

14 April 2021

*To: The independent board committee and the independent shareholders  
of China Ecotourism Group Limited (formerly known as China LotSynergy Holdings  
Limited)*

Dear Sir/Madam,

**(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF  
TWO (2) RIGHTS SHARES FOR EVERY ONE (1) EXISTING SHARE  
HELD ON THE RECORD DATE ON A NON-UNDERWRITTEN BASIS;  
(II) PROPOSED CONNECTED TRANSACTION IN RELATION TO THE SET-OFF;  
AND  
(III) APPLICATION FOR WHITEWASH WAIVER**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Set-Off and the Whitewash Waiver, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 14 April 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Board proposed to conduct the Rights Issue on the basis of two (2) Rights Shares for every one (1) existing Share held as at 5:00 p.m. on the Record Date at the Subscription Price of HK\$0.10 per Rights Share, to raise up to approximately HK\$220.75 million before expenses by way of issuing up to 2,207,541,466 Rights Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date). Subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly.

Ms. Lau gave the Irrevocable Undertaking in favour of the Company in connection with the Rights Issue. Pursuant to the Irrevocable Undertaking, Ms. Lau has irrevocably undertaken to the Company that, among other things, (i) subject to the Company despatching the Prospectus Documents to the Qualifying Shareholders and the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not been revoked or withdrawn, she shall accept and pay for, or procure the acceptance and payment for, all the Entitlement Shares provisionally allotted to her; (ii) she shall remain to be the beneficial owner of 91,509,437 Shares on the Record Date; and (iii) she shall not, and shall procure her nominees will not, acquire any further Shares on or before the Record Date.

On 16 February 2021 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, places to subscribe for the Placing Shares (i.e. the Untaken Shares during the Rights Issue) at the Placing Price of HK\$0.10 per Placing Share on the terms and subject to the conditions set out in the Placing Agreement. Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue whether through the PAL(s) or EAF(s), the Placing will not proceed.

On 29 January 2021, the Company, the Borrower and Ms. Lau entered into the Set-Off Deed, pursuant to which the parties have agreed to restructure the Shareholder's Loan in the principal amount of HK\$50,000,000 by offsetting the outstanding balance of the Shareholder's Loan as at the Rights Issue Settlement Date on a dollar-to-dollar basis against an equivalent amount of the aggregated Subscription Price of (i) all Entitlement Shares; and (ii) the Relevant Excess Shares allocated to Ms. Lau. The Set-Off will be conditional upon the Rights Issue becoming unconditional pursuant to the terms and conditions as set out in the Prospectus. The exact Set-Off Amount would depend on the number of Entitlement Shares to be taken up by Ms. Lau and the number of Relevant Excess Shares to be applied for and allocated to Ms. Lau.

With reference to the Board Letter, (i) in accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, the Rights Issue is conditional upon the minority Shareholders' approval of at the SGM; and (ii) the Set-Off constitutes connected transaction of the Company under Chapter 14A of the Listing Rules and will be subject to Independent Shareholders' approval at the SGM.

According to the Board Letter, as at the Latest Practicable Date, Ms. Lau and parties acting in concert with her are interested in 204,222,179 Shares, representing approximately 19.84% of the total number of issued Shares. In certain circumstances as set out in the section headed "TAKEOVERS CODE IMPLICATIONS" of the Board Letter, the acceptance in full by Ms. Lau of the Entitlement Shares allotted to her pursuant to the Irrevocable Undertaking and/or the allotment of excess Rights Shares to her upon successful excess application when there is an undersubscription of the Rights Issue will trigger an obligation on Ms. Lau to make a mandatory general offer under Rule 26 of the Takeovers Code for all Shares not already owned or agreed to be acquired by Ms. Lau and parties acting in concert with her, unless a waiver is granted by the Executive. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted and will be conditional

upon, among others, the approval of the Independent Shareholders of the Whitewash Waiver, Rights Issue and the Set-Off at the SGM by way of poll in accordance with the requirements of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, and the approval of the Rights Issue and the Set-Off by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, respectively, at the SGM. If the Whitewash Waiver is not granted by the Executive, or if granted, either the Whitewash Waiver, the Rights Issue or the Set-Off is not approved by the Independent Shareholders, the Rights Issue and the Set-Off (and Placing) will not proceed.

The Independent Board Committee comprising Mr. Huang Shenglan, Mr. Chan Ming Fai and Mr. Cui Shuming (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Rights Issue and the Set-Off are on normal commercial terms and are fair and reasonable; (ii) whether the Rights Issue and the Set-Off are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole; (iii) how to vote in relation to the Rights Issue and the Set-Off at the SGM; and (iv) whether the Whitewash Waiver is fair and reasonable and as to the voting of the Whitewash Waiver. We, Gram Capital Limited, have been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as an independent financial adviser in relation to the Company's connected transaction and application for whitewash waiver, details of which are set out in the Company's announcement dated 9 October 2020 (note: with reference to the Company's announcement dated 20 January 2021, the connected transaction was terminated and the whitewash waiver was no longer required). Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

## BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its

advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Rights Issue, the Set-Off and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps (such as review of relevant agreements/documents in relation to the Rights Issue, the Set-Off and the Whitewash Waiver; and analysis on the Group's financial performance and on the terms of the Rights Issue) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "RESPONSIBILITY STATEMENT" of Appendix V to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Ms. Lau, the Borrower or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Rights Issue, the Set-Off and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Rights Issue, the Set-Off and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

### **A. THE RIGHTS ISSUE AND THE SET-OFF**

#### **Information on the Group**

With reference to in the Board Letter, the Group is engaged in the provision of technology and operation services for lottery systems, terminal equipment and gaming products in China's lottery market. The principal businesses of the Group cover various lottery products ranging from video lottery, computer-generated ticket games ("CTG") and KENO-type lottery to new media lottery, and the Group intends to continue to explore and develop other potential businesses, including natural and healthy food business and trading business.

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2020 Annual Results Announcement:

	FY2020	FY2019	Year-on-year change
	HK\$'000	HK\$'000	%
	(audited)	(audited)	
Revenue	118,563	154,354	(23.19)
— <i>Lottery systems, terminal equipment and related products</i>	110,497	152,231	(27.41)
— <i>Natural and health food</i>	8,066	2,123	279.93
Gross profit	27,515	61,492	(55.25)
Loss for the year	(623,913)	(550,100)	13.42

As depicted from the above table, the Group recorded revenue and gross profit of approximately HK\$118.56 million and HK\$27.52 million respectively for FY2020, representing a decrease in revenue of approximately 23.19% and a decrease in gross profit of approximately 55.25% as compared to those for FY2019. With reference to the 2020 Annual Results Announcement and as confirmed by the Directors, such decreases were due to the decrease in revenue from lottery systems, terminal equipment and related products business.

The Group recorded loss of approximately HK\$623.92 million for FY2020, representing an increase of approximately 13.42% as compared to that for FY2019. With reference to the 2020 Annual Results Announcement and as confirmed by the Directors, such increase in loss was mainly due to the increase in impairment of goodwill and other intangible assets.

With reference to the 2020 Annual Results Announcement, as at 31 December 2020, the Group had cash and bank balances, net current liabilities of approximately HK\$76.43 million, HK\$241.97 million and net liabilities attributable to owners of the Company of approximately HK\$91.06 million respectively.

With reference to the Appendix I to the Circular, HLB Hodgson Impey Cheng Limited, the auditors of the Company, noted in its independent auditors' reports for FY2019 and FY2020, the relevant extracts of which are set out in the Company's annual report for FY2019 and the 2020 Annual Results Announcement, respectively, that the consolidated financial statements of the Group indicated the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. The opinion of the auditors in respect of FY2019 and FY2020 is not modified in respect of this matter. For further details, please refer to Appendix I to the Circular.

### Information on Ms. Lau

With reference to the Board Letter, Ms. Lau is an entrepreneur, a substantial Shareholder, and the founder of the Group. She was the chairperson of the Board, an executive Director and the chief executive officer of the Company until September 2017. Ms. Lau has over thirty years of solid experience in business planning and management, mergers and acquisitions, and financial and human resources management.

### Reasons for the Rights Issue and the Set-Off

With reference to the section above, the Group recorded loss of approximately HK\$623.92 million for FY2020. Upon our further review, we noted that the Group recorded loss for six consecutive financial years since the year ended 31 December 2015. With reference to the 2020 Annual Results Announcement, the Group had net current liabilities of approximately HK\$241.97 million and net liabilities attributable to owners of the Company of approximately HK\$91.06 million as at 31 December 2020.

As mentioned in the Board Letter, there are several impending repayment obligations which the Company is required to satisfy. As at the Latest Practicable Date, the Group's current liabilities mainly included (i) the unsecured Shareholder's Loan with a total outstanding principal amount of HK\$50,000,000 (due on 20 January 2022 with an interest of 9.5% per annum); (ii) the New Option 1 Bonds in the aggregate principal amount of HK\$148.58 million where part the New Option 1 Bonds in the principal amount of approximately HK\$26.22 million will be due in May 2021 and the remaining outstanding principal amount of HK\$122.36 million will be payable on the New Option 1 Bonds Maturity Date on 7 November 2021 (or such other date(s) as the Company and the Bondholders may agree); and (iii) bank loan with a total outstanding amount of HK\$201.50 million which will fall due on 30 June 2021. As mentioned above, the Group only had cash and bank balances of approximately HK\$76.43 million as at 31 December 2020. Upon our further enquiry, the Directors also confirmed that the Group has insufficient internal resources as at the Latest Practicable Date to settle the aforesaid liabilities.

In light of the above, the Company intends to raise funds by way of the Rights Issue. The estimated net proceeds of the Rights Issue will range from a maximum of approximately HK\$214.25 million to a minimum of approximately HK\$73.50 million. In the event that the maximum net proceeds of approximately HK\$214.25 million is raised, (i) approximately HK\$90.00 million (or approximately 42.01% of the maximum net proceeds) will be used towards the second repayment of the New Option 1 Bonds in May 2021 and the final repayment in part of the New Option 1 Bonds in November 2021 (or such other date(s) as the Company and the Bondholders may agree); (ii) approximately HK\$30.00 million (or approximately 14.00% of the maximum net proceeds) will be used towards the partial repayment of an existing bank borrowing (including interests) borrowed by Champ Technology Limited, an indirectly wholly-owned subsidiary of the Group, which will fall due in June 2021; (iii) approximately HK\$50.00 million (or approximately 23.34% of the maximum net proceeds) will be used towards the Set-Off immediately upon the Rights Issue Settlement Date; and (iv) approximately HK\$44.25

million (or approximately 20.65% of the maximum net proceeds) will be used towards the general working capital of the Group, such as the payment of salaries and remuneration of the Group's staff, research and development expenses and cost of sales, within 2021, respectively. In the event that the minimum net proceeds of approximately HK\$73.5 million is raised, (i) approximately HK\$23.50 million (or 31.97% of the minimum net proceeds) will be used towards the repayment in part of the New Option 1 Bonds in May 2021 (or other date(s) as the Company and the Bondholders may agree); and (ii) approximately HK\$50.00 million (or approximately 68.03% of the minimum net proceeds) will be used towards the Set-Off immediately upon the Rights Issue Settlement Date, respectively.

Having considered (i) the financial condition of the Group (such as loss for six consecutive financial years and net current liabilities position and net liabilities attributable to owners of the Company as at 31 December 2020); and (ii) that the Group has insufficient internal resources as at the Latest Practicable Date to settle its impending repayment obligations, we are of the view that the use of proceeds from the Rights Issue (including the Set-off) is fair and reasonable.

As advised by the Directors, the Company considered alternative fundraising means:

- As regards debt financing, the Company approached different financial institutions. Taking into account the financial position of the Group (such as loss for six consecutive financial years and net current liabilities position and net liabilities attributable to owners of the Company as at 31 December 2020), the Company considered it challenging to obtain approval from such financial institutions. Given the financial market conditions in Hong Kong, the Directors are of the view that it would be difficult for the Group to obtain sufficient debt financing in a timely manner.
- As regards equity financing, the Company considered (i) a sole placement of new Shares or an issue of convertible bonds; and (ii) an open offer. The Board considered a rights issue that enables all Qualifying Shareholders to be able to invest in the future growth of the Company to be preferable to a sole placing of new shares or convertible bonds which would be limited to a number of investors only. In addition, a rights issue, as compared with an open offer, offers flexibility to the Shareholders to sell their entitled nil-paid rights if they do not wish to take up the entitlements.

After considering (i) the benefits and cost of the alternative fundraising means; and (ii) the importance of the fundraising exercise to the Company to satisfy its pressing financial needs, the Directors considered that the Rights Issue, together with the Placing, are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Taking into account the financial condition of the Group (such as loss for six consecutive financial years and net current liabilities position and net liabilities attributable to owners of the Company as at 31 December 2020) and that the one of the purposes of the fund-raising exercise is for repayment of the Group's liabilities, we

consider that it would not be practical for the Group to raise fund through debt financing. Having also considered that the Rights Issue provides an equal opportunity to all Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the Company's development, we concur with the Directors that the Rights Issue, together with the Placing, are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

As further mentioned in the Board Letter, the Company approached various brokerage companies (including the Placing Agent) to explore their interest in participating in the underwriting of the Rights Issue. None of such brokerage companies indicated their willingness, nor were they responsive, in participating in the underwriting of the Rights Issue, save and except for the Placing Agent which expressed interest in acting as a placing agent and on a best effort basis only. As it had become critical for the Company to raise funds as soon as possible to meet the aforementioned repayment obligations (including but not limited to the repayment of the New Option 1 Bonds in the principal amount of HK\$26,220,000 which will fall due in May 2021 and the repayment of an existing bank borrowing which will fall due on 30 June 2021), the Company decided to conduct the Rights Issue on a non-underwritten basis and to conduct the Placing alongside the Rights Issue in order to implement its fundraising plan. The Rights Issue and Placing will enable the Group to secure funding if the level of subscription of the Rights Issue is low. Should the Rights Shares not be subscribed for by the Qualifying Shareholders through their provisional allotments and excess applications, the Untaken Shares would be placed through the Placing Agent.

Taking also into account (i) the aforesaid reasons for the Rights Issue; (ii) the use of proceeds from the Rights Issue being fair and reasonable; and (iii) the Company's consideration and attempt on alternative fundraising means as aforementioned, we consider that although the Rights Issue and the Set-Off are not in the ordinary and usual course of business of the Group, the Rights Issue (including its use of proceeds) and the Set-Off are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

#### **Principal terms of the Rights Issue**

Set out below are the principal terms of the Rights Issue as extracted from the Board Letter:

Basis of the Rights Issue:	Two (2) Rights Shares for every one (1) existing Share held by the Shareholders as at 5:00 p.m. on the Record Date on a non-underwritten basis
Subscription Price:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date:	1,029,480,733 Shares



Maximum number of Rights Shares: 2,058,961,466 Rights Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date)

2,207,541,466 Rights Shares (assuming there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Record Date other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date)

Number of Rights Shares being undertaken by Ms. Lau: 800,000,000 Rights Shares

Gross proceeds to be raised from the Rights Issue: From approximately HK\$80.00 million to approximately HK\$220.75 million

With reference to the Board Letter, Ms. Lau gave the Irrevocable Undertaking in favour of the Company in connection with the Rights Issue. Pursuant to the Irrevocable Undertaking, Ms. Lau has irrevocably undertaken to the Company that, among other things, (i) subject to the Company despatching the Prospectus Documents to the Qualifying Shareholders and the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not been revoked or withdrawn, she shall accept and pay for, or procure the acceptance and payment for, all the Entitlement Shares provisionally allotted to her; (ii) she shall remain to be the beneficial owner of 91,509,437 Shares on the Record Date; and (iii) she shall not, and shall procure her nominees will not, acquire any further Shares on or before the Record Date. In addition, Ms. Lau has irrevocably undertaken to the Company to, among other things: (i) promptly (and in any event prior to the Posting Date) apply to the Executive for the Whitewash Waiver; and (ii) subject to the Company despatching the Prospectus Documents to the Qualifying Shareholders and the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not been revoked or withdrawn, she shall, at or before the Latest Time for Acceptance, apply and pay for, or procure the application and payment for, no less than 616,981,126 excess Rights Shares, which represents the difference between (1) the Undertaken Shares; and (2) all Entitlement Shares provisionally allotted to her, and no more than such number of excess Rights Shares which represents the difference between (1) the maximum number of Rights Shares available for subscription under the Rights Issue; and (2) all Entitlement Shares provisionally allotted to her.

As confirmed by the Directors, save for Ms. Lau, no Shareholder has undertaken with the Company to take up his/her/its provisional allotment in full or in part in connection with the Rights Issue.

For detailed terms of the Rights Issue, please refer to the section headed “PROPOSED RIGHTS ISSUE” of the Board Letter.

*The Subscription Price*

The Subscription Price represents:

- (i) a discount of approximately 10.71% to the closing price of HK\$0.112 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 30.07% to the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on 29 January 2021, being the date on which the Subscription Price is fixed;
- (iii) a discount of approximately 30.07% to the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 32.89% to the average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$0.149;
- (v) a discount of approximately 40.12% to the average closing price per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.167;
- (vi) a discount of approximately 43.18% to the average closing price per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.176;
- (vii) a discount of approximately 12.28% to the theoretical ex-entitlement price of approximately HK\$0.114 per Share based on the closing price of HK\$0.143 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Rights Shares;
- (viii) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 23.72% represented by the theoretical diluted price of approximately HK\$0.119 to the benchmarked price of approximately HK\$0.156 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK\$0.143 per Share and the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days prior to the date on which the Subscription Price is fixed of HK\$0.156 per Share);
- (ix) a discount of approximately 56.33% to the audited consolidated net assets value per Share attributable to owners of the Company as at 31 December 2019 of approximately HK\$0.229 per Share calculated based on the audited consolidated net assets of the Group attributable to owners of the Company of approximately

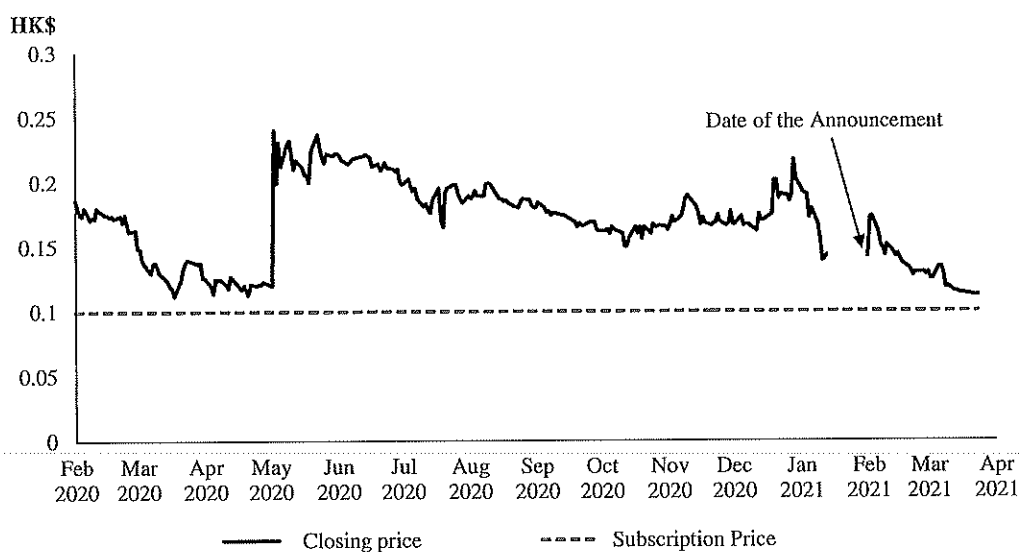
HK\$235,583,000 as at 31 December 2019 as set out in the Company's annual report for FY2019 and 1,029,480,733 Shares in issue as at the Latest Practicable Date;

- (x) a discount of approximately 37.11% to the unaudited consolidated net assets value per Share attributable to owners of the Company as at 30 June 2020 of approximately HK\$0.159 per Share calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK\$164,183,000 as at 30 June 2020 as set out in the 2020 Interim Report and 1,029,480,733 Shares in issue as at the Latest Practicable Date; and
- (xi) a premium of approximately HK\$0.188 over the audited consolidated net liabilities value per Share attributable to owners of the Company <sup>(note)</sup> as at 31 December 2020 of approximately HK\$0.088 per Share calculated based on the audited consolidated net liabilities of the Group attributable to owners of the Company of approximately HK\$91,058,000 as at 31 December 2020 as set out in the 2020 Annual Results Announcement and 1,029,480,733 Shares in issue as at the Latest Practicable Date.

*Note:* According to the Board Letter, Knight Frank Petty Limited (the independent valuer in respect of the property of the Group in Hong Kong) and Prudential Surveyors (Hong Kong) Limited (the independent valuer in respect of the property of the Group in the PRC) confirm that the valuations of the properties of the Group in Hong Kong and the PRC as at 31 December 2020 are the same as those as at 28 February 2021. As a result, no further adjustment is required to be made on the audited consolidated net liabilities of the Group attributable to owners of the Company in light of the valuations of the properties of the Group in Hong Kong and the PRC as at 28 February 2021.

In order to assess the fairness and reasonableness of the Subscription Price, we reviewed the daily closing price of the Shares as quoted on the Stock Exchange from 17 February 2020, being one year prior to the date of the Announcement, up to and including the Latest Practicable Date (the “**Review Period**”), which is commonly adopted for analysis. The comparison of daily closing prices of the Shares and the Subscription Price is illustrated as follows:

**Historical daily closing price per Share**



Source: the Stock Exchange's website

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.112 recorded on 3 April 2020, 7 April 2021, 8 April 2021 and 9 April 2021 and HK\$0.240 recorded on 19 May 2020 respectively. The Subscription Price of HK\$0.10 falls below the closing price range of the Shares as quoted on the Stock Exchange during the Review Period.

From the start of the Review Period up to early-April 2020, the closing price of the Shares followed a downward trend and hit the low at HK\$0.112 on 3 April 2020. During the period from 6 April 2020 to 18 May 2020, the closing price of the Shares fluctuated between HK\$0.113 and HK\$0.140. The closing price of the Shares rose sharply from HK\$0.120 on 18 May 2020 to its peak at HK\$0.240 on 19 May 2020.

After reaching its peak on 19 May 2020, the closing price of the Shares followed a general downward trend and hit HK\$0.150 on 28 October 2020 and 29 October 2020. Subsequently, the closing price of the Shares recovered slightly and reached HK\$0.217 on 14 January 2021. After that, the closing price of Shares decreased again and reached HK\$0.143 on the Last Trading Date.

Following the publication of the Announcement on 16 February 2021 and up to the Latest Practicable Date, the closing prices of the Shares fluctuated between HK\$0.112 and HK\$0.173.

As part of our analysis, we also searched for the rights issue transactions (excluding transactions which were lapsed/terminated) (the “**Rights Issue Comparables**”) announced from 17 November 2020 (being three months prior to the date of Announcement) up to the date of Announcement by companies listed on the Stock Exchange. To the best of our knowledge and as far as we are aware of, we found 9 rights issue transactions which met the aforesaid criteria and they are exhaustive.

Company name (stock code)	Date of announcement	Premium/ (discount) of the subscription price over/(to) the closing price per share on the last trading day approximate %	Premium/ (discount) of the subscription price over/(to) the theoretical ex-rights price approximate %	Premium/ (discount) of the subscription price over/(to) the then net assets value per share (note 1) approximate %	Theoretical dilution effect (note 5) approximate %	Potential maximum dilution of shareholding (note 5) approximate %	Fully or partly underwritten (Yes/No)	Excess application (Yes/No)	Placing commission %
Global Strategic Group Limited (8007)	20 November 2020	(20.79)	(4.76)	(76.34)	(17.56)	80.00	Yes	Yes	N/A
Capital Finance Holdings Limited (8239)	3 December 2020	4.65	1.50	N/A (note 2)	3.10 (note 3)	66.67	No	No	3.00
Chinlink International Holdings Limited (997)	14 December 2020	(13.64)	(4.59)	(93.78)	(11.70)	75.00	Yes	Yes	N/A
Pacific Century Premium Developments Limited (432)	31 December 2020	Nil	Nil	(63.40)	(0.48) (note 3)	33.33	No	Yes	N/A
Sinolink Worldwide Holdings Limited (1168)	6 January 2021	(41.05)	(31.37)	(84.99)	(20.09)	44.44	No	Yes	N/A
Roma Group Limited (8072)	20 January 2021	(31.32)	(10.07)	(94.13)	(23.63)	75.00	Yes	Yes	N/A
Beaver Group (Holding) Company Limited (8275)	25 January 2021	(34.38)	(16.00)	(68.61)	(23.68) (note 4)	60.00	No	No	3.50
Esprit Holdings Limited (330)	27 January 2021	(25.00)	(18.21)	(48.98)	(8.68)	33.33	Yes	Yes	N/A
Bossini International Holdings Limited (592)	5 February 2021	(23.40)	(16.86)	22.65	(8.47)	33.33	No	Yes	N/A
	Maximum	4.65	1.50	22.65 (note 6)	3.10	80.00	N/A	N/A	3.50
	Minimum	(41.05)	(31.37)	(94.13) (note 6)	(23.68)	33.33	N/A	N/A	3.00
	Average	(20.55)	(11.15)	(63.45) (note 6)	(12.35)	55.68	N/A	N/A	3.25
	Median	(23.40)	(10.07)	(72.47) (note 6)	(11.70)	60.00	N/A	N/A	3.25
The Company	16 February 2021	(30.07) ("LTD Discount")	(12.28) ("TERP Discount")	(37.11) ("NAV Discount")	(23.72)	66.67	No	Yes	1.00

Source: the Stock Exchange's website

*Notes:*

1. Based on the then latest published net assets value per share attributable to shareholders of the subject company prior to the publication of relevant announcements
2. The subject company recorded net liabilities attributable to shareholders.
3. The theoretical dilution effects of these transactions were calculated in accordance with Rule 7.27B of the Listing Rules/Rule 10.44A of the GEM Listing Rules as the relevant announcements did not disclose the same.
4. Cumulative dilution effect in aggregate with the rights issue conducted by the subject company in 2020
5. Maximum dilution effect of each transaction is calculated as: (number of new shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of new shares to be issued under the basis of entitlement) x 100%
6. Excluding rights issue transaction of which the subject company recorded net liabilities attributable to shareholders

The subscription prices of Rights Issue Comparables represented (i) a discount of approximately 41.05% to a premium of approximately 4.65% to/over the respective closing prices per share on the last trading day in relation to the respective rights issue (the “**LTD Discount/Premium Market Range**”), (ii) a discount of approximately 31.37% to a premium of approximately 1.50% to/over the respective theoretical ex-rights prices per share based on the closing price on the last trading date in relation to the respective rights issue (the “**TERP Discount/Premium Market Range**”); and (iii) a discount of approximately 94.13% to a premium of approximately 22.65% to/over the respective then latest net assets value per share attributable to shareholders of the subject company of the respective rights issue (excluding transactions of which the subject company recorded net liabilities attributable to shareholders) (the “**NAV Discount/Premium Market Range**”). The LTD Discount, the LTD TERP Discount and the NAV Discount fall within the LTD Discount/Premium Market Range, the TERP Discount/Premium Market Range and the NAV Discount/Premium Market Range respectively.

The potential maximum dilution effect of shareholding of the Rights Issue Comparables ranged from approximately 33.33% to 80.00% (the “**Shareholding Dilution Market Range**”). The potential maximum dilution of shareholding of the Rights Issue of approximately 66.67% falls within the Shareholding Dilution Market Range.

The theoretical dilution effect of the Rights Issue Comparables ranged from a discount of approximately 23.68% to a premium of approximately 3.10% (the “**Theoretical Dilution Market Range**”). The theoretical dilution effect of the Rights Issue of approximately 23.72% slightly falls below the Theoretical Dilution Market Range.

Having considered (i) the financial condition of the Group (such as loss for six consecutive financial years and net current liabilities position and net liabilities attributable to owners of the Company as at 31 December 2020); (ii) that the Group had

insufficient internal resources as at the Latest Practicable Date to settle its impending repayment obligations; (iii) that the theoretical dilution effect of the Rights Issue is not deviated from the Theoretical Dilution Market Range; and (iv) that the theoretical dilution effect of the Rights Issue does not result in a theoretical dilution effect of 25% or more, which is in compliance with Rule 7.27B of the Listing Rules, we consider the theoretical dilution effect of the Rights Issue to be justifiable.

Despite that the Subscription Price of HK\$0.10 falls below the closing price range of the Shares as quoted on the Stock Exchange during the Review Period, taking into account the foregoing, in particular, (i) the financial condition of the Group (such as loss for six consecutive financial years and net current liabilities position and net liabilities attributable to owners of the Company as at 31 December 2020); (ii) that the Group had insufficient internal resources as at the Latest Practicable Date to settle its impending repayment obligations; (iii) that the potential maximum dilution of shareholding of the Rights Issue falls within the Shareholding Dilution Market Range; (iv) the theoretical dilution effect of the Rights Issue being justifiable; and (v) that the LTD Discount, the LTD TERP Discount and the NAV Discount fall within the LTD Discount/Premium Market Range, the TERP Discount/Premium Market Range and the NAV Discount/Premium Market Range respectively, we consider the Subscription Price to be fair and reasonable.

#### *Non-underwritten basis*

According to the Board Letter, subject to the fulfilment of the conditions of the Rights Issue, the Rights Issue will proceed on a non-underwritten basis irrespective of the level of acceptances of the provisionally allotted Rights Shares. In the event of an undersubscription of the Rights Issue, the size of the Rights Issue will be reduced accordingly. For further details, please refer to the section headed “Non-underwritten basis” of the Board Letter.

We noted that 5 out of 9 of the Rights Issue Comparables were also conducted on a non-underwritten basis. Accordingly, we consider that it is not uncommon for rights issue transactions to be proceed on a non-underwritten basis.

#### *Application for excess Rights Shares*

According to the Board Letter, Qualifying Shareholders shall be entitled to, by way of excess application, apply for the excess Rights Shares, which comprise (i) any unsold entitlements to the Rights Shares of the Non-Qualifying Shareholders; and (ii) any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise not subscribed for by renouncees or transferees of nil-paid Rights Shares. For further details, please refer to the section headed “Application for excess Rights Shares” of the Board Letter.

We noted that 7 out of 9 of the Rights Issue Comparables also included arrangement for application for excess rights shares. Accordingly, we consider that it is common for rights issue transactions to have application for excess rights shares.



### *The Placing*

On 16 February 2021 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Company conditionally appointed the Placing Agent and the Placing Agent conditionally agreed to act as the placing agent for the Company to procure, on a best effort basis, placees to subscribe for the Placing Shares (i.e. the Untaken Shares during the Rights Issue) at the Placing Price of HK\$0.10 per Placing Share on the terms and subject to the conditions set out in the Placing Agreement. Under the terms of the Placing Agreement, if all the Rights Shares are already fully taken up in the Rights Issue whether through the PAL(s) or EAF(s), the Placing will not proceed.

Set out below are the principal terms of the Placing Agreement as extracted from the Board Letter:

Placing commission:	1.0% of the gross proceeds from the subscription of the Placing Shares actually placed by the Placing Agent under the Placing Agreement.
Placing Period:	The Placing Period shall commence on Tuesday, 8 June 2021, and end on the Placing End Date (i.e. Wednesday, 9 June 2021 under the expected timetable) or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Placing.
Placees:	The Placing Agent shall use its reasonable endeavours to ensure that (i) the placees procured by it (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties and independent from, and not acting in concert with, Ms. Lau; and (ii) no placee shall become a substantial Shareholder and any party acting in concert with Ms. Lau immediately following the Placing.
Placing Shares:	The number of Placing Shares shall be equivalent to the number of Untaken Shares, being the difference between (i) the total number of Rights Shares available for subscription as at the Record Date; and (ii) the total number of Rights Shares taken up by Qualifying Shareholders whether under the PAL(s) or EAF(s).
Placing Price:	The Placing Price of HK\$0.10 per Placing Share, which is the same as the Subscription Price.

For details of the Placing, please refer to the section headed “PLACING OF NEW SHARES UNDER SPECIFIC MANDATE” of the Board Letter.

Among the Rights Issue Comparables, we noted that (i) 2 out of 9 of the Rights Issue Comparables included placing of the unsubscribed rights shares; and (ii) the placing commissions of such transactions ranged from 3.00% to 3.50%. Accordingly, we are of the opinion that (i) it is not uncommon for rights issue transactions to include a placing of the unsubscribed rights shares; and (ii) the placing commission of 1.0% under the Placing is fair and reasonable.

Taking into account the principal terms of the Rights Issue as highlighted above, we consider that the terms of the Rights Issue are on normal commercial terms and are fair and reasonable.

### **Principal terms of the Set-Off**

With reference to the Board Letter, on 29 January 2021, the Company, the Borrower and Ms. Lau entered into the Set-Off Deed, pursuant to which the parties have agreed to restructure the Shareholder's Loan by offsetting the outstanding balance of the Shareholder's Loan as at the Rights Issue Settlement Date on a dollar-to-dollar basis against an equivalent amount of the aggregated Subscription Price of (i) all Entitlement Shares; and (ii) the Relevant Excess Shares allocated to Ms. Lau. The Set-Off will be conditional upon the Rights Issue becoming unconditional pursuant to the terms and conditions as set out in the Prospectus. The exact Set-Off Amount would depend on the number of Entitlement Shares to be taken up by Ms. Lau and the number of Relevant Excess Shares to be applied for and allocated to Ms. Lau. Subject to (i) the compliance of the set-off arrangement under the Set-Off Deed and (ii) the entire principal amount of the Shareholder's Loan being offset against the subscription price of the relevant Rights Shares pursuant to the terms and conditions of the Set-Off Deed, Ms. Lau shall release and discharge the Borrower from any and all obligations, liabilities, losses, damages, demands, claims, suits or actions of whatsoever nature arising from or in any way relating to the Loan and/or the Amended Loan Agreement with effect from the Rights Issue Completion. If there remains any balance of the Shareholder's Loan after the Set-Off, the Borrower shall repay such remaining balance and pay all unpaid interests accrued and to be accrued on the Shareholder's Loan pursuant to the terms of the Amended Loan Agreement.

As mentioned in the section earlier:

- There are several impending repayment obligations which the Company is required to satisfy (such as the New Option 1 Bonds, the Shareholder's Loan and the bank borrowing).
- The Group only had cash and bank balances of approximately HK\$76.43 million as at 31 December 2020. As confirmed by the Directors, the Group has insufficient internal resources as at the Latest Practicable Date to settle the impending liabilities (such as the New Option 1 Bonds, the Shareholder's Loan and the bank borrowing).

- Ms. Lau is a substantial Shareholder and pursuant to the Irrevocable Undertaking, has irrevocably undertaken to the Company that, among other things, subject to the Company despatching the Prospectus Documents to the Qualifying Shareholders and the Whitewash Waiver having been granted by the Executive prior to the Posting Date and not been revoked or withdrawn, she shall accept and pay for, or procure the acceptance and payment for, all the Entitlement Shares provisionally allotted to her, and apply and pay for, or procure the application and payment for no less than 616,981,126 excess Rights Shares and no more than the difference between the maximum number of Rights Shares available under the Rights Issue and all the Entitlement Shares provisionally allotted to her.

In light of the factors above and that the Shareholder's Loan Set-off amount is on a dollar-to-dollar basis against an equivalent amount of the aggregated Subscription Price of all Entitlement Shares and the Relevant Excess Shares allocated to Ms. Lau, we consider that the terms of the Set-Off are fair and reasonable.

#### **Possible dilution of the shareholding interests of the existing public Shareholders**

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their provisional allotments in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. As in all other cases of rights issues and open offers, dilution of the shareholdings of those Qualifying Shareholders who do not take up in full their provisional allotments under the Rights Issue is inevitable. Nonetheless, Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market.

With reference to the shareholding tables in the section headed "EFFECT OF THE RIGHTS ISSUE ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" of the Board Letter, assuming there is no change in the issued share capital of the Company, the shareholding interests of the existing public Shareholders would be diluted by a maximum of approximately 52.59 percentage points immediately upon the Rights Issue Completion (assuming no subscription by the Qualifying Shareholders (other than Ms. Lau) under the Rights Issue; and all the excess Rights Shares are subscribed for by Ms. Lau).

We are aware of the maximum potential dilution effects as just mentioned. Nonetheless, we consider that the foregoing should be balanced by the following factors:

- The Rights Issue and the Set-Off are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.
- The terms of the Rights Issue (including the Subscription Price) and the Set-Off are fair and reasonable.
- Independent Shareholders are offered a chance to express their views on the terms of the Rights Issue and the Set-Off through their votes at the SGM.

- Qualifying Shareholders have their choice of whether to accept the Rights Issue or not.
- Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market.
- Those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue.

Having considered the above, we consider that the maximum potential dilution to the shareholding interests of the existing public Shareholders in the Company, which may only arise when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares, is acceptable.

#### **Possible financial effects of the Rights Issue**

The unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group attributable to the owners of the Company (the “**Pro Forma Statement**”) as enlarged by the Rights Issue as at 31 December 2020, which has been prepared to illustrate the effect of the Rights Issue on the net tangible liabilities of the Group attributable to the owners of the Company as if the Rights Issue had been completed on 31 December 2020, is set out under Appendix II to the Circular.

With reference to the Pro Forma Statement, the audited consolidated net tangible liabilities of the Group attributable to the owners of the Company (the “**NTLV**”) was approximately HK\$153.11 million as at 31 December 2020. According to the Pro Forma Statement, the unaudited pro forma adjusted NTLV would decrease or become positive (i.e. recording unaudited consolidated net tangible assets position attributable to the owners of the Company), as if the Rights Issue had been completed on 31 December 2020.

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

#### **RECOMMENDATION ON THE RIGHTS ISSUE AND THE SET-OFF**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) although the Rights Issue and the Set-Off are not in the ordinary and usual course of business of the Group, the terms of the Rights Issue and the Set-Off are on normal commercial terms and are fair and reasonable; and (ii) the Rights Issue and the Set-Off are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Rights Issue and the Set-Off and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

## B. WHITEWASH WAIVER

According to the Board Letter, as at the Latest Practicable Date, Ms. Lau and parties acting in concert with her are interested in 204,222,179 Shares, representing approximately 19.84% of the total number of issued Shares.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Share; and (iii) Ms. Lau has accepted all Entitlement Shares and applied for, and successfully been allotted, the maximum number of excess Rights Shares, being 1,875,942,592 Rights Shares, the voting rights of the Company held by Ms. Lau and parties acting in concert with her will increase from approximately 19.84% to 73.28% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date and the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Share; and (iii) Ms. Lau has accepted all Entitlement Shares and applied for, and successfully been allotted, the maximum number of excess Rights Shares, being 2,024,522,592 Rights Shares, the voting rights of the Company held by Ms. Lau and the parties acting in concert with her will increase from approximately 19.84% to 72.83% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date and the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Shares; (iii) Ms. Lau has accepted all Entitlement Shares and applied for, and successfully been allotted, the Undertaken Shares; and (iv) all the Untaken Shares were placed to Independent Third Parties under the Placing, the voting rights of the Company held by Ms. Lau and the parties acting in concert with her will increase from approximately 19.84% to 30.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

Assuming (i) there is no change in the total number of issued Shares from the Latest Practicable Date up to and including the Rights Issue Completion (other than the full exercise of conversion rights under the outstanding New Option 1 Bonds on or before the Record Date and the allotment and issue of Rights Shares); (ii) no Qualifying Shareholders (other than Ms. Lau) subscribes for any Rights Shares; (iii) Ms. Lau has accepted all Entitlement Shares and applied for, and successfully been allotted, the Undertaken Shares; and (iv) no Independent Third Parties take up the Untaken Shares under the Placing, the voting rights of the Company



held by Ms. Lau and the parties acting in concert with her will increase from approximately 19.84% to 52.74% of the issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares upon the Rights Issue Completion.

In such circumstances, the acceptance in full by Ms. Lau of the Entitlement Shares allotted to her pursuant to the Irrevocable Undertaking and/or the allotment of excess Rights Shares to her upon successful excess application when there is an undersubscription of the Rights Issue will trigger an obligation on Ms. Lau to make a mandatory general offer under Rule 26 of the Takeovers Code for all Shares not already owned or agreed to be acquired by Ms. Lau and parties acting in concert with her, unless a waiver is granted by the Executive. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted and will be conditional upon, among others, the approval of the Independent Shareholders of the Whitewash Waiver, Rights Issue and the Set-Off at the SGM by way of poll in accordance with the requirements of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, and the approval of the Rights Issue and the Set-Off by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll, respectively, at the SGM. If the Whitewash Waiver is not granted by the Executive, or if granted, either the Whitewash Waiver, the Rights Issue or the Set-Off is not approved by the Independent Shareholders, the Rights Issue and the Set-Off (and Placing) will not proceed.

In view of (i) the aforesaid reasons for the Rights Issue; (ii) that the Rights Issue and the Set-Off are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole; and (iii) that the terms of the Rights Issue and the Set-Off are fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Rights Issue and the Set-Off, is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole and is fair and reasonable for the purpose of proceeding with the Rights Issue and the Set-Off.

#### RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into consideration (i) the reasons for and possible benefits of the Rights Issue and the Set-Off; and (ii) that the Rights Issue and the Set-Off are conditional on, among other things, the grant of the Whitewash Waiver, we consider that the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**



**Graham Lam**  
*Managing Director*

*Note:* ~~Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.~~