19 December 2022

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

CONNECTED TRANSACTION; PROPOSED ISSUE OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 19 December 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

On 29 April 2022, the Company issued the 2024 Bonds with an aggregate principal amount of HK$250.2 million to the Subscriber. The 2024 Bonds are unsecured and carry interest at 4.5% per annum on the outstanding principal amount, and will fall due on 31 December 2024. According to the Letter from the Board, as at the Latest Practicable Date, the aggregate outstanding principal amount of the 2024 Bonds amounted to HK$220 million.

On 16 November 2022 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company conditionally agrees to issue and the Subscriber conditionally agrees to subscribe for the Convertible Bonds in the principal amount of HK$220 million. The Subscription Price shall be set off against the outstanding principal amount of HK$220 million under the 2024 Bonds held by the Subscriber at Completion. Upon Completion, the obligation and liability of the Company to the Subscriber under the 2024 Bonds will be extinguished.

As at the Latest Practicable Date, the Subscriber is beneficially and ultimately owned by Mr. Mak, being the chairman, the chief executive officer, an executive Director and the controlling Shareholder of the Company, and is a connected person of the Company under Chapter 14A of the Listing Rules. Mr. Mak holds 25,589,652 Shares and is deemed under Part XV of the SFO to be interested in an aggregate of 446,025,079 Shares held by Capital Winner, New Capital and Capital Force, representing approximately an aggregate of 54.01% of the total number of issued Shares. Accordingly, the Subscription constitutes a connected transaction on the part of the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, the Convertible Bonds and the Conversion Shares will be issued under the Specific Mandate which is subject to Independent Shareholders' approval at the SGM.

Mr. Mak has abstained from voting on the resolutions in relation to the Subscription Agreement proposed to the Board. Save as disclosed, none of the Directors attended the Board meeting has a material interest in the Subscription.

The Independent Board Committee, comprising all the independent non-executive Directors of the Company, namely Mr. Chen Li, Mr. Chow Siu Ngor and Mr. Lau Ho Kit, Ivan, has been established to consider, and to advise the Independent Shareholders regarding the Subscription Agreement and the transactions contemplated thereunder as to whether the Subscription is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate). As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to 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, no arrangement exists whereby we had received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds).

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, amongst other things, (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the Management for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and up to the Latest Practicable Date and may be relied upon. We have also assumed that all such statements of belief, opinions and intention of the Directors and/or Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and/or the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so up to the Latest Practicable Date.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and/or the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, or any of their respective subsidiaries and associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds). Except for its inclusion in the Circular and for the purpose of the SGM, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Subscription Agreement and the transactions contemplated thereunder (including issue of the Convertible Bonds), we have considered the following principal factors and reasons:

1. Information on the Company

1.1. Background of the Company

The Company is an investment holding company. As at the Latest Practicable Date, the Group is principally engaged in (i) property business; (ii) securities business; (iii) Blackbird Group's multi-faceted automotive business; (iv) investment in collectible precision devices; and (v) cultural entertainment business.

1.2. Financial information of the Group

Set forth below are the audited financial information of the Group extracted from the annual report of the Company for the two years ended 31 December 2020 and 2021, respectively ("**FY2020**" and "**FY2021**", respectively) and the unaudited financial information of the Group extracted from the interim report of the Company for the six months ended 30 June 2021 and 2022, respectively ("**6M2021**" and "**6M2022**", respectively):

1.2.1 Consolidated financial performance of the Group

	FY2020 *HK$ million* (audited)	**FY2021** *HK$ million* (audited)	**6M2021** *HK$ million* (unaudited)	**6M2022** *HK$ million* (unaudited)
Revenue	**505**	**731**	**282**	**394**
– Property business	11	10	4	5
– Securities business	–	–*(Note 1)*	–	–
– Blackbird Group's multi-faceted automotive business *(Note 2)*	439	636	248	352
– Cultural entertainment business	20	45	12	15
– Other operations	35	40	18	22
Loss before taxation for the year/period from continuing operations	**(698)**	**(521)**	**(84)**	**(19)**
Loss after taxation for the year/period from continuing operations	**(693)**	**(521)**	**(84)**	**(19)**
Loss for the year/period from a discontinued operation *(Note 3)*	(3)	–	–	–
Loss for the year/period	**(696)**	**(521)**	**(84)**	**(19)**

Notes:

1. Less than HK$1 million.

2. The Blackbird Group, is principally engaged in (i) the official dealership of Ferrari in Hong Kong and the Macau Special Administrative Region of the PRC ("**Macau**"), including the repair and servicing business; (ii) as from April 2022, the official importership of Maserati in Hong Kong and Macau, also including the repair and servicing business; (iii) classic cars trading and investment business; and (iv) car logistics business.

3. On 24 July 2020, the Company announced the decision of its Board to terminate the industrial product business segment of the Group as a result of the deteriorating operating environment.

For FY2020 and FY2021

The Group's revenue increased from approximately HK$505 million for FY2020 to approximately HK$731 million for FY2021, representing an increase of approximately HK$226 million, or 44.8%. Such increase was driven mainly by the gradual resumption of the daily operations of the Group as effected by the outbreak of COVID-19 and the recovery of the Blackbird Group's multi-faceted automotive business segment. The revenue of the Blackbird Group's multi-faceted automotive business segment amounted to approximately HK$636 million for FY2021, representing an increase of approximately HK$197 million or about 44.9% as compared with that of approximately HK$439 million for FY2020, which was primarily attributable to the recovery of the Ferrari dealership business for FY2021.

The Group recorded net loss of approximately HK$521 million for FY2021, representing a decrease of approximately HK$175 million or about 25.1% as compared with net loss of approximately HK$696 million for FY2020. Net loss for FY2021 was mainly attributable to the net effect of (i) unrealised revaluation losses of approximately HK$287 million, arising from fair value changes of the Group's 29.19% shareholdings in GBA Holdings Limited (stock code: 0261.HK); (ii) loss of approximately HK$63 million arising from impairment of goodwill in respect of the audio and lighting operations; and (iii) expected credit loss provision of approximately HK$4 million against the remaining consideration arising from disposal of the audio and light business in Macau.

For the 6M2021 and the 6M2022

The Group's revenue increased from approximately HK$282 million for the 6M2021 to approximately HK$394 million for the 6M2022, representing an increase of approximately HK$112 million, or 39.7%. Such increase was mainly due to the increased revenue of Blackbird Group's multifaceted automotive business segment attributable to the improved sale of classic cars where businesses in general have gradually resumed to normal operation. The revenue of the Blackbird Group's multi-faceted automotive business segment amounted to approximately HK$352 million for the 6M2022, representing an increase of approximately HK$104 million or about 41.9% as compared with that of approximately HK$248 million for the 6M2021.

The Group recorded net loss of approximately HK$19 million for the 6M2022, representing a decrease of 77.4% as compared to net loss of approximately HK$84 million for the 6M2021. Such decrease in net loss was mainly attributable to a gain of approximately HK$93 million in legal proceedings in relation to the intended sale and purchase of a commercial development project in Hong Kong and the car park development at the same premises initiated by the Group in 2013 and were settled in March 2022.

1.2.2 Consolidated financial position of the Group

	As at 31 December		As at 30 June
	2020	**2021**	**2022**
	HK$ million (audited)	*HK$ million* (audited)	*HK$ million* (unaudited)
Total assets	4,481	4,048	4,032
Total liabilities	2,330	2,418	2,419
Net assets	2,151	1,630	1,613

As at 31 December 2020 and 2021

As depicted from the table above, net assets of the Group decreased from approximately HK$2,151 million as at 31 December 2020 to approximately HK$1,630 million as at 31 December 2021, representing a decrease of approximately HK$521 million or approximately 24.2%. Such decrease was mainly attributable to the decrease of financial assets at fair value through profit or loss of the Group by approximately HK$287 million in relation to the Group's listed equity investment, decrease of goodwill of the Group by approximately HK$63 million in relation to stage audio, lighting and engineering operations, and the increase in other borrowings and contract liabilities of the Group by approximately HK$73 million and HK$54 million, respectively.

As at 31 December 2021 and 30 June 2022

Net assets of the Group remained stable in an amount of approximately HK$1,630 million and HK$1,613 million as at 31 December 2021 and 30 June 2022, respectively.

2. Information of the Subscriber

The Subscriber is an investment holding company. The Subscriber is beneficially and ultimately owned by Mr. Mak, being the chairman, the chief executive officer, an executive Director and the controlling Shareholder of the Company, and is a connected person of the Company under Chapter 14A of the Listing Rules.

3. Reasons for and benefits of the Subscription

As stated in the Letter from the Board, as at the Latest Practicable Date, the aggregate outstanding principal amount of the 2024 Bonds held by the Subscriber amounted to HK$220 million which will fall due on 31 December 2024. The 2024 Bonds shall be redeemable at the option of the Company at any time on or before 31 December 2024. By entering into the Subscription Agreement, the aggregate outstanding principal amount of the 2024 Bonds held by the Subscriber will be set-off against the Subscription Price in full, and the obligation and liability of the Company to the Subscriber under the 2024 Bonds will be extinguished upon Completion. The Directors are of the view, and we concur, that the issue of the Convertible Bonds at the Subscription Price for the purpose of setting off against the equivalent aggregate outstanding principal amount under the 2024 Bonds held by the Subscriber allows the Company (i) to retain its financial resources for a longer period of time and represents an opportunity to enhance the working capital of the Company; and (ii) would not incur immediate cash outflow in the settlement of the aggregate outstanding principal amount of the 2024 Bonds, thus providing more flexibility to the Company in terms of its future cash management. Notwithstanding the potential dilution on shareholding of the Shareholders upon conversion of the Convertible Bonds, the conversion would strengthen the capital base and reduce the liability of the Company, and thus improve the financial position of the Company as a whole.

With reference to the interim report for the six months ended 30 June 2022 of the Company (the "**2022 Interim Report**"), it is noted that the cash and cash equivalents (excluding pledged time deposits of approximately HK$40 million) of the Group amounted to approximately HK$23 million as at 30 June 2022. The current balance of cash and cash equivalents is considered unable to cover the aggregate outstanding principal amount of HK$220 million of the 2024 Bonds. Moreover, as advised by the Management that the cash and cash equivalents has been earmarked: (i) to finance the Group's operation and working capital; and (ii) to finance the Group's business plan of building up the Blackbird Group to become one of the global leaders in the automotive sector in the near future.

As discussed with the Management, the Company has considered various financing alternatives for the Group to raise funds apart from the Subscription, including but not limited to the debt financing, the pure equity financing, such as rights issue, open offer or placing of new Shares to settle the 2024 Bonds and the disposal of assets.

In terms of obtaining bank borrowings from commercial banks, the Management is of the view that the ability of the Group to obtain bank borrowings usually depends on the Group's profitability and financial position as well as the prevailing market condition and may be subject to lengthy due diligence exercises, banks' internal risk assessments and negotiations with commercial banks that usually require pledge of assets by the borrower. With reference to the 2022 Interim Report, it is noted that as at 30 June 2022, the Group has already pledged certain leasehold land and buildings, properties, inventories and time deposits, with a total carrying value of collateral of approximately HK$2,295 million for the Group's interest-bearing bank borrowings. Given the loss position of the Group and the level of assets being pledged, the Management anticipated that the commercial banks would generally require higher interest rate for any possible debt financing instruments as compared to that of the Convertible Bonds. As such, we concur with the view of the Management that debt financing from commercial banks would not be easily accessible and would bring about undesirable effects to the financial position of the Group.

The Management has also considered that if the Company were to raise the necessary funds by way of placing of new Shares, rights issue or open offer, the subscription price would have to be set at a deep discount to the prevailing market price of the Shares so as to attract potential investors and/or existing Shareholders. In addition, rights issue or open offer of new Shares is subject to underwriting uncertainty and market risks whilst any arm's length underwriting arrangement is normally subject to standard force majeure clauses in favour of the underwriter and may generally incur higher transaction costs (i.e. underwriting and other related fees).

In addition, the management further considered raising funds through the disposal of assets, such as the investment properties held by the Group which were valued at the amount of approximately HK$1,643 million as at 30 June 2022. We concur with the view of the Board that it is not a suitable time to dispose of such investment properties for the purposes of redeeming the 2024 convertible Bonds, taking into account the (i) recent poor market sentiment and performance in the Hong Kong property market; (ii) the uncertainties and disruptions caused by the COVID-19 outbreak; (iii) the high transaction costs involved in the disposal of such investment properties; and (iv) the lengthy process in identifying purchasers of the investment properties.

Moreover, the Company will be released from the repayment obligation at maturity if the Convertible Bonds are fully converted into Convertible Shares prior to the Maturity Date. Taking into account of the above factors, the Management is of the view and we concur that, the issue of the Convertible Bonds is preferable as compared to pure equity financing.

Furthermore, based on the analysis on the market price and the trading volume of the Shares during the Review Period (as herein defined) as below, given the declining trend of the Share price of the Company and the downward pressure due to the thin trading liquidity, the ultimate beneficial owner of the Subscriber, Mr. Mak, demonstrated his confidence towards the future prospects of the Company and his support for the Group's business development.

According to the Letter from the Board, pursuant to the relevant bank facility agreement in relation to the bank borrowings of the Group, the Group is required to maintain a minimum level of Shareholders' equity. Upon Completion, the liabilities of the Group will be reduced as the issue of the Convertible Bonds at the Subscription Price will be set off against the outstanding principal amount of the 2024 Bonds and part of the Convertible Bonds will be recognised as the equity portion. As such, the Board considers that the Subscription will improve its equity position, its gearing ratio and ensure its compliance with the relevant requirement under the relevant bank facility agreement.

Having considered that the Subscription (i) the Convertible Bonds have a longer term to maturity as compared that of the 2024 Bonds; (ii) would enable the Company to retain its financial resources for a longer period of time, improve the gearing of the Company and represents an opportunity to enhance the working capital of the Company; (iii) would not incur immediate cash outflow in the settlement of the aggerate outstanding principal amount of the 2024 Bonds held by the Subscriber, thus providing more flexibility to the Company in its future cash management; (iv) the conversion of the Convertible Bonds (if any) may also strengthen the capital base and reduce the liability of the Group, and thus improve the financial position of the Group; (v) the Company's current balance of cash and cash equivalents is unable to cover the aggerate outstanding principal amount of the 2024 Bonds; (vi) is an appropriate financing option for the Group as compared with other financing alternatives; and (vii) demonstrates the confidence of Mr. Mak toward the future prospects of the Company, we concur with the Management that the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

4. The Subscription

Set forth below are the principal terms of the Subscription Agreement:

Date: 16 November 2022 (after trading hours)

Parties: (i) the Company, as the issuer; and

(ii) the Subscriber

The Subscriber is beneficially and ultimately owned by Mr. Mak, being the chairman, the chief executive officer, an executive Director and the controlling Shareholder of the Company, and is a connected person of the Company under Chapter 14A of the Listing Rules

Subscription Price: HK$220,000,000

The Subscription Price shall be set off against the outstanding principal amount of HK$220,000,000 under the 2024 Bonds held by the Subscriber at Completion.

Conditions precedent: Completion shall be subject to the following conditions precedent having been satisfied or fulfilled:

(i) the passing by the Independent Shareholders of relevant resolution(s) at the SGM in compliance with the requirements of the Listing Rules approving: (a) the Subscription Agreement and the transactions contemplated thereunder; and (b) the issue of the Convertible Bonds and the Specific Mandate for the allotment and issue of the Conversion Shares to holder(s) of the Convertible Bonds in accordance with the terms and conditions of the Convertible Bonds;

(ii) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;

(iii) all necessary consents and approvals required to be obtained on the part of the Subscriber in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained;

(iv) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds;

(v) none of the warranties given by the Company under the Subscription Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect;

(vi) none of the warranties given by the Subscriber under the Subscription Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect; and

(vii) the Increase in Authorised Share Capital having become effective.

The Company shall use its best endeavours to procure the fulfilment of the conditions precedent set out in conditions (i), (ii), (iv), (v) and (vii) above as soon as practicable and in any event on or before the Long Stop Date. The Subscriber shall use its best endeavours to procure the fulfilment of the conditions precedent set out in conditions (iii) and (vi) above as soon as practicable and in any event on or before the Long Stop Date. The conditions precedent set out in conditions (i), (ii), (iii), (iv) and (vii) are incapable of being waived. The Subscriber may at any time by notice in writing to the Company waive the condition set out in condition (v) above. The Company may at any time by notice in writing to the Subscriber waive the condition set out in condition (vi). As at the Latest Practicable Date, none of the conditions precedent set out above has been fulfilled.

Principal terms of the Convertible Bonds

Issuer:	The Company
Subscriber:	Treasure Goal International Limited, which is principally engaged in investment holding
Issue Price:	100% of the principal amount
Principal amount:	HK$220,000,000
Conversion Price:	The Conversion Price per Conversion Share shall be HK$0.16, subject to adjustments as hereafter described

Adjustment events: The Conversion Price shall from time to time be subject to adjustment upon occurrence of the following events:

(a) ***Consolidation, sub-division or re-classification of the Shares***

If and whenever the Shares by reason of any consolidation, sub-division or re-classification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation, sub-division or re-classification becomes effective.

(b) ***Capitalisation of profits or reserves***

If and whenever the Company shall issue (other than in lieu of the whole or part of a cash dividend and other than issue that would amount to a capital distribution) any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{A + B}$$

where:

A = the aggregate nominal amount of the issued Shares immediately before such issue; and

B = the aggregate nominal amount of the Shares issued in such capitalisation.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for such issue.

(c) Capital distribution

If and whenever the Company shall make any capital distribution to the Shareholders (in their capacity as such) (whether on a reduction of capital or otherwise) or shall grant to such holders right(s) to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the next preceding day of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by (i) an independent financial adviser which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO; or (ii) the auditors for the time being of the Company or, if there shall be joint auditors, any one or more of such auditors or, in the event of their being unable or unwilling to carry out any action requested of them, such other firm of accountants of international repute as may be nominated by the Company (the "**Independent Adviser**"), of the portion of the capital distribution or of such rights which is attributable to one Share. For avoidance of doubt, if the capital distribution is distributions in cash the fair market value shall be the cash value and determination by the Independent Adviser is not required.

Provided that (aa) if in the opinion of the Independent Adviser, the use of the fair market value as aforesaid produces a result which is significantly inequitable, the Independent Adviser may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the capital distribution or rights; and (bb) the provisions of this paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day following the record date for the capital distribution or grant.

(d) Issue of Shares for subscription by way of rights

If and whenever the Company shall offer to Shareholders new Shares for subscription by way of rights, or shall grant to Shareholders any options or warrants to subscribe for new Shares, at a price which is less than 90% of the market price on the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price per Share; and

C = the aggregate number of Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant.

Provided however that no such adjustment shall be made if the Company shall make a like offer or grant (as the case may be) at the same time to the holder(s) of the Convertible Bonds (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) as if they had exercised the conversion rights under the Convertible Bonds registered in their Bondholder holds of the Convertible Bonds out of the total principal amount of the Convertible Bonds outstanding at the time of the proposed redemption.

(e) ***(aa) Issue of convertible or exchangeable securities***

If and whenever the Company shall issue wholly for cash or for reduction of liabilities any securities or for acquisition of asset convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration per Share (as defined in this paragraph (e) below) initially receivable for such securities is less than 90% of the market price on the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of the issue;

B = the number of Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price per Share; and

C = the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective on the date of the issue.

(bb) Modification of rights of convertible or exchangeable securities

If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this paragraph (e) are modified so that the total Effective Consideration per Share (as defined below) initially receivable for such securities shall be less than 90% of the market price on the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such modification;

B = the number of Shares which the total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price; and

C = the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of the Conversion Price provided that corresponding adjustment has already been made to the Conversion Price in respect of such an event.

For the purposes of this paragraph (e), the "**total Effective Consideration**" receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities or the aggregate consideration deemed to be paid for such securities on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

(f) ***Issue of Shares being made wholly for cash or for reduction of liabilities at a price less than 90% of the market price per Share***

If and whenever the Company shall issue wholly for cash or for reduction of liabilities any Shares at a price per Share which is less than 90% of the market price on the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the aggregate amount payable for the issue would purchase at such market price; and

C = the number of Shares so issued.

Such adjustment shall become effective on the date of the issue.

(g) If and whenever the Company shall issue Shares for the acquisition of asset at a total Effective Consideration per Share (as defined in this paragraph (g) below) which is less than 90% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A = the number of Shares in issue immediately before the date of such announcement;

B = the number of Shares which the total Effective Consideration receivable for the securities issued would purchase at such market price per Share; and

C = the number of Shares so issued.

For the purpose of this paragraph (g) "**total Effective Consideration**" shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the "**total Effective Consideration per Share**" shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.

Interest rate: 4.5% per annum (payable monthly)

Conversion Shares: Based on the principal amount of the Convertible Bonds of HK$220,000,000, the Convertible Bonds are convertible into 1,375,000,000 Conversion Shares at the initial Conversion Price of HK$0.16 per Conversion Share (subject to adjustments)

Conversion Period: The period commencing from the issue date of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the day immediately prior to and exclusive of the Maturity Date

Conversion rights and restrictions: The holder(s) of the Convertible Bonds shall, subject to compliance with the procedures set out in the terms and conditions thereunder, have the right at any time during the conversion period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in its name into the Conversion Shares provided further that (i) any conversion shall be made in amounts of not less than a whole multiple of HK$500,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK$500,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted; and (ii) the exercise of the conversion rights attached to the Convertible Bonds will not cause the Company to be unable to meet the public float requirement under the Listing Rules.

Early redemption at the option of the Company: The Company shall be entitled at its sole discretion, by giving not less than seven (7) days' notice to the holder(s) of the Convertible Bonds, propose to the holder(s) to redeem the outstanding Convertible Bonds (in multiples of HK$500,000 or such lesser amount as may represent the entire principal amount thereof) an amount equivalent to 100% of the principal amount of such outstanding Convertible Bonds at any time after the date of issue of the Convertible Bonds up to and including the date falling seven (7) days immediately before the maturity date of the Convertible Bonds.

Ranking:	The Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the relevant conversion date including the right to all dividends or other distributions, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the relevant conversion date.
Maturity date:	31 December 2025
Voting rights:	The holder(s) of the Convertible Bonds shall not have any right to attend or vote in any general meeting of the Company
Transferability:	Subject to compliance with the Listing Rules, the Convertible Bonds may be transferred or assigned in whole or in part in integral multiples of HK$500,000 by the holder(s) of the Convertible Bonds to any party, save and except that the Convertible Bonds shall not be transferred to a connected person of the Company unless with the prior written consent of the Company
Security:	The obligations of the Company under the Convertible Bonds are unsecure

4.1 Analysis of the principal terms of the Convertible Bonds

In order to assess fairness and reasonableness of the principal terms of the Convertible Bonds, as part of our due diligence work, we have identified and reviewed an exhaustive list of ten comparable transactions (the "**Comparable CBs**") announced by companies listed on the Main Board of the Stock Exchange during the three month period immediately prior to and including the date of the Announcement (the "**Review Period**").

We consider that the Review Period is adequate and appropriate to serve as a general reference and is able to capture the recent market practice in relation to the issue of convertible bonds for financing purposes of listed companies in Hong Kong under similar market condition and sentiment. In addition, given the similar nature of the convertible bonds in general, we consider that the Comparable CBs are a fair and representative comparison of recent market practices in relation to the issue of convertible bonds as means of financing. Independent Shareholders should, however, note that the businesses, operations and prospects of the Group are not the same as the Comparable CBs, and accordingly the Comparable CBs are only used to provide a general reference for the common market practice in recent issuance of convertible bonds by the companies listed on the Main Board of the Stock Exchange. Sets out below is the summary table of the Comparable CBs:

Date of announcement	Name of Company	Stock code	Maturity *(years)*	Interest rate per annum	Premium/(discount) of conversion price over/(to) The closing price as at the last trading day prior to/on the date of the announcement	Premium/(discount) of conversion price over/(to) The average closing price for the last five consecutive trading day immediately prior to/up to and including the date of respective agreement	Net asset value per share *(Note 1)*	Conversion price subject to adjustment events *(Yes/No)*	Connected transaction *(Yes/No)*
30-Oct-22	Immunotech Biopharm Ltd	6978	3	6.00%	(17.21)%	(10.06)%	235.30%	Yes	No
14-Oct-22	Winshine Science Company Limited	209	2	16.00%	13.64%	11.61%	net liabilities	Yes	No
19-Sep-22	Huscoke Holdings Limited	704	2	8.00%	(30.50)%	(31.40)%	net liabilities	Yes	Yes
13-Sep-22	South China Financial Holdings Limited	619	3	1.00%	0.00%	0.63%	(80.12)%	Yes	Yes
13-Sep-22	South China Holdings Company Limited	413	3	1.00%	0.00%	0.63%	(35.44)%	Yes	Yes
7-Sep-22	Capital VC Limited	2324	2	1.50%	19.00%	16.10%	(78.52)%	Yes	No
5-Sep-22	Grand Field Group Holdings Limited	115	2	6.00%	15.20%	15.20%	(86.20)%	Yes	Yes
2-Sep-22	Luye Pharma Group Ltd.	2186	1	6.50%	54.20%	53.60%	27.86%	Yes	No
19-Aug-22	Central Development Holdings Limited	475	3	0.00%	0.00%	0.82%	1,085.31% *(Note 2)*	Yes	Yes
18-Aug-22	Lenovo Group Limited	992	7	2.50%	42.50%	40.02%	193.05%	Yes	No
		Minimum	1	0.00%	(30.50)%	(31.40)%	(86.20)%		
		Maximum	7	16.00%	54.20%	53.60%	235.30%		
		Average	3	4.85%	9.68%	9.72%	25.13%		
		Median	3	4.25%	6.82%	6.22%	(35.44)%		
	The Convertible Bonds		**3**	**4.50%**	**10.35%**	**5.82%**	**(91.30)%**	**Yes**	**Yes**

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

Notes:

1. Net asset value per share of respective Comparable CBs is extracted from the publication of respective issuance of convertible bonds of listed issuers or calculated by dividing the net asset value attributable to shareholders by the weighted average number of issued shares as disclosed in the latest publication of the listed issuers prior to respective announcements, where applicable.

2. The issuance of convertible bonds by Central Development Holdings Limited (stock code: 475.HK) is considered as outlier due to the fact that the premium represented by the relevant conversion price is exceptionally high as compared to other Comparable CBs.

Interest rate and terms to maturity

As shown in the table above, the terms to maturity of the Comparable CBs ranged from a minimum of one year and up to seven years, with an average of approximately three years. We noted that the term to maturity of the Convertible Bonds, which is three years, falls within the range and is at the average term of the Comparable CBs. The interest rates of the Comparable CBs ranged from nil to 16.00% per annum, with an average of approximately 4.85% per annum. We noted that the interest rate of the Convertible Bonds of approximately 4.5% is within the range and lower than the average of the Comparable CBs. Thus, we consider the terms to maturity and interest rate of the Convertible Bonds is in line with the market practice and is considered fair and reasonable.

We further noted from those Comparable CBs which constituted connected transactions under Chapter 14A of the Listing Rules that, the terms to maturity of such Comparable CBs ranged from two years to three years, while respective interest rates ranged from nil to 8.00%. The terms to maturity and interest rate of the Convertible Bonds fall within respective ranges of the Comparable CBs which also constituted connected transactions.

Conversion price

The Conversion Price of HK0.16 per Conversion Share represents (i) a premium of approximately 10.35% over the closing price of HK$0.145 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement; and (ii) a premium of approximately 5.82% over the average closing price of HK$0.1512 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Subscription Agreement.

As shown in the table above, the conversion prices of the Comparable CBs ranged from (i) a discount of approximately 30.50% to a premium of approximately 54.20% over the closing prices of the respective shares on the date of the respective agreements; and (ii) a discount of approximately 31.40% to a premium of approximately 53.60% over the average closing prices of the respective shares for the last five consecutive trading days immediately prior to or up to and including the date of the respective agreements.

The Conversion Price over the closing price of the Shares on the date of the Subscription Agreement; and the average closing price of the Shares for the last five consecutive trading days immediately prior to the date of the Subscription Agreement, amounted to approximately 10.35% and 5.82%, respectively, which are considered within respective ranges of the Comparable CBs.

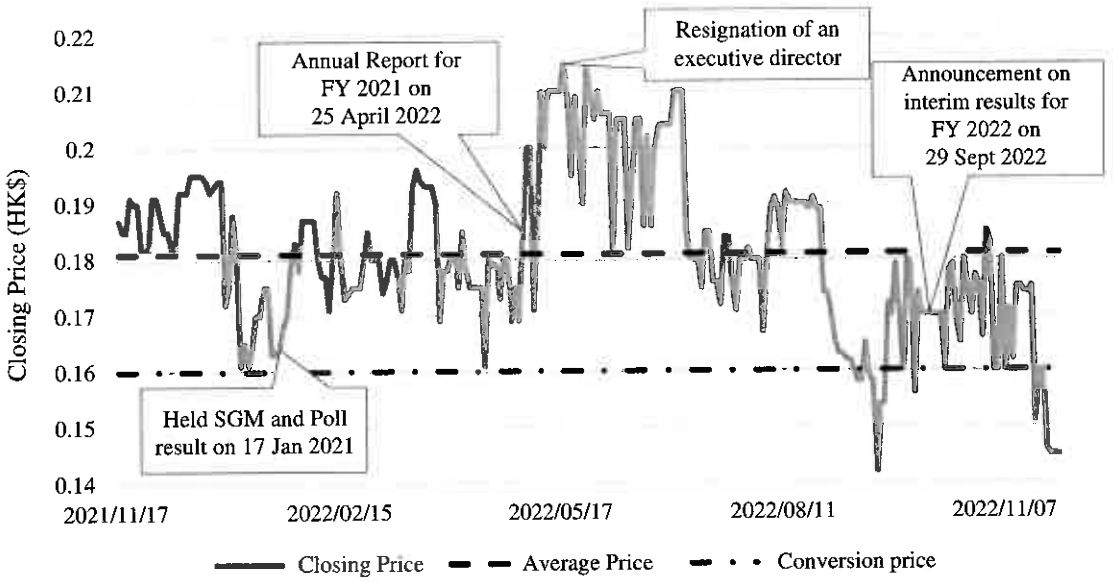
We further noted from those Comparable CBs which constituted connected transactions, the conversion prices of the Comparable CBs ranged from (i) a discount of approximately 30.50% to a premium of approximately 15.20% over the closing prices of the respective shares on the date of the respective agreements; and (ii) a discount of approximately 31.40% to a premium of approximately 15.20 % over the average closing prices of the respective shares for the last five consecutive trading days immediately prior to or up to and including the date of the respective agreements. The premiums as represented by the Conversion Price over the closing price of the Shares on the date of the Subscription Agreement; and the average closing price of the Shares for the last five consecutive trading days immediately prior to the date of the Subscription Agreement also fall within respective ranges of the Comparable CBs which also constituted connected transactions.

Moreover, we noticed that the Conversion Price represents a discount of approximately 91.30% to the net asset value per Share of the Company as at 30 June 2022. The conversion price of respective Comparable CBs ranged from discount of approximately 86.20% to premium of approximately 235.30% to the net asset value per share of the Comparable CBs, we consider that although the Conversion Price represents a discount of approximately 91.30% to the net asset value per Share which fall outside the above range but still comparable to the lower end of the Comparable CBs. In this regard, we have also discussed with the Management and were given to understand that the Directors considered it would be more appropriate for the Company to determine the Conversion Price with reference to the prevailing market price of the Shares which reflects the prevailing valuation of the Company as perceived by the Shareholders instead of making reference to the net asset value per Share. The Directors are of the view that the Share price performance and valuation of the Shares prior to the entering of the Subscription Agreement (including the issue of the Convertible Bonds) is considered more relevant in assessing the fairness of the Conversion Price as it reflects the prevailing valuation of the Company perceived by the Shareholders and investors, and serves an appropriate benchmark in its evaluation.

For our analysis purpose, in assessing the fairness and reasonableness of such discount to the net asset value per Share as reflected by the Conversion Price, we have further reviewed the closing prices of the Shares on the Stock Exchange since 17 November 2021, being the 12-month period immediately prior to and including the date of the Subscription Agreement (the "**Share Price Review Period**"). We considered that a period of 12 months prior to the date of the Subscription Agreement is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison between the historical closing prices of the Shares and the Conversion Price as (i) the 12-month period represents a reasonable period to reflect the performance of the closing price of the Shares in response to the prevailing market condition and operating condition; (ii) a shorter review period can only demonstrate the Share price performance in a limited and specific time which may be distorted by specific events; and (iii) it is commonly used for analysis purposes.

(a) Closing prices of the Shares

The comparison of daily closing prices of the Shares during the Share Price Review Period and the Conversion Price is shown in the chart below:



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

As shown in the chart above, the closing prices of the Shares during the Share Price Review Period swung between HK$0.14 per Share as recorded on 7 September 2022 to HK$0.22 per Share as recorded on 12 May 2022, with an average closing price of approximately HK$0.18 per Shares. The Conversion Price of HK$0.16 per Conversion Share lies within the range of the lowest and highest closing prices of the Shares and represents (i) a premium of approximately 14.29% over the lowest closing price of the Share; (ii) a discount of approximately 27.27% to the highest closing price of the Shares; and (iii) a discount of approximately 11.11% to the average closing price of the Shares during the Share Price Review Period.

During the period commencing from 17 November 2021 to 25 April 2022, the closing price of the Shares fluctuated within the range from HK$0.161 per Share to HK$0.196 per Share. Subsequently, after the publication of the annual report of the Company for the year ended 31 December 2021, the closing price of the Shares fluctuated within the range from HK$0.167 per Share to HK$0.215 per Share. Thereafter, the closing price of the Shares plunged and reach HK$0.22 per Share on 22 August 2022. The closing price of the Shares fluctuated between HK$0.142 per Share and HK$0.185 per Share and demonstrated a declining trend onwards. As at the Latest Practicable Date, the Conversion Price represents a premium of approximately 10.35% over the closing price of HK$0.145 per Share. Save as and except for the possible market reaction on the announcements made by the Company during the Share Price Review Period, we did not identify any specific reason which caused the aforesaid fluctuation of the closing prices of the Shares.

In addition, we have reviewed the Share price performance against the net asset value per Share during the Share Price Review Period as follows:

Period *(Note 1)*	Net assets *HK$ million*	Published net asset value per Share *(Note 2)* *HK$*	Share price			Discount of Share price to net asset value per Share		
			Highest *HK$*	Lowest *HK$*	Average *HK$*	Highest %	Lowest %	Average %
31 August 2021 to 31 March 2022	2,056	2.35	0.196	0.161	0.183	91.68%	93.16%	92.21%
1 April 2022 to 31 August 2022	1,621	1.86	0.215	0.158	0.188	88.42%	91.49%	89.87%
1 September 2022 to the date of the Subscription Agreement	1,606	1.84	0.185	0.142	0.167	89.94%	92.28%	90.94%
						Simple average		**91.01%**

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

Notes:

1. Being the beginning day of the relevant period, which represents the first trading day immediately after the publication of the relevant results announcement of the Company during the Share Price Review Period.

2. The net asset value per Share is calculated based on the net asset value attributable to the Shareholders as extracted from respective results announcement of the Company and divided by the total number of the Shares in issue as at the respective period end date.

As set out in the table above, we noticed that, during the Share Price Review Period, the Shares have been constantly trading at substantial discounts to the then net asset value per Share at all times. The discounts to the then net asset value per Share ranged from approximately 88.42% to 93.16%, with an average of approximately 91.01%. With respect to the Conversion Price, discount of which to the latest published net asset value per Shares amounted to approximately 91.30% is therefore approximate to the average of and within range of the discounts of the net asset value per Share during the Share Price Review Period.

(b) Liquidity of the Shares

The following table sets out the average daily trading volume per month of the Shares during the Share Price Review Period:

	Average daily trading volume *(Note 1)* *(Shares)*	**Percentage of the average daily trading volume over total number of issued Shares** *(Note 2)* *(%)*
2021		
November (from 15 November 2021 to 30 November 2021)	274,611	0.0315%
December	37,883	0.0043%
2022		
January	28,698	0.0033%
February	131,614	0.0151%
March	34,572	0.0040%
April	24,618	0.0028%
May	318,704	0.0365%
June	41,488	0.0048%
July	118,753	0.0136%
August	91,560	0.0105%
September	22,979	0.0026%
October	35,222	0.0040%
November (Up to and including the date of the Subscription Agreement)	51,125	0.0059%

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

Notes:

(1) Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.

(2) Calculated based on the total number of Shares in issue at the end of each month/period.

As illustrated from the table above, the average trading volume of the Share ranged from approximately 22,979 Shares to approximately 318,704 Shares during the Share Price Review Period, representing approximately 0.0026% to 0.0365% of a total number of Shares in issue at the end of each month/period. The trading volume of the Shares was relatively thin during the Share Price Review Period, where the percentages of the average daily trading volume of the Shares to the total number of issued Shares were mainly below or around 0.03%.

Having considered that (i) the Shares had been consistently traded at a discount to the net asset value per Share during the Share Price Review Period; (ii) the Conversion Price represents a premium over the closing price on, and the average closing price for the last five consecutive trading days immediately prior to the date of the Subscription Agreement and within the respective range of the Comparable CBs; and (iii) the trading volume of the Shares during the Share Price Review Period was relatively thin, we concur with the Directors' view that (i) it would be more appropriate for the Company to determine the Conversion Price with reference to the prevailing market prices of the Shares; and (ii) the Conversion Price (including the discount on the net asset value per Share) is fair and reasonable so far as the Independent Shareholders are concerned.

Adjustments to conversion price

In assessing the fairness and reasonableness of the adjustment terms of the Convertible Bonds with regard to the Conversion Price, we have compared such adjustment terms with the relevant adjustment terms of the Comparable CBs as disclosed and noted that the conversion prices of a majority of the Comparable CBs are subject to the similar adjustments terms to the Convertible Bonds upon occurrence of dilutive events, which includes consideration, subdivision or re-classification; capitalisation of profits or reserves; capital distribution; rights issues of Shares; and options, warrants or other rights to subscribe for or purchase Shares.

In summary, based on all of the above, having considered that (i) the term to maturity and interest rate is within respective ranges of the Comparable CBs; (ii) the Conversion Price is within range of the Comparable CBs and is considered fair and reasonable; (iii) the adjustment mechanisms to the Conversion Price are similar to those as disclosed under the Comparable CBs; and (iv) the financing alternatives being considered by the Directors, hence, we are of the view that the principal terms of the Subscription Agreement (including the issue of the Convertible Bonds) are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

5. Financial effects of the Subscription and the issue of the Convertible Bonds

5.1 Earnings

The Convertible Bonds are interest bearing bonds and will mature on 31 December 2025. It is expected that the future earnings of the Company will be reduced by the amount of interest expenses incurred in relation to the Convertible Bonds upon their maturity, and/or any early redemption. In addition, the expenses relating to the professional advisory fees and ancillary costs to be incurred by the Company in relation to the Subscription will also decrease the earnings of the Group in this regard.

5.2 Net assets

According to the 2022 Interim Report, the net assets of the Company amounted to approximately HK$1,613 million as at 30 June 2022. As there will be no net proceeds arising from the issue of the Convertible Bonds, the Subscription therefore would not lead to any increase in cash and cash equivalents of the Company. The exact amount of the respective fair value of the liability and derivative components of the Convertible Bonds and their financial impacts to the Company will be subject to the review by the auditors of the Company and/or the assessment and valuation by an independent valuer at the time of Completion.

5.3 Gearing ratio

According to the 2022 Interim Report, the gearing ratio of the Group was approximately 55.2% as at 30 June 2022, calculated based on the total borrowings of approximately HK$1,980 million over total capital employed of approximately HK$3,586 million. In the event that the Subscriber exercises the conversion rights attaching to the Convertible Bonds, assuming there are no other factors affecting the financial position of the Group, the gearing position would improve and the conversion of the Convertible Bonds by the Subscriber into Conversion Shares would enlarge the capital base and increase the net asset value of the Group. On the other hand, if the conversion rights attaching to the Convertible Bonds are not exercised within the maturity period, the gearing position of the Group may be slightly increased due to redemption of 100% of the outstanding principal amount on the Maturity Date, which would potentially increase the liability component of the Convertible Bonds. The Management expects that there will not be any material adverse impact to the gearing of the Group as a result of the issue of the Convertible Bonds, subject to the valuation to be prepared by an independent valuer.

The aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be after the Subscription.

6. Effect on the shareholding structure of the Company

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon full conversion of the Convertible Bonds at the initial Conversion Price (assuming that there are no other changes to the shareholding structure of the Company from the Latest Practicable Date up to the full conversion of the Convertible Bonds) are as follows:

	As at the Latest Practicable Date		**Immediately upon full conversion of the Convertible Bonds at the initial Conversion Price** *(Note 2)*	
	Number of Shares	*Approx.% of shareholding*	*Number of Shares*	*Approx.% of shareholding*
Controlling Shareholder *(Note 1)*	471,614,731	54.01%	1,846,614,731	82.14%
Public Shareholders	401,496,721	45.99%	401,496,721	17.86%
Total	873,111,452	100.00%	2,248,111,452	100.00%

Notes:

1. The controlling Shareholder of the Company, Mr. Mak, holds 25,589,652 Shares and is deemed under Part XV of the SFO to be interested in 446,025,079 Shares through Capital Winner Investments Limited, New Capital Industrial Limited and Capital Force International Limited as at the Latest Practicable Date. Mr. Mak is also the sole beneficial owner of the Subscriber.

2. For illustration purposes only, under the terms of the Convertible Bonds, the exercise of the conversion rights attached to the Convertible Bonds shall not cause the Company to be unable to meet the public float requirements under the Listing Rules.

As illustrated in the above table, upon full conversion of the Convertible Bonds, the aggregate shareholding of the existing public Shareholders will decrease from approximately 45.99% as at the Latest Practicable Date to approximately 17.86%, which will fall below the 25% minimum public float requirement under the Listing Rules. Pursuant to the terms of the Convertible Bonds, the exercise of the conversion rights attaching to the Convertible Bonds by the bondholders will be subject to the provisions of the Listing Rules in which the Company shall ensure that no less than 25% of the shareholding of the Company will be held by the public at all times in compliance with the minimum public float requirement of the Listing Rules. In particular, the conversion rights attaching to the Convertible Bonds will not be exercised by the bondholders and the Company will not issue the Conversion Shares if, immediately following the conversion, the Company would be unable to meet the public float requirement under the Listing Rules.

Based on the aforesaid, although the Subscriber is unable to fully exercise the conversion rights attached to the Convertible Bonds in view of the dilution effect as illustrated in the table above as a result of possible breach of the minimum public float requirement under the Listing Rules, Mr. Mak, as the controlling Shareholder, may alternatively sell a portion of his existing interest in the Company in the market prior to exercising the conversion rights attaching to the Convertible Bonds in order to comply with the minimum public float requirement under the Listing Rules.

Based on the above analyses on the market price and the trading volume of the Shares during the Share Price Review Period, in the event that the Subscriber decides to sell a portion of the existing equity interest in the Company, it could put substantial downward pressure on the price of the Shares due to the low liquidity of the Shares, which in turn might have negative impact on the funding ability and credibility of the Group.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and although not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate).

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited



Stanley Ng
Managing Director

Mr. Stanley Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 15 years of experience in the accounting and investment banking industries.