payment terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(v) Conditions precedent

The Licence Agreement Completion shall be subject to the fulfilment or, where applicable, waiver of the following conditions:

- (i) the transactions under the Patent Licence Agreement, including but not limited to, the allotment and issue of the Consideration Shares having been approved by the Independent Shareholders at the EGM to be held in accordance with the requirements of the Listing Rules;
- (ii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares, which may only be subject to conditions as are customarily stipulated by the Stock Exchange for listing of shares, and such approval not having been revoked;
- (iii) all conditions precedent for the Subscription Completion having been satisfied or waived (where applicable);
- (iv) each of the representations, warranties and/or undertakings contained in or referred to or as set out in the Patent Licence Agreement remaining to be true, accurate and not misleading in all respects; and
- (v) all necessary consents from any relevant governmental or regulatory authorities or other relevant third parties in connection with the entering into and performance of the terms of the Patent Licence Agreement and the transactions contemplated thereunder having been obtained.

In the event that the above conditions precedent have not been fulfilled (or otherwise waived) on or before the Long Stop Date for the Licence Agreement, (i) the Patent Licence Agreement shall lapse and become null and void; and (ii) neither the Company nor the Licensor shall have any obligations save for liabilities for any antecedent breaches in connection with the Patent Licence Agreement.

None of the above conditions precedent are capable of being waived by the Company or the Licensor. As at the Latest Practicable Date, none of the above conditions precedent have been fulfilled.

(vi) Licence Agreement Completion

Subject to the above-mentioned conditions precedent having been satisfied, the Licence Agreement Completion will take place on a Business Day on or before the Long Stop Date for the Licence Agreement as agreed by the Licensor and the Company, and such completion date shall also be the date of the Subscription Completion.

III. The Consideration

To assess the fairness and reasonableness of the consideration, we obtained the Valuation Report prepared by the Independent Valuer and noted that the valuation of the Licensed IP is HKD40.2 million as at 31 May 2025. Details of the Valuation Report are set out in Appendix I to the Circular.

We reviewed the Valuation Report and performed due diligence enquired with the Independent Valuer, including but not limited to, (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuation Report. From the mandate letter and other relevant information provided by the Independent Valuer and based on our discussion with them, we were satisfied with the terms of engagement of the Independent Valuer as well as their qualification for preparation of the Valuation Report. The Independent Valuer also confirmed that they are independent to the Group and the BAGI Research Limited.

Upon our enquiry, the Independent Valuer advised us that, after having assessed the appropriateness of possible methodologies for different valuation approaches and circumstances and facts specific to Licensed IP, the Independent Valuer considered that the cost approach is the most appropriate valuation methodologies and combine with below with reference.

With reference to the Valuation Report:

- There are generally three accepted approaches, namely market approach, income approach and cost approach;
- The market approach requires market transactions of comparable assets as an indication of value. However, there is no active and open trading market for the target asset, in particular, drug development is highly sophisticated and involves multidimensional factors to evaluate their similarities, such as stage of development, molecular structure, physiochemical property, pharmacological mechanism of action, clinical attributes and so on, it is difficult to find exactly comparable transactions for similar assets at this early stage;
- The income approach requires subjective assumptions to which the valuation is highly sensitive. Since the drug to be developed through the subject asset is still in early stage of development, the time for commercialization and income generation is highly uncertain, it is difficult to make reliable financial projections;
- The cost approach directly reflects the costs required to rebuild the asset to its current condition. Therefore, cost approach has been adopted in the Valuation.

As disclosed in the Letter from the Board, the Directors have carefully considered the Independent Valuer's explanations of the three commonly accepted valuation methodologies for assessing the value of the Licensed IP, the market approach, income approach and cost approach. The Independent Valuer has highlighted the practical challenges in applying the market and income approaches, particularly due to the absence of directly comparable market transactions, the uncertainties surrounding key assumptions and the fact that the Licensed IP remains in its early development stage.

In light of these constraints, the Directors have thoroughly evaluated the Independent Valuer's adoption of the cost approach as the primary valuation methodology and concur with the rationale supporting this selection. The Directors agree that, in the absence of direct market comparables and given the speculative nature of future income projections, the cost approach offers a more objective, transparent, and defensible framework for this valuation. This approach estimates the replacement cost of an asset with similar functionality and service potential, based on actual and anticipated expenditures, including collaboration fees, outsourced development, labour, rental, overheads, and a reasonable return on those costs.

The Directors consider the cost approach to be appropriate and commercially sound in this context, as it avoids the uncertainties inherent in forecasting future cash flows and mitigates the risk of over-valuation or under-valuation due to market volatility or lack of direct comparable precedents. The Directors have reviewed the assumptions, cost components, and valuation parameters in detail and is satisfied that they are reasonable and well-supported. Accordingly, the Directors endorse the use of the cost approach in the Valuation Report.

Based on the above, and as advised by the Directors that due to a lack of recent similar transactions in the early-stage market and the unavailability to make reliable and accurate forecast of income, there was insufficient market and income information available for valuation purpose. Having considered that (i) there are no similar transactions in this early-stage market based on our desktop search and discussion with the Independent Valuer; and (ii) the income approach requires to adopt more subjective assumptions for compiling its long-term financial projection and the valuation result would be greatly sensitive to any changes in assumptions, the market approach and the income approach were not feasible. As such, we consider the cost approach avoids the uncertainties inherent in forecasting future cash flows and mitigates the risk of over-valuation or under-valuation due to market volatility or lack of direct comparable precedents, therefore it is the most appropriate approach to value the Licensed IP. In addition, as other valuation approaches are not appropriate for valuing the Licensed IP, we did not cross-check the valuation with other approaches.

We further reviewed and enquired into the Independent Valuer on the methodologies adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. We also discussed the key assumptions and parameters under the Valuation Report, including: (a) the cost component including collaboration cost, outsourcing cost, labour cost, rental cost and other overheads; and (b) the required return rate. Please refer to the below table with reference to the Valuation Report.

Type of Cost	Amount in HKD'000
Collaboration Cost	13,150
Outsourcing Cost	4,410
Labour Cost	12,710
Rental Cost	2,020
Other Overheads	2,380
Subtotal	34,670
Required Return Rate	16%
Required Return	5,547
Fair Value of the Licensed IP	40,200 (rounded)

We have reviewed the Valuation Report and discussed with the Independent Valuer in respect of the key assumptions and parameters adopted for performing the Valuation. We understand from the Independent Valuer that the assumptions and parameters are commonly adopted in other valuations under cost approach. Specifically, the calculation of cost components based on the actual costs pertinent to the development of the Licensed IP, which can be substantiated through original agreements, contracts and relevant documentation, thereby providing a more practical and reliable estimation of costs compared to using opportunity cost or market quote, which involve more assumptions and estimations. We also consider the assumptions and parameters adopted in the Valuation Report are general in nature and are not aware of any material facts which lead us to doubt the assumptions and parameters adopted by the Independent Valuer. In view of the above, we consider that the assumptions and parameters adopted by the Independent Valuer are fair and reasonable.

As advised by the Independent Valuer, they obtained and reviewed documents including the agreements, contracts, payslips and invoices, which can cover more than 80% of the total costs, of which covered the core and important cost components of the Valuation. As part of our due diligence, we obtained and reviewed the schedule of the cost incurred and we randomly selected the samples across each type of cost as stated above, including the collaboration agreements with HKU, service agreements, contracts, lease agreement, employee payslips, etc., and we noted there are no material differences comparing with the schedule. Therefore, we consider that the documents and information relied on by the Independent Valuer are accurate and complete.

The Independent Valuer applied the required return rate for the purpose of arriving at the valuation. The required return rate refers to operating profit to total cost ratio calculated based on the 2024 historical operating margin of the 20 comparable companies (“**Comparable Companies**”) selected by the Independent Valuer, the operating margin of the Comparable Companies ranging from 1% to 25% and have a median of approximately 14%. As advised by the Independent Valuer, the Comparable Companies are selected with reference to various criteria, including: (i) publicly listed; (ii) operating in the life sciences tools and services industry; (iii) recording positive operating profit in FY2024; and (iv) primarily operating as a contract research organization with relevant segments accounting for more than approximately 50% of their total revenues in FY2024. For details of the Comparable Companies please refer to the Valuation Report (Appendix I) to the Circular.

We reviewed and discussed with the Independent Valuer on the selection basis. We understand that the publicly listed companies’ financial data can be obtained from the public channel, and as advised by the Independent Valuer that the second and the fourth criteria above would help to identify companies with operation in the similar industry of the Group. Also, in order to reduce the impact of the short-term changes in the performance of the Comparable Companies on the valuation results, the Independent Valuer has also selected Comparable Companies which recorded net profit in FY2024 only as they are more relevant to current economic and market factors and competitive dynamics. In addition, as advised by the Independent Valuer, these above screening were performed through Capital IQ, which is a commonly used and reliable third-party database service provider. In view of the above, we consider that the selection basis adopted by the Independent Valuer is fair and reasonable.

We have further reviewed the business of the Comparable Companies in their annual reports and Capital IQ, and we consider the business of the Comparable Companies are similar to the Company and are suitable to be a relevant benchmark. Having consider that (i) the selection basis is fair and reasonable; and (ii) the business of the Comparable Companies is similar to the Company, we concur with the Independent Valuer on the selection basis without performing an independent selection.

We further cross checked the Comparable Companies based on above selection basis and extracted public information including financial information disclosed on Capital IQ or the relevant stock exchanges to compare the operating profit to total cost ratio for the Comparable Companies identified by the Independent Valuer, and noted that the operating margins adopted by the Independent Valuer in the Valuation Report are consistent with those disclosed publicly.

During our discussion with the Independent Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report. Having considered the above, we concur with the Independent Valuer that the methodology, assumptions and parameters adopted in the Valuation Report for deriving the fair value and the licence fee for the Licensed IP are fair and reasonable.

IV. Issue Price

The Issue Price of HK\$0.43 per Consideration Share, which represents:

- (i) a discount of approximately 5.5% to the closing price of HK\$0.455 per Share as quoted on the Last Trading Day;
- (ii) a discount of approximately 5.5% to the average closing price of HK\$0.455 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 7.9% to the average closing price of HK\$0.467 per Share as quoted on the Stock Exchange for the last 20 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 53% to the audited consolidated net asset value of approximately HK\$0.281 per Share as at 31 December 2024, calculated based on the audited consolidated net asset value of the Group attributable to owners of the Company of HK\$111,198,000 as at 31 December 2024 divided by the total number of the Shares in issue as at the Latest Practicable Date;
- (v) a premium of approximately 67.3% to the unaudited consolidated net asset value of approximately HK\$0.257 per Share as at 30 June 2025, calculated based on the unaudited consolidated net asset value of the Group attributable to owners of the Company of HK\$101,656,000 as at 30 June 2025 divided by the total number of the Shares in issue as at the Latest Practicable Date; and
- (vi) a discount of approximately 4.4% to the closing price of HK\$0.45 per Share as quoted on the Latest Practicable Date.

In order to assess the fairness and reasonableness of the Issue Price, we performed the following assessments.

A. *Share price performance*

In order to assess the fairness and reasonableness of the Issue Price, we reviewed the daily closing prices of the Shares as quoted on the Stock Exchange from 25 July 2024 up to and including the Agreement Date (the “**Review Period**”), being a period of approximately one year up to and including the Agreement Date. The daily closing prices of the Shares during the Review Period are illustrated as follows:

Historical daily closing price per Share



Source: The Stock Exchange's website

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.445 recorded on 22 July 2025 and HK\$0.790 recorded on 7 October 2024, and there were no abnormal price fluctuations during the Review Period. The issue price represents a discount of approximately 10.5% to the average closing price of HK\$0.48 per Share as quoted on the Stock Exchange for the last 3 months up to the date of agreement which fairly represents the recent market price of the stock, and it is within the range of the Latest Discount/Premium Market Range and the 5-Days Discount/Premium Market Range of below “B. Comparable Transactions”.

B. Comparable transactions

As part of our analysis, we further identified transactions involving the transaction for acquisition purposes by way of issue of consideration shares (the “**Comparable Transactions**”) which were announced by companies listed on the Stock Exchange during the period from 1 April 2025 up to the Agreement Date (being the latest quarter up to the Agreement Date with an approximate 4 months period up to and including the Agreement Date), which include sufficient amount of recent companies for the analysis and exclude longer timeframes where market conditions may have differed. To the best of our knowledge and as far as we are aware of, we found 14 transactions which met the said criteria and they are exhaustive as far as we are aware of.

Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparable Transactions and we have not conducted any independent verification with regard to the businesses and operations of such companies.

Company name (stock code)	Date of announcement	Involving connected transaction	Consideration shares under general or specific mandate	Premium/ (discount) of the issue price over/to the closing price per share on the date of agreement (%)	Premium/ (discount) of the issue price over/to the closing price per share for the five trading days prior to date of agreement (%)	Size of Consideration shares to the issued share capital (after enlarged by the Consideration shares)	Dilution to the existing shareholders
USPACE Technology Group Limited (1725.HK)	21 July 2025	Yes	Specific	(19.23%)	(20.25%)	4.90%	3.94%
Virtual Mind Holding Company Limited (1520.HK)	14 July 2025	Yes	Specific	(33.33%) ²	(39.02%) ²	4.51%	3.80%
Fengyinhe Holdings Limited(8030.HK)	9 July 2025	No	General	(19.0%)	(15.80%)	2.90%	NA ¹
GOGOX Holdings Limited (2246.HK)	12 June 2025	No	General	(0.62%)	(1.40%)	4.70%	2.93%
OSL Group Limited (863.HK)	2 June 2025	No	General	3.59%	0.00%	1.46%	1.02%
Hope Life International Holdings Limited (1683.HK)	29 May 2025	No	General	(4.48%)	(5.60%)	9.85%	9.85%
China Rare Earth Holdings Limited (769.HK)	28 May 2025	No	General	(2.60%)	(4.10%)	14.30%	9.90%
Planetree International Development Limited (613.HK)	8 May 2025	No	General	(20.00%)	12.00%	1.56%	0.52%
Adicon Holdings Limited (9860.HK)	6 May 2025	No	General	(12.15%)	(6.67%)	3.85%	1.50%
Kingkey Financial International (Holdings) Limited (1468.HK)	28 April 2025	No	Specific	(16.57%)	(18.89%)	28.89%	28.89% ²
Noiz Group Limited (8163.HK)	28 April 2025	No	General	12.36% ²	24.69%	12.96%	9.22%
China NT Pharma Group (1011.HK)	28 April 2025	No	Specific	(22.41%)	28.21% ²	28.95% ²	5.25%
Envision Greenwise Holdings Limited (1783.HK)	10 April 2025	No	General	11.80%	8.90%	0.33% ²	0.16% ²
Maximum				11.80%	24.69%	28.89%	9.90%
Minimum				(22.41%)	(20.25%)	1.46%	0.52%
Average				(9.24%)	(2.47%)	8.17%	4.79%
Median				(12.15%)	(4.10%)	4.70%	3.87%
The Transaction			Specific	(6.52%)	(5.29%)	17.45%	8.15%

Source: The Stock Exchange’s website

- Note: 1. The shareholding structure is not disclosed in the Announcement.
2. The highest and lowest were considered to be outliers and were not taken into account in the calculation of maximum, minimum and average.

We noted from the above table that (i) the issue prices of the Comparable Transactions ranged from a discount of approximately 22.41% to a premium of approximately 11.80% with an average discount of approximately 9.24% to the respective closing prices of the shares on the date of agreement (the “**Latest Discount/Premium Market Range**”); and (ii) the issue prices of the Comparable Transactions ranged from a discount of approximately 20.25% to a premium of approximately 24.69% with average discount of approximately 2.47% to the respective closing prices of the shares for the five trading days prior to date of agreement (the “**5-Days Discount/Premium Market Range**”).

As illustrated in the table above, we noted that:

- (i) The discount on the date of agreement of approximately 6.52% is within the Latest Discount/Premium Market Range, the 5-days discount of approximately 5.29% is also within the 5-Days Discount/Premium Market Range;
- (ii) The discount on the date of agreement and 5-days discount are close to the average of the Comparable Transactions; and
- (iii) The discount on the date of agreement is slightly lower than the median of the Comparable Transactions and 5-days discount is close to the median of the Comparable Transactions.

Although the discount/premium of the Comparable Transactions shows a relatively wide range, we believe it still reflects the market practice for the subscription exercise. In particular, the median of the Comparable Transactions is likely to demonstrate the most prevailing price, as it is unaffected by extreme values and serves as a reliable measure of central tendency. Based on the foregoing analysis, we consider the Issue Price of HK\$0.43 to be fair and reasonable.

We noted from the above table that the size of consideration shares to the issued share capital (after enlarged by the consideration shares) (the “**Size of Consideration Shares**”) of the Comparable Transactions ranged from 1.46% to 28.89%. The size of consideration shares of this transaction is approximately 17.45%, which is within the range of the size of consideration shares of the Comparable Transactions.

The consideration shall be paid by the issuance of the consideration shares and hence the Group can preserve its cash resources and avoids any immediate cashflow burden, allowing it to allocate capital toward research, development, and expansion activities. Taking into account the principal terms as set out above, we consider that the terms of the Patent Licence Agreement are fair and reasonable.


The Directors believe that the dilution impact is justifiable and in the overall interests of the Shareholders. In particular, the issue of the Consideration Shares enables the Group to avoid further debt financing, which would otherwise increase the Group's gearing ratio and potentially constrain its financial flexibility and liquidity. Such constraints could adversely affect the Group's operations, profitability, and long-term growth prospects. Furthermore, the Directors consider that the Patent Licence Agreement and the transactions contemplated thereunder represent a strategic investment that is expected to enhance the Group's technological capabilities and competitive position, thereby contributing to future revenue growth and profitability. The anticipated increase in profit attributable to the Group is expected to benefit all Shareholders over the long term. Accordingly, the Directors are of the view that the short-term dilution and downward pressure on the Share price are outweighed by the long-term value creation and strategic benefits to the Group and its Shareholders as a whole.

Upon the issue of the Consideration Shares and assuming no other change in the issued share capital of the Company, the shareholding interests of the existing public shareholders would be diluted by approximately 8.15% from approximately 42.68% to 34.53%, while this dilution is closer to the high-end of the range of the dilution to the existing public shareholders of the Comparable Transactions with the range from 0.52% to 9.90%. It is still within reasonable bound and the transaction is expected to broaden the Group's product offering and contributing to future growth and profitability, we consider that the dilution effect will be outweighed by the Company long-term development. Based on the above and in view of (i) the reasons for and benefits of the Patent Licence Agreement, including broadening the product offering of the Group and enhancing the Group's technological capabilities and competitive position; (ii) the terms of the Patent Licence Agreement being fair and reasonable; (iii) the Group's current net debt position; and (iv) the anticipated increase in profit attributable to the Group by the Licenced IP, we are of the view that the aforementioned level of dilution to the existing public shareholders is acceptable.

RECOMMENDATION

Having considered the above principal factors, we are of the view that: (i) the transactions terms contemplated under the Patent Licence Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders; (ii) the consideration share issue price is fair and reasonable; and (iii) the entering into of the licence agreement are conducted in the ordinary and usual course of the business and 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 resolutions to approve the Discloseable and Connected Transaction in relation to the Patent Licence Agreement involving the Issue of Consideration Shares under Specific Mandate at the EGM, as detailed in the notice of the EGM set out at the Circular.

Yours faithfully,
For and on behalf of
Sunny Fortune Capital Limited



Wong Shin Yee, Freda
Managing Partner

Ms. Wong Shin Yee, Freda is a licensed person under the SFO to engage in, among others, Type 6 (advising on corporate finance) regulated activity and has over 20 years of experience in investment banking and corporate finance.