



红日资本有限公司
RED SUN CAPITAL LIMITED

13 May 2026

To: *The Independent Board Committee and the Independent Shareholders of
Top Form International Limited*

Dear Sirs or Madams,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 7th Renewal Agreement and the transactions contemplated thereunder (the “**Continuing Connected Transactions**”) as well as the proposed annual caps of the underlying transactions thereunder for the three years commencing from 1 July 2026 and ending on 30 June 2029 (the “**Proposed Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 13 May 2026 (the “**Circular**”) of which this letter forms part.

This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the 7th Renewal Agreement and the Proposed Annual Caps. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, in the past, the Company entered into the Master Agreement and renewed such agreement six (6) times with VDV with regard to the sale of ladies’ intimate apparel by the Group to VDV. Given that the 6th Renewal Agreement will expire on 30 June 2026 and the Continuing Connected Transactions are expected to continue on a recurring basis, the Company entered into the 7th Renewal Agreement with VDV to renew the terms of the Master Agreement for a further three years commencing from 1 July 2026 and ending on 30 June 2029 to continue the sale of ladies’ intimate apparel to VDV.

Given that (i) Mr. Herman Van de Velde, a non-executive Director of the Company, served as the non-executive director of VDV until 29 April 2026; and Ms. Lien Van de Velde, a non-executive Director of the Company, has been appointed as a non-executive director of VDV with effect from 29 April 2026 and she is an associate of Mr. Herman Van de Velde under Chapter 14A of the Listing Rules; and (ii) Mr. Herman Van de Velde holds an indirect equity interest of 58.42% in VDV via a controlled corporation; and (iii) VDV, a substantial shareholder of the Company, is beneficially and directly interested in approximately 25.66% of the entire issued share capital of the Company, the transactions between the Group and VDV contemplated under the 7th Renewal Agreement therefore constitute continuing connected transactions for the Company under Rule 14A.31 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the annual cap for each of the three financial years ending 30 June 2027, 2028 and 2029 exceeds 5%, the Continuing Connected Transactions are subject to the reporting, announcement, and Independent Shareholders' approval requirements, and annual review by the independent non-executive Directors and the auditors of the Company under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, each of Mr. Herman Van de Velde, Ms. Lien Van de Velde, VDV and their respective associates who is deemed to be interested in 77,258,590 Shares, representing approximately 25.66% of the entire issued share capital of the Company, will abstain from voting on the resolution in relation to the 7th Renewal Agreement and the Proposed Annual Caps of the underlying transactions to be passed at the SGM.

Save as aforesaid mentioned, based on the Letter from the Board, no other Shareholders have material interests in the 7th Renewal Agreement and are required to abstain from voting on the relevant resolution at the SGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Leung Churk Yin, Jeanny, Mr. Wang Man Hon, Sidney, Mr. Tai Lun, Paul and Mr. Frederic R. F. Lemoine, has been formed to advise the Independent Shareholders on, among other things, whether the Continuing Connected Transactions (together with the Proposed Annual Caps) are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Independent Shareholders as a whole.

Our appointment has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to (i) whether the Continuing Connected Transactions (together with the Proposed Annual Caps) are conducted in the ordinary and usual course of business, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the 7th Renewal Agreement and transactions to be contemplated thereunder, including the Proposed Annual Caps, at the SGM.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. In the previous two years from the date of the Circular, Red Sun has not acted as an independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company for any transaction. Apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management, were true and accurate at the time they were made and continue to be so as at the Latest Practicable Date.

The Directors jointly and severally accept full responsibility for the accuracy of the statements, information and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information in order to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

We have not, however, for the purpose of this exercise, conducted any independent verification, investigation or audit into the information provided by the Directors and the Management, business or affairs or future prospects of the Company, VDV and their respective shareholder(s) and subsidiaries or affiliates, and their respective history, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions (together with the Proposed Annual Caps) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and Proposed Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Information of the Group

1.1. Background information of the Group

The Company is an investment holding company. The principal business activities of the Group are the design, manufacture and distribution of ladies' intimate apparel, principally brassieres.

1.2. Historical financial performance of the Group

With a view to provide background information on the historical financial performance of the Group, we set out the following financial information of the Group as extracted and summarised from the Group's published annual report for the year ended 30 June 2025 (the "2025 Annual Report") and the Group's published interim report for the six months ended 31 December 2025 (the "2026 Interim Report").

Summary of the Group's revenue by operating segment:

	For the six months ended 31 December		For the year ended 30 June	
	2025 HK\$'000 (unaudited)	2024 HK\$'000 (unaudited)	2025 HK\$'000 (audited)	2024 HK\$'000 (audited)
Revenue	500,741	642,389	1,215,731	1,130,164
Loss for the year/period attributable to the Shareholders	(41,454)	(17,773)	(32,609)	(2,207)

For the six months ended 31 December 2025 ("1H2026") and 31 December 2024 ("1H2025")

As set out in the 2026 Interim Report, the Group's total revenue amounted to approximately HK\$500.7 million for 1H2026, representing a decrease of approximately 22.1% compared to approximately HK\$642.4 million for 1H2025. Such decrease was primarily attributable to lower order volumes from a major customer, reflecting active inventory management amid heightened geopolitical uncertainty, volatility in the global trade environment, and potential shifts in consumer demand related to expected pricing adjustments.

In terms of revenue generated by geographical segment for 1H2026, the largest geographical segment of the Group was the U.S., which accounted for approximately 72% of the Group's sales, followed by the European countries of approximately 12%, with the remaining revenue being generated from sales to the rest of the world.

For 1H2025 and 1H2026, the sales by the Group to VDV amounted to approximately HK\$47.9 million and HK\$44.8 million, representing approximately 7.5% and 8.9% of the Group's total revenue, respectively.

The Group recorded a loss for the 1H2026 attributable to its Shareholders of approximately HK\$41.5 million compared to a loss for the 1H2025 attributable to its Shareholders of approximately HK\$17.8 million. As set out in the 2026 Interim Report, the increase in loss was mainly attributable to the significant decrease in revenue.

For the year ended 30 June 2025 ("FY2025") and 30 June 2024 ("FY2024")

The Group's total revenue amounted to approximately HK\$1,215.7 million for FY2025, representing an increase of approximately 7.6% compared to approximately HK\$1,130.2 million for FY2024. As stated in the 2025 Annual Report, the increase in revenue was driven by higher sales to the customers in the U.S. and European customers.

In terms of revenue generated by geographical segment for FY2024 and FY2025, the largest geographical segment of the Group was the U.S.. In this connection, the Group generated approximately HK\$848.5 million and HK\$905.1 million of its sales revenue from the U.S., representing approximately 75.1% and 74.4% of the Group's total revenue for FY2024 and FY2025, respectively.

We also noted that the Group derived approximately HK\$153.7 million and HK\$157.1 million in revenue from sales to European countries, including Germany, Belgium and the Netherlands, for FY2024 and FY2025, respectively, representing an annual growth rate of approximately 2.2%. This accounted for approximately 13.6% and 12.9% of the Group's revenue for the respective financial years.

For FY2024 and FY2025, the sales by the Group to VDV amounted to approximately HK\$87.2 million and HK\$90.0 million, representing approximately 7.7% and 7.4% of the Group's total revenue, respectively.

The Group recorded a loss attributable to the shareholders of the Company of approximately HK\$32.6 million for FY2025, representing an increase of approximately 13.8 times as compared to approximately HK\$2.2 million for FY2024 attributable to, among others, the temporary suspension at Indonesian facility and additional tariff-related charges.

1.3. Information on the VDV

According to the latest published annual report of VDV for the year ended 31 December 2025¹ (the “**2025 VDV Annual Report**”), VDV, together with its subsidiaries, designs, develops, manufactures and markets fashionable premium lingerie. VDV works closely with specialty lingerie stores worldwide, as well as having their own retail network and brands. Their primary focus is on the European and North American markets.

Set out below is a summary of the VDV’s operating results for the financial years ended 31 December 2024 and 2025, extracted from the 2025 VDV Annual Report:

	For the year ended	
	31 December	
	2025	2024
	EURO'000	EURO'000
Turnover (<i>Note 1</i>)	202,361	206,435
– Eurozone (<i>Note 2</i>)	148,241	152,435
– Others (<i>Note 3</i>)	54,120	54,000

Notes:

- (1) For illustration purposes only, Euro is converted into HK\$ at the rate of EURO1:HK\$9.15. On this basis, turnover of VDV group is equivalent to approximately HK\$1.9 billion and HK\$1.9 billion for the year ended 31 December 2024 and 2025, respectively.
- (2) Eurozone markets for VDV mainly comprised of Germany, Belgium and the Netherlands.
- (3) Other market for VDV mainly comprised of United States of America, United Kingdom and Switzerland.

¹ VDV 2025 Annual Report (source: https://assets.ctfassets.net/3zzevkhc8io9/5gtjWYdX7ety2eh3wkGAuH/6d1727935d2b7109813b27c2988f1803/Integrated_annual_report_2025.pdf)

As illustrated above, VDV recorded a turnover of approximately EUR202.4 million for the year ended 31 December 2025, representing a decrease of approximately 2.0% compared with its revenue of approximately EUR206.4 million for the year ended 31 December 2024. Based on the half-year results of VDV for the six months ended 30 June 2025² (the “**2025 VDV Half-year Results**”), the turnover decreased by approximately 2.8% to EUR110.0 million for the six months ended 30 June 2025 compared approximately EUR113.3 million for the six months ended 30 June 2024. It is also noted from the annual results of VDV for the year ended 31 December 2025³ (the “**2025 VDV Annual Results**”) that VDV returned to revenue growth in the second half, driven by lingerie sales, and that VDV will continue to focus on strengthen its brands through further innovation of the product range and additional sales points.

1.4. Reasons for and benefits of the 7th Renewal Agreement

As stated in the Letter from the Board, the Group has been supplying ladies’ intimate apparel to VDV for the past 44 years and it is anticipated that the Group will continue to carry out such transactions on a recurring basis. In order to continue the sale of ladies’ intimate apparel by the Group to VDV, the Company entered into the 7th Renewal Agreement to renew the terms of the Master Agreement for a period of three years ending on 30 June 2029.

The transactions contemplated under the 7th Renewal Agreement are expected to continue on a recurring basis in the ordinary and usual course of business, on normal commercial terms agreed after arm’s length negotiations between the Group and VDV. For further details, please refer to the Letter from the Board.

Given that (i) the Group principally engages in the design, manufacture and distribution of ladies’ intimate apparel; (ii) Europe and United States of America are significant markets to the Group’s business; (iii) the Company has been supplying quality ladies’ intimate apparel to VDV for the past 44 years as part of the Group’s ongoing business; (iv) the Continuing Connected Transactions are a furtherance of the Group’s core business; (v) the Continuing Connected Transactions (together with the Proposed Annual Caps), if approved, would facilitate the Continuing Connected Transactions for the three years ending 30 June 2027, 2028 and 2029; and (vi) the Group has the right but not the obligation to confirm sales orders from VDV at terms determined in accordance with the relevant pricing policies, we concur with the Directors’ view that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

² VDV 2025 Half-year Results (source: https://assets.ctfassets.net/3zzevkhc8io9/4lpvqIKrN2AI2mzkuXg032/130d21f13ab45a00d4b9154a13d51d1d/27.08.2025_-_Press_release_half-year_results_2025.pdf)

³ VDV 2025 Annual Results (source: https://assets.ctfassets.net/3zzevkhc8io9/5IJEMB8F7eCiBx6Ch1hbSx/38b76ac527ee736a007086da035cc889/05.03.2026_-_Press_release_year_results_2025.pdf)

2. Terms of the 7th Renewal Agreement

On 23 April 2026, the Company entered into the 7th Renewal Agreement to renew the terms of the Master Agreement for a further three years commencing from 1 July 2026 to 30 June 2029 and facilitates the continuing sales of ladies' intimate apparel to VDV and its subsidiaries by the Group.

Pursuant to the pricing policy set out under the 7th Renewal Agreement, the actual pricing and the terms and conditions of payment shall be determined between the parties on each purchase order basis. The ladies' intimate apparel manufactured by the Group varies in design, features, complexity and manufacturing time. The selling price of each product is determined by reference to the total costs per product, plus a certain range of markup rate of no less than 5%. The markup rate is determined by reference to different product category and will be varied from different value-added procedures and manufacturing time of each product in different product category. Such sales made to VDV will be satisfied in cash within a period of 7 days or 10 days (applicable as the case may be).

In order to assess the reasonableness of the terms under 7th Renewal Agreement, we have obtained and reviewed (i) a total of 12 samples of sales record of ladies' intimate apparel between the Group and its customers, including sales to VDV and to its independent third-party customers for the comparable product type at the relevant time during the recent 12-month period in 2025 and 2026 on a random basis, the amount of which ranged from approximately US\$230 to not less than US\$79,000, which is considered to be sufficient for the purpose of our analysis; and (ii) a list of its customers that contain information in respect of the contribution margins received by the Group (for the comparable product type and quantity at the relevant time) from its customers for the two financial years ended 30 June 2025 and the six months ended 31 December 2025.

The VDV sample selection covered a range of product designs with various complexity, and we have also requested the Company to provide comparable products supplied to independent third-party customers which are comparable to the six sampled products supplied to VDV for comparison purposes. Given the Group manufactures a wide range of ladies' intimate apparel, which varies in design, features, complexity and manufacturing time, such factors would in turn affect the profit margin of a particular type of product. Taking into considering the above factors, the Management divided its ladies' intimate apparel into different product categories. The Management advised that the markup rate is determined by reference to different product category and varied for different product category and value-added procedures carried out by the Group for the subject product in different product categories. For the purpose of our analysis, we have requested and the Management has provided sales transactions with independent third-party customers of the similar product category as the sampled VDV sales transactions. We note that the profit margin of the sampled sales to VDV was no less favourable than the profit margin recorded from the comparable sampled sales to independent third-party customers.

Furthermore, given that the credit period offered to VDV, as stipulated in the 7th Renewal Agreement, is 7 days or 10 days (applicable as the case may be) and based on our review on the breakdown provided by the Management indicating that the credit period offered to independent third-party customers for the three years ended 30 June 2025 ranged from 15 to 120 days, it is noted that the credit period offered to VDV is not less favourable than those offered to independent third-party customers.

As set out in the Letter from the Board, all the price quotations to VDV would be prepared by the sales teams of the Group and subject to the review and pre-approval of an executive Director (who does not have any material interests in the transactions). The executive Director will compare the gross profit margin of sales to VDV to those of sales to other independent third-party customers of the same product category with similar features, complexity and manufacturing time. If the terms of the orders offered by VDV after the price negotiations are below the lower limit of the markup rate, the Group may choose not to accept the orders placed by VDV. By doing so, the Directors consider that the sales transactions are conducted on normal commercial terms and on terms no more favourable than those charged by the Group to other independent third-party customers and not prejudicial to the interests of the Company and its Shareholders as a whole.

As set out in the Letter from the Board, we noted that the Continuing Connected Transactions will be conducted in the ordinary and usual course of business, on normal commercial terms and on terms no more favourable than those charged by the Group to other independent third-party customers. Based on our analysis and work performed and given that the Continuing Connected Transactions are a furtherance of the Group's core business, we concur with the view of the Directors that the entering into the 7th Renewal Agreement is in the interests of the Company and the Independent Shareholders as a whole and its terms are fair and reasonable so far as the Independent Shareholders are concerned.

As stated in the Letter from the Board, in order to ensure that the transactions contemplated under the 7th Renewal Agreement will be conducted in accordance with the terms of the 7th Renewal Agreement and the pricing policy, the Company has adopted the following internal control procedures:

- The senior management of the Company will monitor the total transaction amounts and projected sales amount with VDV that may possibly be incurred in the coming months on a monthly basis to ensure the amount of transactions contemplated under the 7th Renewal Agreement will not exceed the proposed annual caps;
- The finance department of the Company will conduct regular checks on the sales transactions with VDV to monitor the transaction amounts and will review and assess the fairness of the transaction terms and pricing terms;
- The Company's external auditors will conduct annual review on the pricing policy and the annual caps of transactions contemplated under the 7th Renewal Agreement; and
- The independent non-executive Directors will conduct annual review on the transactions contemplated under the 7th Renewal Agreement and make annual confirmation in the Company's annual report.

Having considered that (i) the senior management of the Company will conduct monthly review to ensure that the transactions contemplated under the amount of transactions contemplated under the 7th Renewal Agreement will not exceed the proposed annual caps; (ii) the finance department of the Company will conduct regular checks on the sales transactions with VDV to monitor the transaction amounts and will review and assess the fairness of the transaction terms and pricing terms; and (iii) the Company's external auditor and the independent non-executive Directors will conduct annual review on the transactions contemplated under the 7th Renewal Agreement, we concur with the view of the Directors that the above internal control measures are sufficient to ensure that the transactions contemplated under the 7th Renewal Agreement are not more favourable than other independent third parties, and will be conducted on normal commercial terms and not prejudicial to the interest of the Company and the Independent Shareholders.

3. Basis for determining the Proposed Annual Caps

The table below sets forth the annual caps for the continuing connected transactions contemplated under the 6th Renewal Agreement for each of the three years ending 30 June 2026, the actual transaction amounts under the 6th Renewal Agreement for each of the FY2024, FY2025 and nine months ended 31 March 2026, and the relevant utilisation rate of the existing annual caps:

	Actual sales of ladies' intimate apparel by the Group to VDV (HK\$ million)	Sales to overall revenue for the respective year/period (%)	Annual caps (HK\$ million)	Respective annual/ period cap utilisation rate (%)
For the year ended:				
30 June 2024	87.2	7.7	130	67.1
30 June 2025	90.0	7.4	140	64.3
For the nine months ended:				
31 March 2026 (<i>unaudited</i>)	69.5	9.4	150	46.3
	(<i>annualised:</i> 92.7)			(<i>annualised:</i> 61.8)
	(<i>Note</i>)			(<i>Note</i>)

Note: For illustration purposes only, annualised utilisation rate is calculated based on sales to VDV for the nine months ended 31 March 2026.

As set out in the above table, for each of the FY2024, FY2025 and nine months ended 31 March 2026, the aggregate value of sales of ladies' intimate apparel to VDV amounted to approximately HK\$87.2 million, HK\$90.0 million and HK\$69.5 million, respectively, representing approximately 7.7%, 7.4% and 9.4% of the Group's revenue of the respective financial year/period. The respective utilisation rate for the annual caps for the two financial years ended 30 June 2025 and the nine months period ended 31 March 2026 are approximately 67.1%, 64.3% and 46.3%, respectively.

For illustration purposes only, the annualised utilisation rate calculated based on the nine months ended 31 March 2026 compared to the annual cap for the year ending 30 June 2026 is approximately 61.8%. The Management advised that the aforesaid utilisation rate of the annual cap, which has been around 60% to 70% level, rather than an even higher utilisation rate was primarily attributable to the then challenging business environment.

In terms of monetary value, the actual sales of ladies' intimate apparel by the Group to VDV actual increased slightly by approximately HK\$2.8 million from FY2024 to FY2025, and the annualised amount based on the nine months ended 31 March 2026 is broadly in line with that of the actual amount for the year ended 30 June 2025.

The following sets forth the Proposed Annual Caps under the 7th Renewal Agreement for the three years ending 30 June 2027, 2028 and 2029 (“FY2027”, “FY2028” and “FY2029”, respectively):

	For the year ending		
	30 June 2027	30 June 2028	30 June 2029
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Proposed Annual Caps	120	130	140
	(the “2027 Annual Cap”)	(the “2028 Annual Cap”)	(the “2029 Annual Cap”)

According to the Letter from the Board, the Proposed Annual Caps under the 7th Renewal Agreement were determined after taking into account: (i) the historical sales of ladies' intimate apparel as mentioned above and the estimate sales to VDV for the year ending 30 June 2026 (“FY2026”); (ii) the discussions between the Management and VDV in arriving at the annual caps and the estimated sales to VDV for the three financial years ending 30 June 2029; (iii) provision of more value added production procedures and technology; and (iv) the prevailing and the expected market conditions. The Directors are of the view that the Proposed Annual Caps are fair and reasonable, on normal commercial terms and in the interest of the Company and Shareholders as a whole.

For the avoidance of doubt, the Proposed Annual Caps represent the maximum value of sales by the Group to VDV in each year and there is no minimum or implied value of sales in each of these years.

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have reviewed and discussed the information provided by the Management, namely the estimated average sales price, the estimated sales volume and a buffer for each of the three years ending 30 June 2029.

We note that the aggregate value of sales of ladies' intimate apparel to VDV with respect to the Group's revenue fluctuated slightly, being approximately HK\$47.9 million for 1H2025 and approximately HK\$44.8 million for 1H2026, representing a decrease of approximately 6.5%.

However, we also noted that the sales of ladies' intimate apparel to VDV in terms of percentage of the Group's overall revenue increased from approximately 7.5% for 1H2025 to 8.9% for 1H2026 of the Group's total revenue as the overall revenue of the Group has decreased during the subject period.

In addition, the aggregate sales value of ladies' intimate apparel to VDV with respect to the Group's total revenue increased from approximately HK\$87.2 million for FY2024 to approximately HK\$90.0 million for FY2025, representing approximately 7.7% and 7.4% of the Group's total revenue, respectively.

For illustration purposes, given the historical fluctuations of the actual sales to VDV from year to year, we have compared the highest sales value of ladies' intimate apparel to VDV, being approximately HK\$90.0 million for FY2025, against the 2027 Annual Cap of HK\$120.0 million, which is already HK\$30 million lower than the HK\$150.0 million annual cap for the year ending 30 June 2026. With a view to assess the fairness and reasonableness of the 2027 Annual Cap, we have considered factors including, among others, (i) the 2027 Annual Cap is primarily made of two product categories, namely garments and cups, the demand of each are market driven and may fluctuate from year-on-year; (ii) the costs of manufacturing are mainly based on the local currency, namely, Thai baht and RMB. We noted from exchange rate published by Bangkok Bank and The Hong Kong Association of Banks that from the beginning to the end of 2025, Thai baht currency has appreciated approximately 8.7% and RMB has appreciated approximately 4.5% against the Hong Kong dollar, respectively. The 2027 Annual Cap needs to have sufficient room to cater for currency appreciation, which may led to a raise in value in HKD/USD, being the transaction currency; (iii) notwithstanding that there was a slight decrease in aggregate value of sales to VDV for 1H2026 as compared to that for 1H2025, its proportional contribution to the Group's total revenue trended upwards from 7.5% for 1H2025 to 8.9% for 1H2026, representing a meaningful portion of the Group's revenue, hence, with a business relationship with VDV spanning over four decades, VDV continues to be a valued long-term customer to the Group's business as a whole; (iv) as set out in the Letter from the Board, the year-on-year growth rate of sales to VDV for FY2025 amounted to 3.2% and the expected year-on-year growth rate of projected sales to VDV for FY2026 amount to 4.4%; (v) according to a publication by the International Monetary Fund ("IMF") titled "IMF Executive Board Concludes 2026 Article IV Consultation with Kosovo"⁴ dated 1 April 2026, the headline inflation continued to rise, reaching approximately 5.75% in January 2026 and inflation is expected to accelerate to 5.9% in 2026 before a gradual decline; and (vi) the ongoing conflict in the Middle East, which may or may not be prolonged, already had and/or may have a notable impact on oil and gas prices, which affects a range of costs from logistics (air, sea and land transportation costs), electricity, heating, packaging costs to worker's salaries, such potential increases will also have to be catered for. Given the aforesaid reasons and factors, we considered the 2027 Annual Cap to be fair and reasonable.

⁴ Source: <https://www.imf.org/en/news/articles/2026/04/01/pr-26101-kosovo-imf-executive-board-concludes-2026-art-iv-consult>

As for assessing the fairness and reasonableness of the 2028 Annual Cap and 2029 Annual Cap, each represents a year-on-year increase of approximately 8.3% and 7.7%, we have considered the following factors, namely (i) the historical year-on-year fluctuations during the years ended 30 June 2024 and 2025, and nine months 31 March 2026 in sales to VDV; (ii) the potential increase in prices of the products and/or any ad hoc orders from VDV attributable to unforeseen market demand; (iii) the historical fluctuations in local currencies (i.e. Thai baht and RMB) against the transaction currency (USD/HKD); and (iv) the prolonged and/or escalations in the conflict in the Middle East, which may cause persistent inflation and increase in costs. Given the aforesaid reasons and factors, we considered the year-on-year increase as represented by the 2028 Annual Cap and 2029 Annual Cap, as well as the 2028 Annual Cap and 2029 Annual Cap to be fair and reasonable.

Furthermore, according to the pricing policy of the 7th Renewal Agreement, the selling price of each product is determined by reference to the total costs per product plus a certain range of markup rate and the selling price together with the mark up rate of different product category will be varied from different value-added procedures and manufacturing time of each product in different product category. We have discussed the basis and assumptions with the Management that the additional costs for the value-added production procedures may further increase the costs of production and the selling price. On the aforementioned basis, we consider that it is reasonable for the Directors to make reference to the aforesaid factors as the basis to determine the Proposed Annual Caps of HK\$120 million, HK\$130 million and HK\$140 million for each of the three financial years ending 30 June 2027, 2028 and 2029, respectively.

Having considered the aforesaid factors, in particular (i) the historical transaction amounts with VDV compared to the Proposed Annual Caps; (ii) the well-developed distribution channel of VDV within the lingerie market in Europe and the U.S., both being important markets of the Group in the past; (iii) the factors and reasons as analysed in this section above; (iv) the lowering of the 2027 Annual Cap as compared to the historical annual caps; (v) the sales to VDV shall be conducted on terms no less favourable to the Company than comparable sales to independent third-party customers; and (vi) the Continuing Connected Transactions are a furtherance of the Group's core business, we consider that the Proposed Annual Caps of HK\$120 million, HK\$130 million and HK\$140 million for each of the three financial years ending 30 June 2027, 2028 and 2029 to be fair and reasonable so far as the Independent Shareholders are concerned.

VI. RECOMMENDATION

Having taken into account of the above factors and reasons as set out above, we are of the view that the 7th Renewal Agreement (including the Proposed Annual Caps) is in the ordinary and usual course of business of the Group and on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole, and the terms of the 7th Renewal Agreement and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the 7th Renewal Agreement and the Proposed Annual Caps at the SGM.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited



Jimmy Chung
Managing Director

Mr. Jimmy Chung is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in the corporate finance industry.