瓏盛資本有限公司
Draco Capital Limited

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15 November 2021

To the Independent Board Committee and the Independent Shareholders of
Synergy Group Holdings International Limited

Dear Sir or Madam,

(1) CONNECTED TRANSACTION – ISSUE OF SUBSCRIPTION SHARES TO A CONNECTED PERSON;
(2) CONNECTED TRANSACTION – ISSUE OF CONVERSION SHARES TO CONNECTED PERSONS;
(3) ISSUE OF SETTLEMENT SHARES;
AND
(4) APPLICATION FOR WHITEWASH WAIVER

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, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Waiver, details of which are set out in the Letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 15 November 2021 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 15 September 2021 (after trading hours), the Company proposed to enter into the Subscription Agreement with the Subscriber, pursuant to which the Company shall allot and issue, and the Subscriber shall subscribe for 1,100,000,000 Shares, at the Subscription Price of HK$0.1 per Subscription Share.

As at the Latest Practicable Date, the Group has outstanding debts owed to Mr. Wong and Mpplication in the amount of approximately HK$9,651,020 and HK$1,148,000, respectively, and shareholder's loans owed to Mr. Lam in the amount of approximately HK$2,015,520. The aggregate amount of outstanding debts under the Connected Conversion is HK$12,786,540. On 15 September 2021 (after trading hours), the Company proposed to enter into the First Connected Conversion Agreement with Mr. Wong and Mpplication and the Second Connected Conversion Agreement with Mr. Lam, substantially on the same terms, pursuant to which the Company shall allot and issue 96,510,000, 10,080,000 and 20,154,000 Conversion Shares to Mr. Wong, Mpplication and Mr. Lam, respectively, and Mr. Wong, Mpplication and Mr. Lam shall subscribe for 96,510,000, 10,080,000 and 20,154,000 Conversion Shares, respectively, at the Issue Price in settlement of the corresponding amounts of outstanding debts due to Mr. Wong, Mpplication and Mr. Lam, respectively. The Company shall allot and issue an aggregate of 126,744,000 Conversion Shares upon the Connected Conversion Completion.

On 15 September 2021 (after trading hours), the Company proposed to enter into individual Settlement Agreements with each of the Lenders, substantially on the same terms. Pursuant to the Settlement Agreements, the Company shall allot and issue 238,908,000, 22,778,000, 105,370,000, 12,068,000, 50,000,000 and 45,072,000 Settlement Shares to First Fidelity Capital (International) Limited, Ms. Yu Sze Wan Gisela, Red Hill Investment (BVI) Limited, Mr. Tong Man Chun, Kedah Company Limited and Ms. Wu Chit Wai, respectively, and First Fidelity Capital (International) Limited, Ms. Yu Sze Wan Gisela, Red Hill Investment (BVI) Limited, Mr. Tong Man Chun, Kedah Company Limited and Ms. Wu Chit Wai, shall subscribe for 238,908,000, 22,778,000, 105,370,000, 12,068,000, 50,000,000 and 45,072,000 Settlement Shares, respectively.

IMPLICATIONS UNDER THE LISTING RULES

Listing Rules implications

As at the Latest Practicable Date, Mr. Wong and Mr. Lam are executive Directors and each of the Subscriber and Mpplication is beneficially wholly owned by Mr. Wong. Therefore, each of the Subscriber, Mr. Wong and Mpplication is a connected person of the Company pursuant to the Listing Rules. Mr. Lam is an executive Director of the Company and is also a connected person of the Company pursuant to the Listing Rules. Given that the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements are inter-conditional, Mr. Wong and Mr. Lam are interested in the Subscription, the Connected Conversion, the Settlement and the Whitewash Waiver. Both Mr. Wong and Mr. Lam abstained from voting on the Board resolutions in relation to the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of Specific Mandate and the Whitewash Waiver.

Accordingly, given that the Subscriber, Mr. Wong, Mpplication and Mr. Lam are connected persons of the Company pursuant to the Listing Rules, the Subscription Agreement, the Connected Conversion Agreements, the granting of the Specific Mandate, and the transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and would be subject to the announcement, reporting and Independent Shareholders' approval requirements at the EGM by way of poll.

Each of the Lenders and their respective ultimate beneficial owners are not connected persons of the Company and are Independent Third Parties. Also, the Company or its connected person has not entered, or contemplated to enter, into any other arrangements, agreements or understanding (whether formal or informal and whether express or implied) with the Lenders or their respective ultimate beneficial owners. However, given that the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements are inter-conditional, the Subscriber and Ms. Yeung Betty are deemed to be interested in the Settlement Agreements and the transactions contemplated thereunder, and hence shall abstain from voting on the relevant resolutions at the EGM. As a result, the Settlement, the granting of the Specific Mandate and the transactions contemplated thereunder are subject to the announcement, reporting and Independent Shareholders' approval requirements at the EGM by way of poll.

The Subscription Shares, the Conversion Shares and the Settlement Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Independent Shareholders' approval at the EGM by way of poll.

Save as disclosed above, as at the Latest Practicable Date, no other Director has a material interest in the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements which requires any of them to abstain from voting on the Board resolutions in relation to the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Waiver.

By virtue of (i) the interest of the Subscriber in the Subscription Agreement, (ii) the interest of Mr. Wong, Mpplication and Mr. Lam in the Connected Conversion Agreements, and (iii) the deemed interest of the Subscriber and Mr. Lam in the Settlement Agreements, the Subscriber, Mr. Lam and their respective associates and parties acting in concert with them (including Ms. Yeung Betty), who are interested in an aggregate of 55,667,204 Shares, representing approximately 8.39% of the total issued share capital of the Company, shall abstain from voting on the resolution(s) to be proposed at the EGM in relation to the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Waiver.

Dilution effect of the Subscription, the Connected Conversion and the Settlement and exceptional circumstances

Pursuant to Rule 7.27B of the Listing Rules, a listed issuer may not undertake a rights issue, open offer or specific mandate placings that would result in a theoretical dilution effect of 25% or more (on its own or when aggregated within a 12-month period), unless the Stock Exchange is satisfied that there are exceptional circumstances. The Subscription, the Connected Conversion and the Settlement will result in a theoretical dilution effect of approximately 53.41%, which is over the 25% threshold as specified under Rule 7.27B of the Listing Rules. However, the Company considers there are exceptional circumstances for the Company, details of which have been stated in the section headed "Dilution effect of the Subscription, the Connected Conversion and the Settlement and exceptional circumstances" in the Letter from the Board. As a result, the Company has made an application to the Stock Exchange for the waiver from the strict compliance of Rule 7.27B of the Listing Rules in relation to the issue and allotment of the Subscription Shares, the Conversion Shares and the Settlement Shares.

The Stock Exchange has indicated that based on the information contained herein, the Company can proceed with the Subscription, the Connected Conversion and the Settlement.

Please refer to the section headed "Dilution effect of the Subscription, the Connected Conversion and the Settlement and exceptional circumstances" in the Letter from the Board for further details.

IMPLICATIONS UNDER THE TAKEOVERS CODE

The Whitewash Waiver

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it are interested in aggregate of 55,667,204 Shares, representing approximately 8.39% of the total issued share capital of the Company. The Subscription Completion, the Connected Conversion Completion and the Settlement Completion are expected to take place simultaneously, upon which the shareholding of the Subscriber and parties acting in concert with it (including Mr. Wong, Mpplication, Mr. Lam and Ms. Yeung Betty) will increase from approximately 8.39% to a maximum of 54.25% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Conversion Shares and the Settlement Shares (assuming there will be no other change in the number of issued Shares between the Latest Practicable Date and the date of the Connected Issue Completion and the Settlement Completion, save for the issue and allotment of the Subscription Shares, the Conversion Shares and the Settlement Shares), thereby triggering an obligation on the Subscriber and parties acting in concert with it under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Subscriber or parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive.

In this regard, the Subscriber has made an application to the Executive for the granting of the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares and the Conversion Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. In accordance with the Listing Rules and the Takeovers Code, the Subscriber and parties acting in concert with it and other Shareholders who are involved or interested in the Subscription Agreement, the Connected Conversion Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Waiver shall abstain from voting on the respective resolutions at the EGM. Therefore, the Subscriber and Ms. Yeung Betty, who are interested in a total of 55,667,204 Shares, representing approximately 8.39% of the issued share capital of the Company, shall abstain from voting on the resolutions approving the Subscription Agreements, the Connected Conversion Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Waiver at the EGM.

Save as disclosed above, to the best of the Director's knowledge, information and belief and having made all reasonable enquiries, no other Shareholder is required to abstain from voting on any of the resolutions at the EGM.

The resolutions for (i) the Subscription Agreement, the Connected Conversion Agreements and the granting of the Specific Mandate shall be approved by way of ordinary resolution (representing more than 50% of the votes casted by Independent Shareholders either in person or by proxy at the EGM by way of poll); and (ii) the Whitewash Waiver shall be approved by way of special resolution (representing more than 75% of the votes cast by the Independent Shareholders either in person or by proxy at the EGM by way of poll). The Connected Issue Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders.

Disqualifying transactions and the Executive's consent

Pursuant to paragraph 3(b) of the Whitewash Guidance Note set out in Schedule VI of the Takeovers Code, the Whitewash Waiver will not be granted or if granted will be invalidated if, without the prior consent of the Executive, any acquisitions or disposals of voting rights are made by such persons in the period between the Joint Announcement, the Subscription Completion and the Connected Conversion Completion. As disclosed in the section headed "EFFECT ON THE SHAREHOLDING STRUCTURE" in Letter from the Board as at the Latest Practicable Date, a total of 53,249,204 Shares owned by the Subscriber are pledged to CCBI in favour of the CCBI Note, which was due on 16 November 2019. As the Company failed to settle the amount due to CCBI by 16 November 2019, CCBI exercised their right to sell a total of 36,114,437 pledged Shares owned by Mr. Lam during the Relevant Period.

An application to the Executive has been made by the Subscriber earlier for the consent on the disposals, which include the Forced Disposals and any future disposals by CCBI (Collectively "**Future Disposals**"), and the Executive has granted such consent on 14 September 2021. Further announcement(s) will be made by the Company as and when applicable if any Future Disposals by CCBI take place.

Please refer to the section headed "Disqualifying transactions and application for the Executive's consent" and "Further details of the CCBI Note" in the Letter from the Board for further details.

Please also refer to the section headed "OTHER INFORMATION REQUIRED UNDER THE TAKEOVERS CODE" in the Letter from the Board for further details.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chung Koon Yan, Mr. Cheung Yick Hung Jackie and Dr. Wong Chi Ying Anthony, has been formed to advise the Independent Shareholders on the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of Specific Mandate and the Whitewash Waiver and to advise the Independent Shareholders on the voting at the forthcoming EGM taking into account the advice of the Independent Financial Adviser.

We, Draco Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of Specific Mandate and the Whitewash Waiver and to make recommendations as to, among others, whether the terms of the Subscription, the Connected Conversion, the Settlement, the granting of the Specific Mandate and the Whitewash Waiver are fair and reasonable and as to the voting thereon. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

INDEPENDENCE

During the last two years, there was no engagement between the Company or the Subscriber and us. Apart from normal professional fee payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the Directors, chief executive and substantial Shareholders or the Subscriber or any of its subsidiaries or their respective associates, and any parties acting in concert with them. Therefore, we consider ourselves eligible to act as the Independent Financial Adviser to the Company under the requirements of the Listing Rules.

As at the Latest Practicable Date, there is no financial and business relationship between us and the Directors, chief executives of the Company, substantial Shareholders and the Subscriber or any of their respective subsidiaries or associates, and any parties acting in concert with them, and are therefore considered independent and suitable to give independent advice to the Independent Board Committee and the Independent Shareholders pursuant to Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (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 statements, information and representations provided by the executive Directors and the non-executive Directors and/or the representatives of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Independent Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as well as this letter as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the 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 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 the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of 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. We consider that we have reviewed sufficient 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 the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Subscription, the Connected Conversion, the Settlement, the granting of the Specific Mandate and the Whitewash Waiver and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1 Information on the Group

1.1 Information on the Group

The Company is an investment holding company. The Group is principally engaged in the provision of leasing services of energy saving systems, consultancy service and artificial intelligence technology services, and trading of energy saving products.

1.2 Financial performance on the Group

Set out below are the financial results of the Group extracted from the annual report of the Company for the year ended 31 March 2021 ("**FY2021**") (the "**Annual Report 2021**"):

	For the year ended 31 March		YOY changes
	2021	**2020**	
	HK$'000	*HK$'000*	*%*
	(audited)	(audited)	
Revenue	53,784	126,547	(57.50)
Revenue from contracts with customer within the scope of HKFRS 15	*43,958*	*115,386*	*(61.90)*
– Trading of energy saving products	*24,873*	*96,121*	*(74.12)*
– Consultancy service income	*19,085*	*19,265*	*(0.93)*
Revenue from other sources	*9,826*	*11,161*	*(11.96)*
– Leasing service income	*9,826*	*11,161*	*(11.96)*
Gross profit	26,376	70,108	(62.38)
Other income	19,676	5,180	279.85
Administrative expenses	(25,166)	(59,513)	(57.71)
Selling and distribution costs	(3,448)	(5,285)	(34.76)
Finance costs	(55,526)	(18,729)	196.47
Other expenses	(278,226)	(108,583)	156.23
Share of results of associates	9,551	2,371	302.83
Loss for the year from continuing operations	(282,534)	(108,915)	159.41
Loss for the year attributable to:	(282,534)	(111,140)	154.21
– Owners of the Company	*(279,797)*	*(109,762)*	*154.91*
– Non-controlling interests	*(2,737)*	*(1,378)*	*98.62*

With reference to the Annual Report 2021, the total revenue of the Group was approximately HK$53.8 million for FY2021, representing a decrease of approximately 57.5% as compared to that for the year ended 31 March 2020 ("**FY2020**"). The decrease in revenue was due to the drop in customer demand and the delays in delivery of products as the customers and the distributors were adversely affected by the negative economic effects from the escalating uncertainty in the international trade policy, the global financial conditions, and the outbreak of COVID-19 during the period. Gross profit margin decreased to approximately 49.0% for FY2021 compared to approximately 55.4% for FY2020.

We noted that other income and gains for FY2021 of approximately HK$19.7 million mainly included the currency exchange gain of HK$15.4 million and the Government grants of Enterprise Support Scheme of approximately HK$1.5 million. The increase was mainly due to the increase in unrealised foreign exchange gain derived from the revaluation of balances in foreign currencies mainly as a result of the appreciation of Indonesian rupiah against Hong Kong dollar as at period end date.

The Group's selling and distribution costs for FY2021 were approximately HK$3.4 million, representing a decrease of approximately 34.76% from approximately HK$5.3 million for the FY2020. The decrease was mainly due to the net effect of (i) the decrease in salary due to resignations of a few employees during the period; and (ii) the decrease of marketing fee due to less marketing activity was engaged during FY2021.

The Group's administrative expenses for FY2021 were approximately HK$25.2 million, representing a decrease of approximately 57.71% from approximately HK$59.5 million for FY2020. The decrease was mainly due to the decrease in unrealised foreign exchange loss derived from the revaluation of balances in foreign currencies from approximately HK$27.8 million in the FY2020 to Nil in the FY2021.

The Group's finance costs increased to approximately HK$55.5 million for FY2021 from approximately HK$18.7 million for FY2020. The increase in approximately HK$36.8 million was mainly due to that the default interest incurred since the Group was unable to repay some of the overdue borrowings.

We also noted that the Group's other expenses increased to approximately HK$278.2 million for FY2021 from approximately HK$108.6 million for FY2020. The increase was mainly due to (i) the provision for impairment loss of financial assets increased to approximately HK$156.6 million for FY2021 from approximately HK$51.0 million for FY2020; (ii) the loss on modifications of financial assets of approximately HK$66.0 million; and (iii) the increase in the provision for impairment of goodwill to approximately HK$34.6 million during the FY2021 from approximately HK$32.4 million during the FY2020.

As a result of the foregoing, the loss attributable to the owners of the Company increased by approximately 154.91% from a loss of approximately HK$109.8 million for FY2020 to a loss of approximately HK$279.8 million for the year ended 31 March 2021. Excluding some major extraordinary or non-operating income and expenses, the adjusted profit/loss attributable to the owners of the Company decreased by approximately 339.7% from approximately HK$16.1 million profit for FY2020 to a loss of approximately HK$38.5 million for the FY2021.

1.3 Financial position on the Group

Set out below is a summary of the consolidated statements of financial position as at 31 March 2020 and 2021 as extracted from the Annual Report 2021:

	As at 31 March	
	2021	**2020**
	HK$'000	*HK$'000*
	(audited)	(audited)
Non-current assets	161,942	259,262
Current assets	242,948	391,326
– Trade receivables	*198,363*	*328,697*
– Due from an associate	*19,008*	*21,003*
– Cash and cash equivalents	*8,204*	*9,370*
Total assets	404,890	650,588
Non-current liabilities	16,360	31,419
– Notes payable	–	*2,600*
Current liabilities	333,981	304,087
Trade payables	17,269	11,099
Accruals, other payables and deposits received	137,458	90,545
– Borrowings	*82,425*	*102,010*
– Notes payable	*76,600*	*80,000*
Total liabilities	350,341	335,506
Net current (liabilities)/assets	(91,033)	87,239
Equity attributable to owners of the Company	62,125	320,022

With reference to the Annual Report 2021, the Group mainly finances its business with internally generated cash flows and bank and other borrowings.

As at 31 March 2021, currents assets of the Group amounted to approximately HK$242.9 million, representing a decrease of 37.9% from approximately HK$391.3 million as at 31 March 2020. The current assets mainly comprised cash and bank balances (including pledged bank deposits) of approximately HK$8.2 million (2020: approximately HK$9.4 million), trade receivables of approximately HK$198.4 million (2020: approximately HK$328.7 million), and amount due from an associate of approximately HK$19.0 million (2020: approximately HK$21.0 million).

As at 31 March 2021, the Group's current liabilities mainly comprised borrowings of approximately HK$82.4 million (2020: approximately HK$102.0 million), notes payable of HK$76.6 million (2020: HK$80.0 million), trade payables of approximately HK$17.3 million (2020: approximately HK$11.1 million) and accruals, other payables and deposits received of approximately HK$137.5 million (2020: approximately HK$90.5 million).

The Group's current ratio decreased from approximately 1.3 times as at 31 March 2020 to approximately 0.7 times as at 31 March 2021. The total outstanding notes payable and borrowings of the Group as at 31 March 2021 was approximately HK$159.0 million (31 March 2020: approximately HK$184.6 million), of which approximately HK$31.6 million (31 March 2020: approximately HK$57.3 million) was due to banks, approximately HK$50.8 million (31 March 2020: approximately HK$44.7 million) was due to independent third parties, and notes payable of approximately HK$76.6 million (31 March 2020: HK$82.6 million). The decrease was due to the net effect of repayment of bank and notes payable drawn during the FY2021.

As at 31 March 2021, the Group's net assets were approximately HK$54.5 million, representing a decrease of 82.7% from approximately HK$315.1 million as at 31 March 2020.

We also noted that amongst the Group's "accruals, other payables and deposits received", there were settlement payable of approximately HK$47.1 million as at 31 March 2021. With reference to the Annual Report 2021, the Company issued certain notes to two creditors in 2017, and subsequently entered into a deed of settlement with each of the creditors in respect of the notes on 22 July 2020. Settlement payables become overdue on 22 July 2020. During FY2021, the Company received statutory demands from the legal representatives acting on behalf of each of the creditors in which the creditors are, demanding payment from the Company for its indebtedness under each of the deeds of settlement within 21 days from the date of the statutory demand. As at the date of approval of the consolidated financial statements of the Group for FY2021, the Company is still in the discussion of the repayment arrangement with creditors. No further action has been carried out by the creditors.

In addition, in relation to the borrowings of the Group, (i) secured and guaranteed bank loan of approximately HK$31.6 million; (ii) secured and guaranteed other loans of approximately HK$23.1 million; and (iii) unsecured and guaranteed other loans of approximately HK$12.8 million, were overdue as at 31 March 2021.

In relation to the bank loan whose carrying amount was approximately HK$28.4 million as at 31 March 2021, the Company received two statutory demands during FY2021 from the legal adviser acting on behalf of the bank, in which the bank is demanding payment from the Group for its indebtedness under certain banking facilities and the related corporate guarantees provided in favour of the bank within 21 days from the respective date of the statutory demand, being the dates of service of the respective statutory demand. As at the date of approval of the consolidated financial statements of the Group for FY2021, the Company is still in the discussion of the repayment arrangement with creditors. No further action has been carried out by the creditors.

In relation to other loans whose carrying amount was HK$12.5 million as at 31 March 2021, the Company received a statutory demand during the year from the legal adviser acting on behalf of the lender in which the lender is demanding payment from the Group for its indebtedness under a corporate guarantee provided in favour of the lender within 21 days from the date of the statutory demand. As at the date of approval of consolidated financial statements of FY2021, the Company is still in the discussion of the repayment arrangement with creditors. No further action has been carried out by the creditors.

1.4 Auditor's disclaimer of conclusion in Annual Report 2021

The auditors of the Company issued a disclaimer of opinion for the consolidated financial statements of the Group for FY2020 and FY2021. Regarding the disclaimer of opinion for FY2021, the auditors were concerned with the material uncertainties in relation to the Group that may cast significant doubt on the Group's ability as a going concern.

The auditors of the Company stated that in respect of the assumptions that the Group would successfully (i) negotiate with certain creditors for settlement by way of issuance of new shares of the Company; (ii) negotiate with a number of creditors not to exercise their rights to present the winding-up petition against the Company, and (iii) negotiate with certain creditors for debt restructuring by way of which included, but are not limited to, the deferral of the repayment on partial principal to the period after 31 March 2022, the Directors have not provided the auditors the supportable evidence from (i) certain creditors in relation to borrowings of HK$9,500,000, note payables of HK$22,600,000, bonds payable of HK$2,000,000, trade payable of HK$10,537,000, other payable of HK$1,207,000 as at 31 March 2021 for their agreement on the settlement by way of issuance of new shares of the Company; (ii) a number of creditors for their agreement not to exercise their rights to execute the winding-up petition against the Company; and (iii) a creditor in relation to note payables of HK$54,000,000 for agreement on debt restructuring by way of the deferral of the repayment on partial principal to the period after 31 March 2022.

Please refer to the Annual Report 2021 for further details.

2 Background of the Subscribers, Mr. Wong, Mr. Lam, Mpplication and the Lenders

The Subscriber is a limited liability company incorporated in the BVI and is beneficially wholly owned by Mr. Wong.

Mr. Wong is the chairman, chief executive officer and an executive Director.

Mr. Lam is an executive Director.

Mpplication is a limited liability company incorporated in Hong Kong and is beneficially wholly owned by Mr. Wong.

The Lenders comprise Red Hill Investment (BVI) Limited, Ms. Yu Sze Wan Gisela, Kedah Company Limited, First Fidelity Capital (International) Limited, Mr. Tong Man Chun and Ms. Wu Chit Wai. The Lenders and their respective ultimate beneficial owners (where applicable) are Independent Third Parties and are not Shareholders. Each of the Lenders also confirmed in writing that each of them and their respective associates are not interested in any securities of the Company and are not acting in concert with the Subscriber.

Please refer to the section headed ''INFORMATION ON THE GROUP, THE SUBSCRIBER, MR. WONG, MR. LAM, MPPLICATION AND THE LENDERS'' in the Letter from the Board for further details.

Future intention of the Subscriber regarding the Group

The Subscriber intends to continue the existing principal businesses of the Group. It has no intention to (i) discontinue the employment of any employees of the Group; (ii) redeploy the fixed assets of the Company other than those in its ordinary and usual course of business; or (iii) change the current Board composition. As such, the Company is not in any negotiation or has any intention or plan to (i) dispose of its existing businesses; or (ii) acquire any new business.

The Subscriber also intends to maintain the listing of the Shares on the Main Board following the Connected Issue Completion and the Settlement Completion.

3 Use of proceeds from the Subscription

The gross proceeds from the Subscription are expected to be approximately HK$110 million (based on the Subscription Price of HK$0.1 per Subscription Share). The net proceeds of the Subscription (after deducting related professional fees and related transaction expenses) are expected to be approximately HK$105 million and the net Subscription Price per Subscription Share will be approximately HK$0.095.

The Company intends to apply the net proceeds from the Subscription as to (i) approximately HK$86.3 million for repayment of outstanding debts of the Group; and (ii) the remaining balance of approximately HK$18.7 million for general working capital of the Group.

Please refer to the section headed "USE OF PROCEEDS" and "The Scheme" in the Letter from the Board for further details.

4 Reasons for and benefits of the Subscription, the Connected Conversion and the Settlement

4.1 Statutory demands from debtors to repay overdue indebtedness

References are made to the announcements of the Company dated 12 August 2020, 2 September 2020, 29 September 2020, 16 October 2020, 6 November 2020 and 21 June 2021 in relation to, among others, a number of statutory demands issued by the creditors of the Company (collectively, the "**Statutory Demand Announcements**") and the Annual Report 2021.

As at 31 May 2021, the total amount of overdue borrowings of the Group amounted to approximately HK$230.3 million, among which a number of creditors (the "**SD Creditors**") in relation to an aggregate loan amount of approximately HK$190.3 million have filed statutory demands against the Company as disclosed in the Statutory Demand Announcements.

We noted that all of these statutory demands were served to the Company in 2020 and the Company is still unable to repay the relevant indebtedness because of the unfavourable prevailing financing situation of the Group. Since the Group was unable to repay the relevant indebtedness within 21 days from the date of service of the relevant statutory demands, each of the relevant SD Creditors is entitled to present a winding up petition against the Company at any time at their discretions.

Meanwhile, with reference to the Annual Report 2021 and the management account of the Group provided by the Management, we noted that the Group's cash and cash equivalents balance was only approximately HK$8.2 million and HK$8.0 million as at 31 March 2021 and 31 May 2021 respectively.

The Directors have been taking proactive steps to discuss and negotiate for an arrangement to restructure the repayment terms of the overdue borrowings and also seeking fund raising sources. The Group has exhausted all other means to resolve the current situation. However, any further debt financing would further increase the gearing of the Company.

Taking into consideration of the aforementioned circumstances confronting the Company, we concur with the view of the Directors that (i) it is currently at a critical stage to resolve its financial situation; (ii) it would be impracticable to raise capital solely through debts without strengthening the equity of the Group; and (iii) the Subscription is a mean of fund raising and the Connected Conversion and the Settlement are means of lowering the liability of the Group.

4.2 Suitable source of financing among other fund-raising alternatives

As stated in the Letter from the Board and also based on the communication with the Management, the Company has considered other financing alternatives including (i) equity fund raising such as open offer and/or rights issue and (ii) other debt financing. The Company decided to enter into the Subscription, the Connected Conversion and the Settlement due to the reasons as stated below.

Equity fund raising – Open Offer and/or Rights Issue

We have enquired the Subscriber regarding its intention to support open offer and/or rights issue conducted by the Company. The Subscriber has indicated that it has no further internal financial resources to support open offer and/or rights issue conducted by the Company. In addition, the Financier that supports the Subscriber under the Subscription has explicitly indicated that their support is based on the condition of, *inter alia*, the absolute certainty on the amount of Shares, Subscription Shares and Conversion Shares owned or to be owned by the Subscriber and Mr. Wong as collateral against the lending upon the Connected Issue Completion. The Financier would not accept partial drawdown of the financial support with pro rata collateral of Shares or Subscription Shares or Conversion Shares to be provided. It is possible that any Shareholders may take up their respective entitlement under the scenario of rights issue or open offer, resulting that this condition imposed by the Financier cannot be fulfilled whereby the Subscriber is acting as underwriter in a rights issue or open offer and financially supported by the Financier. As a result, it would be unfeasible for the Subscriber to underwrite a rights issue or open offer of the Company in similar size as to the Subscription based on the current financing arrangement with the Financier.

Based on the information provided by the Company, we also noted that the Company has approached nine independent financial institutions to negotiate potential underwriting and/or placing in similar size as to the Subscription. Two of the independent financial institutions had acted as placing agents of the Company in previous share placements. Eventually, none of the financial institutions indicated interest in the potential underwriting and/or placing for various reasons as stated in the section headed "Difficulties in obtaining financing alternatives" in the Letter from the Board. Furthermore, the Management stated that as opposed to the Subscription, there would be customary underwriting fees to be paid to underwriters, which would induce further unnecessary expenses of the Company.

Under such circumstances, conducting equity fund raising such as open offer and/or rights issue is not a preferable choice.

Debt financing

We have also enquired the Company regarding its intention to conduct debt financing to support the liquidity of the Company.

The Company stated that banks, money lenders and/or potential lender show no interest to provide debt financing to a listed issuer with financial difficulties and going-concern issue since the Company has received a number of statutory demands from its creditors and the Company is demanded to repay overdue indebtedness, which had been announced publicly and disclosed in the Annual Report 2021. Debt financing from banks or money lenders may also be subject to lengthy due diligence and internal risk assessment by them. In addition, the gearing ratio of the Group was 392.1% as at 31 March 2021. It may not be feasible for the Group to obtain additional debt financing with terms favourable to the Group.

Meanwhile, although the Company has entered into the Loan MOU with the Loan Lender and would obtain additional debt financing if materialised, the Loan Lender would require the Subscriber and Mr. Wong to act as Guarantors against any loans made to the Company, and also require the Subscriber and Mr. Wong to remain interested in no less than 52% share capital of the Company.

Under such circumstances, conducting debt financing from banks, money lenders or other potential creditors prior to the completion of the Subscription, the Connected Conversion and the Settlement is not a preferable choice.

4.3 Other benefits of the Subscription, the Connected Conversion and the Settlement

As stated in the section headed "Financial Effect of the Subscription, the Connected Conversion and the Settlement" in this letter, (i) as part of the net proceeds from the Subscription is expected to be applied for the repayment of the borrowings of the Group; and (ii) upon the Connected Conversion Completion and the Settlement Completion, the respective liabilities of the Group will be converted into the equity of the Group, the Subscription, the Connected Conversion and the Settlement will improve the Group's net debt ratio and net current liabilities position.

After considering that:

(i) the Group recorded net current liabilities as at 31 March 2021;

(ii) the Group has no sufficient financial resources to meet the statutory demands from creditors to repay the overdue indebtedness;

(iii) it is not cost-effective nor feasible for the Group to carry out other forms of equity financing and/or obtain debt financing; and

(iv) the Subscription, the Connected Conversion and the Settlement will improve the Group's net debt ratio and net current liabilities position upon completion,

we concur with the view of the Directors that the Subscription is the desirable way to raise capital and the Connected Conversion and the Settlement are lowering the liability of the Group under the current circumstances of the Group and are in the interests of the Company and the Shareholders as a whole.

5 The Subscription, the Connected Conversion and the Settlement

5.1 The Subscription Agreement

The principal terms of the Subscription Agreement are summarised as below:

Parties	:	(i) The Company, being the issuer; and
		(i) Abundance Development Limited, being the Subscriber
Subscription Shares	:	1,100,000,000 Subscription Shares, represent:
		(i) approximately 165.96% of the issued share capital of the Company as at the Latest Practicable Date; and

		(i) approximately 46.54% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Conversion Shares and the Settlement Shares.
Subscription Price	:	HK$0.1 per Subscription Share

Please refer to the section headed "THE SUBSCRIPTION AGREEMENT" in the Letter from the Board for further details.

5.2 The Connected Conversion Agreements

The principal terms of the Connected Conversion Agreements are summarised as below:

Parties	:	(i) The Company, being the issuer; (i) Mr. Wong, being the first subscriber of the First Connected Conversion Agreement; (iii) Mpplication, being the second subscriber of the First Connected Conversion Agreement; and (iv) Mr. Lam, being the subscriber of the Second Connected Conversion Agreement
Conversion Shares	:	126,744,000 Conversion Shares, which comprise 96,510,000, 10,080,000 and 20,154,000 Conversion Shares to be allotted and issued to Mr. Wong, Mpplication and Mr. Lam, respectively, represent: (i) approximately 14.56%, 1.52% and 3.04% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 4.08%, 0.43% and 0.85% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Conversion Shares and the Settlement Shares, respectively.

Issue Price	:	HK$0.1 per Conversion Share

Please refer to the section headed "THE CONNECTED CONVERSION AGREEMENTS" in the Letter from the Board for further details.

5.3 The Settlement Agreements

The principal terms of the Settlement Agreements are summarised as below:

Parties	:	(i) The Company, being the issuer; (ii) First Fidelity Capital (International) Limited, Ms. Yu Sze Wan Gisela, Red Hill Investment (BVI) Limited, Mr. Tong Man Chun, Kedah Company Limited and Ms. Wu Chit Wai, being the subscribers
Settlement Shares	:	474,196,000 Settlement Shares, which comprise 238,908,000, 22,778,000, 105,370,000, 12,068,000, 50,000,000 and 45,072,000 Settlement Shares to be allotted and issued to First Fidelity Capital (International) Limited, Ms. Yu Sze Wan Gisela, Red Hill Investment (BVI) Limited, Mr. Tong Man Chun, Kedah Company Limited and Ms. Wu Chit Wai, respectively, represent: (i) approximately 71.54% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 20.06% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Conversion Shares and the Settlement Shares.
Issue Price	:	HK$0.1 per Settlement Share

Please refer to the section headed "THE SETTLEMENT AGREEMENTS" in the Letter from the Board for further details.

5.4 Financing Arrangement with the Financier

For the purpose of financing the Subscription, the Subscriber has obtained a loan from the Financier for a term of two years from drawdown at an interest rate of 18% per annum, which was arrived at after arm's length negotiations between the Subscriber and the Financier with reference to the prevailing market interest rate. All the Shares owned by the Subscriber and Mr. Wong, including any existing owned Shares, the Subscription Shares and the Conversion Shares will be served as collateral for the financing, where in aggregate, represents no less than 52% of the issued share capital of the Company from time to time. Mr. Wong is also acting as the guarantor in favour of the Financier against the obligation of the Subscriber under such financing.

The terms of the financing were arrived at after arm's length negotiations between the Subscriber and the Financier which took into account of, *inter alia*, (i) the repayment ability of the Subscriber and Mr. Wong; and (ii) the prospects of the business of the Group.

Please refer to the section headed "INFORMATION ON THE GROUP, THE SUBSCRIBER, MR. WONG, MR. LAM, MPPLICATION AND THE LENDERS" in the Letter from the Board for further details.

5.5 Assessment on the Financing Arrangement with the Financier

Based on the information provided by the Management, we are aware that Mr. Wong is founder of the Group and has been appointed as the Chief Executive Officer of Synergy Lighting Limited, a major operating subsidiary of the Group in 2009. He has been involved extensively in every major aspect of the operation of the Group ever since and has also developed extensive networks with the Group's customer, suppliers and business partners over the years. Thus, Mr. Wong has been the single largest Shareholder, Chairman of the Board, Chief Executive Officer and an executive Director since the listing of the Company on the GEM board of the Stock Exchange in 2015.

Mr. Wong has demonstrated that he is fully committed and has exhausted all possible means on his personal level in order to help sustain the business of the Group ever since the Group started to run into business downturn and financial difficulties. In helping the Group to obtain necessary financing over the past few years, Mr. Wong has pledged the Shares held by him and provided a personal guarantee as part of the security for the CCBI Note. He has also provided a personal guarantee as part of the security with respect to the loans from Hang Seng Bank. Mr. Wong also (i) provided director's loans to the Group on a interest-free and repayment on demand basis; and (ii) requested the Group to withhold the payment of his own salary since August 2019 such that the Group can free up more cashflow for its daily operations.

In addition, we also noted that after using its best endeavour, the Company were still unable to attract Independent Third Parties to subscribe for Shares since the first publication of the Statutory Demand Announcements. As such, the Subscription by Mr. Wong was considered to be the only feasible option at the relevant time. In light of Mr. Wong's financial support of the Company as abovementioned, he did not have sufficient funds to conduct the Subscription. As such, Mr. Wong and the Management approached the Financier in late November 2020 to explore the possibility for them to provide financing to Mr. Wong in the Subscription.

We noted that the Financier is in nature a lender by providing a loan to Mr. Wong, instead of a speculator on the stock market which seeks to acquire Shares with hope of reselling at a higher price to profit. As a lender, the primary concerns for the Financier are to (i) ensure that Mr. Wong would have the ability to repay the principal and interest according to the relevant terms of the loan, while (ii) seeking maximum protection for the money it lends to the borrower with sufficient collateral obtained from Mr. Wong.

Given the fact that Mr. Wong had already contributed significant financial supports to the Company, he did not possess material assets of comparable size in his personal capacity which can be pledged to the Financier as security for the relevant financing other than the Shares owned or to be owned by him. Thus, pledging the Subscription Shares to the Financier was considered to be the only feasible option during such negotiation.

Based on the above, it would also be in the interest of the Financier to (i) ensure the financial ability and income stability of Mr. Wong since the majority of the assets and income stream of Mr. Wong lie in the Company, it would be to the benefit of the Financier if Mr. Wong could revive the Business of the Group; and (ii) request for a controlling stake in the Company to be pledged to them as collateral, which have a significantly higher value with control premium than that of a minority stake in the Company and secure Mr. Wong to stay within the Group to help revive the business of the Group, thereby creating value for the Company (i.e. value of the collateral).

In addition, we also noted that the collateral acts only as a security for the Financier in case Mr. Wong defaults. In the usual case where Mr. Wong repays the principal and interest according to the terms of the relevant financing agreement, the Financier is not entitled to take possession and sell the Shares which has been pledged to them. In the unlikely event where Mr. Wong defaulted on the financing agreement, the Financier is only entitled to exercise its power of sale and recover only the amount outstanding from Mr. Wong, and is not entitled to keep the windfall gain derived from the sale of such Shares resulting from the increase in the price of Shares (if exists).

Regarding the interest rate of the financing agreement with the Financier, the Management expressed that such interest rate (i.e. 18% per annum) was determined with reference to the effective interest rate obtained by the Company from other financial institutions, which ranged from approximately 19% to 21% per annum during the negotiation with the Financier.

Based on the published information, including but not limited to the listed issuer's annual report, announcement and circular, we understand that it is not uncommon for listed issuers on the Stock Exchange to enter into loan and/or financing agreements with banks, financial institutions and/or other lenders that contain terms requiring the controlling shareholders to hold a beneficial interest of at least 50% in the respective company.

Having considered that:

(i) Mr. Wong has been involved extensively in every major aspect of the operation of the Group and has also developed extensive networks with the Group's customer, suppliers and business partners over the years;

(ii) Mr. Wong is fully committed and has exhausted all possible means on his personal level in order to help sustain the business of the Group;

(iii) no other Independent Third Party is interested in the subscription of the Shares of the Company under, among others, the circumstances confronting the Company as stated in the section headed "4.1 Statutory demands from debtors to repay overdue indebtedness" in this letter;

(iv) the primary objective for the Financier under the financing arrangement is to recover the principal and receive interest as a return;

(v) the Financier needs to ensure the repayment ability of Mr. Wong and maximum protection for the money it lends;

(vi) the arrangements under the financing agreement with the Financier secure Mr. Wong to stay within the Group to help revive the business of the Group;

(vii) Mr. Wong did not possess material assets of comparable size in his personal capacity after the previous financial supports to the Company;

(viii) the Financier is not entitled to keep the windfall gain derived from the sale of the pledged Shares resulting from the increase in the price of Shares (if exists);

(ix) the interest rate of the financing agreement with the Financier was determined with reference to the interest rate obtained by the Company from other financial institutions;

(x) it is not uncommon for other lender to the listed issuer on the Stock Exchange to require the respective controlling shareholders to hold a beneficial interest of at least 50% in the respective company;

(xi) As stated in the section headed "4 Reasons for and benefits of the Subscription, the Connected Conversion and the Settlement", among others, the Subscription (through the supports from the financing arrangement with the Financier) are in the interests of the Company and the Shareholders as a whole,

we are of the view that the arrangements under the financing agreement with the Financer in relation to the Subscription are on normal commercial terms and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5.6 Arrangements with the Lenders under the Settlement Agreements

We noted that under the existing arrangements of the Settlement Agreements, the Company only entered into individual Settlement Agreements with each of the Lenders. We have enquired the Company for the rationale of selecting the relevant creditors in participating in the Settlement;

Based on the information provided by the Company, we noted that all of the creditors of the Group who are Independent Third Parties were initially invited to participate in the Settlement

However, upon preliminary discussions, taking into account the deteriorated financial positions of the Group and the risk that the Group may not be able to turn around its adverse financial positions and/or would be wound up eventually, Most of the Independent Third Parties creditors, other than the Lenders, considered that there is an extremely high degree of uncertainty to convert their respective debts to equity of the Company, and thus rejected the Group's invitation to participate in the Settlement.

Various reasons had been given for their rejection including, *inter alia*, (i) the Group might not be able to make a turnaround from its adverse financial position, exposing the Group to high bankruptcy risk; (ii) the loans provided by some creditors, such as CCBI, are already secured by sufficient collaterals and/or personal guarantees. Those creditors were unwilling to convert the relevant debts to Shares, but preferring to sell the collaterals directly to recover the debts and/or enforce the personal guarantees against the guarantors, which were considered to be more stable and secure than holding the Shares; and/or (iii) some creditors are restricted by their internal protocol, regulations and/or normal business practice from settling debts by equity conversions.

As such, only six creditors (i.e. the Lenders) indicated willingness to participate in the Settlement and we understand that it is not the Company that choose to pick the relevant creditors to participate in the Settlement.

Based on the fact that:

(i) the Company had invited all of the creditors of the Group who are Independent Third Parties to participate in the Settlement;

(ii) the non-participating creditors declined, at their discretion, to participate in the Settlement; and

(iii) the Settlement are lowering the liability of the Group under the current circumstances of the Group and are in the interests of the Company and the Shareholders as a whole as stated in the section headed "4. Reasons for and benefits of the Subscription, the Connected Conversion and the Settlement" in this letter,

we are of the view that the arrangements under the Settlement Agreements with the Lenders are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5.7 The Subscription Price and the Issue Price

As stated in the Letter from the Board, the Subscription Price and the Issue Price were arrived at after arm's length negotiations between the Company, Mr. Wong (who also negotiated on behalf of the Subscriber and Mpplication as their sole beneficial owner), Mr. Lam and the Lenders in the Reference Period after taking into account, *inter alia*, (i) the estimated unaudited net asset value of HK$0.1 per Share as at 31 March 2021; (ii) the Subscription Price and the Issue Price represented a discount of approximately 17.36% to the Reference Average Share Price of HK$0.121; (iii) the exceptional circumstances in relation to the financial difficulties and business operations encountered by the Group as detailed in the section headed "REASONS FOR AND BENEFITS OF THE SUBSCRIPTION, THE CONNECTED CONVERSION AND THE SETTLEMENT" of Letter from the Board; and (iv) the limitation that the Subscriber encountered when arranging the financing for the Subscription with the Financier.

The Subscription Price is HK$0.1 per Subscription Share, which is equal to the Issue Price per Conversion Share and Settlement Share, respectively, which represents:

(i) a discount of approximately 81.48% to the closing price of HK$0.54 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 81.48% to the closing price of HK$0.54 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 78.63% to the average closing price of approximately HK$0.4680 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 76.36% to the average closing price of approximately HK$0.4230 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 75.80% to the average closing price of approximately HK$0.4132 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day; and

(vi) a premium of approximately 6.27% to the audited net asset value attributable to owners of the Company as at 31 March 2021 of approximately HK$0.0941 per Share.

5.8 Assessment on the Subscription Price and the Issue Price

Negotiation and Determination of the Subscription Price and the Issue Price

Based on the information provided by the Company, we noted that the Company started to approach and discuss with various financier/investors and professional parties regarding the feasibility and details of implementation of the proposed rescue plan including, but not limited to, the Subscription, the Connected Conversion and the Settlement.

The parties commenced the negotiation of the terms of the Subscription, the Connected Conversion and the Settlement since around January 2021. The relevant parties primarily negotiated and determined the Subscription Price and the Issue Price based on historical Share price during the Reference Period. The price of the Shares was in the range of HK$0.107 and HK$0.139 while the average Share price during the Reference Period was approximately HK$0.121.

Apart from the historical Share price, the relevant parties also negotiated and determined the Subscription Price and the Issue Price based on the net asset value per Share of the Group. Pursuant to the management accounts of the Group for the year ended 31 March 2021 available at the time of negotiation, the estimated unaudited net asset value per Share of the Group was approximately HK$0.10 per Share.

However, based on the latest management accounts of the Group for FY2021 presented to the parties during the negotiation process of the Subscription, the Connected Conversion and the Settlement, the parties noted that the Group's financial performance would further deteriorated during FY2021 including, but not limited to, recording (i) a loss attributable to owners of the Company of more than HK$260 million for FY2021; (ii) a decline of more than 55% in its turnover during FY2021 as compared to FY2020; (iii) a net current liabilities of more than HK$90.0 million as at 31 March 2021; and (iv) the estimated net asset value per Share is expected to further decrease from approximately HK$0.39 as at 30 September 2020 to approximately HK$0.10 per Share as at 31 March 2021. Besides, the parties also expressed their concern regarding the statutory demands issued by the creditors of the Company.

Taking into account the deteriorated financial positions of the Group and the risk that the Group may not be able to turn around its adverse financial positions and/or would be wound up eventually, although the Management expressed that it was the Company's intention to negotiate the Subscription Price and the Issued Price based on the abovementioned range (i.e. HK$0.1 to HK$0.139 per Share), the final Subscription Price and the Issued Price could only be arrived at HK$0.10 per Share, which represented the estimated unaudited net asset value per Share of the Group.

Based on our communication with the Management, we noted that the key commercial terms for the proposed rescue plan, which include, among others, the Subscription, the Connected Conversion and the Settlement were finalised in early April 2021.

However, due to the fact that:

(i) Mr. Wong and Mr. Lam are interested in the Subscription, the Connected Conversion, the Settlement and the Whitewash Waiver. Both Mr. Wong and Mr. Lam shall abstained from voting on the Board resolutions in relation to the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of Specific Mandate and the Whitewash Waiver;

(ii) there is no other executive Director who could enter into the formal Subscription Agreement, the Connected Conversion Agreements and the Settlement on behalf of the Company;

(iii) the Subscription, the Connected Conversion and the Settlement will be subject to several regulatory requirements under the Listing Rules and the Takeovers Code. Prior consent shall be obtained from the Stock Exchange before formally enter into of the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements.

No agreement had been formally entered into upon the finalisation of the key commercial terms for the proposed rescue plan, which include, among others, the Subscription, the Connected Conversion and the Settlement thereafter.

In order to formally proceed with the proposed rescue plan, which include, among others, the Subscription, the Connected Conversion and the Settlement, relevant application had been made by the Company to the Stock Exchange by the end of June 2021.

Upon the application to the Stock Exchange, there has no actual improvement on the financial outlook of the Group although there has been a subsequent increase in the Share price after the Reference Period. Moreover, pursuant to annual results of the Group for FY2021 announced by the Company on 30 June 2021, the Group recorded a net asset value attributable to owners of the Company of approximately HK$0.094 per Share as at 31 March 2021, which had slightly fallen short of the estimated net asset value per Share of approximately HK$0.1 per Share according to latest management accounts available during the negotiation of the terms of the proposed rescue plan in April 2021. Furthermore, pursuant to the annual results of the Group for FY2021, the Group recorded a loss attributable to owners of the Company of approximately HK$280 million, which was approximately HK$20 million more than that as presented in the latest management accounts available during the negotiation of the terms of the proposed rescue plan in April 2021. As such, it left little room for the Group to subsequently increase or renegotiate the Subscription Price and Issue Price in any material manner.

After taking into account of the following fact that:

(i) the Company encountered severe financial difficulties and would be wound up eventually during the negotiation process, the Subscription Price and the Issue Price were finally determinate with reference to the net asset value of the Company, which represent an appropriate parameter on the value of the Shares;

(ii) although no formal agreement could be entered into due to the regulatory requirements under the Listing Rules, the Subscription Price and the Issue Price had been already finalised in April 2021;

(iii) the Company had already submitted its application to the Stock Exchange as soon as practical in order to proceed the proposed rescue plan; and

(iv) there has no actual improvement on the financial outlook of the Group since the finalisation of the terms of the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements, we are of the view that the determination of the Subscription Price and the Issue Price are fair and reasonable so far as the Independent Shareholders are concerned.

Comparison with the Comparables

As stated in the section headed "IMPLICATIONS UNDER THE LISTING RULES" of this letter, the Subscription, the Connected Conversion and the Settlement will result in a theoretical dilution effect of approximately 53.41%, which is over the 25% threshold as specified under Rule 7.27B of the Listing Rules. After taking into account, among others, the financial difficulties encountered by the Company, the Stock Exchange has indicated that the Company can proceed with the Subscription, the Connected Conversion and the Settlement.

In view of the fact that capital raisings resulting in a theoretical dilution effect of more than 25% normally represent (i) a significant issue size compared to the number of shares in issue prior to the capital increase; and/or (ii) a significant discount to the issue price compared to the last trading price of the relevant shares; we are of the view that by comparing the Subscription, the Connected Conversion and the Settlement with placements, rights issues and/or open offers transactions where the respective theoretical dilution effect was below the 25% threshold, as set out in Rule 7.27B of the Listing Rules, will not provide a fair basis for our evaluation for the purpose of assessing the fairness and reasonableness of the Subscription Price and the Issue Price.

Instead, having considered that (i) the severe financial difficulties encountered by the Company as stated above; (ii) each of the relevant SD Creditors is entitled to present a winding up petition against the Company at any time at their discretions as abovementioned; (iii) the Connected Conversion and the Settlement involve the conversion of the indebtedness of the Company to the equity of the Company; and (iv) the Company shall be discharged and released from all obligations for repayment of the respective outstanding indebtedness hereunder upon the Connected Conversion Completion and the Settlement Completion, we identified an exhaustive list of 12 transactions announced by 12 companies listed on the Stock Exchange during the period from 1 January 2019 to 15 September 2021 (being the Last Trading Day) (the "**Comparables**"). We consider that such 33 months comparison is appropriate to provide a general reference for the recent markets practice in relation to the setting of subscription prices, theoretical dilution effect and maximum dilution on public shareholders under similar market conditions and hence a reasonable and meaningful comparison could be reached.

For the purpose of our selection of the Comparables, the basis of our selection of the Comparables is as follows:

i. companies listed on the Stock Exchange;

ii. companies that had either published announcements or circular in relation to issuance of shares for loan capitalisation, placing and/or subscription of new shares and/or securities convertible into shares under specific mandate with proceeds used for settlement of indebtedness to solve the severe financial difficulties encountered by such companies during the period from 1 January 2019 up to and including the date of the Last Trading Day (i.e. 15 September 2021); and

iii. the above relevant equity fund raising transaction constituted transaction with an application of whitewash waiver.

Shareholders should note that the subject companies in the Comparables (i) have different principal business activities, market capitalisations, profitability and financial positions; and (ii) had undergone their own restructuring as different restructuring proposals have different terms and conditions such as the amount of investment to be injected by the relevant investors and the percentage of shareholdings to be held by such investors after the respective restructuring has been completed, which may be factors in determining the subscription price, as compared to those of the Company. Nevertheless, we consider that the list of the Comparables is an exhaustive list and sufficient to demonstrate the market practice of similar transactions conducted by the listed issuers with severe financial difficulties during the selected period.

The major terms of the transactions conducted by the Comparables are summarised below (the "**Comparables Table**"):

Company name (stock code)	Date of announcement/ circular	Relevant Transaction(s)	Discount of subscription price to the closing price on the last trading day %	Theoretical dilution effect %	Maximum dilution on public shareholder %
National United Resources Holdings Limited (254)	2021-06-24	debt restructuring, subscription of shares and open offer	92.3	N/A	79.16
Freeman FinTech Corporation Limited (279)	2021-05-26	debt restructuring and subscription of shares	82.10	77.35	91.18
Burwill Holdings Limited (24)	2021-05-05	debt restructuring, subscription of shares and open offer	94.37	87.84	93.08
China Oil Gangran Energy Group Holdings Limited (8132)	2021-03-19	subscription of shares	87.55	77.20	84.17
MH Development Limited (2662)	2021-02-22	subscription of shares	98.42	N/A	67.04
Up Energy Development Group Limited (307)	2020-12-31	debt restructuring and subscription of shares	0.00	N/A	91.55
Flyke International Holdings Ltd. (1998)	2020-06-18	reverse takeover, subscription of shares and share offer	83.82	51.58	91.99
Victory Group Limited (1139)	2020-05-29	reverse takeover, subscription of shares and open offer	16.00	N/A	56.74
China Solar Energy Holdings Limited (155)	2020-05-22	reverse takeover, subscription of shares and open offer	91.67	88.80	64.60
China Lumena New Materials Corp. (67)	2019-11-29	reverse takeover and share offer	99.52	74.64	94.99
Union Asia Enterprise Holdings Limited (8173)	2019-05-29	reverse takeover and share offer	85.90	94.40	85.11
China Agrotech Holdings Limited (1073)	2019-04-27	reverse takeover, subscription of shares and share offer	78.80	71.80	91.17
		Average	75.87	77.95	82.57
		Median	86.73	77.28	88.14
		Maximum	99.52	94.40	94.99
		Minimum	0.00	51.58	56.74
The Company	2021-09-15	debt restructuring and subscription of shares	81.48	55.42	71.96

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

The subscription prices of the Comparables recorded a discount against respective closing price/adjusted closing price on their last trading day. The discount ranged from approximately 0.00% to 99.52% and the average and median discount of the Comparables is approximately 75.87% and 86.73% respectively. The Subscription Price and the Issue Price, which represent a discount of approximately 81.48% against the closing price of HK$0.54 per Share on the Last Trading Day, is within the abovementioned range, slightly higher than the average discount and below the median discount of the Comparables.

Having considered:

(i) the Group recorded audited net current liabilities as at 31 March 2021 and recorded loss attributable to the owners of the Company for recent two financial years;

(ii) the significant statutory demands filed against the Company as aforementioned;

(iii) the existing low level of bank balances and cash of the Company;

(iv) the difficulties encountered by the Company to obtain other fund-raising alternatives as aforementioned;

(v) the fund raised from the Subscription enables the Company to support the implementation of the Scheme, where upon effective, would restructure the overdue indebtedness and avoid bankruptcy and the Connected Conversion and the Settlement are means of lowering the liability of the Group;

(vi) the Subscription Price and the Issue Price represent a premium to the audited net asset value attributable to owners of the Company as at 31 March 2021;

(vii) the discount of the Subscription Price and the Issue Price to the closing price of the Shares on the Last Trading Day falls with the range, above the average and below the median of the Comparable,

we are of the view that the Subscription Price and the Issue Price are fair and reasonable so far as the Independent Shareholders are concerned.

5.9 Potential dilution effect to the existing Shareholders

Immediately after the Subscription Completion, the Connected Conversion Completion and the Settlement Completion, the issue of the Subscription Shares, the Conversion Shares and the Settlement Shares, the shareholding interest of the public Shareholders will be diluted from approximately 91.59% as at the Latest Practicable Date to approximately 25.68%. Further details of the dilution effect to the public Shareholders are also illustrated in section "EFFECT ON THE SHAREHOLDING STRUCTURE" in the Letter from the Board. As such, the possible maximum dilution to the shareholding of the public Shareholders will be approximately 71.96%.

As noted from the Comparables Table above, the maximum dilution to the shareholding of the public shareholders of the Comparables ranged from approximately 56.74% to approximately 94.99%, with an average and a median of approximately 82.57% and approximately 88.14% respectively. Therefore, the maximum dilution effect to the shareholdings of the public Shareholders of approximately 71.96% are within the respective range in the above and below the median and the average of the Comparables.

Further, the issue of the Subscription Shares, the Conversion Shares and the Settlement Shares will result in a theoretical dilution effect of 55.42%, which is over the 25% threshold as specified under Rule 7.27B of the Listing Rules. Pursuant to the Comparables Table, we note that eight of the Comparables recorded a theoretical dilution effect in the range from approximately 51.58% to approximately 94.40%, with an average and a median of approximately 77.95% and 77.28% respectively, and the theoretical dilution effect of the Subscription, the Connected Conversion and the Settlement of approximately 55.52% is within the range of the Comparables and below both the average and the median of the Comparables.

Despite the said dilution to the public Shareholders, we take into account, in particular, the following factors:

(i) the Company is in severe financial difficulties and has no sufficient financial resources to repay the overdue indebtedness;

(ii) the SD Creditors are entitled to present a winding up petition against the Company at any time at their discretions and the Shareholders would most likely not be able to receive any value for their equity interest in the Company if the Company is subject to bankruptcy;

(iii) besides repaying the overdue indebtedness, the proceeds from the Subscription provide funding for the general working capital of the Group;

(iv) the completion of the Subscription, the Connected Conversion and the Settlement is essential for the Company to obtain the Potential Loan from the Loan Lender which, if materialised, may represent additional debt financing of the Company;

Please refer to the section headed "POSSIBLE DEBT FINANCING ARRANGEMENT" in the Letter from the Board for further details; and

(v) the maximum dilution to the shareholdings of the public Shareholders were within the range of the maximum dilution to the shareholding of the public shareholders of the Comparables,

we consider that the abovementioned benefits of the Subscriptions, Connected Conversion and the Settlement outweigh the said dilution impact to the public Shareholders, and hence we are of the view that the dilution effect on the shareholding interests of the public Shareholders is justifiable and acceptable so far as the Independent Shareholders are concerned.

In light of the above, in particular that (i) the reasons and benefits of the Company entered into the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements; (ii) the determination of the Subscription Price and the Issue Price are fair and reasonable; and (iii) the potential dilution effect to the existing public Shareholders is justifiable and acceptable, we are of the view that the terms of the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements are fair and reasonable and the Subscription, the Connected Conversion and the Settlement are in the interest of the Company and Independent Shareholders as a whole.

6 Financial impacts of the Subscription, the Connected Conversion and the Settlement

It should be noted that below is for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon the completion of the Subscription, the Connected Conversion and the Settlement.

Net liabilities and gearing

As disclosed in the Annual Report 2021, the Group had net current liabilities of approximately HK$91.0 million as at 31 March 2021. As at 31 March 2021, the gearing ratio of the Group, which is calculated on the basis of the amount of total debt divided by the total equity, was 392.1%, which has increased from 77.7% as at 31 March 2020.

Upon the Connected Conversion Completion and the Settlement Completion, all of the indebtedness that are subject to (i) the Connected Conversion between Mr. Wong, Mpplication and Mr. Lam as creditors and the Company as borrower; and (ii) the Settlement Agreements between the Lenders as debtors and the Company as borrower or guarantor, shall be settled, such that the Company shall be discharged and released from all obligations for repayment of such outstanding indebtedness hereunder. As a result, the liabilities of the Company would be reduced accordingly.

Assuming the asset position of the Group has no material change as compared to the asset position of the Group as at 31 March 2021, upon the completion of the Subscription, the Connected Conversion and the Settlement, the liabilities and the gearing ratio of the Group are expected to reduce, leading to an improvement to the financial position of the Group.

Working capital and liquidity

Immediately upon the Subscription Completion, there would be an increase in the cash level of the Group and the Company would apply (i) approximately HK$86.0 million repayment of outstanding debts of the Group; and (ii) the remaining balance of approximately HK$19 million for general working capital of the Group. As such, the working capital and liquidity position of the Group is expected to be improved upon the Subscription Completion.

Considering the possible benefits of the Subscription, the Connected Conversion and the Settlement on the liquidity and the overall financial position of the Company as discussed above, we are of the view that the Subscription, the Connected Conversion and the Settlement are in the interest of the Company and the Shareholders as a whole.

7 Whitewash Waiver

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it are interested in aggregate of 55,667,204 Shares, representing approximately 8.39% of the total issued share capital of the Company.

The Subscription Completion, the Connected Conversion Completion and the Settlement Completion are expected to take place simultaneously, upon which the shareholding of the Subscriber and parties acting in concert with it (including Mr. Wong, Mpplication, Mr. Lam and Ms. Yeung Betty) will increase from approximately 8.39% to a maximum of 54.25% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the Conversion Shares and the Settlement Shares (assuming there will be no other change in the number of issued Shares between the Latest Practicable Date and the date of the Connected Issue Completion and the Settlement Completion, save for the issue and allotment of the Subscription Shares, the Conversion Shares and the Settlement Shares), thereby triggering an obligation on the Subscriber and parties acting in concert with it under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it or parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive.

In this regard, the Subscriber has made an application to the Executive for the granting of the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares and the Conversion Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll.

In accordance with the Listing Rules and the Takeovers Code, the Subscriber and parties acting in concert with it and other Shareholders who are involved or interested in the Subscription, the Connected Conversion, the Settlement, the grant of the Specific Mandate and the Whitewash Waiver shall abstain from voting on the respective resolutions at the EGM. Therefore, the Subscriber, Mr Lam and their respective associates (including Ms. Yeung Betty), who are interested in a total of 55,667,204 Shares, representing approximately 8.39% of the issued share capital of the Company, shall abstain from voting on the resolutions approving the Subscription, the Connected Conversion, the Settlement, the granting of the Specific Mandate and the Whitewash Waiver at the EGM.

Based on our above analysis of the Subscription and the Connected Conversion, we consider that the Subscription Agreement, the Connected Conversion Agreements and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver were not approved by the Independent Shareholders at the EGM, the Subscription Agreement, the Connected Conversion Agreements and the Settlement Agreements, which are inter-conditional, would be unable to be executed. Thus the financial position of the Company could not be improved and the Company would be unable to repay the relevant indebtedness from the SD Creditors.

Accordingly, for the purpose of, *inter alia*, solving the overall financial difficulties of the Group and avoiding bankruptcy, we are of the view that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

In arriving at our opinion and recommendation in respect of the Subscription, the Connected Conversion, the Settlement, the granting of the Specific Mandate and the Whitewash Waiver, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with an interpreted in the full context of this letter):

(I) the Group has been in net current liabilities position as at 31 March 2021, with cash and cash equivalents balance amounting to approximately HK$8.2 million as at 31 March 2020. The Company would need to seek for fund raisings to repay the relevant overdue indebtedness;

(II) Banks, money lenders and/or potential lender show no interest to provide debt financing in the Company with financial difficulties and going-concern issue and the approached securities companies had shown no interest to underwrite rights issue or open offer by the Company;

(III) the Subscription is the desirable way to raise capital and the Connected Conversion and the Settlement are lowering the liability of the Group under the current circumstances of the Group;

(IV) the Company shall be discharged and released from all obligations for repayment of the respective outstanding indebtedness hereunder upon the Connected Conversion Completion and the Settlement Completion;

(V) the arrangements under the financing agreement with the Financier in relation to the Subscription are justifiable for reasons as discussed in the section headed "5.5 Assessment on the Financing Arrangement with the Financier" in this letter;

(VI) the arrangements under the Settlement Agreements with the Lenders are justifiable for reasons as discussed in the section headed "5.6 Arrangements with the Lenders under the Settlement Agreements" in this letter;

(VII) the discount of the Subscription Price and the Issue Price is within the respective range of the Comparables;

(VIII) the maximum dilution effect to the shareholdings of the public Shareholders of approximately 71.96% are within the respective range of the Comparables;

(IX) the financial position, gearing, working capital and liquidity of the Company is expected to improve upon the Subscription Completion, the Connected Conversion Completion and the Settlement Completion;

(X) if the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, all the Subscription, the Connected Conversion and the Settlement cannot be executed.

Based on the above, we are of the opinion that, though not entered into in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Waiver are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement, the Connected Conversion Agreement, the Settlement Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Wavier.

Yours faithfully,
For and on behalf of
Draco Capital Limited

Kevin Choi
Managing Director

Leon Au Yeung
Associate Director

Mr. Kevin Choi and Mr. Leon Au Yeung are licensed persons under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and regarded as a responsible officer of Draco Capital Limited. Mr. Kevin Choi and Mr. Leon Au Yeung have over 10 and 8 years of experience in corporate finance industry, respectively.

(X) if the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, all the Subscription, the Connected Conversion and the Settlement cannot be executed.

Based on the above, we are of the opinion that, though not entered into in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement, the Connected Conversion Agreements, the Settlement Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Waiver are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Subscription Agreement, the Connected Conversion Agreement, the Settlement Agreements and the transactions contemplated thereunder, including the granting of the Specific Mandate and the Whitewash Wavier.

Yours faithfully,
For and on behalf of
Draco Capital Limited

Kevin Choi	**Leon Au Yeung**
Managing Director	*Associate Director*

Mr. Kevin Choi and Mr. Leon Au Yeung are licensed persons under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and regarded as a responsible officer of Draco Capital Limited. Mr. Kevin Choi and Mr. Leon Au Yeung have over 10 and 8 years of experience in corporate finance industry, respectively.