Capital 9 Limited

21 November 2023

To the Independent Board Committee and the Independent Shareholders of China Parenting Network Holdings Limited

Dear Sir/Madam,

PROPOSED REFRESHMENT OF GENERAL MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Refreshment of General Mandate, particulars of which are set out in the section headed "Letter from the Board" ("**Letter from the Board**") contained in the circular of the Company dated 21 November 2023 ("**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Existing General Mandate was granted to the Directors at the annual general meeting of the Company held on 15 June 2023 to issue up to 41,893,075 Shares, representing 20% of then total issued share capital of the Company, taking into account of the share consolidation which was effective on 19 June 2023.

As stated in the Letter from the Board, on 29 July 2023, 41,893,074 new Shares were issued by the Company to two subscribers pursuant to subscription agreements entered into by the Company with relevant subscribers on 11 July 2023 (the "**July 2023 Subscription**"), which has utilised approximately 100% of the Existing General Mandate. Upon completion of the aforesaid subscription, only one Share can be further issued under the Existing General Mandate. As stated in the Letter from the Board, net proceeds of approximately HK$6.1 million from such subscription have been fully utilised for repayment of part of the Group's outstanding professional fees and expense of the Group and general working capital purpose. No refreshment of general mandate has been made by the Company as at the Latest Practicable Date.

Capital 9 Limited
Room 1219, 12/F Bank of America Tower, 12 Harcourt Road, Central, Hong Kong
第九資本有限公司
香港中環夏慤道 12 號美國銀行中心 12 樓 1219 室

Subject to the Independent Shareholders' approval of the Proposed Refreshment of General Mandate, and assuming that no other Shares will be issued and/or repurchased by the Company on or prior to the date of the EGM, the Shares in issue as at the date of the EGM would be 288,051,953 Shares, which means that under the Proposed Refreshment of General Mandate, the Directors would be authorised to allot, issue and deal with not more than 57,610,390 new Shares, representing 20% of the Shares in issue as at the Latest Practicable Date.

As the Proposed Refreshment of General Mandate is to be proposed to the Shareholders prior to the next annual general meeting of the Company which is expected to be held in June 2024 (the "**2024 AGM**"), pursuant to Rule 13.36(4) of the Listing Rules, this proposal is subject to the Independent Shareholders' approval by way of an ordinary resolution at the EGM. The Proposed Refreshment of General Mandate will, if granted, expire at the earliest of: (i) the conclusion of the 2024 AGM; (ii) the expiration of the period within which the 2024 AGM is required by the articles of association of the Company or any applicable laws and regulations of the Cayman Islands to be held; or (iii) the date on which the authority set out in the resolution for the approval of the Proposed Refreshment of General Mandate is revoked or varied by the passing of an ordinary resolution of the Shareholders in general meeting.

Further, according to Rule 13.36(4) of the Listing Rules, any controlling shareholders and their associates or, where there are no controlling shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution to approve any refreshments of the general mandate. As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Company has no controlling shareholder. Mr. Cheng Li, being executive Director, was interested in 24,000,000 Shares through his associates, representing 8.33% of the issued share capital of the Company. All the Directors (excluding independent non-executive Directors) and their respective associates are required to abstain from voting in favour of the proposed resolutions regarding the Proposed Refreshment of General Mandate.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to (i) whether the terms of the Proposed Refreshment of General Mandate are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) how to vote on the resolution at the EGM. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give independent opinion to the Independent Board Committee for it to advise the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our view and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information, facts and representations provided, and the opinions and views expressed to us by the Company, the Directors and/or the management of the Group, and (ii) the information, facts, representations, opinions and views of the Company, the Directors and/or the management of the Group contained or referred to in the Circular, including but not limited to the Letter from the Board contained therein, all of which have been assumed to be true, accurate and complete at the time they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, view and intention made by the Company, the Directors and/or the management of the Group in the Circular, including but not limited to the Letter from the Board contained therein, were reasonably made after due and careful enquiry and the expectations and intentions made by the Company, the Directors and/or the management of the Group will be met or carried out as the case may be. We consider that we have received and reviewed sufficient information to reach an informed view and have no reason to believe that any material information has been omitted or withheld, or to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and/or the management of the Group. We have been confirmed by the Company that no material facts have been withheld or omitted from the information provided to us, the opinion expressed to us, and/or information or opinion contained or referred to in the Circular.

We have not, however, carried out any independent verification of the information provided by the Company, the Directors and/or the management of the Group, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group, or any of its respective subsidiaries, controlled entities, jointly controlled entities or associates. We consider that we have performed our duties with impartiality and independence from the Company.

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 the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

As at the Latest Practicable Date, to the best of our knowledge, we were not aware of any relationships between us and, nor any interests held by us in, the Company, the Directors and/or existing Shareholders that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser. In the past two years preceding the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the Proposed Refreshment of General Mandate.

PRINCIPAL REASONS AND FACTORS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Refreshment of General Mandate, we have taken into consideration the following principal reasons and factors:

1. Background of the Group

The Group is a vertical online platform for children-babies-maternity market in China, which is principally engaged in the provision of marketing and promotional services and sale of goods related to children, babies and maternity in China.

Set out below are the summarised financial information of the Group for the two years ended 31 December 2021 ("**FY2021**") and 2022 ("**FY2022**"), as extracted from the annual report of the Company for the year ended 31 December 2022 ("**2022 AR**"), and for the six months ended 30 June 2022 ("**1H2022**") and 2023 ("**1H2023**"), as extracted from the interim report of the Company for the six months ended 30 June 2023 ("**2023 IR**"):

(i) Historical financial performance

	For the year ended 31 December		**For the six months ended 30 June**	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	**93,744**	**84,970**	**33,560**	**23,813**
(i) Marketing and promotional services	47,998	38,378	13,957	11,548
(ii) Sale of goods	45,746	46,592	19,603	12,265
Cost of sales	(88,549)	(66,578)	(25,578)	(19,003)
Gross profit	5,195	18,392	7,982	4,810
Gross profit margin	*5.5%*	*21.6%*	*23.8%*	*20.2%*
Other income, gains and losses	7,323	3,716	1,639	1,375
Selling and distribution expenses	(27,279)	(15,718)	(5,149)	(5,387)
Administrative expenses	(12,535)	(9,169)	(4,108)	(4,483)
Research and development costs	(15,302)	(7,685)	(4,109)	(2,811)
(Impairment loss) reversal of impairment loss on financial and contract assets, net	763	(3,620)	123	(551)
Fair value changes of financial assets at fair value through profit or loss	(9,417)	(24,684)	(1,341)	600

	For the year ended 31 December		For the six months ended 30 June	
	2021	**2022**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Gain on modification of convertible notes	—	801	801	—
Other expenses	(1,253)	—	(1)	—
Loss on restructuring of other receivable	(236)	—	—	—
Finance costs	(3,066)	(4,014)	(2,036)	(1,912)
Loss before tax	(55,807)	(41,981)	(6,199)	(8,359)
Income tax (expense) credit	670	(24)	(24)	—
Loss for the year/period, attributable to	**(55,137)**	**(42,005)**	**(6,223)**	**(8,359)**
— Owners of the Company	(51,455)	(42,241)	(5,858)	(8,359)
— Non-controlling interests	(3,682)	236	(365)	—

For FY2022, the Group's revenue decreased by approximately RMB8.7 million to approximately RMB85.0 million from approximately RMB93.7 million for FY2021, primarily due to the decline in advertising business in the first half of 2022, as affected by the COVID-19 pandemic. The Group's gross profit and gross profit margin for FY2022 was approximately RMB18.4 million and 21.6%, an increase compared to that of approximately RMB5.2 million and 5.5% for FY2021, due to effective cost control implemented by the Group in 2022. Loss for the year of approximately RMB42.0 million was recorded for FY2022, compared to that of approximately RMB55.1 million for FY2021, mainly due to improvement in gross profit margin and reduction in selling expenses.

For 1H2023, the Group's revenue decreased by approximately RMB9.8 million to approximately RMB23.8 million from approximately RMB33.6 million for 1H2022, primarily due to the decline of advertising and promotional business as affected by the economic environment. The Group's gross profit and gross profit margin for 1H2023 was approximately RMB4.8 million and 20.2%, a decrease compared to that of approximately RMB8.0 million and 23.8% for 1H2022, due to the decline in advertising business which commanded a higher gross profit margin. Loss for the period of approximately RMB8.4 million was recorded for 1H2023, compared to that of approximately RMB6.2 million for 1H2022, mainly due to decrease in gross profit as mentioned above.

(ii) Outlook

As stated in the 2023 IR, the Group has been committed to providing more scientific, professional and efficient parenting solutions for novice parents in China. It has a deep insight into the parenting needs of Generation Z parents, keeps up with the times, actively responds to national policies, uses science & technology to reduce parenting costs, and improves the easy parenting experience. It will also continuously improve its ecological layout. Through the "digital + AI" technology, it will provide more refined services for maternal and infant users and brand merchants through its innovating and advancing software tools such as mobile apps, making parenting easier and their brand business continuously growing. We were confirmed by the Directors that they still maintain their view above as at the Latest Practicable Date.

The refined services aim at satisfying the four major needs of users, including learning, communication, medical care and consumption. On the customer-side, the Company cooperated with professional institutions and parenting experts to jointly build more content and provide services such as parenting Q&A and expert consultation on parenting education and other aspects of infants and young children through its "Mom Community (媽媽社區)" APP, mini programs, communities and multi-channel network platform in order to meet the diversified content needs of the new generation of users. On the business-side, the Company has collaborated with channels such as maternal and infant retail, education system and offline parent-child activities to build refined service capabilities. For example, the Company has more than 20,000 maternal and infant stores using its "Mommy store (媽咪店)" SaaS system, with more than 318 urban coverage and more than 5.62 million offline members. The Company's platform serves needs of family users in areas covering health, family trips, education, entertainment and shopping. Merchants can provide consumers with refined services via tools provided by the Company such as one-click distribution, one-click grouping and instant shopping to achieve more business increments. For example, the one click distribution tool can help group-purchased products achieve distribution.

As advised by the Company, it is optimistic about the prospect of children, babies and maternity industry in China. According to the research report released in 2022 by iResearch Inc (https://report.iresearch.cn/), a provider of online audience measurement and consumer insights in China established in 2002 with over 400 employees worldwide, the market size of the maternity and childcare product industry in China recorded a 10.8% year-on-year growth and reached approximately RMB3.46 trillion in 2021, and is estimated to expand further in the coming years reaching RMB4.68 trillion by 2025.

(iii) Financial position, cash resources and funding needs

Financial position

	As at 31 December 2022 *RMB'000* (audited)	As at 30 June 2023 *RMB'000* (unaudited)
Non-current assets	**115,489**	**118,324**
Property, plant and equipment	15,060	17,010
Right-of-use assets	7,178	6,287
Long-term receivables	2,462	1,976
Deposit for property, plant and equipment	2,712	—
Other financial assets	88,077	93,051
Current assets	**51,437**	**44,949**
Inventories	1,187	3,149
Trade and bill receivables	9,971	5,134
Contract assets	6,139	3,407
Prepayments, deposits and other receivables	10,600	12,676
Other financial assets	14,985	15,206
Cash and cash equivalents	8,555	5,377
Current liabilities	**64,980**	**66,200**
Trade payables	3,208	1,955
Contract liabilities	325	249
Other payables and accruals	22,233	20,115
Lease liabilities	1,117	1,073
Borrowings	18,413	36,940
Convertible notes	13,816	—
Tax payable	5,868	5,868
Net current liabilities	**13,543**	**21,251**
Non-current liabilities	**693**	**181**
Lease liabilities	693	181
Net assets	**101,253**	**96,892**
Current ratio	0.79	0.68
Gearing ratio	39.3%	40.7%

As at 31 December 2022 and 30 June 2023, the Group recorded net current liabilities of approximately RMB13.5 million and RMB21.3 million respectively. Its current ratio was approximately 0.68 as at 30 June 2023, a decrease compared to that of 0.79 as at 31 December 2022.

We noted from the 2022 AR that the Company's auditors expressed concern that the net loss attributable to owners of the Company of approximately RMB42.2 million for FY2022 and the amount of the Group's current liabilities which exceeded its current assets by approximately RMB13.5 million as at 31 December 2022 indicated the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Cash resources

As advised by the Company, the liquidity of the Group was tight as at the Latest Practicable Date. As stated in the 2022 AR and further advised by the Company, the Group funded its operations with revenue from its operating activities. While key drivers in the Group's sources of cash have been primarily the Group's sales and their cash inflows which depends on the Group's ability to collect payments, it is noted that net cash used in operating activities of approximately RMB8.5 million for 1H2023 was recorded by the Group, compared to net cash generated from operating activities of approximately RMB6.3 million for FY2022. Hence, from March 2023 to July 2023, several fund raising activities were conducted by the Company by issue of new shares under general mandate to raise net proceeds of approximately HK$8.5 million to finance the Group's repayment of outstanding professional fees and general working capital. As at 30 June 2023, the Group's cash and cash equivalents were approximately RMB5.4 million, a decrease compared to approximately RMB8.6 million as at 31 December 2022.

As announced by the Company on 31 August 2023 and stated in the Letter from the Board, the Group has defaulted in settlement of outstanding liabilities of (i) HK$24,510,445 (including the outstanding principal, all outstanding interest as at 12 September 2023 and the respective Extension Fee) of the Existing Convertible Notes which was due on 30 April 2023, and (ii) HK$1,166,545 and HK$2,611,280 (including outstanding principal, accrued and outstanding interest as at 12 September 2023 and the respective Extension Fee) of the Existing Loan owed to Ms. Deng and Ms. Gong respectively which was due on 25 August 2023 under the Existing Loan Agreements. Taking into account the Group's tight cash position, and it would be difficult for the Group to generate sufficient cash flow to repay the aforesaid debt in the near future, the Group has reached the agreement with the relevant creditors to set off those debt, together with the Extension Fee, by issuing them the Convertible Notes.

Funding needs

As discussed in the paragraphs headed "Reasons for the Proposed Refreshment of General Mandate" below, the aim of the Proposed Refreshment of General Mandate is to provide the Group flexibility to raise fund by issuing new Shares under a refreshed general mandate before the 2024 AGM, that is, before a new general mandate is approved by the Shareholders in the coming annual general meeting. In this regard, we have discussed and understood from the Company about the Group's funding needs before the 2024 AGM, that is, the 9 months from October 2023 to June 2024 particularly.

As at 30 June 2023, the Group had borrowings of approximately RMB36.9 million, which included (i) guaranteed bank loans denominated in RMB of approximately RMB18.5 million bearing interest of 3.25 to 4.45% per annum which is repayable within one year; and (ii) other borrowings of approximately RMB18.4 million. As advised by the Company, while the aforesaid amount of other borrowings were part of the outstanding liabilities related to the Existing Convertible Notes and Existing Loan which, together with the relevant amount of outstanding interest and Extension Fee, is expected to be set off by the issue of the six-month Convertible Notes (the maturity date may be extended for a further six months at the discretion of the Noteholders) which bear interest at 8% per annum payable on the maturity date, approximately RMB14 million of the aforesaid bank borrowings will fall due before the 2024 AGM. The Company expects to obtain renewal of the aforesaid bank borrowings for another year based on its previous experience. As further advised by the Company, all the Group's bank facilities have been utilised, and no financial resources available to the Group as at the Latest Practicable Date have been reserved for the repayment of the aforesaid bank borrowings. Hence, funding will be required by the Group (i) to repay the aforesaid bank borrowings of approximately RMB14 million if no renewal is offered by the banks, and (ii) to repay the aggregate principal amount of the six-month Convertible Notes of up to approximately HK$28.29 million if there is no extension of the maturity date by the Noteholders and there is no or partial conversion of the Convertible Notes by the maturity date which is expected to be in June 2024.

We have reviewed the working capital forecast of the Group and noted that, for the 12 months from October 2023 to September 2024, the expected finance costs from the Group's outstanding borrowings are estimated to be approximately RMB2.5 million in aggregate, of which approximately RMB2.3 million in aggregate would fall due in the 9 months from October 2023 to June 2024, that is, before the 2024 AGM. In addition, working capital of approximately RMB14 million would be required in the aforesaid 12 months to finance the Group's major operating cost including rental, staff cost and professional fees, of which approximately RMB11 million is expected to be required in the aforesaid 9 months. As shown in the working capital forecast of the Group for the 9 months up to 2024 AGM, taking into account the Group's cash and cash equivalents of approximately RMB5.4 million as at 30 June 2023, the internal resources generated or expected to be generated from its operating activities, particularly cash expected to be collected from customers and assuming renewal of the aforesaid bank borrowings and full conversion of the Convertible Notes, the Group would have sufficient working capital to cover the aforesaid finance cost and operation needs in the aforesaid period. Nevertheless, as discussed in the paragraphs below, taking into account that no financial resources have been reserved by the Group to finance its potential funding needs, particularly, settlement of its bank borrowings which will fall due in June 2024 in case no renewal can be obtained or repayment of the principal of the Convertible Notes which will fall due in June 2024 if there is no extension of maturity date by the Noteholders and there is no or only partial conversion, we concur with the Directors' view that the Proposed Refreshment of General Mandate provides the Group with flexibility to raise fund before the 2024 AGM when needed.

2. Reasons for the Proposed Refreshment of General Mandate

Upon completion of the July 2023 Subscription in July 2023, only one Share may be further issued under the Existing General Mandate. As the Existing General Mandate has been almost fully utilised and the 2024 AGM, being the next annual general meeting of the Company, is expected to be held in June 2024, the new general mandate to be sought at the EGM ("**New General Mandate**") will provide flexibility for the Company to issue new Shares to raise fund before the 2024 AGM. While the Company has not formulated any concrete plan for raising capital or capitalisation of debts by issuing new Shares under the New General Mandate, the Proposed Refreshment of General Mandate will enable the Company to capture better timing for fund raising and replenish the Company's working capital before the 2024 AGM. Hence, the Directors consider that the Proposed Refreshment of General Mandate is in the interests of the Company and the Shareholders as a whole.

We understand from the Directors that their purpose of obtaining the New General Mandate is to facilitate the Group's possible equity financing activity in the coming months prior to the 2024 AGM to cater for the Group's operation needs given the prevailing challenging operating environment, funding needs for repayment of its bank borrowings which will fall due within one year, interest payment of the Convertible Notes and its principal in case there is no extension of maturity date by the Noteholders and there is no or only partial conversion under such notes by the maturity date which is the sixth month of the date of issue. Taking into account the Group's liquidity position and its funding needs as mentioned above, the Directors consider that it is fair and reasonable for the Group to obtain the New General Mandate as soon as possible to facilitate the Group to capture fund raising opportunity when it arises to improve the Group's liquidity position, as the Group may not be able to procure investors for its Shares timely without sufficient general mandate when any unforeseen imminent funding needs arise prior to the 2024 AGM.

Taking into account that, as mentioned above, (i) the Group incurred losses from operations for FY2022 and 1H2023; (ii) the net current liabilities of the Group as at 30 June 2023; (iii) the funding needs of the Group for (a) repayment of its bank borrowings repayable within one year, of which approximately RMB14 million will fall due by June 2024, in case the Group is not able to obtain renewal of such borrowings from the relevant banks, (b) repayment of the whole or partial amount of the principal of the six-month Convertible Notes of up to approximately HK$28.29 million in case there is no extension of maturity date by the Noteholders and there is no or only partial conversion by the maturity date which is expected to be in June 2024 assuming the Convertible Notes are issued by December 2023; (iv) the tight liquidity of the Group taking into account its cash and cash equivalents as at 30 June 2023 of RMB5.4 million, which was far below the aforesaid amount of bank and other borrowings; (v) the Group has not reserved any financial reserves for settlement of the aforesaid borrowings; and (vi) the expected working capital needs of the Group in next 9 months up to June 2024 to finance its operation and settle its financing costs in case not sufficient internal resources are generated from its operation, we concur with the Directors' view that the Proposed Refreshment of General Mandate is beneficial to and fair and reasonable for the Group as it would provide the Company flexibility to raise more capital and improve its liquidity should appropriate opportunity arises.

3. Other financing alternatives

As stated in the Letter from the Board, apart from general mandate, the Directors have considered if any other fund raising alternatives such as debt financing, rights issue or open offer is appropriate, taking into consideration of the Group's financial position, capital structure, cost of funding and prevailing market condition.

As considered by the Directors, the debt financing may be subject to lengthy due diligence and negotiations as compared to the equity financing available to the Directors. Also, the upward trend of interest rates will impose a burden on the financial conditions and cash-flow of the Group. As evidenced by the Hong Kong dollar best lending rate quoted by the Hongkong and Shanghai Banking Corporation of 5.875% on 28 July 2023, up from 5.125% on 23 September 2022, the interest rates in Hong Kong have been increasing.

As further stated in the Letter from the Board, the Board is of the view that it is impracticable for the Company to obtain financing from the debt capital markets on terms favourable to the Group in the absence of material assets as security and in light of the net current liabilities of the Group. In addition, the Company did explore opportunities to seek for potential banking facility or bank loans and has commenced to approach a number of financial institutions. However, all of them refused to offer any loan facility as the Company could not provide any appropriate collateral requested by the banks.

We have reviewed and noted that, as shown in the table of "Financial position" under the paragraphs headed "1. Background of the Group" above, approximately RMB108.3 million or 66.3% over the total assets of the Group of approximately RMB163.3 million as at 30 June 2023 were the fair value of other financial assets as of that date, comprising unlisted equity securities of approximately RMB87.7 million and convertible loans to third parties of approximately RMB20.5 million. As stated in 2023 IR, most of those unlisted equity securities invested by the Group are emerging market growth companies, and some of which are in the stage of research and development. As advised by the Company, while the Company has no intention to realise the aforesaid investment at the current stage, it may consider to dispose of some of them to ease the Group's cash tight problem, depending on (i) the amount of funding required, for example, the principal amount of the six-month Convertible Notes fall due and not extended and/or converted; and (ii) the funding alternatives available at the relevant time. Nevertheless, it is uncertain if and when the Company can grasp the opportunity to realise those investment at a reasonable price beneficial to and in the interest of the Group and the Shareholders as those investment are unlisted and cannot be freely traded in securities market. As to those convertible loans to the third party of approximately RMB20.5 million, as advised by the Company, approximately RMB15.4 million out of which will mature in December 2023 and the Group intends to offer renewal to such third party having considered the development of such third party, and the balance of approximately RMB5.1 million will only mature after June 2024, thus no redemption money is expected to be received by the Group before the 2024 AGM.

Other assets of the Group as at 30 June 2023 mainly comprised property, plant and equipment, contract assets, prepayments or deposits and receivables required or derived in the Group's business operation and thus, as advised by the Company, which cannot be easily realised into cash in a short period of time to finance the repayment of bank borrowings as confirmed by the Group.

Other equity financing methods such as rights issue and open offer are considered to be more time and cost consuming than general mandate as prospectus and application/subscription form for the rights issue or open offer shares have to be prepared and despatched. And it will take a much longer time if general meeting is required to obtain shareholders' approval on the rights issue/open offer. According to the sample timetables stated in the guideline "Guide on Trading Arrangements for Selected Types of Corporate Actions" issued by the Stock Exchange, it is expected to take 29 to 33 business days to complete a rights issue or an open offer (from the announcement of the rights issue or open offer to the expected first day of dealings in the fully-paid rights shares or offer shares) assuming no general meeting is required to obtain shareholders' approval on the rights issue or open offer, and 41 business days if a general meeting is required.

We further understand from the Company that, compared to general mandate, fund raising by issue of shares under specific mandate would be less time and cost efficient taking into account the circular and shareholders' approval requirement. Also, the aforesaid preparation process for new issue will only commence after the fund raising opportunity arises in the future. The Proposed Refreshment of General Mandate is a comparatively lower monetary and time cost fund raising alternative that allows the Company to be ready to timely capture such opportunity once the New General Mandate is approved at the EGM.

Taking into consideration of the above, in particular, (i) net cash used in operating activities of RMB8.5 million for 1H2023 was recorded by the Group; (ii) uncertainty of disposal of the unlisted equity securities among the Group's other financial assets before the 2024 AGM; (iii) no redemption money is expected to be received by the Group from the convertible loans to other entities among the Group's other financial assets before the 2024 AGM; and (iv) general mandate is considered more time and cost efficient as compared with other alternative financing means, we concur with the Directors' view that the Proposed Refreshment of General Mandate which allows the Company to have sufficient flexibility to grasp appropriate fund-raising opportunities before the 2024 AGM is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Potential dilution effect to the existing public Shareholders

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the Conversion Price; and (iii) upon full utilisation of the New General Mandate (assuming there are no other changes to the issued share capital of the Company from the Latest Practicable Date):

	As at the Latest Practicable Date		**Immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the Conversion Price (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date)** *(Note 1)*		**Immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the Conversion Price and full utilisation of the New General Mandate (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date)** *(Notes 1 & 7)*	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Victory Glory Holdings Limited ("**Victory Glory**") *(Note 2)*	24,000,000	8.33	24,000,000	3.63	24,000,000	3.34
Properous Commitment Holdings Limited ("**Properous Commitment**") *(Note 3)*	10,320,000	3.58	10,320,000	1.56	10,320,000	1.44
Maria Rachel Mai Decolongon Tatoy *(Note 4)*	50,562,270	17.55	50,562,270	7.66	50,562,270	7.04

	As at the Latest Practicable Date		Immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the Conversion Price (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date) *(Note 1)*		Immediately after the allotment and issue of the Conversion Shares upon full conversion of the Convertible Notes at the Conversion Price and full utilisation of the New General Mandate (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date) *(Notes 1 & 7)*	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
***The Subscribers** (Note 5)*						
Diligent	16,653,287	5.78	339,159,142	51.37	339,159,142	47.24
Ms. Deng	—	—	15,349,276	2.32	15,349,276	2.14
Ms. Gong	—	—	34,358,947	5.20	34,358,947	4.79
Public Shareholders						
Tan Chiu Lan Francine	18,551,710	6.44	18,551,710	2.81	18,551,710	2.58
Other public Shareholders *(Note 6)*	167,964,686	58.31	167,964,686	25.44	167,964,686	23.40
Maximum number of Shares to be issued under the New General Mandate	—	—	—	—	57,610,390	8.03
Total	288,051,953	100.00	660,266,031	100.00	717,876,421	100.00

Notes:

1. This is for illustrative purpose only as under the terms of the Convertible Notes, conversion which will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code shall comply with the applicable laws and conversion which will cause the public float of the Shares to be less than 25% (or any given percentage under the Listing Rules) is prohibited.

2. Victory Glory is directly and wholly owned by Mr. Cheng Li, an executive Director.

3. Properous Commitment is directly held by TMF Trust (HK) Limited, a professional trustee engaged by the Company for the operation of the share award plan.

4. Ms. Maria Rachel Mai Decolongon Tatoy holds 23,920,322 Shares and 7,291,666 Shares, respectively through her wholly-owned companies, Prime Wish Limited and Bonus Shares Pte. Ltd and has personal interest of 19,350,282 Shares. She was a substantial shareholder of the Company as at the Latest Practicable Date and will be regarded as a public Shareholder as she will hold less than 10% of the issued share capital of the Company after the issue of the Conversion Shares upon full conversion of the Convertible Notes and full utilisation of the New General Mandate.

5. Prior to the full conversion of the Convertible Notes, Diligent is regarded as a public Shareholder and each of Ms. Deng and Ms. Gong does not hold any interest in the Company. Upon the full conversion of the Convertible Notes (assuming that there are no other changes to the issued share capital of the Company from the Latest Practicable Date), Diligent will become a controlling Shareholder and each of Ms. Deng and Ms. Gong will be regarded as a public Shareholder.

6. For illustrative purpose, the number of Shares held by public Shareholders does not include that held by Ms. Maria Rachel Mai Decolongon Tatoy.

7. Assuming the only one Share that may be further issued under the Existing General Mandate as at the Latest Practicable Date will not be utilised.

The New General Mandate, if granted, will replace the Existing General Mandate. As illustrated in the table above, the shareholding of the existing other public Shareholders will be diluted from 58.31% as at the Latest Practicable Date to 25.44% after issue of the Conversion Shares upon full conversion, and to 23.40% assuming full utilisation of the New General Mandate.

Taking into account (i) the Group's deteriorating financial performance for FY2022 and 1H2023, net current liabilities and cash position of the Group as at 30 June 2023; (ii) funding needs before the 2024 AGM and thus it is crucial for the Group to have flexibility for fund to improve its liquidity should opportunity arise; (iii) special mandate, rights issue and open offer are considered to be less time and cost efficient than general mandate; (iv) debt financing which has no dilution effect is considered to be difficult and not appropriate for the Group; (v) the shareholding interests of the existing other public Shareholders will be diluted from 25.44% (assuming issue of the Conversion Shares upon full conversion) to 23.40%, taking into account the effect of full utilisation of the New General Mandate which is not inter-conditional with the issue of the Convertible Notes, and this dilution impact is proportional to all the Shareholders; and (vi) the capital base of the Company will be enlarged upon utilisation of the New General Mandate, we concur with the Directors' view that the dilution effect on the shareholding interests of the existing public Shareholders as a result of the full utilisation of the New General Mandate is fair and reasonable and in the interest of the Company and the Shareholders.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that the Proposed Refreshment of General Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Proposed Refreshment of General Mandate.

Yours faithfully,
For and on behalf of
Capital 9 Limited

Chu Tat Hoi
Managing Director

Chan Man Yee
Director

Chu Tat Hoi and Chan Man Yee are licensed persons and responsible officers of Capital 9 Limited registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and have over 20 years and 15 years of experience in the corporate finance industry.