
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Apex Ace Holding Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe or any securities of the Company.

APEX ACE
APEX ACE HOLDING LIMITED
光麗科技控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6036)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO ACQUISITION OF PROPERTY
INVOLVING ISSUE OF PERPETUAL SUBORDINATED
CONVERTIBLE SECURITIES AND CONVERTIBLE BOND;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
The Independent Board Committee and the Independent Shareholders**



A letter from the Board (as defined herein) is set out on pages 7 to 42 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on page 43 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 44 to 92 of this circular.

A notice convening the EGM (as defined herein) to be held at 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong at 11:00 a.m. on Friday, 28 January 2022, is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend and vote at the EGM in person, you are requested to read the notice and to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of this circular for the measures to be implemented at the SGM by the Company against the epidemic to protect the attendees from the risk of infection of the Novel Coronavirus ("COVID-19"), including:

- Compulsory body temperature check
- Compulsory wearing of surgical face mask
- No serving of refreshments

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. The Company wishes to advise Shareholders that you may appoint the Chairman of the meeting as your proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread (as per guidelines issued by the Hong Kong government at <https://www.chp.gov.hk/en/features/102742.html>), the Company will implement necessary preventive measures at the EGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

- (i) Compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person with a body temperature of over 37.5 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue.
- (ii) Attendees are required to prepare his/her own surgical face masks and wear the same inside the EGM venue at all times.
- (iii) No refreshments will be served.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all attendees' health and safety, the Company wishes to advise all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions duly completed, Shareholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

The proxy form, which can also be downloaded from the Company's website (<https://www.apexace.com>), is enclosed to this circular. If you are not a registered Shareholder (i.e., if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

In this circular, unless the content requires otherwise, the following expressions have the following meanings:

“Acquisition”	the acquisition of the Target Property under the Agreements
“Agreement”	the sale and purchase agreement dated 21 October 2021 (as supplemented on 25 November 2021) entered into among the Vendor as vendor, the Purchaser as purchaser and the Company as issuer in respect of the Acquisition
“Assignment”	the deed of assignment of the Target Property from the Vendor to the Purchaser to be dated no later than the Completion Date
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Best Sheen”	BEST SHEEN LIMITED (佳澤有限公司), a controlling Shareholder and a company incorporated in the British Virgin Islands with limited liability wholly-owned by Mr. Lee
“Board”	board of Directors
“Bondholder”	the person who is for the time being the holder of the Convertible Bond
“Business Day(s)”	a day (excluding Saturday or Sunday) and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted or a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m. on which licensed banks in Hong Kong are generally open for business
“CB Certificate(s)”	a certificate to be issued in respect of the Convertible Bond
“CB Conversion Period”	the period commencing from the issue date of the Convertible Bond up to and including the date falling on the seventh (7th) day immediately prior to the Maturity Date
“CB Conversion Rights”	rights to convert the outstanding principal amount of the Convertible Bond into CB Conversion Shares pursuant to the CB Instrument

DEFINITIONS

“CB Conversion Shares”	shares to be issued by the Company upon exercise of the CB Conversion Rights attaching to the Convertible Bond
“CB Instrument”	the deed poll to be executed by the Company in relation to the Convertible Bond upon Completion
“Certificate(s)”	means a certificate to be issued in respect of the PSCS set out in the Deed Poll
“Company”	Apex Ace Holding Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 6036)
“Completion”	completion of the Acquisition pursuant to the terms and conditions of the Agreement
“Completion Date”	the date on which Completion takes place, i.e. the seventh (7th) Business Day after the fulfilment or waiver (as the case may be) of the Conditions or such later date as may be agreed between the Vendor and the Purchaser
“Conditions”	the conditions precedent of the Agreement as set out in the section headed “Conditions Precedent” in this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	HK\$30.0 million, the consideration for the Acquisition
“Conversion Period”	the period commencing from the issue date of the Convertible Bond up to and including the date falling on the seventh (7th) day immediately prior to the Maturity Date
“Conversion Price”	the conversion price of HK\$0.35 per each Conversion Share and CB Conversion Share initially subject to adjustments pursuant to the Deed Poll and the CB Instrument
“Conversion Rights”	the conversion rights attaching to the PSCS to convert the principal amount or a part thereof into Conversion Shares
“Conversion Share(s)”	the new Share(s) to be issued upon the exercise of the Conversion Rights

DEFINITIONS

“Convertible Bond”	the convertible bond in the principal amount of HK\$20.0 million to be issued by the Company to the Vendor or its nominee(s)
“Deed Poll”	the deed poll to be executed by the Company in relation to the PSCS upon Completion
“Director(s)”	director(s) of the Company
“Distribution(s)”	a right to receive distribution conferred by the PSCS
“Distribution Payment Date”	31 March, 30 June, 30 September and 31 December in each year
“EGM”	the extraordinary general meeting of the Company to be convened to approve the Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Holder(s)”	a person being registered as a holder of the PSCS
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Acquisition (including the issue of the PSCS and Convertible Bond)
“Independent Financial Adviser”	Sorrento Capital Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Independent Shareholders”	Shareholders other than Best Sheen
“Independent Valuer”	Ravia Global Appraisal Advisory Limited, an independent appraisal firm, provide professional valuation services to listed companies, auditors and other professional parties
“Issuer”	the Company

DEFINITIONS

“Last Trading Date”	21 October 2021, being the last full trading day in the Shares immediately before the entering into the agreement dated 21 October 2021
“Latest Practicable Date”	10 January 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Committee”	has the meaning ascribed to it in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	the date falling on the day being the fifth (5th) anniversary of the issue date of the Convertible Bond or if that is not a Business Day, the first Business Day thereafter
“Mr. Lee”	Mr. Lee Bing Kwong, the spouse of Ms. Lo, who is a controlling Shareholder, an executive Director, the chairman of the Board and the chief executive officer of the Company
“Ms. Lo”	Ms. Lo Yuen Lai, who is an executive Director and the spouse of Mr. Lee
“Parity Securities”	any instrument or security (including preference shares) issued, entered into or guaranteed by the Issuer which ranks or is expressed to rank <i>pari passu</i> with the PSCS
“PRC”	the People’s Republic of China
“PSCS”	the perpetual subordinated convertible securities in the principal amount of HK\$10.0 million to be issued by the Company to the Vendor and/or its nominee(s)
“Purchaser”	I-Sky Electronic Limited (天科電子有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Relevant Cash Dividend”	any cash dividend specifically declared by the Company

DEFINITIONS

“Scrip Dividend”	any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a capital distribution
“SFC”	the Securities and Futures Commission
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers published by the SFC from time to time
“Target Property”	a non-residential property within the meaning of Section 29A(1) of the Stamp Duty Ordinance (Cap. 117 of the Laws of Hong Kong) with saleable area and gross floor area of approximately 3,955 square feet and 4,573 square feet respectively, located at Unit 1 on 1st Floor, Sun Cheong Industrial Building, No. 2 Cheung Yee Street, Cheung Sha Wan, Hong Kong
“Vendor”	Nicegoal Limited (奮勝有限公司), a company incorporated in Hong Kong with limited liability ultimately wholly-owned by Mr. Lee
“%”	per cent.

LETTER FROM THE BOARD

APEX ACE
APEX ACE HOLDING LIMITED
光麗科技控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6036)

Executive Directors:

Mr. Lee Bing Kwong
(Chairman and Chief Executive Officer)
Mr. Lo Yuen Kin
Ms. Lo Yuen Lai

Independent Non-executive Directors:

Mr. Cheung Siu Kui
Mr. Yim Kwok Man
Dr. Chow Terence

Registered Office:

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111, Cayman Islands

*Principal Place of Business
in the PRC:*

Unit A-1303
Tianan High-Tech Plaza
Futian District, Shenzhen
The PRC

*Principal Place of Business
in Hong Kong:*

Units 2-3, 1/F
Sun Cheong Industrial Building
1 Cheung Shun Street, Kowloon
Hong Kong

13 January 2022

To the Shareholders

Dear Sir/Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO ACQUISITION OF PROPERTY
INVOLVING ISSUE OF PERPETUAL SUBORDINATED
CONVERTIBLE SECURITIES AND CONVERTIBLE BOND;
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Company's announcements dated 21 October 2021 and 25 November 2021 in relation to the Acquisition. The purpose of this circular is to provide you with among others, (i) details of the Acquisition and the PSCS and Convertible Bond; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition (including the issue of the PSCS and Convertible Bond); (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and to the Independent Shareholders in relation to the Acquisition (including the issue of the PSCS and Convertible Bond); (iv) the valuation report of the Property; and (v) the notice of the EGM, to enable you to make an informed decision on whether to vote for or against the resolution to be proposed at the EGM. The PSCS will be equity-linked instruments of the Company and is considered as reserves of the Company under the prevailing accounting principles.

THE ACQUISITION

The Board is pleased to announce that on 21 October 2021 and 25 November 2021 (after trading hours), the Purchaser, the Company and the Vendor entered into the Agreements, pursuant to which the Vendor has agreed to sell, and the Purchaser has conditionally agreed to purchase, the Target Property at the Consideration. The Consideration will be satisfied by the issue of the PSCS in the principal amount of HK\$10.0 million and the Convertible Bond in the principal amount of HK\$20.0 million.

THE AGREEMENT

Principal terms of the Agreement are set out as follows:

Date:	21 October 2021 (after trading hours) (as supplemented on 25 November 2021)	
Parties:	Vendor:	Nicegoal Limited
	Purchaser:	I-Sky Electronic Limited
	Issuer:	The Company

Asset to be acquired

Pursuant to the Agreement, the Vendor has agreed to sell, and the Purchaser has conditionally agreed to purchase the Target Property. The Target Property is situated at Unit 1 on 1st Floor, Sun Cheong Industrial Building, No. 2 Cheung Yee Street, Cheung Sha Wan, Hong Kong, with saleable area and gross floor area of approximately 3,955 square feet and 4,573 square feet respectively.

LETTER FROM THE BOARD

Consideration

The consideration for the Target Property is HK\$30.0 million, which will be settled by the issue of the PSCS, with a principal amount of HK\$10.0 million, and the Convertible Bond, with a principal amount of HK\$20.0 million, to the Vendor and/or its nominee(s) upon Completion. Further details of the PSCS and the Convertible Bond are set out in the sections headed “The PSCS” and “The Convertible Bond” below.

As advised by the Vendor and as shown at the Land Registry of Hong Kong, the original acquisition cost of the Target Property to the Vendor was HK\$19.5 million. The Target Property was acquired by the Vendor on 28 February 2017.

The Consideration was determined by the Purchaser and Vendor based on arm’s length negotiations by reference to the preliminary valuation of the Target Property of HK\$30.0 million as at 30 September 2021 prepared by an independent valuer by making reference to sales evidence as available in the market. There is no significant difference between the preliminary draft of the valuation report and the final valuation report (the “**Valuation Report**”) prepared by the Independent Valuer set out in Appendix I to this circular.

THE PSCS

Principal terms of the PSCS are arrived at after arm’s length negotiations between the Purchaser and the Vendor and are summarised as follows:

Issuer:	The Company
Principal Amount:	HK\$10.0 million
Form:	The PSCS will be issued in registered form
Maturity Date:	There is no maturity date
Conversion Price:	Initially HK\$0.35 per conversion Share, subject to adjustment as provided for in the terms of the PSCS, including but not limited to an alteration to the nominal amount of the Shares as a result of consolidation, subdivision or reclassification, capitalisation of profits or reserves, capital distributions, rights issues or issue of options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares.
Distribution Rate:	0.5% per annum, which was determined based on arm’s length negotiations between the Vendor and the Company, taking into consideration the interest rates of the Company’s bank borrowings.

LETTER FROM THE BOARD

Distribution: Subject to the Distribution Deferral, the PSCS confer a right to receive distribution from the date of the Deed Poll calculated based on the outstanding principal amount of the PSCS from time to time at the distribution rate.

Distribution shall be payable on the PSCS quarterly in arrears on each Distribution Payment Date.

Distribution Deferral: The Issuer may, at its sole discretion, elect to defer in whole or in part, a Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice of such election to the Holder(s) not less than 5 business days prior to the relevant Distribution Payment Date.

The deferred Distribution shall be non-interest bearing. The number of times of optional deferral of Distribution by the Company is not restricted.

Status of the PSCS: The PSCS constitutes direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves.

Adjustment to Conversion Price: The Conversion Price will be subject to adjustment as follows:

1. Consolidation, subdivision or reclassification: If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

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

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration. Such adjustment shall become effective on the date the alteration takes effect.

LETTER FROM THE BOARD

2. Capitalisation of profits or reserves:

- i. If and whenever the Issuer shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including, Shares paid up out of distributable profits or reserves and/or share premium account (except any scrip dividend) and which would not have constituted a capital distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Shares immediately after such issue. Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

LETTER FROM THE BOARD

- ii. In the case of an issue of Shares by way of a scrip dividend where the aggregate current market price exceeds the relevant cash dividend or the relevant part thereof and which would not have constituted a capital distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

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

where:

- A is the aggregate nominal amount of Shares in issue immediately before such scrip dividend;
- B is the aggregate nominal amount of Shares issued by way of such scrip dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the relevant cash dividends and (ii) the denominator is the current market price; and
- C is the aggregate nominal amount of Shares issued pursuant to such scrip dividend.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

LETTER FROM THE BOARD

3. Capital Distributions: If and whenever the Issuer shall pay or make any capital distribution to the Shareholders (except to the extent the Conversion Price falls to be adjusted under (2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such capital distribution by the following fraction:

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

where:

A is the current market price of one Share on the last Trading Date (as defined in the Deed Poll) immediately preceding the date on which the capital distribution is publicly announced; and

B is the Fair Market Value (as defined in the Deed Poll) on the date of such announcement of the portion of the capital distribution attributable to one Share.

Such adjustment shall become effective on the date that such capital distribution is actually made or if a record date is fixed therefor, immediately after such record date.

LETTER FROM THE BOARD

4. Rights Issues of Shares or Options over Shares: If and whenever the Issuer shall issue Shares to all or substantially all Shareholders (i.e. all Shareholders except those Shareholder(s) who is in a place outside Hong Kong and whom the Directors consider it necessary or expedient not to offer the relevant rights on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares, in each case at less than the current market price per Share on the last Trading Date (as defined in the Deed Poll) preceding the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

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

where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such current market price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be.

LETTER FROM THE BOARD

5. Issues at less than current market price: If and whenever the Issuer shall issue (otherwise than as mentioned in (4) above) wholly for cash any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for Shares) or shall issue or grant (otherwise than as mentioned in (4) above) wholly for cash any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at a price per Share which is less than 95 per cent. of the current market price on the last Trading Date (as defined in the Deed Poll) immediately preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;
- B is the number of Shares which the aggregate consideration (including for the avoidance of doubt, in the case of the issue of options, warrants or other rights, the consideration receivable for the issue and exercise of such options, warrants or rights), if any, receivable for the issue of such additional Shares would purchase at such current market price per Share; and
- C is the number of Shares in issue immediately after the Issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Issuer of options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

LETTER FROM THE BOARD

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue of such options, warrants or other rights.

6. Other Issues at less than current market price: Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this paragraph (6), if and whenever the Issuer shall issue (otherwise than as mentioned in (4) or (5)), any securities which by its terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Issuer upon conversion, exchange or subscription at a consideration per Share which is less than 95 per cent of the current market price on the last Trading Date (as defined in the Deed Poll) immediately preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such current market price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

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

LETTER FROM THE BOARD

Redemption: The PSCS may be redeemed at the option of the Company, at 100% or 50% of the principal amount of the PSCS each time, on any Distribution Payment Date at the face value of the outstanding principal amount of the PSCS to be redeemed plus 100% or 50% (as the case may be) of Distributions accrued to such date.

The Issuer or any of its subsidiaries may at any time and from time to time purchase the PSCS at any price in the open market or otherwise.

Conversion Rights: The Conversion Right attaching to any PSCS may be exercised, at the option of the Holder(s), at any time on or after the Issue Date or if such PSCS shall have been called for redemption by the Issuer in accordance with the redemption at option of the Issuer, then up to the close of business on a date no later than 7 days prior to the date fixed for redemption thereof.

The number of Shares to be issued on conversion of the PSCS will be determined by dividing the principal amount of the PSCS to be converted by the Conversion Price in effect at the Conversion Date. A Conversion Right may only be exercised in respect of the Securities, in whole or in part, in integral multiples of HK\$1,000,000.

Conversion Restrictions: A Holder shall not exercise any Conversion Right to the extent that immediately after such conversion:

- (i) the Holder together with parties acting in concert with it, taken together, will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or where applicable, waiver from the shareholders of the Issuer has been obtained in accordance with the Takeovers Code; and
- (ii) there will not be sufficient public float of the Shares as required under the Listing Rules, unless prior approval or waiver has been obtained from the Stock Exchange for such purposes and where any conditions to which such approval or waiver is subject are duly complied with.

LETTER FROM THE BOARD

- Undertaking: The Issuer undertakes that so long as any PSCS remains outstanding, save with the approval of an extraordinary resolution of the Holder(s):
- (i) it will use its best endeavours to (a) maintain a listing for all the issued Shares on the Stock Exchange, and (b) obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the PSCS on the Stock Exchange;
 - (ii) it will pay the expenses of the issue of, and all expenses of obtaining a listing for, Shares arising on conversion of the PSCS;
 - (iii) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the PSCS from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Securities will be duly and validly issued as fully-paid; and
 - (iv) it will not make any offer, issue or distribute or take any action the effect of which would be reduce the Conversion Price below the par value of the Shares of the Issuer, provided always that the Issuer shall not be prohibited from purchasing its Shares to the extent permitted by law and regulations.
- Transferability: Subject to the terms of the PSCS, the PSCS may be transferred by delivery of the Certificate issued in respect of that PSCS and a form of transfer duly completed and signed by the Holder or his attorney duly authorised in writing, to the specified office of the Issuer. No transfer of the PSCS will be valid unless and until (a) the Issuer has provided its written consent to the transfer (such consent not to be unreasonably withheld) and (b) such transfer has been entered on the Register.
- Ranking: In the event of the winding-up of the Issuer, the rights and claims of the Holder(s) shall rank ahead of those persons whose claims are in respect of any class of share capital of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of the holder(s) of Parity Securities.

LETTER FROM THE BOARD

Voting: The holder(s) of PSCS will not be entitled to receive notice of, attend or vote at general meetings of the Company by reason only of it being a holder of the PSCS.

THE CONVERTIBLE BOND

Principal terms of the Convertible Bond are arrived at after arm's length negotiations between the Purchaser and the Vendor are summarised as follows:

Issuer: The Company

Issue Price: 100% of the principal amount

Principal Amount: HK\$20.0 million

Conversion Price: HK\$0.35 per CB Conversion Share, subject to adjustments

Maturity Date: The date falling on the day being the fifth anniversary of the issue date of the Convertible Bond

Interest: 0.5% per annum, which was determined based on arm's length negotiations between the Vendor and the Company, taking into consideration the interest rates of the Company's bank borrowings

Redemption: At any time prior to the Maturity Date, the Company may, by giving to the Bondholder not less than ten (10) Business Days' written notice of its intention to make such redemption, redeem the Convertible Bond in whole or in part (in the minimum amount of HK\$1,000,000 or an integral multiple thereof) plus interest accrued thereon up to the actual date of redemption.

Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem the Convertible Bond on the Maturity Date at the redemption amount which is the principal amount of the Convertible Bond outstanding, plus interest accrued thereon up to the actual date of redemption.

LETTER FROM THE BOARD

- CB Conversion Rights:** A Bondholder shall have the right on any Business Day during the CB Conversion Period to convert the whole or any part (in minimum amount of HK\$1,000,000 or an integral multiple thereof) of the outstanding principal amount of his Convertible Bond into Shares at the Conversion Price per Share subject to adjustments. The Shares shall be allotted and issued in the name of the Bondholder or such other person (who is not a connected person of the Company) as it may specify in the conversion notice and shall be delivered to the Bondholder or such other person within five Business Day after the date of presentation of the relevant original CB Certificate.
- CB Conversion Restrictions:** The Bondholder shall not exercise any CB Conversion Rights to the extent that immediately after such conversion (i) the Bondholder together with parties acting in concert with it, taken together, will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or where applicable, waiver from the shareholders of the Company has been obtained in accordance with the Takeovers Code; or (ii) there will not be sufficient public float of the Shares as required under the Listing Rules, unless prior approval or waiver has been obtained from the Stock Exchange for such purposes and where any conditions to which such approval or waiver is subject are duly complied with.
- Transferability:** The Convertible Bond or any part(s) thereof may be assigned or transferred to any third party, subject to compliance of conditions stated in the CB Instrument as well as the conditions, approvals, requirements and any other provisions of or under the Stock Exchange or their rules and regulations and all applicable laws and regulations provided that the Convertible Bond (or any part thereof) shall not be assigned or transferred to a connected person of the Company without prior written consent of the Company.

LETTER FROM THE BOARD

Ranking: Shares issued upon conversion shall rank *pari passu* in all respects with all other existing Shares at the date of the conversion notice and be free from any security interest, claims (including pre-emptive rights), liens or encumbrances and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice.

Adjustment Events: The Conversion Price shall from time to time be adjusted as follows:

(a) Consolidation or subdivision:

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

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

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective from the close of business in Hong Kong on the day immediately preceding the date on which such consolidation or subdivision becomes effective.

LETTER FROM THE BOARD

(b) Capitalisation of profits or reserves:

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

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

where:

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

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date of such issue.

(c) Capital distribution:

If and whenever the Company shall pay or make any capital distribution to the Shareholders (whether on a reduction of capital or otherwise), or shall grant to Shareholders rights to acquire for cash assets of the Group, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such capital distribution or grant by the following fraction:

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

LETTER FROM THE BOARD

where:

- A is the current market price of one Share on the date on which the capital distribution or as the case may be, the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of the capital distribution or, as the case may be, of the grant; and
- B is the Fair Market Value (as defined in the CB Instrument) on the date of such announcement or (as the case may be) the day immediately preceding the date of the capital distribution, of the portion of the capital distribution or of such rights which is attributable to one Share.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date of such capital distribution or grant.

- (d) Rights issues of Shares or rights to acquire Shares:

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than the current market price per Share on the last Trading Day preceding the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

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

LETTER FROM THE BOARD

where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date for the issue or grant.

LETTER FROM THE BOARD

(e) Right issues of other securities:

If and whenever the Company shall:

- (i) issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights; or
- (ii) grant to all or substantially all Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any such securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares); or
- (iii) offer any preferential rights to subscribe for or purchase securities of a subsidiary of the Company granted to all or substantially all Shareholders upon an initial public offering of the securities of such subsidiary where the rights of the Shareholders are exercisable at a subscription or purchase price, as the case may be, which is less than that at which the securities are offered to the public or any other person,

the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue, grant or offer by the following fraction:

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

where:

A is the current market price of one Share on the last Trading Day preceding the date of on which such issue, grant or offer is publicly announced; and

B is the Fair Market Value (as defined in the CB Instrument) on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date of such issue or grant or offer.

LETTER FROM THE BOARD

(f) Issues at less than current market price:

If and whenever the Company shall:

- (i) issue (otherwise than as mentioned in sub-paragraph (d) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares); or
- (ii) issue or grant (otherwise than as mentioned in sub-paragraph (d) above) options, warrants or other rights to subscribe for or purchase Shares,

in each case at a price per Share which is less than 90% of the current market price on the last Trading Day preceding the date of announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

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

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such current market price per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective (if appropriate, retroactively) on the day following the record date of such issue or grant.

LETTER FROM THE BOARD

(g) Issues of convertible securities:

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this sub-paragraph (g), if and whenever the Company or any of its subsidiaries shall issue any securities (other than the Convertible Bond) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares or securities which by their terms might be redesignated as Shares to be issued by the Company upon conversion, exchange or subscription or redesignation, at a consideration per Share receivable by the Company or the relevant subsidiary which is less than 90% of the current market price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

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

where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the right of subscription attached to such securities or for the Shares to be issued or arise from any such redesignation would purchase at such current market price per Share; and
- C is the maximum number of Shares to be issued upon conversion into or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate or the Shares to be issued or to arise from any such redesignation.

Such adjustment shall become effective on the day following the record date of the issue of such securities.

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(h) Modification of rights of conversion etc.:

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (g) above so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 90% of the current market price per Share on the last Trading Day immediately preceding the date of announcement of the proposals for such modification or (if there is no such announcement) the date of such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

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

where:

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange, or upon exercise of the right of subscription attached to the securities so modified, would purchase at such current market price per Share or, if lower, the existing conversion, exchange or subscription price; and
- C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as the auditors or approved financial advisor, acting as expert, considers appropriate (if at all) for any previous adjustment under this sub-paragraph (h).

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Notwithstanding the foregoing provisions, a right of conversion, exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take into account of rights and capitalisation issues and other events normally giving rise to adjustment of the Conversion Price.

Such adjustment shall become effective on the day following the record date for such modification.

(i) Other offers to Shareholders:

If and whenever the Company or any of its subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) any other person issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

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

where:

A is the current market price of one Share on the last Trading Day immediately preceding the date on which such issue is publicly announced; and

B is the Fair Market Value (as defined in the CB Instrument) on the date of such announcement, of the portion of the rights attributable to one Share.

Such adjustment shall become effective (if appropriate, retroactively) on the day following the record date for the issue of the securities.

LETTER FROM THE BOARD

- (j) If and whenever the Company shall issue Shares for the acquisition of any asset at a total Effective Consideration per Share (as defined in this sub-paragraph (j) below) which is less than 90% of the market price (as defined below) at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by the Auditors or Approved Financial Advisor. Such adjustment shall become effective on the date of such issue. For the purpose of this sub-paragraph (j) “total Effective Consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “total Effective Consideration per Share” shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.
- (k) In the case of an issue of Shares by way of a Scrip Dividend where the current market price of such Shares on the date of issue of such Shares or if a record date is fixed for such Scrip Dividend, on such record date exceeds 110% of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a capital distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

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

where:

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

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B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the current market price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend on the date of issue of such Shares or if a record date is fixed for such Scrip Dividend, on such record date; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend,

or by making such other adjustment as the auditors or approved financial advisor shall certify as fair and reasonable.

Such adjustment shall become effective (if appropriate, retroactively) on the date of issue of such Shares or if a record day is fixed therefore, immediately after such record date.

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(l) Other events:

If the Company or the Bondholder determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances whether or not referred to in this Condition under the CB Instrument, the Company shall at its own expense, request the auditors or approved financial advisor to determine (acting as experts) as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take into account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (provided that the adjustment would result in a reduction in the Conversion Price) shall be made and shall take effect in accordance with such determination, provided that where the circumstances giving rise to any adjustment pursuant to this Condition under the CB Instrument have already resulted or will result in an adjustment to the Conversion Price or where any other circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition as may be advised by the auditors or approved financial advisor to be in their opinion appropriate to give the intended result.

Conversion Price

The Conversion Price of HK\$0.35 per each of Conversion Share and CB Conversion Share, represents:

- (a) a premium of approximately 18.64% over the closing price of HK\$0.295 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 16.67% over the average closing price of HK\$0.300 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date; and
- (c) a premium of approximately 18.64% over the average closing price of HK\$0.295 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date.

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Basis of the Conversion Price

The Conversion Price was determined after arm's length negotiation between the Purchaser and the Vendor, by reference to the prevailing market price of the Shares as shown above.

Assuming the exercise in full of the Conversion Rights attaching to the PSCS and the CB Conversion Rights attaching to the Convertible Bond both at the Conversion Price, a total of 85,710,000 Shares (rounded down to the nearest board lot of 5,000 Shares as per the Deed Poll and the CB Instrument), comprising 28,570,000 Conversion Shares and 57,140,000 CB Conversion Shares, may be issued. The 85,710,000 Shares represent approximately 8.49% of the existing issued share capital of the Company and approximately 7.83% of the issued share capital of the Company as enlarged by the conversion of the PSCS and the Convertible Bond. The details of the shareholdings are set out in the paragraph headed "Effects on the shareholding structure of the Company" below.

The Conversion Shares and the CB Conversion Shares will be allotted and issued under the specific mandate to be obtained by the Directors at the EGM allowing the Directors to allot and issue up to 28,570,000 Conversion Shares and 57,140,000 CB Conversion Shares upon the exercise of the Conversion Rights and the CB Conversion Rights respectively.

Application of Listing

The Conversion Shares and the CB Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM.

No application will be made for the listing of the PSCS or the Convertible Bond on the Stock Exchange.

An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares and the CB Conversion Shares.

Conditions Precedent

Completion is subject to the fulfillment of the following Conditions on or before the expiration of 180 days after the signing of the agreement dated 21 October 2021:

- (1) the passing of resolution of the Board approving the Agreement and the transactions contemplated thereunder including the issue of the PSCS and the Convertible Bond and allotment and issue of the Conversion Shares and CB Conversion Shares upon the exercise of the Conversion Rights attaching to the PSCS and the CB Conversion Rights attaching to the Convertible Bond;
- (2) the Purchaser having informed the Vendor or its solicitors in writing that the Purchaser is satisfied with the results of the due diligence on all aspects of and relating to the Target Property (including the title to the Target Property);

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- (3) the Purchaser having received a valuation report issued by an independent valuer approved by the Purchaser showing the value of the Target Property being not less than HK\$30.0 million based on methodology, assumptions, criteria and other terms as may be accepted by the Purchaser;
- (4) the Independent Shareholders having approved the Agreement and the transactions contemplated thereunder at the EGM;
- (5) the Agreement and the transactions contemplated thereunder having been complied with the Articles of Association of the Purchaser and the requirements under the applicable laws, rules and regulations (including the Listing Rules);
- (6) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Conversion Shares and the CB Conversion Shares to be issued upon the exercise of the Conversion Rights attached to the PSCS and the CB Conversion Rights attaching to the Convertible Bond; and
- (7) the representations, warranties and undertakings given by the Vendor have remained materially true and accurate at Completion as if repeated at Completion and at all times between the dates of the Agreement and the Completion Date.

The Purchaser may waive any or all of the conditions precedent above except conditions (4), (5) and (6) at any time by notice in writing to the Vendor. In the event that all the conditions precedent above shall not have been fulfilled or waived on or before the expiration of 180 days after the signing of the Agreement, the Agreement shall cease and determine and none of the parties shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

LETTER FROM THE BOARD

Notwithstanding that the Purchaser may waive conditions precedent (1), (2), (3) and (7), as at the date of this circular, the Company has no intention to waive any of them. Save for condition precedent (1) and save that condition precedent (7) is a continuing obligation of the Vendor prior to Completion, none of the conditions precedent had been fulfilled as at the Latest Practicable Date.

Representations, Declarations, Warranties and Undertakings given by the Vendor

The representations, warranties and undertakings given by the Vendor are as follows:

1. The Vendor has good title to the Target Property free and clear of any encumbrances.
2. The Vendor has full power to execute, perform its obligations and enter into the transaction contemplated by the Agreement and all necessary corporate (where applicable) and other actions have been taken to authorise the execution, delivery and performance by it of the Agreement, the subsequent assignment and the documents contemplated thereunder.
3. The Agreement is valid and binding on the Vendor.
4. The Conditions of Sale No. 10673 (the “**Government Lease**”), the Deed of Mutual Covenant Memorial No. UB1427229 and the Management Agreement Memorial No. UB1427230 (collectively the “**Deed of Mutual Covenants**”) are now good, valid and subsisting and in nowise void or voidable and that the moneys due under any covenant relating to the Target Property have been paid and any other covenants, terms, conditions and obligations relating to the Target Property to be performed and observed by the Vendor have been duly paid, performed and observed up to the date of the Agreement.
5. The Target Property in good and tenable repair and condition.
6. The Vendor has fully and completely performed and observed the terms, covenants, conditions and obligations contained in the Government Lease and the Deed of Covenant insofar as the same relate to the Target Property.
7. The Vendor undertakes not to create or agree to create or permit to arise any mortgage, charge, debenture or pledge creating any floating charge over or in respect of the Vendor’s present or future undertaking, properties, assets, rights or revenues, or any part thereof, including its uncalled capital (if any) for the time being unless the Target Property and all rights and interests of the Vendor in respect of the Property are expressly excluded therefrom.
8. The Target Property is not subject to any incumbrance.

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9. The Vendor has not received any notice or order under the Lands Resumption Ordinance (Cap. 124) or the Mass Transit Railway (Land Resumption and Related Provisions) Ordinance (Cap. 276) or any other form of notice of similar nature affecting the Target Property and has no knowledge whatsoever whether the Target Property is included in any layout plans (draft or approved) under the Town Planning Ordinance (Cap. 131).
10. The Vendor has not received and is not aware of there being any notice or order from any government or other competent authority or the manager or management committee of SUN CHEONG INDUSTRIAL BUILDING (新昌工業大廈) (the “**Building**”) of which the Target Property forms part requiring the Vendor to demolish or reinstate any part of the Target Property. If it should be discovered that any such notice or order existed and shall be served and/or issued on or before the actual date of Completion, the costs and expenses of and incidental to such demolition or reinstatement required to be done for the purpose of complying with such notice or order with the provisions in the Buildings Ordinance and regulations shall be borne by the Vendor absolutely.
11. The Vendor has not received and is not aware of there being any notice or order from any government or other competent authority or the manager or management committee of the Building of which the Property forms part requiring the Vendor as one of the co-owners of the Building (as the case may be) to effect or contribute to costs of repair or refurbishment to any common part of the Building. If it should be discovered that any such notice or order shall be served and/or issued on or before the actual date of Completion the cost for such repair or refurbishment shall be borne by the Vendor.
12. The Vendor undertakes to notify the Purchaser forthwith in writing upon receipt of any notices or orders referred to in paragraphs 9 to 11 above.
13. No third party or occupier (whether related or otherwise) has any right or interest whatsoever, whether legal or equitable, in the Target Property save for the tenancies under the tenancy agreements entered into between (a) the Vendor as landlord and Ascent Way International Limited (a non-wholly owned subsidiary of the Company) as tenant dated 9 July 2021; and (b) the Vendor as landlord and AVT International Limited (a wholly-owned subsidiary of the Company) as tenant dated 9 July 2021.
14. The Vendor has the sole absolute right and interest (legal and beneficial) in the Target Property and that the Target Property was purchased with the Vendor’s own monies (and the mortgage loan was repaid by the Vendor with the Vendor’s own monies). In the event of any third party claim to the Target Property on or before Completion, whether legal or equitable, it shall not be necessary for the Purchaser to tender an assignment of the Target Property to the Vendor for execution and without prejudice to the Purchaser’s right to claim against the Vendor for all loss and damage suffered by the Purchaser by reason of the Vendor’s failure and/or inability to complete the sale.

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15. The Target Property is not and does not form part of the subject matter of any order for possession granted or deemed to have been granted by the Lands Tribunal under Section 53(2)(b) or (c), or Section 53(7F) of the Landlord and Tenant (Consolidation) Ordinance (Cap. 7).
16. All information contained in the Agreement (including the recitals, schedules and appendices) is true and accurate in all material respects.

Completion

Subject to the Conditions, Completion shall take place on the Completion Date. At Completion, the Vendor shall deliver to the Purchaser, amongst others, (i) the original of the Assignment duly executed by the Vendor and attested by the Vendor's solicitors; (ii) all such title deeds and documents relating to the Target Property as are required to give title to the Target Property; and (iii) all such other documents as may be reasonably required to enable the Purchaser to be registered as the owner of the Target Property and be vested with the beneficial ownership of the Target Property free from any encumbrances. At Completion, the Purchaser shall deliver to the Vendor the duly executed Deed Poll and Certificate(s) in respect of the PSCS and the duly executed CB Instrument and CB Certificate(s) in respect of the Convertible Bond issued to the Vendor and/or its nominee.

It is expected that Completion shall take place on the seventh (7th) Business Day after the EGM.

INFORMATION OF THE GROUP

The principal activity of the Company is investment holding. The Group is principally engaged in the sales of electronic components, and sales and integration of digital storage systems.

INFORMATION OF THE PURCHASER

The Purchaser is a company established in Hong Kong and a wholly-owned subsidiary of the Company. The principal activity of the Purchaser is property holding.

INFORMATION OF THE VENDOR

The Vendor is a company incorporated in Hong Kong with limited liability and its principal business is, among other thing, investment holding. As at the date of this circular, the Vendor is ultimately wholly-owned by Mr. Lee.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Since June 2018, the Group has been leasing the Target Property as its warehouse. Taking into account the Group's business scale, the leasing of such a property is essential to the

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operations of the Group. The Acquisition will enable the Group to (i) slightly reduce its gearing ratio; (ii) enhance its cash flow; and (iii) enrich its equity base given that the PSCS will be equity linked instruments of the Company and is considered as reserves of the Company under the prevailing accounting principles. Details are set out in the paragraph headed “Financial effects of the Acquisition” below.

In addition, given that the Consideration for the Acquisition will be fully satisfied by the PSCS and the Convertible Bond, the Group will not face any immediate cash outflow for the Acquisition. Meanwhile, with the Acquisition, the Group’s cash flow is enhanced as it will no longer be paying rent for occupying the Target Property as its warehouse. Hence, the Group can utilise the existing funds for general working capital of the Group to strengthen its existing business segments.

The Company expects to continue generating operating cash flow from its businesses over the next few years which can go towards repayment of the Convertible Bond on the Maturity Date. Subject to the Group’s financial position, the Company may at that time seek bank or other loans or conduct equity fund raising such as placing or rights issue, for the repayment, or enter into negotiations with the holders of Convertible Bonds on extending the maturity of the Convertible Bond.

The Company had considered debt financing for the Acquisition such as bank borrowings. In terms of bank borrowings, due to the Group’s current high level of gearing, the Company is of the view that new bank loans, if any, would demand relatively higher interest rates as compared with the Convertible Bond or the PSCS. Given that bank borrowings would inevitably further increase the gearing of the Group, the Group may not be able to obtain further loans to support its operation without paying high financing costs, which is not a favorable choice to the Group if better settlement terms could be obtained. The issues of PSCS and Convertible Bond provide the Company more flexibility. For example, it has the option and can consider the optimum time to redeem the PSCS and/or Convertible Bond when its financial position allows or when there exist alternatives at better terms to refinance the PSCS and/or Convertible Bond. The Company had also considered equity financing such as placing of Shares to independent third parties and other pre-emptive fund raising methods such as rights issue and open offer. However, the terms of placing of Shares to independent third parties, in particular the placing price which would be at a discount to the prevailing market price, would not be as favourable as the Conversion Price. The Directors also consider that it is not justifiable from the perspective of costs (such as underwriting commission and share registrar fees) and time (such as negotiations involved for the appointment of an underwriter and preparation of a listing document) required to conduct a rights issue or open offer to raise a relatively small amount of HK\$30.0 million for the Acquisition. Therefore, the Company is of the view that the issuance of the PSCS and the Convertible Bond is a fair and reasonable option to the Company.

The Group had a cash balance of approximately HK\$151.4 million as at 30 June 2021, of which approximately HK\$11.7 million was restricted cash. The Company has not considered using its existing cash resources for settling the Consideration due to business risk management reasons after taking into consideration (i) approximately HK\$42.0 million has been earmarked

LETTER FROM THE BOARD

for the Group's "Future Plans" as stated in the Company's prospectus dated 28 February 2018; (ii) the Group consistently recorded a relatively large balance of trade payables (approximately HK\$198.1 million as at 30 June 2021) as compared to its net asset value of approximately HK\$358.0 million as at 30 June 2021; and (iii) the Group had bank borrowings amounting to approximately HK\$502.0 million as at 30 June 2021. As the business nature of the Group involves substantial working capital, the Directors believe it is expedient that the Group deploys its existing cash resources towards businesses instead of for capital investments.

Although the shareholding of existing public Shareholders will be diluted from 25.71% to 23.70% assuming full conversion of both the Convertible Bond and the PSCS, having considered the fact that, (i) a higher dilution will be applicable in the placing of Shares, plus incurrence of underwriting costs; (ii) net asset value attributable to owners of the Company as at 30 June 2021 would be enhanced from approximately HK\$0.317 per Share to HK\$0.320 per Share; and (iii) higher documentation and underwriting costs as well as more time is required to conduct pre-emptive fundraising, the Directors are of the view that the aforesaid level of dilution is acceptable. The Board, excluding (i) Mr. Lee and Ms. Lo, who had abstained from voting on the relevant resolution at the Board meeting and are required to abstain from voting on the relevant resolution at the EGM; and (ii) the independent non-executive Directors whose view will be provided after taking into account the opinion and advice from the Independent Financial Adviser, consider that the terms and conditions of the Agreement (including the terms of the PSCS and the Convertible Bond) are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Immediately upon the Completion, the net assets of the Group would increase by approximately HK\$14.5 million mainly due to (i) the PSCS being equity linked instruments and is treated as reserves of the company; and (ii) the recognition of the CB Conversion Rights at fair value. Also, the annual cashflow of the Group would improve by approximately HK\$790,000, being the net effect of the saving in rental expenses and interests of the PSCS and the Convertible Bond. Furthermore, the gearing ratio of the Group, being total loans and borrowings divided by the total equity at the respective date, would decrease slightly from approximately 140.2% as at 30 June 2021 to approximately 138.9% as a result of the combined effect of (i) the recognition of the Convertible Bond as a liability of the Group; and (ii) the recognition of the PSCS and the CB Conversion Rights as reserves of the Company.

LETTER FROM THE BOARD

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 1,009,550,000 Shares in issue. Assuming there are no other changes to the issued share capital of the Company, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon full conversion of the PSCS; and (iii) immediately upon full conversion of both the Convertible Bond and the PSCS:

	As at the Latest Practicable Date		Immediately upon full conversion of the PSCS into Conversion Shares as enlarged by such conversion		Immediately upon full conversion of both the PSCS and the Convertible Bond as enlarged by such conversions	
	<i>Approximate</i>		<i>Approximate</i>		<i>Approximate</i>	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Best Sheen (<i>Note 1</i>)	750,000,000	74.29	750,000,000	72.24	750,000,000	68.48
The Vendor (<i>Note 2</i>)	–	–	28,570,000 (<i>Note 3</i>)	2.76	85,710,000 (<i>Note 3</i>)	7.83
Sub-total	750,000,000	74.29	778,570,000	75.00 (<i>Note 4</i>)	835,710,000	76.30 (<i>Note 4</i>)
Public Shareholders	259,550,000	25.71	259,550,000	25.00	259,550,000	23.70
Total	<u>1,009,550,000</u>	<u>100.00</u>	<u>1,038,120,000</u>	<u>100.00</u>	<u>1,095,260,000</u>	<u>100.00</u>

Notes:

1. The entire issued share capital of Best Sheen is held by Mr. Lee.
2. The entire issued share capital of the Vendor is held by Ample Magic Limited (溢妙有限公司), a company incorporated in the British Virgin Islands, which is in turn held wholly-owned by Mr. Lee.
3. Rounded down to the nearest board lot of 5,000 Shares as per the Deed Poll and the CB Instrument.
4. According to the conversion restrictions under the Deed Poll and the CB Instrument, no Conversion Rights or CB Conversion Rights shall be exercised if there will not be sufficient public float (i.e. 25%) of the Shares required under the Listing Rules.

The shareholdings of the Company set out in the above table are for illustration purpose only. One of the conversion restrictions under the Deed Poll and the CB Instrument is that any exercise of the Conversion Rights or the CB Conversion Rights shall not trigger any mandatory offer under Rule 26 of the Takeovers Code.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

As one or more applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) exceed 5% but fall below 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and will be subject to the reporting and announcement requirements.

Besides, as the Vendor is ultimately wholly-owned by Mr. Lee, a controlling Shareholder and an executive Director, the Vendor is an associate of Mr. Lee and thus a connected person of the Company under the Listing Rules. Accordingly, the Acquisition (including the issue of the PSCS and the Convertible Bond) also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios for the Acquisition (including the issue of the PSCS and the Convertible Bond) exceeds 5%, the Acquisition (including the issue of the PSCS and the Convertible Bond) constitutes a connected transaction of the Company and is subject to reporting, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

EGM

The EGM will be held by the Company at 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong at 11:00 a.m. on Friday, 28 January 2022 to consider and if thought fit, to approve, among other things, the Acquisition and the issue of the PSCS and the Convertible Bond. A form of proxy for use at the EGM is enclosed with this circular.

Any Shareholder and his or her or its associates with a material interest in the resolution will abstain from voting on the resolution on the Acquisition and the issue of the PSCS and the Convertible Bond at the EGM. Mr. Lee, through Best Sheen, holds 750,000,000 Shares (representing approximately 74.29% interest) in the Company, as such, Mr. Lee and his associates, i.e. Best Sheen, will be required to abstain from voting on the relevant resolutions at the EGM.

Save as disclosed above, to the best knowledge, information and belief of the Directors having made all reasonable enquires, no other Shareholders are required to abstain from voting on the relevant resolution to be considered at the EGM as at the Latest Practicable Date.

The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular.

For those who intend to direct a proxy to attend the EGM, please complete the form of proxy and return the same in accordance with the instructions printed thereon. In order to be valid, the above documents must be delivered to the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for the EGM or any resumed session.

LETTER FROM THE BOARD

You are urged to complete and return the form of proxy whether or not you will attend the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM (or any subsequent meetings following the adjournments thereof) should you wish to do so.

CLOSURE OF THE REGISTER OF MEMBERS

For the attendance of the EGM to be held on Friday, 28 January 2022, the register of members of the Company will be closed from Tuesday, 25 January 2022 to Friday, 28 January 2022, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify to attend and vote at the EGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar and transfer office of Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 24 January 2022.

RECOMMENDATION

Having considered the abovementioned benefits to the Group and the advice of the Independent Financial Adviser, the Directors (including the independent non-executive Directors) consider that the terms of the Agreement, are on normal commercial terms and the issue of the PSCS and the Convertible Bond are in the interests of the Company and the Shareholders as a whole and they are fair and reasonable to the Company. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

GENERAL

Your attention is drawn to (i) the letter from the Independent Board Committee; (ii) the letter from the Independent Financial Adviser; and (iii) the additional information set out in the appendices to this circular and the EGM Notice.

Shareholders and potential investors should note that completion of the Acquisition is subject to fulfillment of the Conditions. As the Acquisition may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

Your faithfully,
By order of the Board
Apex Ace Holding Limited
Lee Bing Kwong

Executive Director, Chairman and Chief Executive Officer

APEX ACE
APEX ACE HOLDING LIMITED
光麗科技控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6036)

13 January 2022

To the Independent Shareholders,

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO ACQUISITION OF PROPERTY
INVOLVING ISSUE OF PERPETUAL SUBORDINATED
CONVERTIBLE SECURITIES AND CONVERTIBLE BOND**

We refer to the circular of the Company dated 13 January 2022 (the “**Circular**”) of which this letter forms a part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you in respect of the fairness and reasonableness of the Agreement and the transactions contemplated thereunder, including the issue of the PSCS and the Convertible Bond to the Vendor and the allotment and issue of the Conversion Shares and the CB Conversion Shares upon the exercise of the Conversion Rights and the CB Conversion Rights. Sorrento Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

Although the Acquisition is not in the ordinary and usual course of business of the Company, upon taking into account the recommendation of the Independent Financial Adviser, we consider that the Agreement and the transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond) are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreement, the transaction contemplated thereunder and the issuance of the PSCS and the Convertible Bond.

Your faithfully,
For and on behalf of the
Independent Board Committee

Cheung Siu Kui
Independent
non-executive Director

Yim Kwok Man
Independent
non-executive Director

Chow Terence
Independent
non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Sorrento Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond) prepared for the purpose of inclusion in this circular.



Sorrento Capital Limited
11/F, The Wellington
198 Wellington Street, Central
Hong Kong

13 January 2022

*To the Independent Board Committee and the Independent Shareholders of
Apex Ace Holding Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF PROPERTY INVOLVING ISSUE OF PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES AND CONVERTIBLE BOND

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 Agreement and transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 13 January 2022 (the “**Circular**”), of which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined under the definitions section in the Circular.

As set out in the Letter from the Board, on 21 October 2021 (as supplemented on 25 November 2021), the Purchaser, the Company and the Vendor entered into the Agreement, pursuant to which the Vendor has agreed to sell, and the Purchaser has conditionally agreed to purchase, the Target Property at the Consideration of HK\$30.0 million. The Consideration shall be satisfied by the issue of the PSCS in the principal amount of HK\$10.0 million and the Convertible Bond in the principal amount of HK\$20.0 million which carries the right to convert into Conversion Shares and CB Conversion Shares at HK\$0.350 per Conversion Share and per CB Conversion Share (subject to adjustment).

As at the Latest Practicable Date, the Vendor is ultimately wholly-owned by Mr. Lee, who is a controlling Shareholder and an executive Director, the Vendor is an associate of Mr. Lee and thus a connected person of the Company under the Listing Rules. Accordingly, the Acquisition

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

constitutes a connected transaction of the Company subject to the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules by way of poll at the EGM. As the relevant percentage ratio for the Acquisition exceeds 5%, the Acquisition constitutes a connected transaction of the Company and is subject to reporting, announcement and Independent Shareholders approval requirements pursuant to Chapter 14A of the Listing Rules.

An independent board committee of the Company comprising all of the independent non-executive Directors, namely Mr. Cheung Siu Kui, Mr. Yim Kwok Man and Dr. Chow Terence, has been formed to advise the independent Shareholders as to whether the Agreement and transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond) has been made on normal commercial terms and in the ordinary and usual course of business of the Group; and that its terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and to give a recommendation to the Independent Shareholders in respect of the voting on the resolution to be proposed at the EGM.

We, Sorrento Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Agreement and transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond) in this regard. We are not connected with the directors, chief executive and controlling shareholders of the Company or the Vendor or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Shareholders. During the last two years, there was no engagement between the Company or the Vendor and us. Apart from normal professional fees payable to us 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 controlling shareholders of the Company or the Vendor or any of its subsidiaries or their respective associates that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Agreement and transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond) pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Agreement and transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond) including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Vendor and their respective associates, nor have we carried out any independent verification of the information supplied to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Acquisition, we have considered the following principal factors and reasons:

1. Information on the Group, the Purchaser, the Vendor and the Target Property

Information of the Group

The principal activity of the Company is investment holding. The Group is principally engaged in the sales of electronic components, and sales and integration of digital storage systems.

The following table summarises the major information of the statement of profit or loss and other comprehensive income of the Group for the two years ended 31 December 2020 and the six months ended 30 June 2021, as extracted from the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report") and interim report for the six months ended 30 June 2021 (the "2021 Interim Report"):

	For the year ended 31 December		For the six months ended 30 June	
	2019	2020	2020	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	1,936,844	1,756,038	720,781	1,423,913
– Digital storage products	1,393,662	1,173,692	487,288	1,135,513
– General components	543,182	582,346	233,493	288,400
Profit/(loss) after tax for the year/period	(9,112)	121	3,190	36,226
Total comprehensive income for the year/period	1,877	4,730	2,271	36,555

Source: 2020 Annual Report and 2021 Interim Report

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2020

The Group derived its revenue primarily from (i) digital storage products; and (ii) general components which accounted for approximately 66.8% and 33.2% of total revenue for the year ended 31 December 2020 and recorded a drop of approximately 9.3% as compared to the previous financial year. The profit after tax for the year ended 31 December 2020 was approximately HK\$0.1 million, compared with a net loss of HK\$9.1 million for the year ended 31 December 2019. According to the 2020 Annual Report, such enhancement was mainly attributable to the combined effect of (i) a decrease in revenue due to weaker global demand for consumer electronic products after the COVID-19 outbreak and drop in demand for memory products; (ii) a loss arising from changes in the fair value of an investment property of approximately HK\$0.7 million for the year ended 31 December 2020, compared with a loss arising from changes in the fair value of an investment property of approximately HK\$2.3 million for the year ended 31 December 2019; (iii) an increase in other income arising from receipt of HKSAR Government subsidies as well as rebate from a vendor; and (iv) a decrease in distribution and selling expenses mainly as the result of a drop in commission fees spent in a more efficient sales operation.

For the six months ended 30 June 2021

During the six months ended 30 June 2021, the Group recorded a revenue of HK\$1,423.9 million, representing an increase of approximately 97.6% from approximately HK\$720.8 million for the same period last year. The increase was mainly due to the increases in (i) the sales from both existing and new customers; and (ii) both average selling price and profit margin of digital storage products sold by the Group during the six months ended 30 June 2021 as compared with the same period last year as a result of the current global shortage of electronic products. The profit for the six months ended 30 June 2021 was approximately HK\$36.2 million, representing an increase of approximately 10.3 times as compared to approximately HK\$3.2 million for the same period last year. According to the 2021 Interim Report, such increase was mainly attributable to a significant increase in revenue, which was slightly offset by increased distribution and selling expenses and administrative expenses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table summarises the major information of the statement of financial position of the Group as at 30 June 2021, as extracted from the 2021 Interim Report:

	As at 30 June 2021 <i>HK\$'000</i> (unaudited)
Cash and cash equivalent	151,446
Inventories	201,440
Trade receivables	514,902
Loans and other receivables, deposits and prepayments	<u>103,282</u>
Current assets	971,070
Non-current assets	<u>140,352</u>
Total assets	<u>1,111,422</u>
Current liabilities	750,363
Non-current liabilities	<u>3,010</u>
Total liabilities	<u>753,373</u>
Net assets	<u><u>358,049</u></u>

Source: 2021 Interim Report

As at 30 June 2021, the total assets of the Group mainly comprise of trade and other receivables, inventories and cash and cash equivalents which in aggregate amounted to approximately HK\$867.8 million, which represented approximately 78.1% of the total assets. As at 30 June 2021, the total liabilities of the Group mainly comprise of trade payables and bank borrowings of approximately HK\$700.2 million, which represented approximately 92.9% of the total liabilities.

Information of the Purchaser

The Purchaser is a company established in Hong Kong and a wholly-owned subsidiary of the Company. The principal activity of the Purchaser is engaged in property holding.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Information of the Vendor

As disclosed in the Letter from the Board, the Vendor is a company incorporated in Hong Kong with limited liability and its principal business is, among other things, investment holding. As at the date of this Circular, the Vendor is ultimately wholly-owned Mr. Lee, who is a controlling Shareholder and an executive Director.

Information of the Target Property

The Target Property is situated at Unit 1 on 1st Floor, Sun Cheong Industrial Building, No. 2 Cheung Yee Street, Cheung Sha Wan, Hong Kong, with saleable area and gross floor area of approximately 3,955 square feet and 4,573 square feet, respectively. The Target Property has been and is currently leased to the Group by the Vendor as a warehouse in Hong Kong. Based on the information provided by the management of the Company, the Target Property was acquired by the Vendor in 2017 with a consideration of approximately HK\$19.5 million.

For details of the valuation of the Target Property, please refer to the Valuation Report as set out in Appendix I to this circular.

2. Reasons for and benefits of the Acquisition

With reference to the Letter from the Board, the Group has been leasing the Target Property as its warehouse since June 2018. Taking into account of the Group's business scale, the leasing of such property is essential to the operations of the Group. The Acquisition will enable the Group to (i) slightly reduce its gearing ratio; (ii) enhance its cashflow; and (iii) enrich its equity base given that the PSCS will be equity linked instruments of the Company and is considered as reserves of the Company under the prevailing accounting principles. Details are set out in the paragraphs headed "7. Possible financial effects of the Acquisition".

As the Target Property has been used as the Group's warehouse since 2018 and up to the Latest Practicable Date, we believe the Acquisition would allow the Group to reduce its reliance on the leasing of warehouse from the controlling shareholder of the Company. Moreover, savings in the rental expenses of the Group would reduce the sensitivity of the Group's financial performance to rental expenses, and bring observable improvement to the same, especially amid the current economic setbacks in Hong Kong due to the COVID-19 outbreak. Also, continued utilisation of the same warehouse would save the Group's time and cost when comparing to identifying a new warehouse and renovating the new warehouse to the standard fit for the Group's purpose. Thus we concur with the Board that the Acquisition is in the interests of the Group and the Shareholders as a whole.

In addition, given the Consideration for the Acquisition will be fully satisfied by the PSCS and the Convertible Bond, the Group will not face any immediate cash outflow for the Acquisition. Meanwhile, with the Acquisition, the Group's cash flow is enhanced as it will no longer be paying rent for occupying the Target Property as its warehouse. Hence,

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the Group can utilise the existing fund on the general working capital of the Group to strengthen its existing business segments.

The Group had a cash balance of approximately HK\$151.4 million as at 30 June 2021, of which approximately HK\$11.7 million was restricted cash. The Company has not considered using its existing cash resources for settling the Consideration due to business risk management reasons after taking into consideration (i) approximately HK\$42.0 million has been earmarked for the Group's "Future Plans" as stated in the Company's prospectus dated 28 February 2018; (ii) the Group consistently recorded a relatively large balance of trade payables (approximately HK\$198.1 million as at 30 June 2021) as compared to its net asset value of approximately HK\$358.0 million as at 30 June 2021; and (iii) the Group had bank borrowings amounting to approximately HK\$502.0 million as at 30 June 2021.

3. Principal terms of the Agreement

The principal terms of the Agreement are summarized as follows:

Date	:	21 October 2021, after trading hours (as supplemented on 25 November 2021)
Parties	:	(i) Nicegoal Limited as Vendor (ii) I-Sky Electronic Limited as Purchaser (iii) The Company as Issuer
Subject Matter	:	The Target Property
Payment method	:	The Consideration of HK\$30.0 million will be settled by the issue of the PSCS and the Convertible Bond to the Vendor and/or its nominee(s) upon Completion

For further details of the terms of the Agreement, please refer to the Letter from the Board.

4. Basis of the Consideration

As disclosed in the Letter from the Board, the consideration for the Target Property is HK\$30.0 million, which will be settled by the issue of the PSCS and the Convertible Bond to the Vendor and/or its nominee(s) upon Completion. The Consideration was determined after arm's length negotiation between the Purchaser and the Vendor after taking into consideration the preliminary valuation of the Target Property of approximately HK\$30.0 million as at 30 September 2021 prepared by the Independent Valuer by making reference to sales evidence as available in the market.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Valuation Report of the Target Property

According to the valuation of the Target Property by the Independent Valuer, the market value of the Target Property as at 31 December 2021 was HK\$30.0 million (the “**Valuation**”). Independent Shareholders’ attention is drawn to the full text of the Valuation Report and certificate of the Target Property as set out in Appendix I to the Circular.

In order to assess the expertise and independence of the Independent Valuer, we have obtained and reviewed (i) the engagement letter of the Independent Valuer; (ii) the Independent Valuer’s relevant qualification and experience. Based on our review of the Independent Valuer’s engagement letter, we are satisfied that the terms and scope of the engagement between the Company and the Independent Valuer are appropriate to the opinion the Independent Valuer is required to give. We note that Dr. Alan Lee, the person in charge of Valuation Report, has 17 years’ experience in the valuation of properties in Hong Kong as well as relevant experience in the Asia-Pacific region. For due diligence purpose, we conducted telephone discussion with the team members of the Independent Valuer to understand its previous experiences on valuation projects and its works performed on the Valuation as well as the steps and measures taken by the Independent Valuer in conducting the Valuation. The Independent Valuer also confirmed that it is independent from the Group, the Purchaser, the Vendor and their respective associates. In view of the above, we consider that the Independent Valuer is qualified and possesses relevant experience in conducting the Valuation.

To assess the fairness and reasonableness of the Consideration, we have reviewed the Valuation Report and discussed with the Independent Valuer regarding the methodology adopted for and the basis and assumptions used in arriving at the valuation. We noted the Independent Valuer has adopted the comparison approach in valuing the Target Property by marking reference to comparable property transactions available in the market. Comparable property transactions involving properties of similar size, characteristic and location are analysed and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of the capital values. As further confirmed by the Independent Valuer, the aforesaid approach is commonly considered as an accepted valuation approach for valuing this type of industrial property for warehouse purpose and is consistent with normal market practice. We have reviewed similar property valuations conducted by other listed companies on the Stock Exchange and noted that such approach is a common valuation methodology in valuing property. We concur with the Independent Valuer in adopting such comparison approach for the purpose of the valuation.

We have reviewed the methodology and parameters applied by the Independent Valuer in arriving at the Valuation. As stated above, several comparable property transactions were selected by the Independent Valuer in order to appraise the market value of the Target Property. We understand from the Independent Valuer that the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

comparable transactions involve properties that (i) are located in Cheung Sha Wan; (ii) are for industrial use; and (iii) are sold on market from March 2021 to September 2021. We have reviewed the nature of the comparable properties and the calculation to arrive at the market value of the Target Property. We also discussed with the Independent Valuer regarding the nature and rationale of adjustments adopted in the valuation and noted that these adjustments are made to the comparable properties to compensate the differences between the Target Property and the comparable properties in relation to their level, size, condition and other characters. Based on our review of the comparable properties as well as our discussion with the Independent Valuer to understand their selection criteria and calculation basis, we understand the Independent Valuer has selected comparable transactions which involve properties that are nearby the Target Property, have the same property use type, and similar building quality and age on an exhaustive basis. The Independent Valuer is of the view that the selection basis is fair and reasonable and we concur with the view of the Independent Valuer. Details of the three comparable transactions are as follow:

	Comparable 1	Comparable 2	Comparable 3	The Target Property
Address	Unit 10, 13/F, Siu Wai Industrial Centre, 29–33 Wing Hong Street, Kowloon	Unit 2, 1/F, Elite Industrial Centre, 883 Cheung Sha Wan Road, Kowloon	Unit 2, 5/F, Fashion Centre, 51–53 Wing Hong Street, Kowloon	Unit No. 1 on 1/F, Sun Cheong Industrial Building, No. 1 Cheung Shun Street, Nos. 2–4 Cheung Yee Street, Kowloon
Consideration	HK\$6,100,000	HK\$17,980,000	HK\$5,830,000	HK\$30,000,000
Year of Completion	1990	1986	1991	1977
Saleable Area	818 sq.ft.	2,415 sq.ft.	744 sq.ft.	3,955 sq.ft.
Unit Rate	HK\$7,457	HK\$7,445	HK\$7,836	HK\$7,585

Considering that (i) all of the comparable transactions involve properties located in the Cheung Sha Wan District, which is the same as the Target Property; (ii) all the comparable transactions involve industrial buildings which is in the same district as that of the Target Property; and (iii) the completion years of the industrial buildings under the comparable transactions are over 30 years, which is the same as the Target Property and thus have similar conditions, we are of the view that the comparable transactions are indeed comparable to the Acquisition of the Target Property.

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We understand that the Independent Valuer had evaluated the three comparable properties under the comparable transactions against the Target Property and adjustments have been considered to reflect the differences between them and the Target Property in terms of, among others, time index, location, floor level and unit size. We have reviewed the three comparable transactions and noted that Comparable 1 and Comparable 3 involve properties that are located on a higher floor than and relatively less convenient for logistic purposes compared to the Target Property, which is located on the first floor, thus a premium of 2.5% is applied for those two properties. In considering the location factor, the Independent Valuer has made reference to the accessibility and the public transportation facility nearby, thus applying a premium of 5.0% and a discount of 5.0% for Comparable 1 and Comparable 2 respectively. As for the size factor, as all three comparable properties are smaller, ranging from 744 sq.ft. to 2,415 sq.ft. as compared to the Target Property of 3,955 sq. ft., and smaller scale of site is generally more superior in utilisation and efficiency ratio, thus a discount of approximately 2.5% is applied for all three comparable properties. We have interviewed the Independent Valuer on the adjustments applied to the comparable properties and understand the Independent Valuer had used its professional expertise to assign different weightings to the general factors when applying adjustments. We note that the adjustments have been consistently and not selectively applied across the three comparable properties. The Independent Valuer has further confirmed that all of the adjustments applied conform to the market practice. Based on the above, we are of the view that the relevant adjustments applied during the Valuation are fair and reasonable.

As an alternative selection criteria, we have reviewed 17 recent market transactions in industrial buildings with sizes ranging from 2,000 sq.ft. to 4,000 sq.ft. on low floors (as defined by the property agency company) at Cheung Sha Wan from April 2021 to October 2021 as extracted from the property agency company's website (i.e. oir.centanet.com). Depending on floor, view, size, renovation and internal conditions, etc., their transaction prices ranged from approximately HK\$3,250 to HK\$8,000 per square feet. The market value of the Target Property appraised by the Independent Valuer of approximately HK\$7,585 per square feet falls within the range of the transaction prices identified by us. It is also noted that the wide range of transaction prices is mainly the result of the adverse economic environment caused by the impact of COVID-19 pandemic in Hong Kong from December 2020 to March 2021. The transaction prices demonstrated a general increasing trend since August 2021 and reached approximately HK\$8,000 per square feet in October 2021, and the transaction prices from August 2021 to October 2021 ranged from approximately HK\$5,300 to HK\$8,000 per square feet. Having considered (i) the general price increasing trend starting from August 2021; (ii) the Target Property located on the first floor is more convenient for logistic purposes; and (iii) the accessibility and the public transportation facility nearby the Target Property, we are of the view that the market value of the Target Property of approximately HK\$7,585 per square feet, being in the higher end of transaction prices, is justifiable.

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Further details of the bases and assumptions of the valuation are included in the Valuation Report as contained in Appendix I to the Circular.

Having considered (i) the valuation methodology adopted by the Independent Valuer is commonly adopted for determining the value of similar properties; (ii) the assumptions and underlying basis for valuation of the Target Property is appropriate; and (iii) the selection criteria of comparable properties are justifiable, we are of the view that the Consideration is fair and reasonable.

5. The PSCS and the Convertible Bond

5.1 *Principal terms of the PSCS*

The principal terms of the PSCS are set out below:

Issuer:	the Company
Principal Amount:	HK\$10.0 million
Form:	the PSCS will be issued in registered form
Maturity Date:	there is no maturity date
Conversion Price:	initially HK\$0.350 per conversion Share, subject to adjustment as provided for in the terms of the PSCS, including but not limited to an alteration to the nominal amount of the Shares as a result of consolidation, subdivision or reclassification, capitalisation of profits or reserves, capital distributions, rights issues or issue of options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares
Distribution Rate:	0.5% per annum
Distribution:	Subject to the Distribution Deferral, the PSCS confer a right to receive distribution from the date of the Deed Poll calculated based on the outstanding principal amount of the PSCS from time to time at the distribution rate.

Distribution shall be payable on the PSCS quarterly in arrears on each Distribution Payment Date.

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Distribution Deferral: The Issuer may, at its sole discretion, elect to defer in whole or in part, Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice of such election to the Holders not less than 5 business days prior to the relevant Distribution Payment Date.

The deferred Distribution shall be non-interest bearing. The number of times of optional deferral of Distribution by the Company is not restricted.

Status of the PSCS: The PSCS constitutes direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves.

Adjustment to Conversion Price: The Conversion Price will be subject to adjustment as follows:

1. Consolidation, subdivision or reclassification: If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

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

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration. Such adjustment shall become effective on the date the alteration takes effect.

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2. Capitalisation of profits or reserves:

- (i) If and whenever the Issuer shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including, Shares paid up out of distributable profits or reserves and/or share premium account (except any scrip dividend) and which would not have constituted a capital distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

where:

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

B is the aggregate nominal amount of the issued Shares immediately after such issue. Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

- (ii) In the case of an issue of Shares by way of a scrip dividend where the aggregate current market price exceeds the relevant cash dividend or the relevant part thereof and which would not have constituted a capital distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

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

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where:

A is the aggregate nominal amount of Shares in issue immediately before such scrip dividend;

B is the aggregate nominal amount of Shares issued by way of such scrip dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the relevant cash dividends and (ii) the denominator is the current market price; and

C is the aggregate nominal amount of Shares issued pursuant to such scrip dividend.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

3. Capital Distributions: If and whenever the Issuer shall pay or make any capital distribution to the Shareholders (except to the extent the Conversion Price falls to be adjusted under (2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such capital distribution by the following fraction:

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

where:

A is the current market price of one Share on the Last Trading Date (as defined in the Deed Poll) immediately preceding the date on which the capital distribution is publicly announced; and

B is the Fair Market Value (as defined in the Deed Poll) on the date of such announcement of the portion of the capital distribution attributable to one Share.

Such adjustment shall become effective on the date that such capital distribution is actually made or if a record date is fixed therefor, immediately after such record date.

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4. Rights Issues of Shares or Options over Shares: If and whenever the Issuer shall issue Shares to all or substantially all Shareholders (i.e. all Shareholders except those Shareholder(s) who is in a place outside Hong Kong and whom the Directors consider it necessary or expedient not to offer the relevant rights on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares, in each case at less than the current market price per Share on the last Trading Date (as defined in the Deed Poll) preceding the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

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

where:

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

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such current market price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be.

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5. Issues at less than current market price: If and whenever the Issuer shall issue (otherwise than as mentioned in (4) above) wholly for cash any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for Shares) or shall issue or grant (otherwise than as mentioned in (4) above) wholly for cash any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at a price per Share which is less than 95 per cent. of the current market price on the last Trading Date (as defined in the Deed Poll) immediately preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;

B is the number of Shares which the aggregate consideration (including for the avoidance of doubt, in the case of the issue of options, warrants or other rights, the consideration receivable for the issue and exercise of such options, warrants or rights), if any, receivable for the issue of such additional Shares would purchase at such current market price per Share; and

C is the number of Shares in issue immediately after the Issue of such additional Shares.

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References to additional Shares in the above formula shall, in the case of an issue by the Issuer of options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue of such options, warrants or other rights.

6. Other issues at less than current market price: Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this paragraph (6), if and whenever the Issuer shall issue (otherwise than as mentioned in (4) or (5)), any securities which by its terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Issuer upon conversion, exchange or subscription at a consideration per Share which is less than 95 per cent of the current market price on the last Trading Date (as defined in the Deed Poll) immediately preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

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

where:

A is the number of Shares in issue immediately before such issue;

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B is the number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such current market price per Share; and

C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

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

Redemption:

The PSCS may be redeemed at the option of the Company, at 100% or 50% of the principal amount of the PSCS each time, on any Distribution Payment Date at the face value of the outstanding principal amount of the PSCS to be redeemed plus 100% or 50% (as the case may be) of Distributions accrued to such date.

The Issuer or any of its subsidiaries may at any time and from time to time purchase the PSCS at any price in the open market or otherwise.

Conversion Rights:

The Conversion Right attaching to any PSCS may be exercised, at the option of the Holder(s), at any time on or after the Issue Date or if such PSCS shall have been called for redemption by the Issuer in accordance with the redemption at option of the Issuer, then up to the close of business on a date no later than 7 days prior to the date fixed for redemption thereof.

The number of Shares to be issued on conversion of the PSCS will be determined by dividing the principal amount of the PSCS to be converted by the Conversion Price in effect at the Conversion Date. A Conversion Right may only be exercised in respect of the Securities, in whole or in part, in integral multiples of HK\$1,000,000.

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Conversion
Restrictions:

A Holder shall not exercise any Conversion Right to the extent that immediately after such conversion:

- (i) the Holder together with parties acting in concert with it, taken together, will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or where applicable, waiver from the shareholders of the Issuer has been obtained in accordance with the Takeovers Code;
- (ii) there will not be sufficient public float of the Shares as required under the Listing Rules, unless prior approval or waiver has been obtained from the Stock Exchange for such purposes and where any conditions to which such approval or waiver is subject are duly complied with.

Undertaking:

The Issuer undertakes that so long as any PSCS remains outstanding, save with the approval of an extraordinary resolution of the Holder(s):

- (i) it will use its best endeavours to (a) maintain a listing for all the issued Shares on the Stock Exchange, and (b) obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the PSCS on the Stock Exchange;
- (ii) it will pay the expenses of the issue of, and all expenses of obtaining a listing for, Shares arising on conversion of the PSCS;

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- (iii) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the PSCS from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Securities will be duly and validly issued as fully-paid; and
- (iv) it will not make any offer, issue or distribute or take any action the effect of which would be reduce the Conversion Price below the par value of the Shares of the Issuer, provided always that the Issuer shall not be prohibited from purchasing its Shares to the extent permitted by law and regulations.

Transferability:

Subject to the terms of the PSCS, the PSCS may be transferred by delivery of the Certificate issued in respect of that PSCS and a form of transfer duly completed and signed by the Holder or his attorney duly authorised in writing, to the specified office of the Issuer. No transfer of the PSCS will be valid unless and until (a) the Issuer has provided its written consent to the transfer (such consent not to be unreasonably withheld) and (b) such transfer has been entered on the Register.

Ranking:

In the event of the winding-up of the Issuer, the rights and claims of the Holder(s) shall rank ahead of those persons whose claims are in respect of any class of share capital of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer, other than the claims of the holder(s) of Parity Securities.

Voting:

The holder(s) of PSCS will not be entitled to receive notice of, attend or vote at general meetings of the Company by reason only of it being a holder of the PSCS.

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5.2 Principal terms of the Convertible Bond

The principal terms of the Convertible Bond are set out below:

Issuer:	the Company
Issue Price:	100% of the principal amount
Principal Amount:	HK\$20.0 million
Conversion Price:	HK\$0.35 per CB Conversion Share, subject to adjustments
Maturity Date:	the date falling on the day being the fifth anniversary of the issue date of the Convertible Bond
Interest:	0.5% per annum
Redemption:	At any time prior to the Maturity Date, the Company may, by giving to the Bondholder not less than ten (10) Business Days' written notice of its intention to make such redemption, redeem the Convertible Bond in whole or in part (in the minimum amount of HK\$1,000,000 or an integral multiple thereof) plus interest accrued thereon up to the actual date of redemption.

Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem the Convertible Bond on the Maturity Date at the redemption amount which is the principal amount of the Convertible Bond outstanding, plus interest accrued thereon up to the actual date of redemption.

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CB Conversion
Rights:

A Bondholder shall have the right on any Business Day during the CB Conversion Period to convert the whole or any part (in minimum amount of HK\$1,000,000 or an integral multiple thereof) of the outstanding principal amount of his Convertible Bond into Shares at the Conversion Price per Share subject to adjustments. The Shares shall be allotted and issued in the name of the Bondholder or such other person (who is not a connected person of the Company) as it may specify in the conversion notice and shall be delivered to the Bondholder or such other person within five Business Day after the date of presentation of the relevant original CB Certificate.

CB Conversion
Restrictions:

The Bondholder shall not exercise any CB Conversion Rights to the extent that immediately after such conversion (i) the Bondholder together with parties acting in concert with it, taken together, will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company (or in such percentage as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) or otherwise, such that a general offer shall be given in accordance with the requirement of the Takeovers Code or where applicable, waiver from the shareholders of the Company has been obtained in accordance with the Takeovers Code; or (ii) there will not be sufficient public float of the Shares as required under the Listing Rules, unless prior approval or waiver has been obtained from the Stock Exchange for such purposes and where any conditions to which such approval or waiver is subject are duly complied with.

Transferability:

The Convertible Bond or any part(s) thereof may be assigned or transferred to any third party, subject to compliance of conditions stated in the CB Instrument as well as the conditions, approvals, requirements and any other provisions of or under the Stock Exchange or their rules and regulations and all applicable laws and regulations provided that the Convertible Bond (or any part thereof) shall not be assigned or transferred to a connected person of the Company without prior written consent of the Company.

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Ranking: Shares issued upon conversion shall rank *pari passu* in all respects with all other existing Shares at the date of the conversion notice and be free from any security interest, claims (including pre-emptive rights), liens or encumbrances and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice.

Adjustment Events: The Conversion Price shall from time to time be adjusted as follows:

(a) Consolidation or subdivision:

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

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

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective from the close of business in Hong Kong on the day immediately preceding the date on which such consolidation or subdivision becomes effective.

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(b) Capitalisation of profits or reserves:

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

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

where:

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

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date of such issue.

(c) Capital distributions:

If and whenever the Company shall pay or make any capital distribution to the Shareholders (whether on a reduction of capital or otherwise), or shall grant to Shareholders rights to acquire for cash assets of the Group, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such capital distribution or grant by the following fraction:

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

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where:

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

B is the Fair Market Value (as defined in the CB Instrument) on the date of such announcement or (as the case may be) the day immediately preceding the date of the capital distribution, of the portion of the capital distribution or of such rights which is attributable to one Share.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date of such capital distribution or grant.

(d) Rights Issues of Shares or Options over Shares:

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than the current market price per Share on the last Trading Day preceding the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

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

where:

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

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B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date for the issue or grant.

(e) Right issues of other securities:

If and whenever the Company shall:

- (i) issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class by way of rights; or
- (ii) grant to all or substantially all Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any such securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares); or

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(iii) offer any preferential rights to subscribe for or purchase securities of a subsidiary of the Company granted to all or substantially all Shareholders upon an initial public offering of the securities of such subsidiary where the rights of the Shareholders are exercisable at a subscription or purchase price, as the case may be, which is less than that at which the securities are offered to the public or any other person,

the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue, grant or offer by the following fraction:

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

where:

A is the current market price of one Share on the last Trading Day preceding the date of on which such issue, grant or offer is publicly announced; and

B is the Fair Market Value (as defined in the CB Instrument) on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date of such issue or grant or offer.

(f) Issues at less than current market price:

If and whenever the Company shall,

(i) issue (otherwise than as mentioned in sub-paragraph (d) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares); or

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- (ii) issue or grant (otherwise than as mentioned in sub-paragraph (d) above) options, warrants or other rights to subscribe for or purchase Shares,

in each case at a price per Share which is less than 90% of the current market price on the last Trading Day preceding the date of announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

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

where:

A is the number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for or purchase any Shares;

B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such current market price per Share; and

C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective (if appropriate, retroactively) on the day following the record date of such issue or grant.

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(g) Issues of convertible securities:

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this sub-paragraph (g), if and whenever the Company or any of its subsidiaries shall issue any securities (other than the Convertible Bond) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares or securities which by their terms might be redesignated as Shares to be issued by the Company upon conversion, exchange or subscription or redesignation, at a consideration per Share receivable by the Company or the relevant subsidiary which is less than 90% of the current market price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

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

where:

A is the number of Shares in issue immediately before such issue;

B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the right of subscription attached to such securities or for the Shares to be issued or arise from any such redesignation would purchase at such current market price per Share; and

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C is the maximum number of Shares to be issued upon conversion into or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate or the Shares to be issued or to arise from any such redesignation.

Such adjustment shall become effective on the day following the record date of the issue of such securities.

(h) Modification of rights of conversion etc.:

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (g) above so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 90% of the current market price per Share on the last Trading Day immediately preceding the date of announcement of the proposals for such modification or (if there is no such announcement) the date of such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

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

where:

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

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B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange, or upon exercise of the right of subscription attached to the securities so modified, would purchase at such current market price per Share or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as the auditors or approved financial advisor, acting as expert, considers appropriate (if at all) for any previous adjustment under this sub-paragraph (h).

Notwithstanding the foregoing provisions, a right of conversion, exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take into account of rights and capitalisation issues and other events normally giving rise to adjustment of the Conversion Price.

Such adjustment shall become effective on the day following the record date for such modification.

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(i) Other offers to Shareholders:

If and whenever the Company or any of its subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its subsidiaries) any other person issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

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

where:

A is the current market price of one Share on the last Trading Day immediately preceding the date on which such issue is publicly announced; and

B is the Fair Market Value (as defined in the CB Instrument) on the date of such announcement, of the portion of the rights attributable to one Share.

Such adjustment shall become effective (if appropriate, retroactively) on the day following the record date for the issue of the securities.

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- (j) If and whenever the Company shall issue Shares for the acquisition of any asset at a total Effective Consideration per Share (as defined in this sub-paragraph (j) below) which is less than 90% of the market price (as defined below) at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by the Auditors or Approved Financial Advisor. Such adjustment shall become effective on the date of such issue. For the purpose of this sub-paragraph (j) “total Effective Consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “total Effective Consideration per Share” shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.
- (k) In the case of an issue of Shares by way of a Scrip Dividend where the current market price of such Shares on the date of issue of such Shares or if a record date is fixed for such Scrip Dividend, on such record date exceeds 110 per cent. of the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a capital distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

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

where:

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

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B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the current market price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend on the date of issue of such Shares or if a record date is fixed for such Scrip Dividend, on such record date; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as the auditors or approved financial advisor shall certify as fair and reasonable.

Such adjustment shall become effective (if appropriate, retroactively) on the date of issue of such Shares or if a record day is fixed therefore, immediately after such record date.

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(l) Other events:

If the Company or the Bondholder determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances whether or not referred to in this Condition under the CB Instrument, the Company shall at its own expense, request the auditors or approved financial advisor to determine (acting as experts) as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take into account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (provided that the adjustment would result in a reduction in the Conversion Price) shall be made and shall take effect in accordance with such determination, provided that where the circumstances giving rise to any adjustment pursuant to this Condition under the CB Instrument have already resulted or will result in an adjustment to the Conversion Price or where any other circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition as may be advised by the auditors or approved financial advisor to be in their opinion appropriate to give the intended result.

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5.3 Analysis of the terms of the PSCS and the Convertible Bond

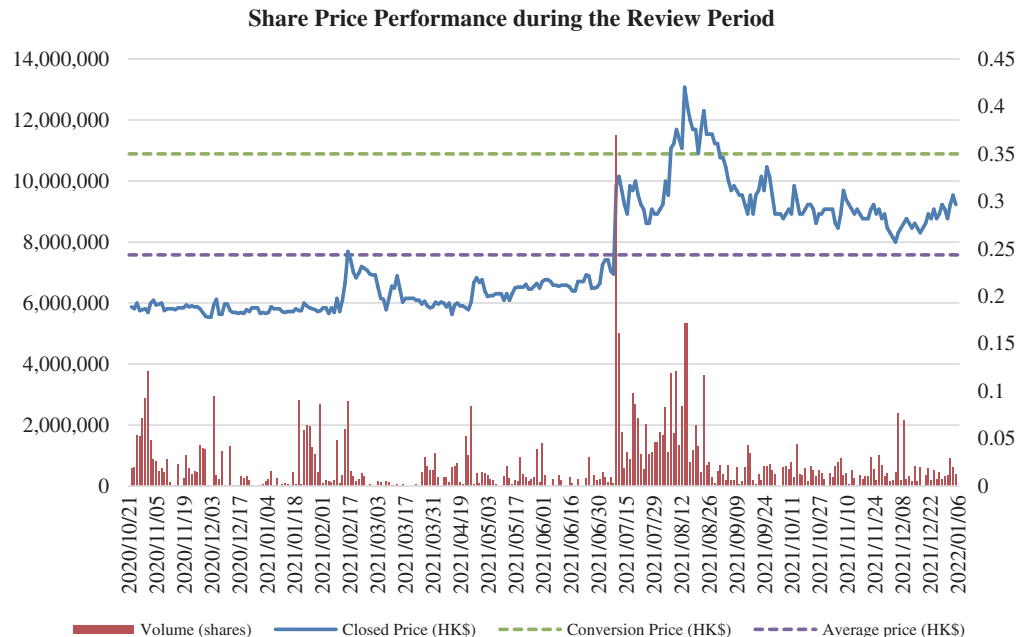
Evaluation of the Conversion Price

As disclosed in the Letter from the Board, the Conversion Price of HK\$0.350 per each of Convertible Share and CB Conversion Share represents:

- (a) a premium of approximately 14.75% over the closing price per Share of HK\$0.305 as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 18.64% over the closing price per Share of HK\$0.295 as quoted on the Stock Exchange on the Last Trading Date;
- (c) a premium of approximately 16.67% to the average closing price per Share of HK\$0.300 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date;
- (d) a premium of approximately 18.64% to the average closing price per Share of HK\$0.295 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date; and
- (e) a discount of approximately 1.33% to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2021 of approximately HK\$0.3547 per Share calculated based on the consolidated net assets of the Group attributable to the Shareholders of approximately HK\$358,049,000 as at 30 June 2021 as extracted from the 2021 Interim Report and 1,009,550,000 Shares in issue as at the Latest Practicable Date.

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We have reviewed the daily closing prices of the Shares for the period from 21 October 2020 (being the 12-months period prior to the Last Trading Date) and up to the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Latest Practicable Date and such comparison is relevant for the assessment of the fairness and reasonableness of the Conversion Price. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:



Based on the chart above, the Share prices closed in a range between approximately HK\$0.180 and HK\$0.425 during the Review Period. The average closing Share price during the Review Period is approximately HK\$0.246. The closing Share prices demonstrated a general increasing trend in April 2021 and reached HK\$0.425 on 16 August 2021. On 25 August 2021, the Company announced the unaudited interim results for the six months ended 30 June 2021. The closing Share prices demonstrated a decreasing trend between mid-August 2021 and end of September 2021.

During the Review Period, the Conversion Price represented (i) a discount of approximately 17.6% to the highest closing Share price; (ii) a premium of approximately 94.4% to the lowest closing Share price; (iii) a premium of approximately 42.4% to the average closing Share price.

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As shown in the chart above, the daily trading volume of the Shares ranged from nil Shares to 11,610,000 Shares during the Review Period, representing approximately 0% to 1.2% of the total number of issued Shares as at the end of the relevant dates, indicating a relatively thin trading liquidity in general during the Review Period.

Comparison with other perpetual convertible securities

In order to assess the fairness and reasonableness of the terms of the PSCS, we have conducted research on the website of the Stock Exchange in order to identify a list of issue and subscription of perpetual convertible securities (any transactions with put options granted to the investors/subscribers are excluded as the PSCS could only be redeemed at the option of the Company) as full or partial settlement of consideration for acquisitions conducted by the respective listed companies during the last twelve (12) months prior to and including 21 October 2021, being the Last Trading Date, and identified only one comparable. Given that, we expanded our scope and included issue and subscription of perpetual convertible securities for cash from 1 January 2018 up to and including the Last Trading Date. Even though most of the PSCS Comparables were not for the full or partial settlement of consideration for acquisitions conducted by the respective listed companies, in assessing the terms of the PSCS in comparison to the terms of issuance of perpetual convertible securities in the market, we are of the view that they still provide adequate reference.

We notice that the majority of perpetual convertible securities were issued by banks such as HSBC Holdings plc. (“**HSBC**”) and Standard Chartered plc. (“**SC**”), and we consider the facts and circumstances surrounding these issues are very different from those of the Company. The holders of perpetual convertible securities issued by HSBC and SC do not have the right to convert their perpetual convertible securities at their discretion, as these perpetual convertible securities issued by banks would be converted automatically upon the occurrence of a conversion trigger event, where the ratio of the bank’s core equity capital to its total risk-weighted assets is less than 7%. In addition, we noted that the

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conversion prices of these perpetual convertible securities were usually at a significant discount to their respective last closing price of the issuers' shares on the Stock Exchange and had a relatively high interest rate at or above 4.30%¹. Hence, we consider a comparison between these perpetual convertible securities issued by banks and the PSCS as not meaningful for analysing the fairness and reasonableness of the terms of the PSCS. As such, we have excluded them from our list of comparable issues and identified below an exhaustive list of comparable issues of perpetual convertible securities (refer to collectively as the “**PSCS Comparable(s)**”).

However, given the differences between the PSCS Comparables and the Group in terms of business nature, financial performance, market capitalisation, financial position as well as the reasons for the issue of the PSCS Comparables and their respective funding requirements, we consider that the PSCS Comparables might not constitute a close and representative reference to the issue of the PSCS, but a fair market reference on general character and terms of the PSCS. In addition, given that there are only five PSCS Comparables for our analysis, we are of the view that such comparable analysis should only serve as an additional reference but not a principal factor in determining the fairness and reasonableness of the terms of the PSCS.

¹ HSBC did not issue any perpetual convertible securities in 2019. Below are the perpetual convertible securities issued by HSBC in 2018, 2020 and 2021:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0320/ltm20180320043.pdf>;
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0920/ltm20180920817.pdf>;
<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0921/ltm20180921065.pdf>;
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1211/2020121100035.pdf>; and
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0303/2021030300043.pdf>.

Below are the perpetual convertible securities issued by SC from 2018 to the Last Trading Day:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0628/ltm201906281201.pdf>;
<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0703/ltm201907031730.pdf>;
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0618/2020061800045.pdf>;
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0106/2021010600055.pdf>; and
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0811/2021081100057.pdf>

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Date of announcement	Name of company	Conversion price	Premium/ (Discount) of the conversion price over/to the closing price on the respective last trading day	Premium of the conversion price over the average closing price for the respective last five trading days	Distribution rate per annum	Distribution terms/ listing status
07-Sep-18	C&D International Investment Group Limited (1908)	HK\$8.500	29.0%	28.2%	4.3%	Annually, deferrable/ conversion shares to be listed on the Stock Exchange
09-May-19	Asiaray Media Group Limited (1993)	HK\$3.540	(6.4)%	(6.8)%	5.8%	Quarterly, deferrable/ not listed
04-Jun-20	Asiaray Media Group Limited (1993)	HK\$5.100	15.4%	8.1%	4.0%	Quarterly, deferrable/ conversion shares to be listed on the Stock Exchange
22-Jan-21	Asiaray Media Group Limited (1993)	HK\$3.900	9.9%	12.1%	4.5%	Quarterly, deferrable/ conversion shares to be listed on the Stock Exchange
16-Jul-21	Asiaray Media Group Limited (1993)	HK\$2.430	25.3%	22.1%	4.0%	Quarterly, deferrable/ conversion shares to be listed on the Stock Exchange
		Maximum	29.0%	28.2%	5.8%	
		Minimum	(6.4)%	(6.8)%	4.0%	
		Average	14.6%	12.7%	4.5%	
		Median	15.4%	12.1%	4.3%	
	The PSCS	HK\$0.350	18.6%	16.7%	0.5%	Quarterly, deferrable/ conversion shares to be listed on the Stock Exchange

Source: the Stock Exchange

(a) Conversion Price

As set out in the table above, we note that the conversion price to (i) the closing price on the last trading day prior to the announcements in relation to the respective PSCS Comparables ranged from a discount of approximately 6.4% to a premium of approximately 29.0%, with an average and median premium of approximately 14.6% and 15.4% respectively; (ii) the average closing price of the last five trading days prior to the announcements in relation to the respective PSCS Comparables ranged from a discount of approximately 6.8% to a premium of approximately 28.2%, with an average and median premium of approximately 12.7% and 12.1% respectively. The conversion price of HK\$0.35 per Conversion Share is at (i) a premium of approximately 18.6% to the closing price per Share on the Last Trading Date; and (ii) a premium of approximately 16.7% to the average closing price per Share for the last five trading days up to and including the Last Trading Date.

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As discussed with the management of the Company, such premium reflects (i) the confidence and commitment of the controlling shareholders of the Company towards the long-term and sustainable development of the Company; and (ii) a lower cost of equity of the Company through its equity financing. As such, we consider that setting the conversion price of the PSCS at a premium is in the interest of the Company and its Shareholders as a whole.

Having considered that (i) the conversion price of HK\$0.35 per Conversion Share falls within the range of the daily highest and lowest closing price of the Shares and representing a premium of approximately 42.4% over the average daily closing price of the Shares during the Review Period; and (ii) the premium represented by the Conversion Price over the closing price of the Shares on the Last Trading Date, as well as the premium represented by the Conversion Price over the average closing price per Share for the last five trading days prior to the Last Trading Date both fall within the ranges of the premium represented by the conversion prices of the PSCS Comparables, we consider that the Conversion Price are fair and reasonable so far as the Independent Shareholders are concerned.

(b) Distribution rate

The PSCS confer a right to its holder to receive the Distribution from and including the date of issue of the PSCS at a rate of 0.5% per annum, subject to the optional deferral of Distributions. As set out in the table above, the distribution rates of the PSCS Comparables ranged from 4.0% to 5.8% per annum with an average and median distribution rates of approximately 4.5% and 4.3% per annum, respectively.

Although 0.5% distribution rate of the PSCS does not fall within the range of the PSCS Comparables, we consider that the lower distribution rate of the PSCS is beneficial to the Group as it can alleviate the Group from the financial burden for payment of interest cost on the PSCS.

(c) Term to maturity

We note that the PSCS has no maturity date. As discussed with the management of the Company, they consider it is beneficial to the Group as this may provide the Group with adequate time to consolidate and develop its current business and would require no instant material cash outflow from the Group.

In light of the duration of the PSCS is perpetual, we concur with the management of the Company that the PSCS provides the Company flexibility on its cash flow management for capturing potential business opportunities, and therefore we consider that it is no less favourable to the Company and its Shareholders as a whole.

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Comparison with recent issuance of convertible securities

In order to assess the fairness and reasonableness of the terms of the Convertible Bond, we have conducted research on the website of the Stock Exchange and identified an exhaustive list of issue and subscription of convertible securities exercises as full or partial settlement of consideration for acquisitions conducted by the respective listed companies (the “**Convertible Bond Comparables**”) during the last twelve (12) months prior to and including 21 October 2021, being the Last Trading Date (the “**Convertible Bond Comparable Period**”). We consider the Convertible Bond Comparable Period of approximately 12 months to be sufficient and appropriate for our analysis as it has covered the prevailing market conditions and sentiments in the Hong Kong stock market at the time which the terms of the Convertible Bond were determined such that the Convertible Bond Comparables could reflect the recent market trends of the terms involved in issuing convertible securities as full or partial settlement of consideration for acquisitions under similar market conditions and sentiments. Based on the above, we consider that the Convertible Bond Comparables are fair and representative to provide an insight to the reasonableness of the major terms of the Convertible Bond and a general reference for the recent market practice of similar transactions in Hong Kong. However, it should be noted that the companies involved in the Convertible Bond Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and circumstances leading such companies to issue convertible securities may differ from those of the Company.

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Details of the Convertible Bond Comparables are summarised as below:

Date of announcement	Name of company	Principal amount	Conversion price	Premium/ (Discount) of the conversion price over/to the closing price on the respective last trading day	Premium of the conversion price over the average closing price for the respective last five trading days	Distribution rate per annum	Duration (Years)	Type of convertible securities
27-Nov-20	Elife Holdings Limited (223)	HK\$20,000,000	HK\$0.100	29.9%	37.0%	0.0%	3.0	convertible bond
30-Oct-20	Summit Ascent Holdings Limited (102) (Note 1)	US\$3,000,000	US\$3.500	293.3%	275.5%	0.0%	5.0	convertible bond
21-Dec-20	Kinetix Systems Holdings Limited (8606)	HK\$48,000,000	HK\$0.300	(14.3)%	1.5%	0.0%	5.0	convertible bond
13-Jan-21	Jiayuan International Group Limited (2768)	HK\$3,420,640,000	HK\$3.300	5.1%	6.5%	0.0%	5.0	convertible bond
17-Mar-21	Qingdao Holdings International Limited (499) (Note 1)	HK\$2,224,200,000	HK\$1.870	289.6%	336.9%	0.0%	9.0	convertible bond
11-Jun-21	VBG International Holdings Limited (8365)	HK\$30,000,000	HK\$0.200	11.1%	11.1%	5.0%	2.0	convertible note
09-Jul-21	Expert Systems Holdings limited (8319)	HK\$75,600,000	HK\$0.168	5.7%	7.0%	2.5%	5.0	convertible bond
09-Aug-21	DeTai New Energy Group Limited (559)	HK\$185,201,000	HK\$0.059	0.0%	6.9%	0.0%	2.0	convertible bond
23-Sep-21	InvesTech Holdings Limited (1087)	HK\$30,000,000	HK\$1.500	6.4%	4.3%	1.5%	3.0	convertible bond
23-Sep-21	Frontier Services Group Limited (500)	HK\$210,000,000	HK\$1.000	16.3%	15.7%	2.5%	2.0	convertible bond
15-Oct-21	China Creative Global Holdings Limited (1678) (Note 2)	HK\$5,000,000	HK\$0.050	20.0%	20.0%	1.5%	1.0	convertible bond
19-Oct-21	Jinxin Fertility Group Limited (1951)	HK\$1,814,706,000	HK\$15.000	20.2%	21.6%	0.75%	1.5	convertible bond
			Maximum	29.9%	37.0%	5.0%	5.0	
			Minimum	(14.3)%	1.5%	0.0%	1.5	
			Average	8.9%	12.4%	1.4%	3.2	
			Median	6.4%	7.0%	0.8%	3.0	
	The Convertible Bond	HK\$20,000,000	HK\$0.350	18.6%	16.7%	0.5%	5.0	

Source: the Stock Exchange

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Notes:

- 1) The proposed issue of convertible bonds by Summit Ascent Holdings Limited (stock code: 102) and Qingdao Holdings International Limited (stock code: 499) are considered as outliers due to the fact that the premiums represented by the relevant conversion prices are exceptionally high as compared to other comparable issues, which may in turn provide an abnormal maximum value and average value for comparison and thus excluded from the above analysis.
- 2) The shares of China Creative Global Holdings Limited (stock code: 1678) has been suspended with effect from 1 September 2020 and thus excluded from the above analysis.

(a) Conversion Price

As set out in the table above, we note that the conversion price to (i) the closing price on the last trading day prior to the announcements in relation to the respective Convertible Bond Comparables ranged from a discount of approximately 14.3% to a premium of approximately 29.9%, with an average and median premium of approximately 8.9% and 6.4% respectively; (ii) the average closing price of the last five trading days prior to the announcements in relation to the respective Convertible Bond Comparables ranged from a premium of approximately 1.5% to a premium of approximately 37.0%, with an average and median premium of approximately 12.4% and 7.0% respectively. The conversion price of HK\$0.35 per CB Conversion Share is at (i) a premium of approximately 18.6% to the closing price per Share on the Last Trading Date; and (ii) a premium of approximately 16.7% to the average closing price per Share for the last five trading days up to and including the Last Trading Date.

As discussed with the management of the Company, such premium reflects (i) the confidence and commitment of the controlling shareholders of the Company towards the long-term and sustainable development of the Company; and (ii) a lower cost of equity of the Company through its equity financing. As such, we consider that setting the conversion price of the Convertible Bond at a premium is in the interest of the Company and its Shareholders as a whole.

Having considered that (i) the conversion price of HK\$0.35 per CB Conversion Share falls within the range of the daily highest and lowest closing price of the Shares and representing a premium of approximately 42.4% over the average daily closing price of the Shares during the Review Period; and (ii) the premium represented by the CB Conversion Price over the closing price of the Shares on the Last Trading Date, as well as the premium represented by the CB Conversion Price over the average closing price per Share for the last five trading days prior to the Last Trading Date both fall within the ranges of the premium represented by the conversion prices of the Convertible Bond Comparables and is at the higher end of such ranges, we consider that the CB Conversion Price are fair and reasonable so far as the Independent Shareholders are concerned.

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(b) Distribution rate

As set out in the table above, the distribution rates of the Convertible Bond Comparables ranged from nil to 5.0% per annum with an average and median distribution rates of approximately 1.4% and 0.8% per annum, respectively. The 0.5% distribution rate of the Convertible Bond falls within the range of the Convertible Bond Comparables and is at the lower end of such range. Therefore, we consider that the distribution rate of the Convertible Bond is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

(c) Term to maturity

As set out in the table above, the term to maturity of the Convertible Bond Comparables ranged from 1.5 to 5.0 years with an average maturity of approximately 3.2 years.

As such, the 5.0 years to maturity of the Convertible Bond falls within the range of the Convertible Bond Comparables and is at the higher end of such range.

Therefore, we consider that the terms to maturity of the Convertible Bond is generally in line with the recent market practice, and therefore we consider that it is no less favourable to the Company and its Shareholders as a whole.

Other alternative settlement methods considered

We have discussed with the management of the Company and was advised that the Company has considered various possible alternative settlement methods, including debt financing (such as bank borrowings) and equity financing (such as placing, right issue or open offer), to finance the Acquisition.

With respect to bank borrowings, having considered (i) it may not be practicable for the Group to obtain bank borrowing on terms favourable to the Group since the ability for the Group to obtain bank borrowings usually depends on the Group's profitability and financial position (the Group has been loss making as recently as 2019, and as at 31 December 2020 the Group already has bank borrowings of approximately HK\$478.8 million which is secured by trade receivables with an aggregate carrying amount of approximately HK\$229.3 million, the legal charge over the investment property of the Group of HK\$51.0 million, the Group's leasehold land and buildings valued at approximately HK\$50.3 million, personal guarantee executed by Mr. Pai Yin Lin and corporate guarantee executed by the Group) as well as the prevailing market condition (i.e. challenging business environment caused by the COVID-19 pandemic), and may be subject to lengthy due diligence and internal risk assessment by and

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negotiations with banks which usually require pledge of assets by the borrower; (ii) the historical effective interest rates of bank loans of the Group which ranged from approximately 1.15% to 4.95% per annum compared to the distribution rate and interest rate of the PSCS and the Convertible Bond of 0.5% per annum respectively; (iii) the PSCS is classified as equity of the Group while the Convertible Bond are partly composed of debt component and partly equity of the Group, which implies that the gearing ratio of the Group would slightly decrease upon the issue of the PSCS and Convertible Bond to settle the Acquisition, we concur with the Directors' view that, the settlement of the Consideration by way of issue of the PSCS and the Convertible Bond would be a more viable option to the Group compared to bank borrowings.

With respect to equity financing such as placing, right issue or open offer, the Board is of the view and we concur that, these methods are considered to be relatively costly as the Group will have to engage more professional parties which would incur additional professional fees such as underwriting fee and/or placing commissions, etc. Furthermore, in view of the relatively thin trading liquidity of the Shares in general as illustrated in paragraph headed "5. The PSCS and the Convertible Bond" above and the overall downturn of the Hang Seng Index since February 2021, it would be difficult for the Company to pursue any equity financing in the equity capital market without offering Shares at considerable discount to the prevailing market price of the Share to attract potential investors or existing Shareholders to participate in the fund raising exercise, and thus incurring more dilution impact to the existing Shareholders, as compared to the issue of the Convertible Bond which creates no immediate dilution effect upon issuance and the issuance of any new Shares would be at a premium to the current market price. Upon Completion, 28,570,000 Conversion Shares will be accounted for as equity instruments under the prevailing accounting principles of the Company. Accordingly, the total issued share capital of the Company will be enlarged to 1,038,120,000 Shares, the shareholding interest of the public Shareholders will be diluted by approximately 0.71%, which in our view is not material.

In light of the above alternative settlement methods, we concur with the Directors' view that the issuance of the PSCS and the Convertible Bond is a fair and reasonable option to the Company.

Based on the above, we are of the view the conversion price, distribution rate and term to maturity are fair and reasonable and on normal commercial terms. On the other hand, we believe the other key terms of the PSCS and the Convertible Bond, including (i) PSCS's distribution deferral which provides greater flexibility for the Company to manage its liquidity position and allows the Company to make better use of its cash flow so as to capture investment opportunities which may arise in the future; (ii) the PSCS's and the Convertible Bond's transferability which provides the instruments are only transferrable upon

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the Holder having received the written consent from the Issuer; (iii) PSCS's redemption which provides the Company has an option, but not obligation, to redeem in whole or 50% of the principal amount of the PSCS, as such there is no instant material cash outflow pressure on the Group as a result of the repayment of the principal amount of the PSCS; and (iv) the PSCS Conversion Restrictions and CB Conversion Restrictions which provides the Bondholders shall not exercise any conversion rights if such conversion leads to (a) the Holder and Bondholder directly or indirectly, controlling or be interested in 30% or more of the voting right of the Company (or trigger a mandatory general offer); or (b) insufficient public floats, could protect the interest of the Company and the Shareholders as a whole. Therefore, we consider that the terms of the PSCS and the Convertible Bond are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the transaction contemplated under the Agreement is in the interests of the Company and the Shareholders as a whole.

6. Effect on the shareholding structure of the Company

As disclosed in the Circular, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon full conversion of the PSCS; and (iii) immediately upon full conversion of both the Convertible Bond and the PSCS:

	As at the Latest Practicable Date		Immediately upon full conversion of the PSCS into Conversion Shares as enlarged by such conversion		Immediately upon full conversion of both the PSCS and the Convertible Bond as enlarged by such conversions	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Best Sheen (Note 1)	750,000,000	74.29	750,000,000	72.25	750,000,000	68.47
The Vendor (Note 2)	-	-	28,570,000 (Note 3)	2.75	85,710,000 (Note 3)	7.83
Sub-total	750,000,000	74.29	778,570,000	75.00 (Note 4)	835,710,000	76.30 (Note 4)
Public Shareholders	259,550,000	25.71	259,550,000	25.00	259,550,000	23.70
Total	1,009,550,000	100.00	1,038,120,000	100.00	1,095,260,000	100.00

Notes:

- The entire issued share capital of Best Sheen is held by Mr. Lee.

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2. The entire issued share capital of the Vendor is held by Ample Magic Limited (溢妙有限公司), a company incorporated in the British Virgin Islands, which is in turn wholly-owned by Mr. Lee.
3. Rounded down to the nearest board lot of 5,000 Shares as per the Deed Poll and the CB Instrument.
4. According to the conversion restrictions under the Deed Poll and the CB Instrument, no Conversion Rights or CB Conversion Rights shall be exercised if there will not be sufficient public float (25%) of the Shares required under Listing Rules.
5. The percentage figures included in this table are subject to rounding adjustment.

As illustrated in the table above and assuming upon full conversion of both the PSCS and the Convertible Bond into Conversion Shares and CB Conversion Shares, the shareholding in the Company held by public Shareholders will be diluted from approximately 25.71% to at most 25.00%.

It is noted that such dilution is disadvantageous to the existing public Shareholders. Nevertheless, having considered (i) the potential percentage change of the public Shareholders immediately upon full conversion of both the PSCS and the Convertible Bond as enlarged by such conversions is approximately 2.01%; (ii) the benefits of entering into the Agreement as discussed in the paragraphs headed “2. Reasons for and benefits of the Acquisition” above; and (iii) the terms of the Agreement, including the Consideration and the Conversion Price, being fair and reasonable as discussed in the paragraphs headed “4. Basis of the Consideration” and “5. The PSCS and the Convertible Bond” above, we are of the view that the dilution to the shareholding of the existing public Shareholders resulting from the issue of the PSCS and the Convertible Bond is justifiable.

7. Possible financial effects of the Acquisition

Net assets

Since the Target Property is acquired for self-usage, the Target Property will be recognised as the Group’s property, plant and equipment and is measured initially at its cost. Given the market value of the Target Property of approximately HK\$30.0 million as at 31 December 2021 and the Consideration of HK\$30.0 million will be settled by the issuance of the PSCS in the principal amount of HK\$10.0 million and the Convertible Bond in the principal amount of HK\$20.0 million. With reference to the Group’s financial information as at 30 June 2021, it is expected that the total assets of the Group would increase from approximately HK\$1,111.4 million to approximately HK\$1,141.4 million, the total liabilities of the Group would increase from approximately HK\$753.4 million to approximately HK\$768.9 million and the total equities and the net assets of the Group would increase from approximately HK\$358.0 million to approximately HK\$372.5 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Gearing and cashflow

As set out in the 2021 Interim Report the gearing ratio of the Company, which was calculated by total loans and borrowings divided by total equity, was approximately 140.2% as at 30 June 2021. Upon the Completion, the gearing ratio of the Company is expected to be reduced to approximately 138.9%. In addition, the annual cashflow of the Group would improve by approximately HK\$790,000, being the net effect of the saving in rental expenses and interests of the PSCS and the Convertible Bond.

It should be noted that the above analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Acquisition.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the view that (i) the issue of the PSCS and the Convertible Bond as full settlement of the Consideration is fair and reasonable; (ii) the terms of the Agreement and the transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond), are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Agreement and the transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond), although is not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder (including the issue of the PSCS and the Convertible Bond).

For and on behalf of
Sorrento Capital Limited
Aaron Wong
Managing Director

Note: Mr. Aaron Wong is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than eight years of experience in corporate finance and investment banking.



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13 January 2022

Apex Ace Holding Limited

Units 2–3, 1/F
Sun Cheong Industrial Building
1 Cheung Shun Street, Kowloon
Hong Kong

Dear Sir/Madam,

Re: Property Valuation of Units No. 1 on 1/F, Sun Cheong Industrial Building, 1 Cheung Shun Street, Kowloon, Hong Kong

In accordance with the instructions of Apex Ace Holding Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) to value the property in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property as at 31 December 2021 (the “**Date of Valuation**”) for the purpose of incorporation in the Circular of the Company dated 13 January 2022.

1. BASIS OF VALUATION

Our valuations of property are our opinion of the market values which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

2. VALUATION METHODOLOGY

We have valued the properties by the direct comparison approach assuming sales of the properties in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

3. TITLE INVESTIGATION

For the property in Hong Kong, we have carried out sample land searches at the Land Registry. However, we have not scrutinized all the original documents to verify ownership or to ascertain the existence of any lease amendments which may not appear on the copies handed to us.

In valuing the property, we have relied on the advice given by the Group that the Group has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

4. VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property in the market in their existing states without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of such property.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no allowance has been made for the property to be sold in one lot or to a single purchaser.

5. SOURCE OF INFORMATION

In the course of our valuations, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupation, site/floor areas, ages of buildings and all other relevant matters which can affect the values of the property. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

6. VALUATION CONSIDERATION

We have inspected the exterior and, where possible, the interior of certain property. No structural survey has been made in respect of the property. However, in the course of our inspections, we did not note any serious defects. We are not, however, able to report that the property are free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site/floor areas of the property under consideration but we have assumed that the site/floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (2020 Edition) published by The Hong Kong Institute of Surveyors.

7. REMARKS

In accordance with our standard practice, we must state that this report is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents and neither the whole, nor any part of this report may be included in any published documents or statement nor published in any way without our prior written approval of the form and context in which it may appear.

Unless otherwise stated, all monetary amounts stated in our valuations are in Hong Kong Dollars (HK\$).

Our Valuation Certificate is attached herewith.

Yours faithfully,

For and on behalf of

RAVIA GLOBAL APPRAISAL ADVISORY LIMITED

Dr. Alan Lee

PhD(BA), MFin, BCom(Property)

MHKIS, RPS(GP), AAPI, CPV, CPV(Business)

Director

Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 17 years' valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, European countries and American countries.

VALUATION CERTIFICATE

Property held by the Group for owner occupation

Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 31 December 2021
Unit No. 1 on 1/F, Sun Cheong Industrial Building, No. 1 Cheung Shun Street, Nos. 2-4 Cheung Yee Street, Kowloon	The property comprises a factory unit on the 1st Floor of a 12-storey industrial building, which was completed in 1977. The saleable area of the property is about 3,955 sq.ft. (or about 376.43 sq.m.).	As advised by the Group, the property is under 2 tenancies for a term commencing on 15 June 2021 and expiring on 14 June 2022 at a total monthly rent of HK\$78,300 exclusive of management fee, air-conditioning charges, government rates and government rent.	HK\$30,000,000
14/830th equal and undivided shares of and in New Kowloon Inland Lot No. 5589.	The property is held under conditions of Sale No. 10673 for a term of 99 years, commencing on 1 July 1898 and statutorily extended to 30 June 2047.		

Notes:

1. The registered owner of the property is Nicegoal Limited vide Memorial No. 17030901520051 dated 28 February 2017 at a consideration of HK\$19,500,000.
2. The property is subject to the following material encumbrances:
 - a. Deed of Mutual Covenant with Plans vide Memorial No. UB1427229 dated 3 September 1977;
 - b. Mortgage vide Memorial No. 17080902190298 dated 14th July 2017 in favour of The Hongkong and Shanghai Banking Corporation Limited; and
 - c. Assignment of Rentals vide Memorial No. 17080902190302 dated 14th July 2017 in favour The Hongkong and Shanghai Banking Corporation Limited.
3. The inspection was performed by Alan Lee, *MHKIS*, on 4 October 2021.
4. In undertaking our valuation of the Property, we have analysed the registered transactions of industrial properties in the district of Cheung Sha Wan in the past 6 months and have adopted a total of 3 registered transactions of industrial properties of similar attributes (e.g. size, view, floor level, building quality and age, location, etc.) as comparable sales transactions. We are of the view that the adopted comparable sales transactions are fair, reasonable and identified on an exclusive basis.
5. The unit rates on saleable area of the comparable sales transactions range from about HK\$7,445 to HK\$7,836 per sq.ft. In our valuation, we have considered the different attributes between the Property and the comparable sales transactions in terms of transaction time, size, floor, view, building quality, building age and location, and have made adjustments accordingly.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to be the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters, the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

Set out below are the authorised and issued share capital of the Company as at the Latest Practicable Date:

<i>Authorised</i>		<i>HK\$</i>
<u>2,000,000,000</u> Shares		<u>20,000,000</u>
<i>Issued and fully paid</i>		<i>HK\$</i>
<u>1,009,550,000</u> Shares		<u>10,095,500</u>

3. DISCLOSURE OF INTERESTS

Interests of Directors and chief executives in the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO, which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein (the “**Register**”), or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in the Shares of the Company

Name of Director	Capacity and nature of interest	Note	Number of Shares interested	Approximate percentage of the total issued share capital of the Company %
Mr. Lee	Interest of a controlled corporation	1	750,000,000 (L)	74.290
Ms. Lo	Interest of spouse	1	750,000,000 (L)	74.290
Mr. Cheung Siu Kui	Beneficial owner		40,000 (L)	0.004

Note:

- These Shares are registered in the name of Best Sheen, a company wholly-owned by Mr. Lee, the chairman and the chief executive officer and an executive Director. As Mr. Lee controls more than one-third of the voting power of Best Sheen, by virtue of the provisions in Part XV of the SFO, Mr. Lee is deemed to be interested in all the Shares held by Best Sheen. Ms. Lo is the wife of Mr. Lee and is, therefore, deemed to be interested in the Shares in which Mr. Lee is interested in under the SFO.

The letter “L” denotes a long position in the Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, none of the Directors and the chief executives of the Company had or were deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the Register; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests of substantial shareholders

So far as is known to the Directors and chief executives of the Company, as at the Latest Practicable Date, the following corporations or persons (other than a Director or the chief executives of the Company) which or who had interests or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Director	Capacity and nature of interest	Notes	Number of Shares interested	Approximate percentage of the total issued share capital of the Company %
Best Sheen	Beneficial owner	1, 2	750,000,000 (L)	74.29

Notes:

1. These represent the entity's long position in the Shares.
2. The entire issued share capital of Best Sheen is held by Mr. Lee, the chairman, the chief executive officer and an executive Director.

The letter "L" denotes a long position in the Shares.

Save as those disclosed above, as at the Latest Practicable Date, the Directors and the chief executives of the Company are not aware of any other corporation or person (other than a Director or the chief executives of the Company) which or who had an interest or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

4. COMPETING BUSINESS INTERESTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. EXPERTS AND CONSENTS

The following is the qualification of the expert who has given an opinion or advice on the information contained in this circular:

Name	Qualification
Sorrento Capital Limited	a licensed corporation permitted to engage in Type 6 (advising on corporate finance) regulated activity under the SFO
Ravia Global Appraisal Advisory Limited	Independent property valuer

The above experts have given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear herein.

As at the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either directly or indirectly, in the assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

7. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors has or is proposed to have any service contract with any member of the Group that is not determinable within one year without payment of compensation (other than statutory compensation).

8. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

No contract or arrangement in which any of the Directors is materially interested and which is significant in relation to the business of the Group subsisted as at the date of the Circular. As at the Latest Practicable Date, none of the Directors (or proposed Directors) had any direct or indirect interests in any assets which had been, since 31 December 2020 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

10. GENERAL

- (a) The company secretary of the Company is Ms. Cheng Lucy.
- (b) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (c) The head office and principal place of business of the Company in Hong Kong is situated at Units 2–3, 1/F, Sun Cheong Industrial Building, 1 Cheung Shun Street, Kowloon, Hong Kong.
- (d) The head office and principal place of business of the Company in PRC is situated at Unit A-1303, Tianan High-Tech Plaza, Futian District, Shenzhen, China.
- (e) The Hong Kong share registrar of the Company is Union Registrars Limited, located at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong.
- (f) In the event of inconsistency, the English text shall prevail over the Chinese text.
- (g) Translated English names of Chinese entities for which no official English translation exists are unofficial translations for identification purpose only and should not be regarded as the official English translation of the Chinese names.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.apexace.com>) for the period of 14 days from the date of this circular:

- (a) the Agreement;
- (b) the letter from the Board, the text of which is set out on pages 7 to 42 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 43 of this circular;
- (d) the letter from Sorrento Capital, the text of which is set out on pages 44 to 92 of this circular;
- (e) the Valuation Report, the text of which is set out in the Appendix I of this circular;
- (f) the consent letters from the experts referred to in the paragraph headed “5. Experts and Consents” in this Appendix; and
- (g) this circular.

NOTICE OF EGM

APEX ACE
APEX ACE HOLDING LIMITED
光麗科技控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6036)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Apex Ace Holding Limited (the “Company”) will be held at 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong at 11:00 a.m. on Friday, 28 January 2022 to consider and, if thought fit, to pass with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the sale and purchase agreement dated 21 October 2021 (as supplemented on 25 November 2021) entered into among the Purchaser, the Vendor and the Company in relation to the acquisition of the Target Property (the “**Agreement**”) at the consideration of HK\$30.0 million to be satisfied in full by the issue of PSCS and the Convertible Bond, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the grant of the specific mandate for the allotment and issue of the Conversion Shares and the CB Conversion Shares upon the exercise of the Conversion Rights attached to the PSCS and the CB Conversion Rights attached to the Convertible Bond be and is hereby approved, confirmed and ratified; and
- (c) any one Director be and is hereby authorised to do all such acts and things and execute all such documents (to affix the common seal thereon, if necessary) which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement and the transaction contemplated thereunder including the issue of the PSCS and the Convertible Bond to the Vendor.”

Your faithfully,
By order of the Board
Apex Ace Holding Limited
Lee Bing Kwong

Executive Director, Chairman and Chief Executive Officer

Hong Kong, 13 January 2022

* *For identification purpose only*

NOTICE OF EGM

Notes:

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. In view of the COVID-19 pandemic, shareholders are strongly encouraged to appoint the chairman of the EGM as proxy to attend and vote on his behalf at the EGM or any adjourned meeting.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised on its behalf.
3. Where there are joint registered holders of any shares of the Company, any one of such persons may vote at the EGM (or any adjournment thereof), either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. In order to be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at the Hong Kong branch registrar and transfer office of the Company, Union Registrar Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
5. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. The register of members of the Company will be closed from Tuesday, 25 January 2022 to Friday, 28 January 2022, both dates inclusive. During such period, no share transfers will be effected. In order to qualify for attending the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrar Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, Hong Kong for registration no later than 4:00 p.m. on Monday, 24 January 2022.
7. A form of proxy for use by shareholders of the Company at the EGM is enclosed in this circular.

As at the date of this notice, the executive Directors are Mr. Lee Bing Kwong (Chairman and Chief Executive Officer), Mr. Lo Yuen Kin and Ms. Lo Yuen Lai; and the independent non-executive Directors are Mr. Cheung Siu Kui, Mr. Yim Kwok Man and Dr. Chow Terence.