
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTIONS

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Trading in the shares of the Company will continue to be suspended pending fulfilment of the Resumption Conditions. The Company will continue to take steps to address the concerns of the SFC and the Stock Exchange and will keep its shareholders and potential investors posted of any material development in this regard as and when appropriate. The publication of this circular is not an indication that (a) the Trading Resumption has been or will be approved, or (b) approval for the listing of the Scheme Shares or the Conversions Shares will be granted, or (c) the conditions precedent to the Restructuring Agreement have been or will be fulfilled, or (d) completion of the Loan Conversions will take place. **For avoidance of doubt, this is without prejudice to the Stock Exchange exercising its right under Rule 6.01A when it considers appropriate.** Shareholders and potential investors of the Company should exercise caution when dealing in the Shares and are recommended to consult their professional advisers if they are in doubt about their position and as to the actions that they should take.

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in SoftMedx Healthcare Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company nor is it a solicitation of any vote or approval in any jurisdiction.



SoftMedx Healthcare Limited

京玖醫療健康有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

- (1) LOAN CONVERSIONS INTO NEW SHARES UNDER SPECIFIC MANDATE;**
- (2) APPLICATION OF WHITEWASH WAIVER;**
- (3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company



中毅資本有限公司
Grand Moore Capital Limited

**Independent Financial Adviser to the
Independent Board Committee**



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 4 to 15 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 16 of this circular. A letter from the IFA containing its recommendation to the Independent Board Committee is set out on pages 17 to 36 of this circular. A notice convening the EGM to be held at 2:00 p.m. on Wednesday, 27 December 2023 at Unit B, 20/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong and a proxy form are enclosed with this circular. This circular and the proxy form are also published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.648.com.hk.

Whether or not you are able to attend the EGM, you may complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit at the office of the Company's share registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy or delivery of an instrument appointing a proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof and, in such event, the form of proxy or the instrument appointing a proxy shall be deemed being revoked.

30 November 2023

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WARNING STATEMENT

- (a) The Stock Exchange may cancel the Company's listing under Rule 6.01A(2)(b)(i) of the Listing Rules if the Company fails to resume trading in its shares on or before 31 January 2020;

- (b) Given that the Company failed to fulfil all the resumption guidance and resume trading before the resumption deadline of 31 January 2020, the Stock Exchange is entitled to delist the Company under Rule 6.01A(2)(b)(i); and

- (c) The Stock Exchange has withheld exercising its right to delist the Company under Rule 6.01A(2)(b)(i) pending further developments. For avoidance of doubt, this is without prejudice to the Stock Exchange exercising its right under Rule 6.01A when it considers appropriate. If the Stock Exchange is not satisfied that the Company has taken and is taking all reasonable steps to procure trading resumption, the Stock Exchange is likely to proceed to delist the Company without further delay.

DEFINITIONS

In this circular, the following expressions have the following meanings:

“acting in concert”	has the same meaning ascribed to it under the Takeovers Code
“associates”	has the meaning ascribed to it under the Takeovers Code or the Listing Rules (as the case may be)
“Board”	the board of Directors
“Company”	SoftMedx Healthcare Limited, a company incorporated in Hong Kong with limited liability whose issued shares are listed on the Main Board of the Stock Exchange (stock code: 648)
“connected persons”	has the same meaning ascribed to it under the Listing Rules
“Conversion Price”	HK\$0.01 per Conversion Share
“Conversion Shares”	the First Conversion Shares and the Second Conversion Shares
“Creditors”	the creditors of the Company
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and approve the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Conversion Shares”	the 800,000,000 new Shares to be allotted and issued by the Company upon the First Loan Conversion
“First Loan”	the provision of a loan of up to HK\$8 million by the Investor under an agreement between the Company and the Investor dated 22 July 2022 at an interest rate of 5% per annum
“First Loan Conversion”	the conversion of the First Loan into the First Conversion Shares by the Investor pursuant to the Restructuring Agreement
“Group”	the Company and its subsidiaries
“Hong Kong Court”	The High Court of Hong Kong
“IFA”	Somerley Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined in the SFO, being the independent financial adviser appointed with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver
“Implicated Persons”	all of the former board of directors and management of the vendor and its holding company of the New Ray Acquisition as at the date of the New Ray Acquisition Announcement

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board established in compliance with Rule 2.8 of the Takeovers Code and comprising all the independent non-executive Directors, namely Ms. Hu Xuezheng, Mr. Lin Pinzhuo and Mr. Yiu Chun Wing, who have no direct or indirect interest in the Restructuring Agreement (including the Loan Conversions), the Specific Mandate or the Whitewash Waiver
“Independent Shareholders”	Shareholders other than (i) the Investor, Mr. Huang and parties acting in concert with any of them; (ii) those who are involved or interested in the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver; and (iii) those who are required to abstain from voting at the EGM under the Listing Rules and/or the Takeovers Code
“Investor”	Multi Omniverse Group Limited, a company incorporated in the Republic of Seychelles with limited liability and wholly and beneficially owned by Mr. Huang
“Last Trading Day”	24 November 2017, being the last trading day immediately before the Trading Suspension
“Latest Practicable Date”	27 November 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Conversions”	the First Loan Conversion and the Second Loan Conversion
“M&A”	the Memorandum and Article of Associations of the Company
“Mr. Huang”	Mr. Huang Jie, the sole beneficial owner of the Investor
“New Ray Acquisition”	the Group’s acquisition of 9.9% issued shares of New Ray Medicine International Holding Limited (a company listed on the Main Board of the Stock Exchange (stock code: 6108)) as announced in the New Ray Acquisition Announcement
“New Ray Acquisition Announcement”	the announcement of the Company dated 23 June 2016 and relating to the New Ray Acquisition
“PRC”	The People’s Republic of China
“Relevant Period”	the period commencing from 3 May 2023, being six months prior to 3 November 2023 (the date of the Company’s announcement relating to the Restructuring Agreement, (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver) and up to and including the Latest Practicable Date
“Restructuring Agreement”	the conditional agreement dated 3 November 2023 and entered into between the Company and the Investor in connection with the Loan Conversions
“Resumption Conditions”	the conditions imposed by the Stock Exchange for Trading Resumption

DEFINITIONS

“Scheme”	the scheme of arrangement of the Company to be made between the Company and the Creditors pursuant to Sections 670 and 673 of the Companies Ordinance (Cap 622 of the laws of Hong Kong)
“Scheme Settlement Consideration”	the cash payable to the Creditors pursuant to the Scheme
“Scheme Shares”	the new Shares to be allotted and issued to the Creditors after the Scheme becomes effective and the Trading Resumption takes place
“Second Conversion Shares”	the 1,000,000,000 new Shares to be issued and allotted by the Company upon the Second Loan Conversion
“Second Loan”	the provision of a loan facility of up to HK\$10 million by the Investor pursuant to an agreement between the Company and the Investor dated 3 October 2022 at an interest rate of 5% per annum
“Second Loan Conversion”	the conversion of the Second Loan into the Second Conversion Shares by the Investor pursuant to the Restructuring Agreement
“SFC”	The Securities and Futures Commission
“SFO”	The Securities and Future Ordinance (Cap 571 of the laws of Hong Kong)
“Shares”	the ordinary shares of the Company
“Shareholders”	holders of the Shares
“Specific Mandate”	the specific mandate proposed to be considered, approved and granted by the Independent Shareholders at the EGM to authorise the Board to allot and issue and/or deal in the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC as amended from time to time
“Trading Resumption”	the resumption of trading in the Shares
“Trading Suspension”	the suspension of trading in the Shares since 27 November 2017
“Whitewash Waiver”	the whitewash waiver pursuant to Note 1 on dispensation from Rule 26 of the Takeovers Code in respect of any obligation of the Investor to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned, controlled or agreed to be acquired by the Investor, Mr. Huang and parties acting in concert with any of them which might otherwise arise as a result of the Loan Conversions

LETTER FROM THE BOARD



SoftMedx Healthcare Limited

京玖醫療健康有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

Executive Directors:

Mr. Cheung Wai Kwan
Mr. Wang Jianguo

Registered Office:

Level 38, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

Independent Non-executive Directors:

Ms. Hu Xuezhen
Mr. Lin Pinzhuo
Mr. Yiu Chun Wing

30 November 2023

To the Shareholders

Dear Sir or Madam,

**(1) LOAN CONVERSIONS INTO NEW SHARES UNDER SPECIFIC MANDATE;
(2) APPLICATION OF WHITEWASH WAIVER;
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

On 3 November 2023 (after trading hours), the Company and the Investor entered into the Restructuring Agreement, pursuant to which the Company has conditionally agreed to allot and issue the Conversion Shares to the Investor. The purpose of this circular is to provide you with details regarding (i) the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders and the letter of advice from the IFA to the Independent Board Committee; (iii) a notice convening the EGM; and (iv) other information as required under the Listing Rules and the Takeovers Code.

BACKGROUND AND REASONS FOR AND BENEFITS OF THE RESTRUCTURING AGREEMENT

The background information of the circumstances leading to and the reasons for and benefits of the entering into of the Restructuring Agreement are detailed below:

Trading Suspension

On 27 November 2017, the Company announced that the SFC had issued a direction under section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V) on 24 November 2017 to suspend trading in the Shares with effect from 27 November 2017 because it had appeared to the SFC that the New Ray Acquisition Announcement contained materially false, incomplete or misleading information. Trading in the Shares has remained suspended pending fulfilment of the following Resumption Conditions imposed by the Stock Exchange, which are subject to modification and/or further guidance given by the Stock Exchange:

LETTER FROM THE BOARD

- (i) obtaining the SFC's approval to the Trading Resumption;
- (ii) publication of all outstanding financial results ("Outstanding Financial Statements") in accordance with the Listing Rules and address any audit modification;
- (iii) demonstrating that the Company has sufficient level of operations and assets of sufficient value in compliance with the requirements of the Listing Rules;
- (iv) re-compliance with the requirements of the Listing Rules to have a minimum of three independent non-executive Directors and three members in its audit committee; and
- (v) announcement of all material information for the Company's shareholders and other investors to appraise the Company's position.

Since Trading Suspension, the Company has been taking active steps to address the concerns of the SFC and the Stock Exchange with a view to achieving Trading Resumption.

Overview of the Group's Businesses

The Group has been engaged in (i) the distribution of medical equipment and products in Hong Kong involving dental equipment and products ("Healthcare Business"); (ii) the provision of obstetric and gynecological services and in-vitro fertilization treatment in Hong Kong ("O&G Business"); (iii) the operation of eyecare and optical retail shops in Hong Kong ("Eyecare Business"); and (iv) the operation of sports and healthcare clubhouses in the PRC ("Health Management Business").

The Company acquired the O&G Business in 2016 from a licensed person-in-charge, who is a renowned doctor in the reproductive medicine and obstetrics and gynecology in Hong Kong. However, the doctor abruptly departed following the Trading Suspension. Given the limited number of persons-in-charge of in-vitro fertilisation treatment services licensed by the Hong Kong Council on Human Reproductive Technology (which maintains a list of only about 30 licenced professionals in Hong Kong), the Company failed to recruit a replacement doctor with necessary qualifications and as a result, the Company had no alternative but closing down the O&G Business in early 2020.

In addition, the Eyecare Business had been loss-making in the past years and its number of shops had been decreased substantially from 11 shops in 2018 to 5 shops in 2020. Due to the difficult business environment of retail businesses (including the Eyecare Business) in Hong Kong since 2019 as a result of the social unrest and the outbreak of the COVID-19 pandemic, the business was in substantial net liabilities in late 2020 and had become no longer viable without injection of funding. However, the Trading Suspension had handicapped the Company's capability to obtain financing from the market and the other shareholders were unwilling to contribute funding to support the business. As such, the board of directors of the subsidiary of the Company engaged in the Eyecare Business filed a winding up petition in March 2021. The Hong Kong Court ordered the winding up of the subsidiary in July 2021.

Following the Group's acquisition of the controlling interest of the Health Management Business from the founder and the business became a non-wholly owned subsidiary of the Company, the Company has engaged a management partner to manage the business. After the subsequent departure of the management partner, the Company had delegated the daily management of the business to the local management team while the business was overseen by the two directors appointed by the Company to the business who had been provided with monthly management accounts of the business. However, due to the non-cooperation of the other directors (who are the founder of the business and the management initially appointed by the Company and the founder) and the management of the Health Management Business in October 2022 upon the request of the Company for field audit arrangements, the Company and its auditors have been unable to access the books and records of the business. In such circumstances, the Company's auditors advised the Company that as the required audit procedures could not be carried out for the business, the auditors would not be in a position to issue the Outstanding Financial Statements (from 1 January 2017 to 31 December 2022) comprising the Health

LETTER FROM THE BOARD

Management Business within the prescribed timeline given by the Company. The Company was particularly concerned because, as disclosed in the Company's previous announcements, the Stock Exchange's withholding to exercise its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules is pending further development of the Company's submission to the SFC and the Stock Exchange may exercise its right under Rule 6.01A of the Listing Rules at a later stage when it considers appropriate. If the Resumption Conditions are not fulfilled in a timely manner and the Stock Exchange exercises its right to delist the Company, it would be detrimental to the Company and its shareholders and creditors. On the other hand, given the prolonged loss making and net liabilities position of the Health Management Business, the deconsolidation of the business would have no adverse material impact on the consolidated financial statements of the Group as a whole. Based on the above, the Board is of the view that the deconsolidation would facilitate the Company's fulfillment of one of the major Resumption Conditions in a timely manner and mitigate the risk of the Company being delisted and is therefore in the interest of the Company and its shareholders and creditors as a whole. As such, the Company announced in January 2023 that the Board had resolved in October 2022 to deconsolidate the results, assets and liabilities and cashflow of the Health Management Business from the consolidated financial statements of the Group since 1 January 2017.

As a result of the above, the Healthcare Business is the only remaining operating business of the Group. Although this business segment has unavoidably been affected by the very limited resources of the Group resulted from the prolonged Trading Suspension and its heavy indebtedness as well as the disruptive impact of the COVID-19 pandemic on the business activities worldwide including Hong Kong, the business has been progressing well. The Group commenced the business in 2021 through distribution of equipment and products from authorised agents of the vendors. Subsequently, through referrals and negotiation, the Healthcare Business has become (i) the sole distributor of Belmont, one of the top brands in the industry, in June 2022 for Hong Kong till December 2025; and (ii) the authorized distributor of DÜRR Dental, a renowned medical equipment and product vendor, in August 2022 for Hong Kong till end of 2024. In addition, while adopting the newly established policies in ensuring disciplined execution of prudent financial, liquidity and cashflow management, the Company will continue to seek new business opportunities with a view to achieving earning growth and enhancing the long term value of all of its stakeholders.

Indebtedness of the Company

As at 31 December 2022, the Company (excluding its subsidiaries) had total assets of only HK\$0.7 million and its total liabilities amounted to HK\$346.2 million which have become due and payable. Prior to the Trading Suspension, the Company had been able to leverage on its listing platform to conduct equity or debt fund-raising exercises from the market to finance the operation of its businesses and repay/refinance its debts when they became due and payable. However, the Company's ability to conduct fund raising from the market to replenish the working capital necessary for its continuous operation had gone since the Trading Suspension. Accordingly, the Company is unable to satisfy all of its debts when due.

On 18 April 2023, a Creditor filed a winding up petition against the Company for the alleged failure of the Company to settle a judgment debt of HK\$16,175,304 obtained by the Creditor in February 2023, together with the unpaid interest and cost thereon. The winding up petition hearing has been adjourned to 29 November 2023. The Company has also filed an appeal to the Hong Kong Court against the said judgment. The hearing of the appeal was held in October 2023 and the judgment was reserved. As at the Latest Practicable Date, the Hong Kong Court is yet to hand down its decision. Nevertheless, the Board is of the view that since (i) the relevant debt represents less than 5% of the total liabilities of the Company; (ii) the Company has commenced making arrangements with the Hong Kong Court for the Scheme to proceed and the winding up petition will be dismissed when the Scheme takes effect; and (iii) the debts underlying the winding up petition will form part of the liabilities under the Scheme and shall be discharged when the Scheme Settlement Consideration is paid, the final outcome of the appeal will have no material adverse impact on the Company.

LETTER FROM THE BOARD

Scheme

The Company, in view of its deteriorating financial situation since Trading Suspension and the above-mentioned winding up petition against the Company, has been contemplating solutions to settle its indebtedness. After due and careful consideration, the Board has resolved that it would be in the best interest of the Company, the Creditors and the Shareholders (particularly the public Shareholders) to conduct a debt restructuring by way of the Scheme in order to restore the Company's financial and business positions to normality. The Scheme is not subject to Trading Resumption because the Scheme Settlement Consideration shall be settled by cash to be drawn down from the Second Loan (the drawdown of which is not subject to Trading Resumption) and the Scheme Shares shall be issued and allotted to the Creditors as additional recovery to the Creditors only if Trading Resumption takes place. Based on the Resumption Conditions, the Company does not expect Trading Resumption to be subject to completion of the Scheme. All claims of the Creditors against the Company of approximately HK\$349 million as at the Latest Practicable Date will be fully and finally discharged upon payment of the Scheme Settlement Consideration which will range between HK\$8.6 million and HK\$10 million, depending on the settlement options elected by the Creditors. No Creditor who will receive the Scheme Settlement Consideration is also a Shareholder. If Trading Resumption takes place, 16,301,841 Scheme Shares will be issued and allotted to the Creditors, which will be 5% of the existing share capital of the Company and 0.8% of the share capital of the Company as enlarged by the issue of the Scheme Shares and the Conversion Shares, under the general mandate of the Company sought at a shareholders' meeting of the Company. The Scheme Shares will be issued and allotted among the Creditors based on their respective admitted claims on pro-rata basis. As at the Latest Practicable Date, the general mandate has not been obtained by the Board and the Board intends to convene an annual general meeting to seek the general mandate of 20% of the then issued Shares in the soonest practicable manner. Based on the 326,036,828 Shares in issue as at the Latest Practicable Date and assuming no change in the number of Shares till the forthcoming annual general meeting of the Company in which the general mandate will be sought, and if the general mandate is obtained, there will be 65,207,365 Shares, being 20% of the existing issued Shares, available under the general mandate which is sufficient for the issue and allotment of the Scheme Shares. Based on the issue price of the Scheme Shares of HK\$0.01 (being the same as the Conversion Price), the aggregate value of the Scheme Shares shall be approximately HK\$160,000.

First Loan

On 28 September 2020, the Company entered into an initial loan agreement with Mr. Huang, pursuant to which Mr. Huang agreed to provide a financing facility of up to HK\$5 million to finance the operating costs of the Company. On 22 July 2022, the Company entered into an agreement with the Investor, pursuant to which the Investor agreed to provide the First Loan of up to HK\$8 million (including the initial loan facility of HK\$5 million under the initial loan agreement) to finance the operating costs of the Company and those costs relating to the Trading Resumption.

Restructuring Agreement

On 3 October 2022, the Company and the Investor entered into a loan agreement under which the Investor conditionally agreed to provide the Second Loan of up to HK\$10 million for payment of the Scheme Settlement Consideration. Pursuant to the Restructuring Agreement, the Company has conditionally agreed to allot and issue to the Investor the First Conversion Shares and the Second Conversion Shares for settlement of the First Loan and the Second Loan respectively, the principal terms of which are set out below.

First Loan Conversion

The First Loan has been fully drawn down as at the Latest Practicable Date. If Trading Resumption is approved by the SFC and the Stock Exchange (whether conditionally or unconditionally), the Investor shall convert the entire principal amount of the First Loan into the First Conversion Shares at the Conversion Price. Upon completion of the First Loan Conversion, all outstanding liabilities of the Company under the First Loan (including the accrued interest) shall be deemed fully paid, settled and waived.

LETTER FROM THE BOARD

Second Loan Conversion

The Second Loan is yet to be drawn down as at the Latest Practicable Date and its drawdown is subject to the Scheme becoming effective and shall be applied to the Scheme Settlement Consideration. If there is any remaining proceed, the Company intends to apply it to the daily operations of the Group. If Trading Resumption is approved by the SFC and the Stock Exchange (whether conditionally or unconditionally), the Investor shall convert the entire principal amount of the Second Loan into the Second Conversion Shares at the Conversion Price. Upon completion of the Second Loan Conversion, all outstanding liabilities of the Company under the Second Loan (including the accrued interest) shall be deemed fully paid, settled and waived.

The Conversion Shares will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issuance of the Conversion Shares. An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares. The Loan Conversions are subject to, among others, fulfilment of the Resumption Conditions and the Scheme becoming effective. The legal advisers to the Company has commenced making arrangements with the Hong Kong Court for the Scheme to proceed and the Company will make further announcements to keep the Shareholders and public investors updated as and when appropriate in a timely manner. Following fulfilment of all Resumption Conditions, the Conversion Shares shall be allotted and issued to the Investor under the Specific Mandate to be sought from the Independent Shareholders at the EGM. As at the Latest Practicable Date, the Company had 326,036,828 Shares in issue. The 800,000,000 First Conversion Shares and the 1,000,000,000 Second Conversion Shares in aggregate represent (i) 552.1% of the total number of Shares in issue as at the Latest Practicable Date; and (ii) 84.7% of the total number of Shares in issue as enlarged by the allotment and issue of the Conversion Shares.

Conversion Price

The Conversion Price of HK\$0.01 per Conversion Share represents:

- (a) a discount of 97.4% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day and the Latest Practicable Date;
- (b) a discount of approximately 97.4% to the average closing price of HK\$0.38 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (c) a discount of approximately 97.6% to the average closing price of HK\$0.41 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- (d) a theoretical dilution effect (as defined under the Listing Rules) of 82.7% based on the theoretical diluted price of HK\$0.0692 to the benchmarked price (as defined under the Listing Rules) of HK\$0.40 per Share based on the closing price of HK\$0.38 on the Last Trading Day and the average closing price of HK\$0.40 for the five consecutive trading days prior to the Last Trading Day; and
- (e) a premium of HK\$1.0754 to the Company's unaudited net liabilities per Share of HK\$1.0654 as at 30 June 2023 based on the 326,036,828 Shares in issue as at 30 June 2023.

In view of the Conversion Price being at a deep discount to the price of the Shares on the Last Trading Day, the Company had been in active negotiation with the Investor for a conversion price that is more favourable or at more favourable terms to the Company. After negotiations, the Investor agreed to waive the interests accrued under the First Loan and the Second Loan if the Loan Conversions take place and the Conversion Price was finally determined after arm's length negotiation between the Company and the Investor with reference to (i) the substantial dilution impact of the Conversion Shares on the existing Shareholders; (ii) the lack of recent price of the Shares for comparison purpose (Trading Suspension for 6 years); (iii) its deep discount to the price of the Shares on the Last Trading Day; (iv) the substantial net liabilities of the Group and the uncertainty of whether Trading Resumption will take place and the Scheme will eventually become effective; (v) the imminent funding needs of the Company for payment of the costs relating to Trading Resumption to rescue itself from being delisted and for payment of the Scheme Settlement Consideration to rescue itself from being wound up; (vi) the risk born by the Investor in providing the First Loan (which has been fully advanced to the Company) and the Second Loan (which might have been advanced to the Company after the Scheme becomes effective but Trading Resumption might not take place) while the Trading Resumption is uncertain;

LETTER FROM THE BOARD

(vii) the significant premium of the Conversion Price to the net liabilities per Share as at 30 June 2023; and (viii) the unfavourable global and local market sentiments. Taking into account the above factors as a whole, the Board (including members of the Independent Board Committee after taking the advice of the IFA) is of the view that the Conversion Price is fair and reasonable and in the best interest of the Company and the Shareholders as a whole. The net price per Conversion Share is estimated to be HK\$0.009 after deduction of costs relating to the Loan Conversions.

Conditions precedent

The Loan Conversions are conditional upon satisfaction or the waiver (as the case may be) of the following conditions precedent:

- (a) the passing of the resolutions by the Independent Shareholders by way of poll at the EGM for approving the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver;
- (b) the Executive having granted the Whitewash Waiver to the Investor;
- (c) the Scheme having become effective;
- (d) fulfilment of the Resumption Conditions;
- (e) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;
- (f) the representations and warranties given by the Company and the Investor under the Restructuring Agreement remaining true, accurate, complete and not misleading in all material respects from the date of the Restructuring Agreement to the date of completion of the Restructuring Agreement; and
- (g) the Investor being reasonably satisfied with the due diligence review on the business and financial conditions of the Company.

Conditions (a) (other than the Whitewash Waiver), (c), (d) and (e) are not waivable by the Company and the Investor. The Company may waive conditions (a) in respect of the Whitewash Waiver, (b) and (f) and the Investor may waive conditions (a) in respect of the Whitewash Waiver, (b), (f) and (g). In the event any of the conditions not being fulfilled or waived (as the case may be) in full by 30 June 2024 (or such other date as may be agreed between the Company and the Investor), the Loan Conversions shall cease and terminate. As at the Latest Practicable Date, none of the above conditions has been fulfilled or waived.

Completion

Completion of the two Loan Conversions will take place simultaneously on the fifth business day after the satisfaction or the waiver (as the case may be) of all the above conditions precedent (or such other date as the Company and the Investor may agree). If both conditions (a) (in respect of the Whitewash Waiver) and (b) are waived at the same time by the Company and the Investor and completion of the Loan Conversions takes place, the Investor, Mr. Huang and parties acting in concert with any of them will comply with Rule 26.1 of the Takeovers Code and make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares agreed to be acquired by the Investor, Mr. Huang and parties acting in concert with any of them).

Trading Resumption

To facilitate the Trading Resumption, each of the Company and the Investor undertakes and agrees to use its best endeavours to procure fulfillment of the Resumption Conditions as soon as reasonably practicable in accordance with the terms of the Restructuring Agreement.

LETTER FROM THE BOARD

The Board's view

Looking ahead, the challenges arising from the Sino-United States trade conflict, the geographical tensions, the wars in Ukraine and the Middle East, the drastic and disruptive changes in the business environment and disruption of supply chains in the midst of the COVID-19 pandemic as well as the worldwide interest and inflation hikes will continue to take a hit on the global economy and may inevitably affect the Group's business operations. Admittedly, this is a very difficult period for all. But the Group has a long operating history in the medical and healthcare business including the leasing and operating of medical equipment and provision of consultancy services on operation of medical equipment between 2008 and 2014. Mr. Wang Jianguo, who has been an executive Director since 2011 and was the chairman of the Board in 2011 and 2012, was a senior management of the Group in charge of the leasing and operating of medical equipment business between 2008 and 2014. From 2003 to 2007, Mr. Wang was the general manager in charge of a distribution business of dental equipment and dental accessories products where he was responsible for the overall strategic planning and daily management of the business, particularly in building and managing the sales force. Mr. Cheung Wai Kwan has also been an executive Director since 2014. Therefore, both Mr. Wang and Mr. Cheung have substantial experience and expertise in managing medical and healthcare businesses including the Healthcare Business since 2021. In addition, Mr. Chan Ka Chung, a former executive Director and the chairman of the Board, is the general manager of the Healthcare Business. The Company will continue to make efforts to tackle these challenges with the support of its stakeholders.

The Company has been in need of external financing in order to rescue itself from being delisted or wound up since Trading Suspension and had approached about 10 financial institutions and potential investors for fund-raising; however, due to the ever deteriorating business and financial performance of the Group since Trading Suspension and the nature of the Trading Suspension, none of these fund-raising attempts met success save as the Investor. The First Loan and the Second Loan represented a crucial and timely opportunity to rescue the Company and enable it to continue as a going concern. In addition, the intention of the Investor to become the controlling Shareholder under the Loan Conversions would present a very positive assurance to the market and the customers, suppliers and business partners of the Group, which is conducive to its continuing operation and stability. The Company has also explored other fund-raising means including rights issue and open offer in 2020. However, due to the prolonged Trading Suspension and the uncertainty as to whether Trading Resumption would ever take place, there was a high uncertainty as to whether an active market existed for trading of the nil-paid rights shares or offer shares. As such, these fund-raising means are not feasible for the time being under the Trading Suspension while there existed an imminent need of the Company for funding to pay for the costs relating to Trading Resumption to rescue itself from being delisted and the Scheme Settlement Consideration to rescue itself from being wound up. In view of the above, the Board considered raising funds by way of the First Loan and the Second Loan and subsequently the Loan Conversions are the most cost-effective and efficient and the only available fundraising method to rescue the Company.

As a result of settlement of the debts under the Scheme at a discount, the Group's net liabilities position is expected to significantly reduce and, based on the claim of the Creditors of approximately HK\$349 million as at the Latest Practicable Date, a substantial gain of derecognition of liabilities under the Scheme will be recognised. However, based on the Group's unaudited consolidated net liabilities of HK\$347.4 million as at 30 June 2023, even assuming the Scheme had become effective and the issue of the Scheme Shares had taken place on 30 June 2023 and the Group's net deficit attributable to owners of the Company would have been improved from HK\$1.0436 per Share as at 30 June 2023 to the range between around HK\$0.029 and HK\$0.033 per Share based on the range of the Scheme Settlement Consideration of HK\$8.6 million to HK\$10 million, the Group would remain at net deficit. However, if the Scheme had become effective and the issue of the Scheme Shares and the Conversion Shares had taken place on 30 June 2023, the Group would achieve net asset position of around HK\$9 million to HK\$10 million, representing net asset attributable to the owners of the Company of HK\$0.004 to HK\$0.005 per Share based on the aforesaid range of Scheme Settlement Consideration. Such significant improvement in the net asset position of the Group, on a proforma basis, is beneficial to the Company and the Shareholders as a whole. Given that after completion of the Scheme (i.e. full settlement of the debts of the Creditors) and the Loan Conversions (i.e. full settlement of the First Loan and the Second Loan), the Company's financial position will be restored to normality and the Company will be in a net asset position, the Loan Conversions are in the interest of the Company and its stakeholders (including the public Shareholders and the Creditors) as a whole. Accordingly, the Board (including the members of the Independent Board Committee after taking the advice of the IFA) considers that the terms of the Restructuring Agreement (including the Conversion Price) are fair and reasonable and on normal commercial terms, and the entering into of the Restructuring Agreement is in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had 326,036,828 Shares in issue and had no other share, option, warrant, derivative or other relevant securities (as defined under the Takeovers Code) that carry a right to subscribe for or which are convertible into the Shares. Set out below are the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) upon issue of the Scheme Shares; and (iii) upon completion of the Loan Conversions:

	As at the Latest Practicable Date		Upon issue of Scheme Shares		Upon completion of Loan Conversions	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
The Investor	—	—	—	—	1,800,000,000	84.0%
Mr. Huang and parties acting in concert with any of the Investor and Mr. Huang	—	—	—	—	—	—
Subtotal	—	—	—	—	1,800,000,000	84.0
Public Shareholders						
Creditors	—	—	16,301,842	4.8	16,301,842	0.8
Other public Shareholders	326,036,828	100.0	326,036,828	95.2	326,036,828	15.2
Subtotal	326,036,828	100.0	342,338,670	100.0	342,338,670	16.0
Total	326,036,828	100.0	342,338,670	100.0	2,142,338,670	100.0

Note: There is no Creditor who is a party acting in concert with any of the Investor or Mr. Huang.

PLACING DOWN BY THE INVESTOR TO MAINTAIN PUBLIC FLOAT

The Investor has undertaken with the Company that following completion of the Loan Conversions, it will to the extent required by the Listing Rules and within the time limits permitted by the Stock Exchange sell or otherwise dispose of such number of Shares as may be required to ensure that the minimum public float as required under the Listing Rules is maintained to permit the continued listing of all issued Shares on the Stock Exchange. The required number of Shares will be disposed of by the Investor to placees who will be professional, institutional or other private investors and are third parties independent of the Company and its connected persons (as defined in under the Listing Rules) and the Investor and its connected persons and not acting in concert with any of the Investor or Mr. Huang. As it is not expected that any individual placee will become a substantial Shareholder immediately after completion of the placing down, the number of Shares to be placed will form part of the public float of the Company. Save for the placing down, the Investor and Mr. Huang do not have any plan, agreement, arrangement, intention or understanding to transfer, charge, pledge or otherwise dispose of any Share to any other person.

INFORMATION ON THE INVESTOR

The Investor is a company incorporated in the Republic of Seychelles with limited liability, which is wholly and beneficially owned by Mr. Huang. The Investor is not a Shareholder and is a vehicle for investment holding purpose with no business operation. Both the Investor and Mr. Huang are not Creditors under the Scheme. To the best knowledge, information and belief of the Directors, the Investor and its beneficial owner are parties independent and not connected persons of the Company.

The Company has become acquainted with Mr. Huang through referral. Mr. Huang has over 30 years of experience in manufacturing, sales and marketing and brand management. He has held managerial positions in a number of entities in the manufacturing industry prior to founding his own business. Mr. Huang is currently the founder and the managing director of a garment manufacturing company in the PRC. Mr. Huang considered that provision of the First Loan and the Second Loan to the Company is a good opportunity to acquire a controlling stake in the Company with a listing platform engaged in healthcare business at a reasonable price.

LETTER FROM THE BOARD

Therefore, he has been providing financial support to the Company (i.e. the First Loan) since 2020 for Trading Resumption and implementation of the Scheme to turn around its financial conditions for the survival and maintenance of the listing status of the Company when the Company had become insolvent and was in a dire financial position. Without the investment from the Investor, the Company could have been delisted and the Scheme could not be possible to proceed. In addition, in September 2021 (as supplemented by supplemental agreements), the Investor has provided a business loan facility of HK\$12 million at an interest rate of 5% per annum to the Healthcare Business. This loan facility, which is made to the Healthcare Business and is not part of the Scheme and does not carry conversion rights into the Shares, will mature on the earlier of 180th day after Trading Resumption or 31 December 2024. The Company intends to settle the loan facility by way of equity fund raising after Trading Resumption. Nevertheless, the Company believes that after the Investor becomes the controlling Shareholder upon completion of the Loan Conversions, its interest will align with those of the public Shareholders and the Company in respect of the settlement of the loan facility.

FUTURE INTENTION OF THE INVESTOR REGARDING THE GROUP

Upon completion of the Loan Conversions, the Investor will become a controlling Shareholder. The Investor confirms that (i) it has no intention to introduce any major change to the existing businesses of the Group (including the Healthcare Business) or redeploy the fixed assets of the Group other than in its ordinary course of business nor inject any asset or business into the Group; and (ii) it intends the Group to continue with its existing businesses following completion of the Restructuring Agreement. The Company will continue to seek new business opportunities to improve its profitability and business prospects, consolidate or streamline its existing business, enhance its future business development and strengthen its revenue base, and may diversify into other businesses should suitable opportunities arise.

As at the Latest Practicable Date, the Group has 19 employees and the Investor has no intention to discontinue the employment of any of the Group's employees. Following completion of the Restructuring Agreement, the Investor may propose to nominate new Directors to strengthen the management of the Group. However, the Investor has not made a decision as to the potential candidates.

EQUITY FUND RAISING ACTIVITIES OF IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months before the Latest Practicable Date.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, neither the Investor and Mr. Huang nor any party acting in concert with any of them hold or are interested in any shares or securities of the Company. Immediately upon completion of the Loan Conversions, the Investor, Mr. Huang and parties acting in concert with any of them will hold 1,800,000,000 Shares, representing 84.7% of the total number of Shares in issue as enlarged by the allotment and issue of the Conversion Shares. Under Rule 26.1 of the Takeovers Code, the Investor would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Investor and parties acting in concert with any of the Investor or Mr. Huang unless the Whitewash Waiver is granted by the Executive. An application has been made by the Investor to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Conversion Shares.

The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, the approval of at least 75% votes by the Independent Shareholders present and voting (either in person or by proxy) in respect of the Whitewash Waiver and more than 50% votes of the Independent Shareholders present and voting (either in person or by proxy) in respect of the Loan Conversions (including the Specific Mandate) at the EGM by way of poll.

LETTER FROM THE BOARD

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

If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Investor will consider whether to proceed with the Loan Conversions and, if the Investor waives the conditions in relation to granting of the Whitewash Waiver by the Executive and approval of the Whitewash Waiver by the Independent Shareholders and proceeds with the Loan Conversions, the Investor, Mr. Huang and parties acting in concert with any of them will comply with Rule 26.1 of the Takeovers Code and make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares agreed to be acquired by the Investor, Mr. Huang and parties acting in concert with any of them).

Save for entering into of the Restructuring Agreement, none of the Investor, Mr. Huang or parties acting in concert with any of them has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible into any Share during the Relevant Period.

As at the Latest Practicable Date, the Company does not believe that the Loan Conversions will give rise to any concern in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver, or if granted, may be invalidated if the Loan Conversions do not comply with other applicable rules and regulations.

Establishment of Independent Board Committee

The Independent Board Committee, comprising all the independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code, has been formed to advise the Independent Shareholders as to whether the terms of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver are fair and reasonable and on how to vote at the EGM. None of the members of the Independent Board Committee has any interest or involvement in the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver.

Appointment of IFA

Somerley Capital Limited has been appointed as the IFA with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver.

IMPLICATIONS UNDER THE LISTING RULES

The Conversion Price represented a theoretical dilution effect (as defined under the Listing Rules) of 82.7%. Pursuant to Rule 7.27B of the Listing Rules, the Company should not undertake a share subscription that would result in a theoretical dilution effect of 25% or more within a 12-month period. However, given (i) the substantial net liabilities and minimal net assets of the Company as at 31 December 2022 and (ii) certain Creditors having become impatient in light of the prolonged Trading Suspension and the ever deteriorating financial performance of the Company since Trading Suspension unless they could expect payment of the Scheme Settlement Consideration in a timely manner, there exists an imminent funding need to pay for the costs relating to Trading Resumption to rescue itself from being delisted and the Scheme Settlement Consideration to rescue itself from being wound up. Accordingly, the Loan Conversions form part of a critical rescue proposal for the Company and the Company is of the view that there are exceptional circumstances for the Loan Conversions to proceed for purpose of Rule 7.27B of the Listing Rules.

LETTER FROM THE BOARD

RESERVATION OF RIGHT TO WAIVE THE WHITEWASH WAIVER CONDITION

Under the Restructuring Agreement, the Investor has reserved its right to waive the conditions in relation to granting of the Whitewash Waiver by the Executive and approval of the Whitewash Waiver by the Independent Shareholders. Accordingly, the offer period has commenced as at the date of the Restructuring Agreement on 3 November 2023. The results of the EGM will be announced in accordance with the relevant requirements under the Listing Rules and the Takeovers Code following conclusion of the EGM. If the Independent Shareholders do not approve the grant of the Whitewash Waiver at the EGM, the Investor will consider whether to proceed with the Loan Conversions and make a general offer, which will be solely in cash, for all the outstanding issued shares of the Company in accordance with Rule 26.1 of the Takeovers Code. The Investor will disclose its intention in the results announcement of the EGM. If the Investor announces its intention to complete the Loan Conversions and make an offer for all the outstanding Shares in issue in the results announcement of the EGM, the offer period will continue until such offer completes or lapses.

DEALING DISCLOSURE

For the purposes of the Takeovers Code, the offer period of the Investor has commenced as at 3 November 2023. In accordance with Rule 3.8 of the Takeovers Code, the respective associates (as defined in the Takeovers Code) of the Company and the Investor (including persons owning or controlling 5% or more of any class of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or the Investor) are hereby reminded to disclose their dealings in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company pursuant to Rule 22 of the Takeovers Code.

For this purpose, the full text of Note 11 to Rule 22 of the Takeovers Code is reproduced below:

“Responsibilities of stockbrokers, banks and intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates of the Investor or the Company and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant requirements under the Takeovers Code. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

EGM

The EGM will be held at Unit B, 20/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong at 2:00 p.m., Wednesday, 27 December 2023 for the Shareholders to consider and, if thought fit, pass the resolutions for approving the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver. A notice convening the EGM is set forth on pages 49 to 50 of this circular. The resolutions set out in the Notice of EGM shall be taken by poll and an announcement on the results of EGM will be made by the Company after the EGM.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed with this circular. Shareholders may complete and deposit the form at the office of the Company's share registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding of the EGM or any adjournment thereof. Return of the form of proxy or delivery of an instrument appointing a proxy will not preclude that Shareholder from attending and voting in person at the EGM and, in such event, the form of proxy or the instrument appointing the proxy shall be deemed being revoked.

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, neither the Investor, Mr. Huang nor the parties acting in concert with any of them hold any Share and no Shareholder is involved in or interested in the Loan Conversions, the Specific Mandate and/or the Whitewash Waiver. There is no Creditor who will receive the Scheme Settlement Consideration is also a Shareholder. Therefore, no Shareholder is required to abstain from voting at the EGM in respect of the resolutions approving the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver. However, as disclosed in its quarterly resumption update announcements from time to time, the Company has been taking steps to address the concerns of the SFC and the Stock Exchange with a view to causing Trading Resumption in a timely manner. In this regard, the Board has been making efforts to ensure that the Board and the voting Shares in its general meetings are in compliance with the Listing Rules and the SFO and are independent of and/or are not related to or under the influence of the Implicated Persons, who were the then management of the vendor of the New Ray Acquisition, which, as disclosed above, has led to the Trading Suspension. As such, if it is to the reasonable belief of the chairperson of the EGM that there is any vote which is not independent of and/or is related to or under the influence of the Implicated Persons, such vote will not be counted towards the votes at the EGM pursuant to the M&A, which provides that the decision of the chairperson of a general meeting of the Company on the qualification of the voters (and thus their votes) shall be final and conclusive.

For determining the entitlement of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 20 to Wednesday, 27 December 2023 (both dates inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the office of the Company's share registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 19 December 2023.

RECOMMENDATION

Shareholders are advised to read the letter from the Independent Board Committee and the letter from the IFA for advice as to how to vote on the resolutions to be proposed at the EGM. The Independent Board Committee, after taking the advice of the IFA, considers that the terms of the Restructuring Agreement (including the Loan Conversion), the Specific Mandate and the Whitewash Waiver are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends all Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

Yours faithfully
For and on behalf of the Board
SoftMedx Healthcare Limited
Cheung Wai Kwan
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders for the purpose of inclusion in this circular.



SoftMedx Healthcare Limited

京玖醫療健康有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

30 November 2023

To the Independent Shareholders

Dear Sir or Madam,

**(1) LOAN CONVERSIONS INTO NEW SHARES
UNDER SPECIFIC MANDATE;
(2) APPLICATION OF WHITEWASH WAIVER**

We refer to the circular issued by the Company dated 30 November 2023 (the “Circular”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires. We are appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver are fair and reasonable and on how to vote at the EGM. Somerley Capital Limited is appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver. The text of the letter of advice from the IFA containing their recommendation and the principal factors they have taken into account in arriving at their recommendation is set out on pages 17 to 36 of the Circular.

Having considered the terms of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver and the advice given by the IFA and the principal factors and reasons taken into consideration by it in arriving at its advice, we are of the opinion that the terms of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions relating to the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Ms. Hu Xuezen

Mr. Lin Pinzhuo

Mr. Yiu Chun Wing

LETTER FROM THE IFA

The following is the text of a letter of advice from Somerley Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee in respect of the Transactions.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

30 November 2023

To: *The Independent Board Committee*

Dear Sirs,

(1) LOAN CONVERSION INTO NEW SHARES UNDER SPECIFIC MANDATE AND (2) APPLICATION OF WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Restructuring Agreement including the Loan Conversions, the Specific Mandate and the Whitewash Waiver (together, the “**Transactions**”). Details of the aforesaid Transactions are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its Shareholders dated 30 November 2023, of which this letter form part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 3 November 2023 (after trading hours), the Company and the Investor entered into the Restructuring Agreement, pursuant to which the Company has conditionally agreed to allot and issue to the Investor the First Conversion Shares under the First Loan Conversion and the Second Conversion Shares under the Second Loan Conversion. Subject to fulfilment of all Resumption Conditions, the Conversion Shares shall be allotted and issued to the Investor under the Specific Mandate to be sought from the Independent Shareholders at the EGM.

As at the Latest Practicable Date, neither the Investor and Mr. Huang nor any party acting in concert with them hold or are interested in any shares or securities of the Company. Immediately upon completion of the Loan Conversions, the Investor, Mr. Huang and parties acting in concert with them will hold 1,800,000,000 Shares, representing 84.7% of the total number of Shares in issue as enlarged by the allotment and issue of the Conversion Shares.

Under Rule 26.1 of the Takeovers Code, the Investor is obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with any of the Investor or Mr. Huang unless the Whitewash Waiver is granted by the Executive. An application has been made by the Investor to the Executive for the Whitewash Waiver in respect of the allotment and issuance of the Conversion Shares. As stated in the letter from the Board in the Circular, the Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, the approval of at least 75% votes by the Independent Shareholders present and voting (either in person or proxy) in respect of the Whitewash Waiver and more than 50% votes of the Independent Shareholders present and voting (either in person or proxy) in respect of the Loan Conversions (including the Specific Mandate) at the EGM by way of poll. Under the Restructuring Agreement, the Investor has reserved its right to waive the conditions in relation to the granting of the Whitewash Waiver by the Executive and approval of the Whitewash Waiver by the Independent Shareholders. If the Independent Shareholders do not approve the grant of the Whitewash Waiver at the EGM, the Investor will consider whether to proceed with the Loan Conversions

LETTER FROM THE IFA

and make an unconditional mandatory cash offer to acquire all the outstanding issued shares of the Company (other than those Shares agreed to be acquired by the Investor, Mr. Huang and parties acting in concert with any of them) in accordance with Rule 26.1 of the Takeovers Code.

The Independent Board Committee, comprising all the independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code, has been formed to advise the Independent Shareholders as to whether the terms of the Restructuring Agreement including the Loan Conversions, the Specific Mandate and the Whitewash Waiver are fair and reasonable and on how to vote at the EGM. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in the same regard.

We are not associated or connected with the Company, the Investor, Mr. Huang, or any party acting, or presumed to be acting in concert with any of them. Save for this appointment, we did not act as an independent financial adviser to other transactions of the Company and its associates in the last two years. Accordingly, we are considered eligible to give independent advice on the Transactions. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Investor, Mr. Huang or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have reviewed information on the Company, including but not limited to, the Restructuring Agreement, the annual reports of the Company for years ended 31 December 2021 (“FY2021”) (the “2021 Annual Report”) and 2022 (“FY2022”) (the “2022 Annual Report”) and the Company’s interim reports for the six months ended 30 June 2022 (the “2022 Interim Report”) and 2023 (the “2023 Interim Report”) (together, the “Reports”) and other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the “Management”) and the respective professional advisers of the Company, which we have assumed to be true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete in all material aspects up to the date of the EGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group, the Investor, or Mr. Huang, nor have we carried out any independent verification of the information supplied. The Shareholders will be informed as soon as practicable when there are any material changes to the information contained or referred to herein and our opinion as soon as practicable.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

As at the Latest Practicable Date, the Group is principally engaged in the distribution of medical equipment and products in Hong Kong involving dental equipment and products the “**Healthcare Business**”). Trading in the Shares has been suspended since 27 November 2017 at the direction of the SFC on 24 November 2017 under section 8(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V) because it had appeared to the SFC that the New Ray Acquisition Announcement contained materially false, incomplete or misleading information.

LETTER FROM THE IFA

Trading in the Shares has remained suspended pending fulfilment of the following Resumption Conditions imposed by the Stock Exchange, which are subject to modification and/or further guidance given by the Stock Exchange:

- (i) obtaining the SFC's approval to the Trading Resumption;
- (ii) publication of all outstanding financial results ("**Outstanding Financial Statements**") in accordance with the Listing Rules and address any audit modification;
- (iii) demonstrating that the Company has sufficient level of operations and assets of sufficient value in compliance with the requirements of the Listing Rules;
- (iv) re-compliance with the requirements of the Listing Rules to have a minimum of three independent non-executive Directors and three members in its audit committee; and
- (v) announcement of all material information for the Company's shareholders and other investors to appraise the Company's position.

The Group has been engaged in (i) the Healthcare Business; (ii) the provision of obstetric and gynecological services and in-vitro fertilization treatment in Hong Kong (the "**O&G Business**"); (iii) the operation of eyecare and optical retail shops in Hong Kong (the "**Eyecare Business**"); and (iv) the operation of sports and healthcare clubhouses in the PRC (the "**Health Management Business**").

The Company acquired the O&G Business in 2016 from a licensed person-in-charge, who is a renowned doctor in the reproductive medicine and obstetrics and gynecology in Hong Kong. However, the doctor abruptly departed following the Trading Suspension. Given the limited number of persons-in-charge of in-vitro fertilisation treatment services licensed by the Hong Kong Council on Human Reproductive Technology (which maintains a list of only about 30 licenced professionals in Hong Kong), the Company failed to recruit a replacement doctor with necessary qualifications and as a result, the Company had no alternative but closing down the O&G Business in early 2020.

As disclosed in the announcement of the Company dated 21 April 2020, the Stock Exchange informed the Company that it will withhold exercising its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules pending further development of the Company's trading resumption. Despite the above, the Stock Exchange may exercise its right under Rule 6.01A of the Listing Rules at a later stage when it considers appropriate. If the Stock Exchange is not satisfied that the Company has taken and is taking all reasonable steps to procure a trading resumption, the Stock Exchange is likely to proceed to delist the Company without further delay.

As disclosed in the letter from the Board in the Circular, the Eyecare Business had been loss-making in the past years and its number of shops had been decreased substantially from 11 shops in 2018 to 5 shops in 2020. Due to the difficult business environment of retail businesses (including the Eyecare Business) in Hong Kong since 2019 as a result of the social unrest and the outbreak of the COVID-19 pandemic, the business was in substantial net liabilities in late 2020 and had become no longer viable without injection of funding. However, the Trading Suspension had handicapped the Company's capability to obtain financing from the market and the other shareholders were unwilling to contribute funding to support the business. As such, the board of directors of the subsidiary of the Company engaged in the Eyecare Business filed a winding up petition in March 2021. The Hong Kong Court ordered the winding up of the subsidiary in July 2021.

As also disclosed in the letter from the Board in the Circular, following the Group's acquisition of the controlling interest of the Health Management Business from the founder and the business became a non-wholly owned subsidiary of the Company, the Company has engaged a management partner to manage the business. After departure of the management partner, the Company had delegated the daily management of the business to the local management team while the business was overseen by the two

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directors appointed by the Company to the business who had been provided with monthly management accounts of the business. However, due to the non-cooperation of the other directors (who are the founder of the business and the management initially appointed by the Company and the founder) and the management of the Health Management Business in October 2022 upon the request of the Company for field audit arrangements, the Company and its auditors have been unable to access the books and records of the business. In such circumstances, the Company's auditors advised the Company that as the required audit procedures could not be carried out for the business, the auditors would not be in a position to issue the Outstanding Financial Statements (from 1 January 2017 to 31 December 2022) comprising the Health Management Business within the prescribed timeline given by the Company. The Company was particularly concerned because, as disclosed in the Company's previous announcements, the Stock Exchange's withholding to exercise its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules is pending on further development of the Company's submission to the SFC and the Stock Exchange may exercise its right under Rule 6.01A of the Listing Rules at a later stage when it considers appropriate. If the Resumption Conditions are not fulfilled in a timely manner and the Stock Exchange exercises its right to delist the Company, it would be detrimental to the Company and its shareholders and creditors. On the other hand, given the prolonged loss making and net liabilities position of the Health Management Business, the deconsolidation of the business would have no material adverse impact on the consolidated financial statements of the Group as a whole. Based on the above, the Company is of the view that the deconsolidation would facilitate the Company's fulfillment of one of the major Resumption Conditions in a timely manner and mitigate the risk of the Company being delisted and is therefore in the interest of the Company and its shareholders and creditors as a whole. As such, the Company announced in January 2023 and the Board that resolved in October 2022 to deconsolidate the results, assets and liabilities and cashflow of the Health Management Business from the consolidated financial statements of the Group since 1 January 2017.

It was further disclosed in the letter from the Board in the Circular that, as a result of the above, the Healthcare Business is the only remaining operating business of the Group. Although this business segment has unavoidably been affected by the very limited resources of the Group resulted from the prolonged Trading Suspension and its heavy indebtedness as well as the disruptive impact of the COVID-19 pandemic on the business activities worldwide including Hong Kong, the business has been progressing well. The Group commenced the business in 2021 through distribution of equipment and products from the authorised agents of the vendors. Subsequently, through referrals and negotiation, the Healthcare Business has become (i) the sole distributor of Belmont, one of the top brands in the industry, in June 2022 for Hong Kong until December 2025; and (ii) the authorised distributor of DÜRR Dental, a renowned medical equipment and product vendor, in August 2022 for Hong Kong until the end of 2024. In addition, while the adopting newly established policies in ensuring disciplined execution of prudent financial, liquidity and cashflow management, the Company will continue to seek new business opportunities with a view to achieving earning growth and enhancing the long term value of all of its stakeholders.

On 18 April 2023, a Creditor filed a winding up petition against the Company for the alleged failure of the Company to settle a judgment debt of HK\$16,175,304 obtained by the Creditor in February 2023, together with the unpaid interest and cost thereon (the "**Winding Up Petition**"). The winding up petition hearing has been adjourned to 29 November 2023. The Company has also filed an appeal to the Hong Kong Court against the said judgment. The hearing of the appeal was held in October 2023 and the judgment was reserved. As at the Latest Practicable Date, the Hong Kong Court is yet to hand down its decision. Nevertheless, the Board is of the view that since (i) the relevant debt represents less than 5% of the total liabilities of the Company; (ii) the Company has commenced making arrangements with the Hong Kong Court for the Scheme to proceed and the Winding Up Petition will be dismissed when the Scheme takes effect; (iii) the debts underlying the Winding Up Petition forms part of the liabilities under the Scheme and shall be discharged when the Scheme Settlement Consideration is paid, the final outcome of the appeal will have no material adverse impact on the Company.

During the period, the Company has been taking various steps to satisfy the Resumption Conditions, including: (i) publication of the outstanding financial statements; (ii) appointment of independent non-executive Directors for compliance with the requirements of the Listing Rules; and (iii)

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taking active steps to address the concerns of the SFC and the Stock Exchange. On 5 November 2023, the Company published its audit reports for the financial years between 2017 and 2022. As disclosed in the 2022 Annual Report, the auditors of the Company issued qualified audit opinion for the audited report of FY2022 because the audited report also included the Group's consolidated financial statements for FY2021 for which the auditors had issued disclaimer opinion, for comparison purpose. The audit opinion is modified in respect of the comparability of the figures for FY2022 with the corresponding figures for FY2021 presented in the consolidated financial statements for FY2022. However, as stated in the 2022 Annual Report, except for the comparability of the FY2021's and FY2022's figures, the auditors confirmed that the consolidated financial statements of the Group for FY2022 gave a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for FY2022.

(i) *Financial performance*

Set out below are the summary of audited financial information of the Group for the three years ended 31 December 2022 and the summary of unaudited financial information for the Group for the six month ended 30 June 2023 and 2022 respectively.

	For the six months ended		For the year ended		
	30 June		31 December		
	2023	2022	2022	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Revenue	<u>20,559</u>	<u>13,615</u>	<u>33,765</u>	<u>1,699</u>	<u>9,617</u>
Gross profit	<u>11,393</u>	<u>5,859</u>	<u>13,737</u>	<u>790</u>	<u>5,225</u>
Loss and total comprehensive expense for the period/year attributable to:					
Owners of the Company	(3,874)	(2,446)	(19,225)	(26,275)	(50,846)
Non-controlling interests	<u>473</u>	<u>—</u>	<u>—</u>	<u>1,558</u>	<u>(1,624)</u>
Loss and total comprehensive expense for the period/year	<u>(3,401)</u>	<u>(2,446)</u>	<u>(19,225)</u>	<u>(24,717)</u>	<u>(52,470)</u>

As shown above, the Group has shown an overall improvement trend in revenue and gross profit since FY2022 and for the six-month periods ended 30 June 2023 (“1H2023”), as well as a substantial reduction in net loss attributable to owners of the Company during the past three financial years.

For FY2021, a decrease in revenue of approximately 82.3% from HK\$9.6 million for year ended 31 December 2020 (“FY2020”) to approximately HK\$1.7 million for FY2021 was recorded mainly as a result of the absence in revenue from the Eyecare Business due to its winding-up in July 2021 and the Group's revenue was then solely attributable to the Healthcare Business established during FY2021. Gross profit for FY2021 also declined by approximately 84.9% comparing with that of FY2020, which was largely in line with the decline in revenue.

Loss and total comprehensive expense attributable to owners of the Company for FY2021 narrowed from approximately HK\$50.8 million in FY2020 to approximately HK\$26.3 million in FY2021 primarily attributable to (i) a gain on liquidation of subsidiaries in relation to the Healthcare Business of approximately HK\$7.9 million, (ii) reduction in administrative expenses mainly associated with the Healthcare Business of approximately HK\$14.6 million and (iii) the absence of impairment of goodwill in the amount of approximately HK\$5.0 million recorded in FY2020.

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Revenue reported by the Company for FY2022 significantly improved from approximately HK\$1.7 million for FY2021 to approximately HK\$33.8 million for FY2022. The significant improvement was solely attributable to the performance of Healthcare Business in 2022 it including becoming the sole distributor of one of the top brands in the industry in Hong Kong and the authorised distributor of a renowned medical equipment and product vendor in Hong Kong. Gross profit for FY2022 also increased from approximately HK\$0.8 million for FY2021 to HK\$13.7 million for FY2022 which was largely in line with the increment in revenue. Although the loss and total comprehensive expense attributable to owners of the Company for the second half of FY2022 (“2H2022”) enlarged as compared to that for the first half of FY2022 (“1H2022”) primarily due to, among other things, the loss from other income and gain of approximately HK\$1.6 million for the 2H2022 as compared to the gain from other income and gain of approximately HK\$9.8 million for 1H2022 as well as the year-end booking of impairment loss on other receivables and fair value of financial assets at fair value through profit or loss of HK\$4 million, loss and total comprehensive expense attributable to owners of the Company for FY2022 as a whole improved by around 27.0% from approximately HK\$26.3 million for FY2021 to approximately HK\$19.2 million for FY2022 mainly due to the improvement in revenue.

Revenue reported by the Company for 1H2023 recorded a continuous increase from approximately HK\$13.6 million for 1H2022 to approximately HK\$20.6 million for 1H2023. Gross profit for 1H2023 also increased to approximately HK\$11.4 million from approximately HK\$5.9 million for 1H2022, which was primarily attributable to improvement in sales and sales margin due to increase in customers’ demand for more advanced models which command high profit margins.

Loss and total comprehensive expense attributable to owners of the Company slightly enlarged by approximately HK\$1.5 million from approximately HK\$2.4 million for 1H2022 to approximately HK\$3.9 million for 1H2023 mainly due to the increase in administrative expenses during 1H2023.

(ii) Financial position

Set out below are the summary of audited financial information of the Group as at 31 December 2022 and the summary of unaudited financial information for the Group as at 30 June 2023.

	As at 30 June 2023 HK\$’000 (Unaudited)	As at 31 December 2022 HK\$’000 (Audited)
Non-current assets	5,379	6,035
Current assets	36,146	18,605
Current liabilities	(385,239)	(366,407)
Non-current liabilities	(3,642)	(2,188)
Net liabilities	<u>(347,356)</u>	<u>(343,955)</u>
Deficit attributable to owners of the Company	(340,246)	(336,372)
Non-controlling interests	(7,110)	(7,583)
Total deficit	<u>(347,356)</u>	<u>(343,955)</u>

As at 30 June 2023, total non-current assets of the Group of approximately HK\$5.4 million and such balance was decreased from approximately HK\$6.0 million as at 31 December 2022 mainly attributable to the reduction in property, plant and equipment and right-of-use assets and the reduction in financial asset at fair value through profit or loss.

As at 30 June 2023, total current assets of the Group of approximately HK\$36.1 million mainly comprised of, among others, trade receivables and other receivables, prepayments and deposits, and such balance was increased from approximately HK\$18.6 million as at 31 December 2022 primarily

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attributable to the significant increase in trade receivables as a result of the increased business volume of its Healthcare Business and further increment in other receivables, prepayments and deposits. As at 30 June 2023, the Group reported a bank balances and cash of approximately HK\$5.7 million.

As at 30 June 2023, total current liabilities of the Group of approximately HK\$385.2 million mainly comprised of, among others, current portion of borrowings of approximately HK\$225.2 million, other payables of approximately HK\$96.8 million and bonds payable of approximately HK\$59.4 million. Majority of the balances of the current portion of borrowings, bonds payable and other payables are related to the balances, interest accrued and related costs claimed by the Creditors under the Scheme, while the remaining balances are related to debts to banks and other independent third parties in relation to the ordinary course of business of the Company. As at 30 June 2023, total current liabilities remained high at approximately HK\$385.2 million with an increase by around 5.1% as compared to that as at 31 December 2022 primarily due to interest accrued for aforesaid debts during the period. As provided by the Company, total claims of the Creditors under the Scheme of approximately HK\$349 million as at the Latest Practicable Date was constituted by the aforesaid other payables in the amount of approximately HK\$91.3 million, current portion of borrowings in the amount of approximately HK\$195.9 million and the entire balance of the bonds payable of approximately HK\$59.4 million, plus their respective interest incurred (if applicable) following 30 June 2023 and up to the Latest Practicable Date.

As at 30 June 2023, total non-current liabilities of the Group of approximately HK\$3.6 million which comprised of solely the non-current portion of borrowings of the same amount and were the borrowings at the subsidiaries of the Group for the business development of the Healthcare Business. Total non-current liabilities increased from approximately HK\$2.2 million as of 31 December 2022 to approximately HK\$3.6 million as at 30 June 2023 mainly as a result of interest accrued for the non-current portion of borrowings during the period. As disclosed in the letter from the Board in the Circular, in September 2021 (as supplemented by supplemental agreements), the Investor has provided a further business loan facility of HK\$12 million at an interest rate of 5% per annum to the Healthcare Business. This loan facility was made to the Healthcare Business and is not part of the Scheme, and has been accounted for as non-current liabilities of the Group.

The liquidity ratio (calculated based on total assets to total liabilities) showed an improvement to around 0.11 times as at 30 June 2023 from around 0.07 times as at 31 December 2022, primarily due to increase in current assets as at 30 June 2023 with reasons as mentioned above. Although improvement in the liquidity ratio was noted, the Company still reported net liabilities attributable to owners of the Company of approximately HK\$340.2 million as at 30 June 2023, represented a slight increase as compared to that of approximately HK\$336.4 million as at 31 December 2022.

Shareholders should note that (i) trading in the Shares has been suspended for 6 years since November 2017 and as confirmed by the Company, the provision of the First Loan and the Second Loan (together, the “**Loans**”) and the Restructuring Agreement is the only restructuring proposal received by the Company up to the Latest Practicable Date. The Company confirms that it is almost unlikely that there would be another viable alternative restructuring proposal available to the Group; (ii) given the continuous loss-making and net liabilities position of the Group, the Board did not foresee the Group would have sufficient working capital to repay its indebtedness under the Scheme and the Loans or sustain as a going concern solely with its internal resources, and if the Scheme and/or the Restructuring Agreement is not successfully implemented, it is highly likely that other Creditors would take further actions against the Company and the Company would be wound up and delisted; and (iii) based on the net liabilities financial position of the Group, if the Scheme and/or the Restructuring Agreement are not successfully implemented, it is unlikely that there would be any net proceed from the winding up of the Company to be made available to the Shareholders for distribution.

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2. Information on the Investor

The Investor is a company incorporated in the Republic of Seychelles with limited liability, which is wholly and beneficially owned by Mr. Huang. The Investor is not a Shareholder and is an investment holding purpose vehicle with no business operation. Both Mr. Huang and the Investor are not Creditors under the Scheme. To the best knowledge, information and belief of the Directors, the Investor and its beneficial owner are parties independent and not connected persons of the Company.

Mr. Huang has over 30 years of experience in manufacturing, sales and marketing and brand management. He has held managerial positions in a number of entities in the manufacturing industry prior to founding his own business. Mr. Huang is currently the founder and the managing director of a garment manufacturing company in the PRC. He considered that provision of the First Loan and the Second Loan to the Company is a good opportunity to acquire a controlling stake in the Company with a listing platform engaged in healthcare business at a reasonable price. Therefore, he has been providing financial support to the Company (i.e. the First Loan) since 2020 for implementation of the Scheme to turn around its financial conditions for the survival and maintenance of the listing status of the Company when the Company had become insolvent and was in a dire financial position.

3. Future intention of the Investor regarding the Group

As disclosed in the letter from the Board in the Circular, upon completion of the Loan Conversions, the Investor will become a controlling Shareholder. The Investor confirms that (i) it has no intention to introduce any major change to the existing businesses of the (including the Healthcare Business) Group or redeploy the fixed assets of the Group other than in its ordinary course of business nor inject any asset or business into the Group; and (ii) it intends the Group to continue with its existing businesses following completion of the Restructuring Agreement. As at the Latest Practicable Date, the Group has 19 employees and the Investor has no intention to discontinue the employment of any of the Group's employees. As further disclosed in the letter from the Board in the Circular, the Company will continue to seek new business opportunities to improve its profitability and business prospects, consolidate or streamline its existing business, enhance its future business development and strengthen its revenue base, and may diversify into other businesses should suitable opportunities arise.

As disclosed in the letter from the Board in the Circular, following completion of the Restructuring Agreement, the Investor may propose to nominate new Director(s) to strengthen the management of the Group.

4. Reasons for and benefits of the Restructuring Agreement

As discussed above in the section headed "1. Information on the Group", though the net loss incurred by the Group in the past few years has been narrowed, in view of the continuous loss-making financial performance, total assets at the Company level of approximately HK\$0.7 million and total liabilities at the Company level of approximately HK\$346.2 million which have become due and payable as at 31 December 2022, it is unlikely that the Group can achieve a recovery in its financial position solely through its internal resources and existing business operations without the successful implementation of the Scheme. As such, an external fund-raising exercise to implement the Scheme is considered essential for the Company.

As disclosed in the Letter from the Board in the Circular and confirmed by the Management, with respect to alternative means of fund-raising exercise, the Company had approached about 10 financial institutions and potential investors for borrowings and other fund-raising in 2020 since the Trading Suspension. However, due to the Trading Suspension and the unsatisfactory financial performance of the Group since the Trading Suspension, none of these borrowing or fund-raising attempts had been successful save as the Investor. The First Loan and the Second Loan represented a crucial and timely opportunity to rescue the Company and enable it a chance to continue as a going concern. In addition, the intention of the Investor to become the controlling Shareholder under the Loan Conversions would also

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present a positive sign to the market and the customers, suppliers and business partners of the Group, which is conducive to its continuing operation and stability. The Company has also explored other fund-raising means including rights issue and open offer in 2020. However, due to the prolonged Trading Suspension and the uncertainty as to whether Trading Resumption would ever take place, there was a high uncertainty as to whether an active market existed for trading of the nil-paid rights shares or offer shares. As such, these fund-raising means are not feasible for the time being under the Trading Suspension while there existed an imminent need of the Company for funding to pay for the costs relating to the Trading Resumption to rescue it from being delisted and the Scheme Settlement Consideration to rescue it from being wound up. While rights issue or open offer may be technically viable, however, they might not be well-received by existing Shareholders given the loss-making performance of the Group and the uncertainties as to the successful implementation of the Scheme and/or the Trading Resumption. In addition, any fund-raising exercise by means of debt instruments would not be feasible given the current net liabilities position of the Group. In view of the above, the First Loan and the Second Loan together with the Loan Conversions are then considered the most cost-effective and efficient and the only available fundraising method to rescue the Company.

We enquired the Management and were confirmed by the Company that the Loans and the Restructuring Agreement as a whole is the only restructuring proposal received by the Company up to the Latest Practicable Date. Having considered the current debt level and the uncertainties in terms of time involved and probability in identifying another investor(s), we concur that it would not be feasible for the Company to seek another party to facilitate the restructuring of the Group. Given the Group's failure to meet its debt obligations, the Group's ability to continue as a going concern has been in doubt. If the Restructuring Agreement fails to be implemented and/or if there are no other more viable alternatives available to raise funds for the Group, the debt restructuring may not proceed and the claims against the Company will not be released and discharged in which case, it is unlikely that the Company will be able to continue as a going concern. The Restructuring Agreement and the Scheme therefore form the integral parts to provide the necessary financial support in order to reduce the Group's debt obligations. Having considered the above, we are of the view that the entering into of the Restructuring Agreement is the only viable option currently available to the Group which can facilitate a possible turnaround in its financial position and future healthy growth of its businesses.

5. The Restructuring Agreement

On 3 November 2023 (after trading hours), the Company and the Investor entered into the Restructuring Agreement, pursuant to which the Company has conditionally agreed to allot and issue to the Investor the First Conversion Shares under the First Loan Conversion for settlement of the First Loan, and the Second Conversion Shares under the Second Loan Conversion for settlement of the Second Loan, at the Conversion Price of HK\$0.010 per Conversion Share.

Subject to fulfillment of all Resumption Conditions, the Conversion Shares shall be allotted and issued to the Investor under the Specific Mandate to be sought from the Independent Shareholders at the EGM. The Conversion Shares will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issuance of the Conversion Shares. An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares.

5.1 First Loan and First Loan Conversion

On 28 September 2020, the Company entered into an initial loan agreement with Mr. Huang, pursuant to which (i) Mr. Huang agreed to provide a financing facility of up to HK\$5 million to finance the operating costs of the Company; and (ii) the Company granted a first right to Mr. Huang to subscribe for the new Shares to settle the aforementioned loan in the event of Trading Resumption.

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On 22 July 2022, the Company entered into an agreement with the Investor, which is wholly and beneficially owned by Mr. Huang, pursuant to which the Investor agreed to provide the First Loan of up to HK\$8 million (including the initial loan facility of HK\$5 million under the initial loan agreement) to finance the operating costs of the Company and those costs relating to the Trading Resumption.

The First Loan has been fully drawn down as at the Latest Practicable Date.

Pursuant to the Restructuring Agreement, if, among other things, the Trading Resumption is approved by the SFC and the Stock Exchange (whether conditionally or unconditionally), the Investor shall convert the entire principal amount of the First Loan into 800,000,000 First Conversion Shares at the Conversion Price of HK\$0.010 per Conversion Share. Upon completion of the First Loan Conversion, all outstanding liabilities of the Company under the First Loan (including the accrued interest) shall be deemed fully paid, settled and waived.

5.2 *Second Loan and Second Loan Conversion*

On 3 October 2022, the Company and the Investor entered into a loan agreement under which the Investor conditionally agreed to provide a loan of up to HK\$10 million (i.e. the Second Loan) for payment of the Scheme Settlement Consideration.

The proceeds of the Second Loan shall be applied to settle the Scheme Settlement Consideration. If there is any remaining proceed after settlement of the Scheme Settlement Consideration, the Company intends to apply it for the daily operations of the Group.

The Second Loan will be fully drawn down after the Scheme becomes effective.

Pursuant to the Restructuring Agreement, if, among other things, the Trading Resumption takes place, the Investor shall convert the entire principal amount of the Second Loan into 1,000,000,000 Second Conversion Shares at the Conversion Price of HK\$0.010 per Conversion Share. Upon completion of the Second Loan Conversion, all outstanding liabilities of the Company under the Second Loan (including the accrued interest) shall be deemed fully paid, settled and waived.

5.3 *The Scheme*

As disclosed in the letter from the Board in the Circular, the Company, in view of its deteriorating financial situation since Trading Suspension in its shares in November 2017 and the Winding Up Petition against the Company, has been contemplating solutions to settle its indebtedness. After due and care consideration, the Board has resolved that it would be in the best interest of the Company, the Creditors and the Shareholders (particularly the public Shareholders) to conduct a debt restructuring by way of the Scheme in order to restore the Company's financial and business positions to normality. The Company has been making strenuous efforts to pursue the Scheme.

The Scheme is not subject to the Trading Resumption because the Scheme Settlement Consideration shall be settled by cash to be drawn down from the Second Loan (the drawdown of which, as detailed below, is not subject to the Trading Resumption) and the Scheme Shares shall be issued and allotted to the Creditors as additional recovery to the Creditors only if Trading Resumption takes place. All claims of the Creditors against the Company of approximately HK\$349 million as at the Latest Practicable Date will be fully and finally discharged upon payment of the Scheme Settlement Consideration. As disclosed in the letter from the Board in the Circular, the Scheme Settlement Consideration which will range between HK\$8.6 million and HK\$10 million, depending on the settlement options elected by the Creditors. If the Trading Resumption takes place, 16,301,841 Scheme Shares will be issued and allotted to the Creditors, which will be 5% of the

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existing share capital of the Company and 0.8% of the share capital of the Company as enlarged by the issue of the Scheme Shares and the Conversion Shares, under the general mandate of the Company to be sought at a shareholders' meeting of the Company. The Scheme Shares will be issued and allotted among the Creditors based on their respective admitted claims on pro-rata basis. Based on the issue price of the Scheme Shares of HK\$0.01 (being the same as the Conversion Price), the aggregate value of the Scheme Shares shall be approximately HK\$160,000.

5.4 Conditions Precedent

The Loan Conversions under the Restructuring Agreement are conditional upon satisfaction or the waiver (as the case may be) of the following conditions precedent:

- (a) the passing of the resolutions by the Independent Shareholders by way of poll at the EGM for approving the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver;
- (b) the Executive having granted the Whitewash Waiver to the Investor;
- (c) the Scheme having become effective;
- (d) fulfillment of the Resumption Conditions;
- (e) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares;
- (f) the representations and warranties given by the Company and the Investor under the Restructuring Agreement remaining true, accurate, complete and not misleading in all material respects from the date of the Restructuring Agreement to the date of completion of the Restructuring Agreement; and
- (g) the Investor being reasonably satisfied with the due diligence review on the business and financial conditions of the Company.

Conditions (a) (other than the Whitewash Waiver), (c), (d) and (e) are not waivable by the Company and the Investor. The Company may waive conditions (a) in respect of the Whitewash Waiver, (b) and (f) and the Investor may waive conditions (a) in respect of the Whitewash Waiver, (b), (f) and (g). In the event that any of the conditions not being fulfilled or waived (as the case may be) in full by 30 June 2024 (or such other date as may be agreed between the Company and the Investor), the Loan Conversions shall cease and terminate. As at the Latest Practicable Date, none of the above conditions has been fulfilled or waived.

Completion of the Loan Conversions will take place simultaneously on the fifth business day after the satisfaction or the waiver (as the case may be) of all the above conditions precedent (or such other date as the Company and the Investor may agree).

If both conditions (a) (in respect of the Whitewash Waiver) and (b) are waived at the same time by the Company and the Investor and completion of the Loan Conversions takes place, the Investor, Mr. Huang and parties acting in concert with any of them will comply with Rule 26.1 of the Takeovers Code and make an unconditional mandatory cash offer to acquire all the issued Shares (other than those Shares agreed to be acquired by the Investor, Mr. Huang and parties acting in concert with any of them).

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6. Analysis on the Conversion Price

As at the Latest Practicable Date, the Company had 326,036,828 Shares in issue. The 800,000,000 First Conversion Shares and the 1,000,000,000 Second Conversion Shares in aggregate represent:

- (i) approximately 552.1% of the total number of Shares in issue as at the Latest Practicable Date;
- (ii) approximately 84.7% of the total number of Shares in issue as enlarged by the allotment and issue of the Conversion Shares; and
- (iii) approximately 84.0% of the total number of Shares in issue as enlarged by the allotment and issue of the Conversion Shares and the Scheme Shares.

The Conversion Price of HK\$0.010 per Conversion Share represents:

- (a) a discount of 97.4% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 97.4% to the average closing price of HK\$0.38 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (c) a discount of approximately 97.6% to the average closing price of HK\$0.41 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- (d) a theoretical dilution effect (as defined under the Listing Rules) of 82.7% based on the theoretical diluted price of HK\$0.0692 to the benchmarked price (as defined under the Listing Rules) of HK\$0.40 per Share, taking into account the closing price of HK\$0.38 on the Last Trading Day and the average closing price of HK\$0.40 for the five consecutive trading days prior to the Last Trading Day;
- (e) a premium of HK\$1.0417 to the Company's audited net deficit attributable to owners of the Company per Share of HK\$1.0317 as at 31 December 2022 based on the 326,036,828 Shares in issue as at 31 December 2022; and
- (f) a premium of HK\$1.0536 to the Company's unaudited net deficit attributable to owners of the Company per Share of HK\$1.0436 as at 30 June 2023 based on the 326,036,828 Shares in issue as at 30 June 2023.

As provided in the letter from the Board in the Circular, the Conversion Price was determined after arm's length negotiation between the Company and the Investor with reference to (i) the substantial dilution impact of the Loan Conversion Shares on the existing Shareholders; (ii) the lack of recent price of the Shares for comparison purpose (the Trading Suspension for 6 years); (iii) the deep discount to the price of the Shares on the Last Trading Day; (iv) the substantial net liabilities of the Group and the uncertainty of whether the Trading Resumption will take place and the uncertainty of whether the Scheme will eventually become effective; (v) the imminent funding needs of the Company for payment of the Scheme Settlement Consideration to rescue itself from being wound up and for payment of the costs relating to the Trading Resumption to rescue itself from being delisted; (vi) the risk born by the Investor in providing the First Loan (which has been fully advanced to the Company) and the Second Loan (which might have been advanced to the Company after the Scheme becomes effective but the Trading Resumption might not take place) while the Trading Resumption is uncertain; (vii) the significant premium of the Conversion Price to net liabilities per Share as at 30 June 2023; and (viii) the unfavourable global and local market sentiments. Taking into account the above factors as a whole, the Board,

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including the Independent non-executive Directors having considered our opinion in this letter, is of the view that the Conversion Price is fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

We consider that the previous closing price of the Shares should not be the primary factor in the evaluation of the reasonableness of the Conversion Price as trading in Shares has been suspended since 2017 and, as described in the section headed “Overview of the Group’s businesses” in the letter from the Board in the Circular, there have been substantial changes to (i) the business operations such as that the Company had 3 business segments with an aggregate revenue amounted to approximately HK\$194.2 million for 2016 prior to the Trading Suspension, as compared to one business segment the Group currently has with revenue of approximately HK\$33.8 million for 2022; and (ii) financial conditions of the Group such as the equity attributable to owners of the Company of approximately HK\$153.3 million as at 30 June 2017 prior to the Trading Suspension, as compared to the latest deficit attributable to owners of the Company of approximately HK\$340.2 million as at 30 June 2023.

Nevertheless, for the purpose of providing the Independent Shareholders with a general reference for companies listed on the Stock Exchange engaged in similar transactions as those as described under the Restructuring Agreement, we identified subscription of new shares under specific mandate relating to creditors scheme or debt restructuring and involving whitewash waiver application (the “**Comparables**”) which were (i) announced during the period from 1 January 2020 up to the Latest Practicable Date, being an approximate four-year period, by listed companies in Hong Kong whose shares were in prolonged suspension of trading and were under the list of long suspended companies of the Stock Exchange; and (ii) completed and resumed listing status by the Latest Practicable Date. We found 7 transactions which met the said criteria and they are exhaustive. Shareholders should note that the market capitalisations, businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables. Nevertheless, these factors would not affect the comparability of the Comparables as they serve for comparison among practices of listed companies in Hong Kong under creditors scheme and/or debt restructuring with a whitewash waiver application.

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Company name	Date of announcement	Principal business	Subscription/ conversion/ issue price <i>Approximately HK\$</i>	Discount of the issue/ subscription price to closing price per share on the last trading day prior to the date of the agreement %	Discount of the issue/ subscription price to average closing price per share for the last five trading days up to and including the last trading day prior to the date of agreement %	Dilution effect of subscription on existing public shareholding <i>(Note 3)</i> %	Net (liabilities)/ assets attributable to shareholders of the company per share <i>HK\$</i>	Premium over net liabilities/ assets attributable to shareholders of the company per share <i>HK\$</i>	Length of Suspension
Arta TechFin Corporation Limited (279) (formerly known as Freeman FinTech Corporation Limited)	17 November 2020	Financial services	0.0166	81.5	82.7	91.2	(1.36)	1.38	Approximately 1 year and 8 months
Century Energy International Holdings Limited (8132) (formerly known as China Oil Gangran Energy Group Holdings Limited)	23 December 2020	(i) Power and data cords business; (ii) trading of refined oil and chemicals business; and (iii) trading of commodities	0.0194	87.6 <i>(Note 1)</i>	89.9 <i>(Note 1)</i>	85.0	(0.28)	0.30	Approximately 2 years
National United Resources Holdings Limited (254)	24 June 2021	Bus transportation services, passenger operation and car rental services	0.1100	92.3 <i>(Note 2)</i>	92.8 <i>(Note 2)</i>	74.1	(0.08)	0.19	Approximately 5 years and 7 months
C&D Newin Paper & Pulp Corporation Limited (731) (formerly known as Samson Paper Holdings Limited)	22 November 2021	(i) Paper manufacturing and trading business; (ii) fast moving consumer goods business; (iii) property development and investment business; and (iv) other businesses including trading of consumable aeronautic parts and provision of related services, and provision of logistic services and marine services	0.1211	96.7 <i>(Note 2)</i>	96.6 <i>(Note 2)</i>	91.9	(1.73)	1.85	Approximately 1 year and 7 months
China Wood International Holding Co., Limited (1822)	16 February 2022	Trading of materials	0.0440	32.3	29.5	90.1	(3.69)	3.73	Approximately 1 year and 7 months
Flying Financial Service Holdings Limited (8030)	23 May 2022	Provision of financial services	0.7200	20.0	43.8	51.0	0.01	0.71	Approximately 2 years and 2 months
China Bozza Development Holdings Limited (1069)	30 December 2022	Forestry management and ginseng business	0.1288	87.1	87.6	84.6	(0.03)	0.16	Approximately 2 years
		Mean		71.1	74.7	81.1			
		Minimum		20.0	29.5	51.0			
		Maximum		96.7	96.6	91.9			
The Company	3 November 2023		0.010	97.4	97.4	84.8	(1.04)	1.05	Approximately 6 years

Sources: *HKEXnews website (www.hkexnews.hk)*

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Notes:

1. Based on the revised subscription price as announced by the subject company on 15 March 2021.
2. Dilution effect of the Comparables is calculated based on the information on the respective completion announcement and/or maximum dilution scenario upon completion if certain conditions were subject to fulfilment as at the Latest Practicable Date and is calculated as: (respective number of new shares to be issued in each issue of shares as contemplated under the respective resumption proposal)/(total number of issued shares as enlarged by the issue of shares under the respective resumption proposal) x 100%.

We noted from the above table that the issue/subscription prices of the Comparables represented discounts (i) ranged from approximately 20.0% to 96.7% to the respective closing prices of their shares on the last trading day prior to the date of agreement in relation to the respective subscription of new shares (the “**LTD Discount Market Range**”); and (ii) ranged from approximately 29.5% to 96.6% to the respective average closing prices of their shares for the last five trading days up to and including the last trading day prior to date of agreement in relation to the respective subscription of new shares (the “**5-days Discount Market Range**”). Accordingly, the discount of approximately 97.4% represented by the Conversion Price to the closing price of the Shares on the Last Trading Day is slightly higher than those of the Comparables but is very close to the high-end of each of the LTD Discount Market Range and the 5-days Discount Market Range. Meanwhile, we also note that the premium of around HK\$1.05 represented by the Conversion Price over the net liabilities attributable to Owners of the Company per Share is also within the range of those of the Comparables.

Despite the Conversion Price appears to be at a deep discount which is slightly higher but very close to the maximum discount of approximately 96.7% of the LTD Discount Market Range and approximately 96.6% of the 5-days Discount Market Range of the Comparables, having considered that:

- (i) the previous closing price of the Shares should not be the primary factor in the evaluation of the reasonableness of the Conversion Price as trading in the Shares has been suspended since 2017 and there have been substantial changes to the business operations and financial conditions of the Group since then;
- (ii) the Conversion Price of HK\$0.010 each represents a significant premium over the unaudited net liabilities attributable to owners of the Company of approximately HK\$1.0436 per Share as at 30 June 2023, which is also within the range of those of the Comparables;
- (iii) as confirmed by the Company, it is unlikely that there would be another viable alternative restructuring proposal available to the Group and if the Scheme and/or the Restructuring Agreement are not successfully implemented, based on the continuous loss-making and net liabilities financial position of the Group, the Board did not foresee the Group would have sufficient working capital to repay its indebtedness with its internal resources and accordingly, it is highly likely that the Company would be wound up and delisted and in that case, it is unlikely that there would be any net proceed from winding up the Company to be made available to the Shareholders for distribution;
- (iv) the Second Loan of up to HK\$10 million shall be applied for the payment of the Scheme Settlement Consideration, and following the Scheme becoming effective and the Loan Conversions, all indebtedness of the Company owed to the Creditors as well as those under the Loans owed to the Investor will be discharged in full, which is expected to allow the Group to achieve a net assets position; and
- (v) the Loan Conversions forms part and parcel of the entire resumption proposal which aims to provide the necessary financial support in order to reduce the Group’s overall debt obligations, broaden its equity base and allow a better chance in achieving the Trading Resumption,

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we are of the view and concur with the view of the Directors that the principal terms of the Restructuring Agreement, including the Conversion Price, are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

7. Effects of the Restructuring Agreement

7.1 *Net assets*

According to the 2023 Interim Report, the unaudited consolidated net deficit attributable to owners of the Company as at 30 June 2023 amounted to approximately HK\$340.2 million. Based on the claim of the Creditors of HK\$349 million as at the Latest Practicable Date and the information provided by the Company, the Group is expected to significantly reduce its net liabilities and recognise a substantial gain as a result of the settlement by the Company of the debts under the Scheme at a discount immediately upon the Scheme becoming effective. As disclosed in the letter from the Board in the Circular, assuming the Scheme had become effective and the issue of the Scheme Shares had taken place on 30 June 2023, the Group would have significant improvement in net deficit attributable to owners of the Company from around HK\$1.0436 per Share as at 30 June 2023 to the range between around HK\$0.029 and HK\$0.033 per Share based on the range of the Scheme Settlement Consideration between around HK\$8.6 million and HK\$10 million respectively. However, the Group would still remain at net deficit without the Loan Conversions.

As further disclosed in the letter from the Board in the Circular, assuming the Scheme had become effective and the issue in full of the Scheme Shares together with completion of the Loan Conversions under the Restructuring Agreement had taken place on 30 June 2023, the Group would achieve net assets position in the range between around HK\$9 million and HK\$10 million, representing net assets attributable to owners of the Company of approximately HK\$0.004 to HK\$0.005 per Share, based on the aforesaid range of the Scheme Settlement Consideration. Such significant improvement in the net assets position of the Group, on a proforma basis, is beneficial to the Company and the Shareholders as a whole.

7.2 *Indebtedness*

As set out in Letter from the Board, the claims of the Creditor against the Company amounted to HK\$349 million as at the Latest Practicable Date. Upon the Scheme becoming effective and completion of the Loan Conversions under the Restructuring Agreement, all of the indebtedness of the Company owed to the Creditors and those under the Loans will be compromised and discharged. Accordingly, total indebtedness of the Group will be significantly reduced. Interest burden of the Group will therefore be significantly reduced, which will have a positive impact on the Group's operating results. Further, the decrease in the indebtedness would allow the Group to raise funds by way of bank or other borrowings in the future, if necessary. Based on the above, we are of the view that such significant decrease in indebtedness is beneficial to the Company and the Shareholders as a whole.

7.3 *Working capital*

The Second Loan of approximately HK\$10 million will be applied for the Scheme Settlement Consideration to settle the Creditors, with the remaining balance if any to be applied towards supporting the existing and future business activities of the Group and for general working capital of the Group, whilst the Loans will be capitalization through the Loan Conversions. The working capital of the Group is therefore expected to be improved in view of the reduction in principal repayment and interest expenses as a result of the Scheme and the Loan Conversions.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position/results of the Group will be upon completion of Scheme and/or the Transactions.

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7.4 Dilution effect on the shareholding interest of the existing Shareholders

Set out below is a table summarising the shareholding structure of the Company as at (i) the Latest Practicable Date, (ii) upon the Scheme becoming effective and following the issue of the Scheme Shares; and (iii) upon completion of the Restructuring Agreement and the Loan Conversions:

	As at the Latest Practicable Date		Upon issue of the Scheme Shares		Upon completion of the Loan Conversions	
	Shares	%	Shares	%	Shares	%
The Investor	—	—	—	—	1,800,000,000	84.0
Mr. Huang and parties acting in concert with any of the Investor and Mr. Huang	—	—	—	—	—	—
Subtotal	—	—	—	—	1,800,000,000	84.0
Public Shareholders						
Creditors	—	—	16,301,842	4.8	16,301,842	0.8
Other public Shareholders	326,036,828	100.0	326,036,828	95.2	326,036,828	15.2
Subtotal	326,036,828	100.0	342,338,670	100.0	342,338,670	16.0
Total	326,036,828	100.0	342,338,670	100.0	2,142,338,670	100.0

We note that following the Scheme becoming effective and completion of the Loan Conversions under the Restructuring Agreement, the Independent Shareholders' shareholding interest in the Company will be diluted significantly from 100.0% to 15.2%. However, having considered that:

- (i) the shareholding dilution of approximately 84.8% of the Independent Shareholders as stated under section headed "6. Analysis on the Conversion Price" which is within the range and close to the average of the Comparables;
- (ii) the Group had unaudited consolidated net deficit attributable to owners of the Company of HK\$340.2 million as at 30 June 2023, under which, in the absence of the Scheme and the Loan Conversions, the Company will not have the ability to repay its liabilities with its internal resources and might eventually be wound up and delisted. In such case, the Shareholders will be unlikely to receive any return from their investments in the Company. The implementation of the Scheme and the Restructuring Agreement, which form a substantial part of the entire resumption proposal, is therefore crucial for the Company and the Shareholders as a whole as it provides an opportunity to turnaround the financial position of the Company which may allow a better chance in the Trading Resumption and may possibly allow the Shareholders to recover their investment costs; and
- (iii) following the Scheme becoming effective and completion of the Loan Conversions under the Restructuring Agreement, as discussed above, the Group would have a net assets position compared with net deficit position as at 30 June 2023. In other words, the Independent Shareholders will enjoy a higher net assets value per Share although their respective percentage share of the equity interest in the Company will be diluted,

we consider that the significant dilution of the existing Shareholders' shareholding interest in the Company as a result of the Loan Conversions is inevitable but acceptable.

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8. The Whitewash Waiver

As disclosed in the letter from the Board in the Circular, as at the Latest Practicable Date, neither the Investor and Mr. Huang nor any party acting in concert with them hold or are interested in any shares or securities of the Company. Immediately upon completion of the Loan Conversions, the Investor, Mr. Huang and parties acting in concert with them will hold 1,800,000,000 Shares, representing 84.7% of the total number of Shares in issue as enlarged by the allotment and issue of the Conversions Shares.

Under Rule 26.1 of the Takeovers Code, the Investor would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Investor and parties acting in concert with any of the Investor or Mr. Huang unless the Whitewash Waiver is granted by the Executive. Accordingly, an application has been made by the Investor to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Conversion Shares. As set out in the Letter from the Board in the Circular, the Executive has indicated that it is minded to grant the the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders in respect of the Whitewash Waiver and Loan Conversions at the EGM by way of poll.

Under the Restructuring Agreement, the Investor has reserved its right to waive the conditions in relation to the grant of Whitewash Waiver by the Executive and the Independent Shareholders. The results of the EGM will be announced in accordance with the relevant requirements under the Listing Rules and the Takeovers Code following conclusion of the EGM. If the Independent Shareholders do not approve the grant of the Whitewash Waiver at the EGM, the Investor will consider whether to proceed with the Loan Conversions and make an unconditional mandatory cash offer to acquire all the outstanding issued shares of the Company (other than those Shares agreed to be acquired by the Investor, Mr. Huang and parties acting in concert with any of them) in accordance with Rule 26.1 of the Takeovers Code. The Investor will disclose its intention in the results announcement of the EGM.

Shareholders should note that if the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, unless the condition relating to the granting of Whitewash Waiver is waived by the Investor, the Restructuring Agreement will not become unconditional and the Loan Conversions will not proceed which will not lead to a general offer.

Completion of the Restructuring Agreement is conditional on, among other things, the granting of the Whitewash Waiver by the Executive conditional only on the approval by the Independent Shareholders approving the same by way of poll at the EGM and such Whitewash Waiver not having been revoked. Accordingly, the Restructuring Agreement will not proceed if the Whitewash Waiver is not granted by the Executive and not approved by the Independent Shareholders and the Investor does not waive the condition relating to the grant of Whitewash Waiver. The successful implementation of the Restructuring Agreement and the Scheme will (i) alleviate the financial stress currently encountered by the Group; (ii) improve the Group's overall financial position and operating condition; and (iii) enhance the value of the Company. On the contrary, in the absence of the Restructuring Agreement and the Scheme, the Company may be wound up and delisted, in which case, it is likely that there would be far less favourable return to the Shareholders, if any. Therefore, we consider that the grant of the Whitewash Waiver, being an essential element of the Restructuring Agreement and a common feature in similar rescue proposals for companies which are in grave financial difficulties and revived as a result of injection of funds by new investors, is fair and reasonable.

WARNING STATEMENT

The Stock Exchange may cancel the Company's listing under Rule 6.01A(2)(b)(i) of the Listing Rules if the Company fails to resume trading in its shares on or before 31 January 2020;

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Given that the Company failed to fulfil all the resumption guidance and resume trading but the resumption deadline of 31 January 2020, the Exchange is entitled to delist the Company under Rule 6.01A(2)(b)(i); and

The Stock Exchange has withheld exercising its right to delist the Company under Rule 6.01A(2)(b)(i) pending further developments. For avoidance of doubt, this is without prejudice to the Stock Exchange exercising its right under Rule 6.01A when it considers appropriate. If the Stock Exchange is not satisfied that the Company has taken and is taking all reasonable steps to procure trading resumption, the Stock Exchange is likely to proceed to delist the Company without further delay.

DISCUSSION AND ANALYSIS

With regard to the Restructuring Agreement, we have considered the principal factors and reasons as summarised below:

- (i) since 2020, the Investor has provided working capital to the Group for the continuous operation of the Group. As at the Latest Practicable Date, the First Loan of HK\$8 million has been fully drawn down and applied to finance the daily operations of the Company and those costs relating to the Trading Resumption. In other words, without the assistance of the Investor in providing working capital to the Group, the Group may not be able to achieve a turnover of approximately HK\$33.8 million for FY2022 and approximately HK\$20.6 million for 1H2023, and would not have the funding to pay for the costs relating to Trading Resumption to rescue itself from being delisted and the Scheme Settlement Consideration to rescue itself from being wound up;
- (ii) trading in the Shares has been suspended since 2017 and as advised by the Company, the Loans together with the Restructuring Agreement is the only restructuring proposal received by the Company up to the Latest Practicable Date. There is no guarantee that a replacement proposal could be identified and finalised in a timely manner under the Listing Rules;
- (iii) given the continuous loss-making performance and net liabilities financial position of the Group, the Board does not foresee the Group would have sufficient working capital to repay its indebtedness under the Scheme and the Loans and sustain as a going concern with its internal resources if the Restructuring Agreement is not successfully implemented, it is highly likely that the Company would be wound up;
- (iv) the Second Loan is critical to facilitate the Scheme and the settlement of the substantial liabilities of the Group, and the Restructuring Agreement is the only viable option currently available to the Group which can facilitate a possible turnaround in its financial position and future healthy growth of its businesses;
- (v) following the Scheme becoming effective and completion of the Loan Conversions under the Restructuring Agreement, all indebtedness of the Company owed to the Creditors and those under the Loans will be discharged in full, and as discussed above, the Group is expected to have improvement in working capital and financial position from a net liabilities position to net assets position upon Completion;
- (vi) As discussed in detail in section headed “7.4 Dilution effect on the shareholding interest of the existing Shareholders” above, upon completion of the Loan Conversion, the Independent Shareholders are expected to enjoy a net assets value per Share (as opposed to the substantial net liability per Share) although their respective percentage share of the equity interest in the Company will be diluted; and

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- (vii) the likelihood of winding up the Company if the Company fails to implement the Scheme and/or the Restructuring Agreement, and Shareholders will be unlikely to receive any return in the event of a winding up of the Company.

Having considered the above reasons and factors, we consider that the entering into of the Restructuring Agreement is in the interest of the Company and the Shareholders as a whole. Further, the overall terms of the Restructuring Agreement and the Whitewash Waiver are considered fair and reasonable as far as the Independent Shareholders are concerned.

RECOMMENDATION

Based on the reasons and factors above, and that there is no certainty that a replacement proposal could be identified and finalised in a timely manner in order to meet the stringent timeline as imposed under the Listing Rules, we advise the Independent Board Committee to recommend the Shareholders to vote in favour of the resolutions regarding the Restructuring Agreement and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

FINANCIAL INFORMATION OF THE GROUP

The Group's audited consolidated financial statements, together with the significant accounting policies stated therein and the accompanying notes to the financial statements, for each of the three financial years ended 31 December 2020, 2021 and 2022; and unaudited consolidated financial statements, together with the significant accounting policies stated therein and the accompanying notes to the financial statements for each of the six months ended 30 June 2022 and 2023 (collectively, the "Financial Statements") are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.648.com.hk).

Annual report for the year ended 31 December 2020 (pages 16 to 49):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1105/2023110500041.pdf>

Annual report for the year ended 31 December 2021 (pages 16 to 51):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1105/2023110500045.pdf>

Annual report for the year ended 31 December 2022 (pages 17 to 51):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1105/2023110500049.pdf>

Interim report for the six months ended 30 June 2022 (pages 6 to 14):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1105/2023110500047.pdf>

Interim report for the six months ended 30 June 2023 (pages 6 to 14):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1105/2023110500063.pdf>

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The auditors of the Company, CL Partners CPA Limited, have issued (i) disclaimer opinions on the consolidated financial statements of the Group for each of the years ended 31 December 2020 and 2021; and (ii) qualified opinion on the consolidated financial statements of the Group for the year ended 31 December 2022 (because it included the consolidated financial statements for the year ended 31 December 2021, for which the auditors have issued disclaimer opinion, for comparison purpose). It should be noted that the auditors had confirmed in its auditor's report for the year ended 31 December 2022 that the consolidated financial statements of the Group for the year ended 31 December 2022 gave a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cashflows for the year ended 31 December 2022. However, as detailed on pages 41 and 42 of this circular, since the auditors disclaimed its opinion on the Group's consolidated financial statements for the year ended 31 December 2021, its audit opinion on the consolidated financial statements for the year ended 31 December 2022 is modified because of the possible effect of the abovementioned matter on the comparability of the figures for the year ended 31 December 2022 with the corresponding figures for the year ended 31 December 2021 presented in the consolidated financial statements for the year ended 31 December 2022.

The following is a summary of the Group's audited consolidated financial results for each of the years ended 31 December 2020, 2021 and 2022 and unaudited consolidated financial results for the six months ended 30 June 2022 and 2023 extracted from the Financial Statements:

Summary of the consolidated statement of profit or loss and other comprehensive income

<i>HK\$'000</i>	For the year ended			For the six months ended	
	2022	2021	2020	2023	2022
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	33,765	1,699	9,617	20,599	13,615
Cost of goods sold	<u>(20,028)</u>	<u>(909)</u>	<u>(4,392)</u>	<u>(9,206)</u>	<u>(7,756)</u>
Gross profit	13,737	790	5,225	11,393	5,859
Other income and gains	9,765	8,725	2,210	6,128	11,430
Selling and distribution expenses	—	—	(967)	—	—
Administrative expenses	(23,021)	(21,837)	(36,441)	(13,853)	(11,941)
Gain on liquidation of subsidiaries	—	7,949	—	—	—
Loss arising from change in fair value of financial assets at fair value through profit and loss ("FVTPL")	(725)	(2,740)	—	—	—
Gain arising from change in fair value of financial assets at FVTPL	—	—	—	(131)	—
Written off property, plant and equipment	(345)	—	—	—	(345)
Impairment loss on other receivables	(494)	(1,335)	—	—	—
Impairment loss on goodwill	—	—	(5,043)	—	—
Gain on disposal of subsidiaries	—	—	647	—	—
Finance costs	<u>(15,549)</u>	<u>(16,269)</u>	<u>(18,101)</u>	<u>(6,195)</u>	<u>(7,439)</u>
Loss before income tax	(16,632)	(24,717)	(52,470)	(2,658)	(2,436)
Income tax	<u>(2,593)</u>	<u>—</u>	<u>—</u>	<u>(743)</u>	<u>(10)</u>
Loss and comprehensive expenses for the year	<u><u>(19,225)</u></u>	<u><u>(24,717)</u></u>	<u><u>(52,470)</u></u>	<u><u>(3,401)</u></u>	<u><u>(2,446)</u></u>
Loss and comprehensive expenses attributable to:					
— Owners of the Company	(19,225)	(26,275)	(50,846)	(3,874)	(2,446)
— Non-controlling interests	<u>—</u>	<u>1,558</u>	<u>(1,624)</u>	<u>473</u>	<u>—</u>
	<u><u>(19,225)</u></u>	<u><u>(24,717)</u></u>	<u><u>(52,470)</u></u>	<u><u>(3,401)</u></u>	<u><u>(2,446)</u></u>
Loss and comprehensive expenses per share attributable to owners of the Company					
— Basic and diluted (<i>HK cents</i>)	<u><u>5.9</u></u>	<u><u>8.1</u></u>	<u><u>15.6</u></u>	<u><u>1.2</u></u>	<u><u>0.8</u></u>

There was no payment of dividend for each of the years ended 31 December 2020, 2021 and 2022. Save as disclosed above, there was no other item of income or expense which were material for each of the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

Relevant extracts of the auditor's report in respect of the audit opinions for the consolidated financial statements of the Group for each of the year ended 31 December 2020, 2021 and 2022 are reproduced below:

For the year ended 31 December 2020**"BASIS FOR DISCLAIMER OF OPINION**

Limitation of scope on accounting books and records of subsidiaries which had been disposed and liquidated

As explained in note 3 to the consolidated financial statements, the directors advised that since the disposal and liquidation of certain subsidiaries of the Group under the medical and well-being business before our appointment as the auditors of the Group in February 2023 ("Disposed and Liquidated companies"), the Company has retained the basic business records of these companies, including but not limited to management accounts, ledgers and sub-ledgers accounts, certain vouchers, bank statements, certain agreements and documentation (collectively referred to as the "Basic Records"), that were left behind by the former management and accounting departments of these companies as far as possible. The Basic Records were not considered to be of a sufficient level for our audit purposes. More specific business records and supporting explanations of the accounting records were needed for our audit, including but not limited to, (i) certain supporting documents of certain business transactions, such as invoices, receipts and purchase orders; and (ii) detailed explanation of the accounting entries made (collectively, the "Specific Records"). In the absence of the Specific Records of these Disposed and Liquidated companies following the disposal, the directors considered that they were unable to determine whether these Specific Records were complete in the first place, and they had no other access to such Specific Records despite they have taken all reasonable steps and have used their best endeavor to locate such Specific Records.

As a result of the above matters, we have not been able to obtain sufficient appropriate audit evidence to ascertain whether the income and expenses for the year ended 31 December 2020 and the assets and liabilities as at 31 December 2020 and other related disclosure notes in relation to these Disposed and Liquidated companies as included in the consolidated financial statements of the Group have been accurately recorded and properly accounted for in the consolidated financial statements. Accordingly, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded transactions and the elements making up the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2020.

Limitation of scope on opening balances, comparative figures and related disclosures

As described in the preceding paragraphs, due to the absence of sufficient supporting documents and more detailed explanations in relation to the accounting records in connection to the opening balances and comparative information made available to the directors in respect of the Disposed and Liquidated companies, we were unable to obtain sufficient appropriate audit evidence over the account balances as at 31 December 2019 and the transactions and notes to consolidated financial statements of the Group and Company for the year then ended. Any adjustments that might have been found necessary to the Group's consolidated statement of financial position as at 31 December 2019 and 1 January 2020 would have a consequential effect on the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2019.

Non-compliance with HKFRSs and omission of disclosures

As described in the preceding paragraphs, as the consolidated financial statements of the Group have been prepared based on incomplete books and records. Consequently, the directors of the Company were unable to confirm that the consolidated financial statements comply with Hong Kong Financial Reporting Standards (the "HKFRSs") or the disclosure requirements of the Hong Kong Companies Ordinance. Given these

circumstances, which are more fully described in note 3 to the consolidated financial statements, there were no practicable audit procedures that we could perform to quantify the extent of adjustments that might be necessary in respect of the Group's consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

We draw attention to note 3 to the consolidated financial statements, the Group incurred a net loss attributable to owners of the Company of HK\$50.8 million for the year ended 31 December 2020, and as at 31 December 2020, the Group had net current liabilities and net liabilities of HK\$183.5 million and HK\$316.3 million respectively, which included borrowings of HK\$118.5 million that would be repayable within one year, while the Group's cash and cash equivalent balance was HK\$1.1 million. The Group did not have sufficient cash and cash equivalents for immediate settlement of borrowings as mentioned above. These factors, together with other matters disclosed in note 3, indicated the existence of material uncertainties that may cast significant doubt on Group's ability to continue as a going concern. However, our opinion is not modified in respect of this matter."

For the year ended 31 December 2021

"BASIS FOR DISCLAIMER OF OPINION

Limitation of scope on accounting books and records of subsidiaries which had been liquidated

As explained in note 3 to the consolidated financial statements, the directors advised that certain subsidiaries under the medical and well-being business ("Liquidated subsidiaries") were liquidated in 2021 and the Company only has the basic business records ("Basic Records") of the Liquidated subsidiaries such as management accounts available which were not considered sufficient for our audit purposes. More specific business records and supporting documents were needed for our audit, including but not limited to, (i) supporting documents of business transactions, such as invoices, receipts and purchase orders; and (ii) detailed explanation of the accounting entries made (collectively, the "Specific Records"). In the absence of the Specific Records of these companies following the liquidation, the directors considered that they had no other access to such Specific Records despite they have taken all reasonable steps and used their best endeavor to locate such Specific Records. As a result of the above matters, we have not been able to obtain sufficient appropriate audit evidence to ascertain whether the income and expenses, the assets and liabilities and other related disclosure notes in relation to the above-mentioned companies (including gain on liquidation of subsidiaries of HK\$7.9 million), as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements. Accordingly, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded transactions and the elements making up the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2021.

Limitation of scope on opening balances, comparative figures and related disclosures

As described in the preceding paragraphs, due to the absence of sufficient supporting documents and more detailed explanations in relation to the accounting records in connection to the opening balances and comparative information made available to the directors, we were unable to obtain sufficient appropriate audit evidence over the account balances as at 31 December 2020 and the transactions and notes to consolidated financial statements of the Group and Company for the year then ended. Any adjustments that might have been found necessary to the Group's consolidated statement of financial position as at 31 December 2020 and 1 January 2021 would have a consequential effect on the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2020.

Non-compliance with HKFRSs and omission of disclosures

As described in the preceding paragraphs, as the consolidated financial statements of the Group have been prepared based on incomplete books and records. Consequently, the directors of the Company were unable to confirm that the consolidated financial statements comply with Hong Kong Financial Reporting Standards (“HKFRSs”) or the disclosure requirements of the Hong Kong Companies Ordinance. Given these circumstances, which are more fully described in the note 3 to the consolidated financial statements, there were no practicable audit procedures that we could perform to quantify the extent of adjustments that might be necessary in respect of the Group’s consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

We draw attention to note 3 the consolidated financial statements, the Group incurred a net loss attributable to owners of the Company of HK\$26.3 million for the year ended 31 December 2021, and as at 31 December 2021, the Group had net current liabilities and net liabilities of HK\$255.3 million and HK\$324.9 million respectively, which included borrowings of HK\$140.4 million that would be repayable within one year, while the Group’s cash and cash equivalent balance was HK\$3.7 million. The Group did not have sufficient cash and cash equivalents for immediate settlement of borrowings as mentioned above. These factors, together with other matters disclosed on note 3, indicated the existence of material uncertainties that may cast significant doubt on the Group’s ability to continue as a going concern. However, our opinion is not modified in respect of this matter.”

For the year ended 31 December 2022**“BASIS FOR QUALIFIED OPINION****Limitation of scope on comparative figures and related disclosures**

As explained in note 3 to the consolidated financial statements, the directors advised that certain subsidiaries under the medical and well-being business (“Liquidated subsidiaries”) were liquidated in 2021. The Company only has the basic business records (“Basic Records”) of the Liquidated subsidiaries such as management accounts available which were not considered to be insufficient for our audit purposes. More specific business records and supporting documents were needed for our audit, including but not limited to, (i) supporting documents of business transactions, such as invoices, receipts and purchase orders; and (ii) detailed explanation of the accounting entries made (collectively, the “Specific Records”). In the absence of the Specific Records of the Liquidated subsidiaries and its liquidation, the directors considered that they have used their best endeavor to preserve the books and records, and they had no access to the Specific Records despite they have taken all reasonable steps and used their best endeavor to locate such Specific Records.

As a result of the above matters, we have not been able to obtain sufficient appropriate audit evidence to ascertain whether the income and expenses, the assets and liabilities and other related disclosure notes in relation to the Liquidated subsidiaries, as included in the consolidated financial statements of the Group for the year ended 31 December 2021, have been accurately recorded and properly accounted for in the consolidated financial statements. Accordingly, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded transactions and the elements making up the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2021. Any adjustments that might have been found necessary would have a consequential effect on the Group’s consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2021.

Accordingly, we disclaimed our opinion on the Group's consolidated financial statements for the year ended 31 December 2021. As a result, our audit opinion on the consolidated financial statements for the year ended 31 December 2022 is also modified because of the possible effect of the abovementioned matter on the comparability of the current year's figures with the corresponding figures for the year ended 31 December 2021 presented in the consolidated financial statements for the year ended 31 December 2022.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

We draw attention to note 3 to the consolidated financial statements, the Group incurred a net loss attributable to owners of the Company of HK\$19.2 million for the year ended 31 December 2022, and as at 31 December 2022, the Group had net current liabilities and net liabilities of HK\$347.8 million and HK\$344.0 million respectively, which included borrowings of HK\$215.6 million that would be repayable within one year, while the Group's cash and cash equivalent balance was HK\$3.1 million. The Group did not have sufficient cash and cash equivalents for immediate settlement of borrowings as mentioned above. In addition, as at 31 December 2022, the Group was in default in respect of principal amount of borrowings totalling HK\$167.6 million due to the events of default during the year ended or as at 31 December 2022. However, our opinion is not modified in respect of this matter."

INDEBTEDNESS STATEMENT

As at 30 September 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following indebtedness:

<i>HK\$'000</i>	
Borrowings (interest bearing and unsecured)	229,867
Bonds payable (interest bearing and unsecured)	60,128
Lease liabilities	442
	<u>290,437</u>

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables and accruals in the ordinary course of business, the Group did not have any bank overdraft or loan, or other similar indebtedness, mortgage, charge or guarantee, or other material contingent liabilities outstanding as at 30 September 2023.

MATERIAL CHANGE

Save as the followings which are disclosed in the interim report of the Company for the six months ended 30 June 2023 and its announcements:

- 1) the increase in revenue of the Group from HK\$13.6 million for the six months ended 30 June 2022 by 51.3% to HK\$20.6 million for the six months ended 30 June 2023;
- 2) the improvement of the Group's gross profit margin from 43.0% for the six months ended 30 June 2022 to 55.3% for the six months ended 30 June 2023;
- 3) the decrease in the Group's other income, gains and losses from HK\$11.4 million for the six months ended 30 June 2022 to HK\$6.1 million for the six months end 30 June 2023;
- 4) the increase in the Group's loss from HK\$2.4 million for the six months ended 30 June 2022 to HK\$3.4 million for the six months ended 30 June 2023 due to, among others, the decrease in the Group's other income, gains and losses partly offset by the improvement of the Group's gross profit as discussed in paragraphs (2) and (3) above;
- 5) the winding up petition filed on 18 April 2023 by a creditor of the Company against the Company in the Hong Kong Court; and
- 6) the scheme of arrangement proposed by the Company to be made between the Company and the Creditors pursuant to Sections 670 and 673 of the Companies Ordinance (Cap 622 of the laws of Hong Kong),

the Directors confirmed that there had been no material change in the financial or trading position or outlook of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than information relating to the Investor) is accurate and complete in all material respects and not misleading or deceptive, and there is no other matter the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of information (other than that relating to the Investor) contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than that expressed by the sole director of the Investor) have been arrived at after due and careful consideration and there is no other fact not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of the Investor accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Group) and confirm, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there is no other fact not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

The Company does not have any authorised share capital nor any nominal value of Shares in its capital. All of the Shares currently in issue are fully paid up and rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting and capital. As at the Latest Practicable Date, the Company did not have any outstanding securities, option, derivative, warrant or other convertible securities or rights affecting the Shares. Assuming no change in the number of issued Shares from the Latest Practicable Date up to the issuance of the Scheme Shares and the Conversion Shares:

(a) As at the Latest Practicable Date

	Number
Issued Shares	326,036,828

(b) Immediately following the issue of the Scheme Shares and the Conversion Shares

	Number
Existing issued Shares	326,036,828
Scheme Shares	16,301,842
Conversion Shares	1,800,000,000
	<u>2,142,388,760</u>

3. MARKET PRICE

Trading in the Shares on the Stock Exchange has been suspended since 27 November 2017 and has remain suspended as at the Latest Practicable Date. The closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day was HK\$0.38.

4. DISCLOSURE OF INTEREST

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, none of the Directors or chief executive of the Company has any interest and short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have taken under such provisions of the SFO), or were recorded pursuant to Section 352 of the SFO, or were otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Substantial shareholders

As at the Latest Practicable Date, save for the 1,800,000,000 Shares that may be allotted and issued to the Investor upon completion of the Restructuring Agreement, so far as being known to the Directors, no person had interests or short position in the shares or underlying shares of the Company which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or which would be required to be recorded in the register required to be kept under Section 336 of the SFO or who is interested in 5% or more of any class of share capital carrying rights to vote at general meetings of the Company.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts within any member of the Group other than contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL LITIGATION

As at the Latest Practicable Date, save for the winding up petition filed by a creditor against the Company in April 2023 in relation to a judgement debt of HK\$16,175,304 and the related unpaid interest and cost thereon as disclosed in the "Letter from the Board", no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, the date to which the latest published audited accounts of the Group were made up. There was no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the business of the Group as a whole.

8. PROFESSIONAL ADVISER AND CONSENT

The following sets out the qualification of the expert who has given opinions, letters or advices included in this circular:

Name	Qualification
Somerville Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined in the SFO, being the independent financial adviser appointed with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and the Whitewash Waiver

Somerville Capital Limited had given and had not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice dated 30 November 2023 and set out on pages 17 to 36 of this circular and/or references to its name in the form and context in which they respectively appear. As at the Latest Practicable Date, Somerville Capital Limited did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. MATERIAL CONTRACTS

During the two years preceding 3 November 2023 (being the date of the announcement in relation to the Restructuring Agreement) and up to the Latest Practicable Date, save for the Restructuring Agreement, the Group did not enter into any contract, not being contract entered into in the ordinary course of business carried on or intended to be carried on by the Group, and which is, or may be, material.

10. DISCLOSURE REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

- (a) no Share acquired by the Investor, Mr. Huang and any person acting in concert with any of them in pursuance of the Restructuring Agreement will be transferred, charged or pledged to any other person;
- (b) neither the Investor, Mr. Huang nor any parties acting in concert with any of them held or had dealt for value in any Share or any securities, convertible securities, warrant, option or derivatives in respect of any Share or securities of the Company during the Relevant Period.
- (c) no person had irrevocably committed themselves to vote for or against the resolution approving the Restructuring Agreement (including the Loan Conversions), the Specific Mandate and/or the Whitewash Waiver at the EGM;
- (d) none of the Investor, Mr. Huang or parties acting in concert with any of them has borrowed or lent any Share or any securities, convertible securities, warrant, option or derivative in respect of any Share or securities of the Company;
- (e) there was no holding of voting rights in the Company or rights over any Share which was owned, controlled or directed by the Investor, Mr. Huang or parties acting in concert with any of them;
- (f) none of the Investor, Mr. Huang or parties acting in concert with any of them held any outstanding option, warrant, or any securities that are convertible into Shares or any derivatives in respect of Shares, nor had entered into any outstanding derivative in respect of securities in the Company;

- (g) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) existed between the Investor, Mr. Huang or parties acting in concert with any of them and any other person;
- (h) no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Investor, Mr. Huang or any party acting in concert with any of them; and (ii) any Director, recent Director, Shareholder or recent Shareholder having any connection with or dependence upon the Restructuring Agreement and/or the Whitewash Waiver.
- (i) none of the Company and the Directors had owned or controlled, or were interested in any share or any securities, convertible securities, warrant, option or derivative in respect of the shares or securities of the Investor.
- (j) none of the subsidiaries of the Company, pension funds of the Company or of any member of the Group or a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or who was an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code had owned or controlled any Share or any securities, convertible securities, warrant, option or derivative in respect of any Share or securities of the Company during the Relevant Period.
- (k) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code, and none of them had owned or controlled any Share or any securities, convertible securities, warrant, option or derivative in respect of any Share or securities of the Company during the Relevant Period.
- (l) no Shares or any securities, convertible securities, warrant, option or derivative in respect of any Share or securities of the Company were managed on a discretionary basis by fund managers connected with the Company and no such person had dealt for value in any Share or any securities, convertible securities, warrant, option or derivative in respect of any Share or securities of the Company during the Relevant Period.
- (m) none of the Company or the Directors had borrowed or lent any Share, convertible securities, warrant, option or derivative in respect of any Share.
- (n) none of the Directors had dealt for value in the Shares, convertible securities, warrant, option or derivative in respect of any Share during the Relevant Period.
- (o) no benefit had been given or will be given to any Director as compensation for loss of office or otherwise in connection with the Restructuring Agreement (including Loan Conversions) and the Whitewash Waiver;
- (p) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the Restructuring Agreement (including the Loan Conversions) and the Whitewash Waiver or otherwise connected therewith;
- (q) there was no material contract entered into by the Investor, Mr. Huang or any person acting in concert with any one of them in which any Director had a material personal interest.
- (r) none of the Directors held any Share or any securities, convertible securities, warrant, option or derivative in respect of any Share or securities of the Company.

- (s) the registered office of the Investor is Oliaji Trade Centre — 1st Floor, Victoria, Mahe, Seychelles, and its correspondence address in Hong Kong is at Unit B, 17th Floor, United Centre, 95 Queensway, Admiralty.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection from the date of this circular up to and including the date of the EGM (i) on the website of the SFC (www.sfc.hk); (ii) on the website of the Stock Exchange (www.hkexnews.hk); and (iii) on the website of the Company (www.648.com.hk):

- (a) the M&A;
- (b) the memorandum and articles of association of the Investor;
- (c) the annual report of the Company for the year ended 31 December 2020;
- (d) the annual report of the Company for the year ended 31 December 2021;
- (e) the annual report of the Company for the year ended 31 December 2022;
- (f) the interim report of the Company for the six months ended 30 June 2022;
- (g) the interim report of the Company for the six months ended 30 June 2023;
- (h) the letter from the Board, the text of which is set out on pages 4 to 15 of this circular;
- (i) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;
- (j) the letter from the IFA, the text of which is set out on pages 17 to 36 of this circular;
- (k) the Restructuring Agreement;
- (l) the written consent from the IFA as referred to in the paragraph headed “8. Professional Adviser and Consent” in this Appendix II; and
- (m) this circular.

12. GENERAL

The English text of this circular shall prevail over its Chinese text.

NOTICE OF EGM



SoftMedx Healthcare Limited

京玖醫療健康有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 648)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the EGM of SoftMedx Healthcare Limited (the “Company”) will be held at Unit B, 20/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong, at 2:00 p.m. on Wednesday, 27 December 2023:

ORDINARY RESOLUTION

To consider and, if thought fit, pass the following resolution as an ordinary resolution (with or without modifications):

“THAT:

- (a) the restructuring agreement dated 3 November 2023 (the “Restructuring Agreement”, a copy of which has been produced to the Meeting and marked “A” and initialed by the chairman of the EGM for the purpose of identification) entered into between the Company and Multi Omniverse Group Limited (the “Investor”), pursuant to which the Company has conditionally agreed to allot and issue and the Investor has conditionally agreed to subscribe for an aggregate of 1,800,000,000 new shares (“Shares”) of the Company (“Conversion Shares”) at the subscription price of HK\$0.01 per Conversion Share, be and are hereby approved, confirmed and ratified;
- (b) subject to the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting the listing of and permission to deal in the Conversion Shares, the Directors be and are hereby granted a specific mandate for the allotment and issue of the Conversion Shares in accordance with the terms of the Restructuring Agreement, provided that this specific mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the directors of the Company (“Directors”) by the shareholders of the Company (“Shareholders”) prior to the passing of this resolution; and
- (c) any one or more of the Directors be and is/are hereby authorised to do such acts and things, to sign and execute all such further documents (including under seal, as applicable) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Restructuring Agreement, the allotment and issue of the Conversion Shares and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waiver of any of the matters relating thereto or in connection therewith.”

NOTICE OF EGM

SPECIAL RESOLUTION

To consider and, if thought fit, pass the following resolution as a special resolution (with or without modification):

“**THAT** subject to and conditional (i) upon the passing of resolution numbered 1 above and (ii) the granting of the Whitewash Waiver (as defined below) by the Executive Director (or any of his delegate(s)) of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong to the Investor and the satisfaction of all conditions that may be prescribed for such grant, and that the Whitewash Waiver not having been subsequently revoked or withdrawn, the waiver of the obligation on the part of the Investor to make a mandatory general offer to the shareholders of the Company for all the issued Shares (other than those already owned or agreed to be acquired by the Investor and parties acting in concert with it) (the “Whitewash Waiver”), which would otherwise arise as a result of the Investor subscribing for the Conversion Shares under the Restructuring Agreement pursuant to Note 1 on Dispensations from Rule 26 of The Code on Takeovers and Mergers, be and is hereby approved, and that any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents under seal where applicable as he/she considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to any of the matters relating to, or incidental to, the Whitewash Waiver.”

By Order of the Board
SoftMedx Healthcare Limited
Cheung Wai Kwan
Executive Director

Hong Kong, 30 November 2023

Notes:

- (1) A member being entitled to attend and vote at the above meeting is entitled to appoint a proxy or, if the member is a holder of more than one share, more proxies to attend and vote instead of the member. A proxy needs not be a member of the Company.
- (2) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if the joint holders was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of them so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (3) An instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority or the completed form of proxy must be lodged with the Company’s share registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not less than 48 hours (exclusive of any part of a day that is a public holiday) before the time appointed for holding the meeting.
- (4) Return of the form of proxy or instrument appointing a proxy will not preclude a member from attending the meeting and voting in person at the meeting if the member so desires. If a member attends the meeting after having deposited the form or the instrument, that form or instrument will be deemed being revoked.
- (5) For determining the entitlement of the Shareholders to attend and vote at EGM, the register of members of the Company will be closed from Wednesday, 20 to Wednesday, 27 December 2023 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for entitlement to attend and vote at EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company not later than 4:30 p.m. on Tuesday, 19 December 2023.