Lego Corporate
Finance Limited
力高企業融資有限公司

12 January 2024

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE (1) OPEN OFFER SHARE FOR EVERY TWO (2) EXISTING SHARES HELD ON THE RECORD DATE;
(2) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING AGREEMENT;
AND
(3) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated therein, and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 12 January 2024 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 1 December 2023 (the "**Announcement**"). As set out in the Announcement, the Board proposed to offer by way of the Open Offer to the Shareholders a total of 532,044,689 Open Offer Shares at a price of HK$0.20 per Open Offer Share. The net proceeds from the Open Offer after deducting related expenses are estimated to be approximately HK$104.5 million. The Underwriter, a substantial shareholder beneficially holding 153,846,153 Shares, representing approximately 14.46% of the number of Shares in issue as at the Latest Practicable Date, has agreed to underwrite the Untaken Offer Shares on the terms and conditions set out in the Underwriting Agreement. The Open Offer is not available to the Non-Qualifying Shareholder. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company on the Record Date and a Qualifying Shareholder.

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LISTING RULES IMPLICATIONS

Open Offer

As the Open Offer Shares will not be issued pursuant to the general mandate of the Company, in accordance with Rule 7.24A(1) of the Listing Rules, among other things, the Open Offer must be made conditional on approval by the Independent Shareholders at the EGM and, pursuant to Rule 7.27A(1) of the Listing Rules, any controlling Shareholders and their associates, or where there is no controlling Shareholder, the Directors (other than the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Open Offer. As such, Mr. Fang, Mr. Chen Hongwei and Mr. Shi Chenghu and their associates shall abstain from voting in favour of the resolutions to approve the Open Offer at the EGM.

Connected transaction in relation to the Underwriting Agreement

As at the Latest Practicable Date, the Underwriter (which is wholly owned by Mr. Fang) owned 153,846,153 Shares, representing approximately 14.46% of the number of Shares in issue. The Underwriter is a substantial shareholder of the Company and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Underwriter and its associates will abstain from voting in favour of the resolution(s) in relation to the Underwriting Agreement and the transactions contemplated thereunder at the EGM.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter and Mr. Fang were the beneficial owners of a total of 153,846,153 Shares and 7,440,000 Shares, representing approximately 14.46% and 0.70% of the entire issued share capital of the Company respectively. Assuming (i) there is no change in the number of issued Shares from the Latest Practicable Date up to and including the date of completion of the Open Offer; (ii) none of the Qualifying Shareholders other than the Underwriter and Mr. Fang has taken up his/her/its entitlements under the Open Offer; and (iii) none of the Unsubscribed Shares has been taken up under the Unsubscribed Arrangement, the aggregate interests in the Company to be held by the Underwriter and Mr. Fang upon completion of the Open Offer will increase from approximately 15.16% to approximately 43.44% of the enlarged issued share capital of the Company. In the circumstances, the Underwriter and Mr. Fang will, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code.

An application has been made by the Underwriter and Mr. Fang to the Executive for the Whitewash Waiver. The Executive has indicated that it is minded to grant the Whitewash Waiver which will be conditional upon, among others, (i) the approval of at least 75% of the Independent Shareholders for the Whitewash Waiver voting in person or by proxy; and (ii) the approval of more than 50% of the Independent Shareholders for the Open Offer voting in person or by proxy, by way of poll whereby the Underwriter and Mr. Fang and the parties acting in concert with any one of them including those by virtue of the class (6) presumption under the definition of "acting in concert" under the Takeovers Code (namely, Mr. Chen Hongwei and Mr. Shi Chenghu) and those who are involved in and/or interested in the Open Offer and the Whitewash Waiver will abstain from voting in favour of the resolution relating to the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Open Offer will not proceed.

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors, to advise the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated therein, and the Whitewash Waiver, and as to the voting action therefor. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company, the Underwriter, Mr. Fang or any other parties that could reasonably be regarded as relevant to our independence. We are not associated or connected with the Company, the Underwriter, Mr. Fang or any party acting, or presumed to be acting, in concert with any of them. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we are independent from the Company in accordance with Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code to act as the Independent Financial Adviser and are eligible to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of (i) the Open Offer; (ii) the Underwriting Agreement; and (iii) the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); (iv) our review of the relevant public information; and (v) the management accounts of the Group for the five months ended 30 November 2023. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Management, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular and should there be any material change after the despatch of this Circular and up to the date of the EGM, the Shareholders would be notified as soon as possible.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of (i) the Open Offer; (ii) the Underwriting Agreement; and (iii) the Whitewash Waiver, we have taken into consideration the following principal factors and reasons.

1 Background information of the Group

The Group is principally engaged in the research and development, manufacture and sale of industrial automation systems, sludge treatment products and related services in the PRC, Malaysia, Vietnam and Indonesia. In addition, the Group is also engaged in the provision of after-sales and other services to the Group's existing customers. The Group has over 20 years of experience in the provision of automation manufacturing equipment and systems (such as headbox and transmission control system) and related services to the paper industry.

Set out below is a summary of the financial results of the Group for the years ended 30 June 2022 and 2023 (the "**FY2022**" and "**FY2023**", respectively) as extracted from the Company's annual report for FY2023 (the "**2023 Annual Report**")

	For the year ended 30 June	
	2022	**2023**
	RMB	*RMB*
	(audited)	(audited)
Revenue	323,868,801	528,921,014
Gross profit	33,154,639	83,163,610
Loss before income tax	(351,195,049)	(51,552,165)
Loss for the year	(366,738,839)	(52,831,060)

	As at 30 June	
	2022	2023
	RMB	*RMB*
	(audited)	(audited)
Non-current assets	329,758,940	267,014,266
Current assets	712,047,236	705,232,389
Total assets	1,041,806,176	972,306,655
Current liabilities	30,030,727	28,153,648
Non-current liabilities	615,712,183	592,552,761
Total liabilities	645,742,910	620,706,409
Net assets	396,063,266	351,600,246

The Group's revenue increased by approximately 63.3% from approximately RMB323.9 million for FY2022 to approximately RMB528.9 million for FY2023. As stated in the 2023 Annual Report, such increase was mainly attributable to (i) the increase in revenue generated from the sales of industrial products of approximately RMB124.6 million, which was mainly due to the exploration of a new market in non-woven fabrics, and the post pandemic market environment which the supplies to the Group has become stable and allowed more projects to be run on schedule as compared to FY2022; and (ii) the increase in revenue generated from the project contracting services segment of the Group of approximately RMB94.6 million, which was mainly due to three sizeable contracting services projects were performed by the Group in FY2023, which contributed approximately 31.4% of the total revenue of the Group, while several contracting projects were delayed by the customers in FY2022. The net loss of the Group decreased by approximately 85.6% from approximately RMB366.7 million for FY2022 to approximately RMB52.8 million for FY2023, which was mainly attributable to (i) the increase in gross profit as a result of the increase in revenue due to the abovementioned reasons; (ii) the Group has made sufficient impairments in certain financial and contracts assets in FY2022, as a result, the impairment losses during FY2023 decreased as compared to FY2022; and (iii) the decrease in financial costs as the convertible bonds were fully repaid in the third quarter of 2022.

As at 30 June 2023, total assets of the Group amounted to approximately RMB972.3 million, which mainly comprised (i) trade and other receivables of approximately RMB175.3 million; (ii) inventories of approximately RMB153.6 million; (iii) contract assets of approximately RMB102.2 million; (iv) prepayments for procurements of approximately RMB94.8 million; and (v) investment properties of approximately RMB83.5 million. The total assets of the Group decreased by approximately 6.7% from approximately RMB1,041.8 million as at 30 June 2022 to approximately RMB972.3 million as at 30 June 2023. Such decrease was mainly attributed to the mixed effects of (i) the decrease in the Group's cash and cash equivalents of approximately RMB97.1 million; (ii) the decrease in the Group's non-current portion of trade and other receivable of approximately RMB38.5 million; and (iii) the increase in the Group's contract assets of approximately RMB72.7 million.

As at 30 June 2023, total liabilities of the Group amounted to approximately RMB620.7 million, which mainly comprised the Group's (i) trade and other payables of approximately RMB390.3 million; and (ii) contract liabilities of approximately RMB123.1 million. The total liabilities of the Group decreased by approximately 3.9% from approximately RMB645.7 million as at 30 June 2022 to approximately RMB620.7 million as at 30 June 2023. Such decrease was mainly due to the mixed effects of (i) the decrease in the Group's trade and other payables of approximately RMB40.9 million; (ii) the decrease in the Group's contract liabilities of approximately RMB16.1 million; and (iii) the draw down of additional interest-bearing loans close to the financial year end of FY2023.

Pursuant to Note 3 to Rule 2 of the Takeovers Code, we would like to draw the attention of the Independent Shareholders and the Independent Board Committee to the disclaimer of opinion and qualified opinion issued by the Company's auditors for FY2022 and FY2023, respectively (please refer to the section headed "1. Consolidated Financial Information of the Group" in the Appendix I to the Circular for details). The Independent Shareholders are advised to take into account the foregoing and consider carefully the terms of the Open Offer. The Board is of the view, and we concur that the disclaimer of opinion and qualified opinion will have no material implication on the Group's operation in view of the fact that (i) the Company has already made full provision for the Subject Transactions; (ii) the relevant personnel had left the Company and ceased to participate in the Group's daily operation; and (iii) Jiafu Paper had already been disposed of by the Company, and accordingly all those factors which led to the disclaimer of opinion and qualified opinion are no longer present.

2 Background of the Open Offer

2.1 Reasons for and benefits of the Open Offer

The gross proceeds from the Open Offer are expected to be approximately HK$106.0 million. The net proceeds from the Open Offer after deducting related expenses are estimated to be approximately HK$104.5 million. The net price per Open Offer Share is expected to be approximately HK$0.196. The Company intends to apply the net proceeds from the Open Offer as to (i) approximately HK$68.62 million for the repayment of bank loans; (ii) approximately HK$31.38 million for the expansion of the Company's industrial automation and other related businesses and the supporting services; and (iii) approximately HK$4.50 million as general working capital of the Company.

According to the Letter from the Board, the Group planned to repay five bank borrowings of approximately RMB62.99 million in aggregate as at 1 December 2023 (equivalent to approximately HK$68.62 million based on the exchange rate of RMB1.00 to HK$1.0894), which were repayable within one year from Rural Commercial Bank (農村商業銀行), Agricultural Bank of China (中國農業銀行) and Bank of China (中國銀行). As advised by the Management, due to the Group's involvement in various litigations in recent years and the on-going claim against the Group in relation to the contractual dispute with a supplier, and the continuous loss-making position of the Group, the financial institutions are reluctant to renew or extend the loans to the Group. Please refer to the section headed "10. Claims and Litigation" in Appendix IV to the Circular for details of the material on-going claim of the Group. Moreover, we were given to understand from the Management that, the Group would have to bear significantly higher finance cost for any new loans or banking facilities from other financial institutions. According to the unaudited management accounts of the Group, as at 30 November 2023, the Group had cash at bank and on hand of approximately RMB73.0 million. Based on our review of the Group's financial condition and as advised by the Management, having considered the working capital requirement for operating activities of the Group of approximately RMB118.2 million for the year ended 30 June 2023 (which comprised selling and distribution expense, administrative expenses, and research and development expenses of approximately RMB9.7 million, RMB80.0 million and RMB28.5 million, respectively), the cash at bank and on hand available to the Group as at 30 November 2023 is insufficient for the Group to repay the aforementioned bank borrowings while funding the daily operations of the Group. Therefore, the Group intends to apply approximately HK$68.62 million of the net proceeds from the Open Offer for the repayment of bank loans. The Directors are of the view and we concur that, the Open Offer enables the Group to replenish its working capital and prevent disruption to the Group's operations so as to ensure the Group has sufficient liquidity in repaying its loans.

The Group is principally engaged in the research and development, manufacture and sales of industrial products, project contracting services, environmental products and the provision of supporting services in the PRC. The Group has been committed to providing its industrial automation products and services for paper making related business and other industries since the listing of the Company in 2013. As stated in the 2023 Annual Report, the sale of industrial products, project contracting services, environmental products and supporting services had contributed approximately 54.8%, 33.7%, 1.9% and 9.6% of the total revenue generated by the Group for the year ended 30 June 2023, respectively. The provision of the industrial products and project contracting services in the paper making industry has experienced much changes and challenges in the recent years, during which, its growth rate slowed down as a result of decreasing market demand and various kinds of development difficulties such as increasing costs of raw material and energy, and escalating market competition. As a result, the capital investments were reduced. The Company intends to continue to explore new industry(ies) for applications of the Group's industrial automation products and services, such as the electricity, mining, chemicals, petrochemicals and/or metallurgy related applications in the PRC but has yet to identify any potential business as at the Latest Practicable Date. Leveraging on the experience, know-how, technology achievement as well as business network established by the Group, the Company has successfully diversified the industry risk and reduced the reliance on the paper making industry by exploring demands for its industrial automation products and services in other industries, such as the non-woven fabric industry. The technologies and solutions for the paper making industry can be applied to the non-woven fabric industry as well as other industries which require automation systems. The Group had leveraged its technology and experience in the paper making industry to explore new areas and secured general contracting projects with the use of the Group's industrial automation products for manufacturing non-woven fabrics since 2020 and tobacco production equipment since 2019. In fact, we noted that the Group recorded significant increase in revenue for the year ended 30 June 2023 partly due to the increase in revenue generated from the sales of industrial products of approximately RMB124.6 million, which was mainly due to the exploration of a new market in non-woven fabrics and the stabilised supply chain also allowed more projects to be run on schedule. In order to further enhance the Group's competitiveness, the Board has considered to allocate approximately 30% of the net proceeds to the marketing and execution of the Group's expansion plan in investing in or acquiring potential business relating to industrial automation products with a focus on applications other than the paper making industry such as the electricity, mining, chemicals, petrochemicals and/or metallurgy related applications in the PRC. As at the Latest Practicable Date, the Company has yet to identify any potential acquisition or investment target.

According to the article published on the website of State Council of the PRC on 4 September 2023, over the past ten years, high-tech manufacturing industry of China has reported fast expansion, with investment into the sector registering an annual growth of 7.4%. The sector's value-added industrial output accounted for 15.5% of those at the country's major industrial firms last year, up from 9.4% in 2012. We further noted from the 14th Five-year Plan (2021–2025) National Economic and Social Development and Vision 2035 of the PRC, in order to accelerate the construction of a strong manufacturing and quality country, the government intends to promote the optimisation and upgrading of the manufacturing industry. The government intends to implement intelligent manufacturing and green manufacturing projects, develop new service-oriented manufacturing models, and promote high-end, intelligent and green manufacturing by improving the technology of intelligent manufacturing and robotics, such as focusing on the development of industrial control equipment, distributed control systems, programmable logic controllers, data acquisition and video surveillance systems, etc. The Directors are of the view, and we concur that, the automation technology is the industrial trend worldwide, and the growing trend worldwide and the prospect of the automation industry is promising and supported by favourable government policies in the PRC as aforementioned. Having considered the paper making industry has experienced a complete change in cycle, we concur with the Directors' view that the Open Offer could provide the initial capital for the Group to further expand the Group's expertise and technology achievement in the automation industry into other applications, such as the electricity, mining, chemicals, petrochemicals and/or metallurgy related applications in the PRC, so as to improve the performance of the Group, which is in the interest of the Company and the Shareholders as a whole.

2.2 Fund raising alternatives

As stated in the Letter from the Board, the Company had explored and evaluated alternatives means of fund raising other than the Open Offer available to the Group, such as debt financing, placing of new Shares and rights issue. As advised by the Management, due to the on-going claim against the Group in relation to the contractual dispute with a supplier as disclosed in the section headed "10. Claims and Litigation" in Appendix IV to the Circular, certain funds of the Group in an amount of approximately RMB38.5 million have been frozen by the courts in the PRC, hence having considered the Group's involvement in various litigations in recent years and the continuous loss-making position of the Group, the financial institutions are reluctant to renew or extend the loans to the Group. Moreover, we were given to understand from the Management that, the Group would have to bear significant finance cost for any new loans or banking facilities from other financial institutions, due to the facts that (i) the aforementioned litigations and claim involved by the Group; (ii) the Group has been operating in a loss-making position in recent years; and (iii) the Group has limited available assets to be pledged for any new banking facilities. Based on the communication between the Management and other financial institution, we noted that the interest rate proposed to be charged by the financial institution for offering a new loan to the Group is up to 18.0% per annum which is substantially higher than the interest rates charged on existing loans of the Group ranging from 3.25% to 4.90% per annum, and would significantly increase the interest burden of the Group.

Regarding placing of new Shares, the Directors are of view and we concur that, placing of new Shares may only raise funds in a relatively small amount and dilute the shareholding of the existing Shareholders which the existing Shareholders do not have the right to participate in the development of the Group, therefore is considered unfair to the existing Shareholders due to limited accessibility to the placing by the existing Shareholders.

Both open offer and rights issue allow the shareholders the opportunity to maintain their pro-rata shareholdings. Although a rights issue in contrast to an open offer, would provide an option to the shareholders who do not wish to take up their entitlements to sell their nil-paid rights, a rights issue would therefore involve extra administrative work and cost in preparation, printing, posting and processing the trading of nil-paid rights. As discussed with the Management, we understand that additional cost for the Company, primarily being additional fee for other professional parties and service providers such as, financial printer, share registrar and legal advisers, estimated to be approximately HK$250,000, would be incurred in trading of the nil-paid rights during the subscription period should the Company choose to raise fund by a rights issue when compared to the Open Offer. Despite such additional cost only accounts for approximately 0.23% of the gross proceeds from the Open Offer, it represents approximately 16.7% of the estimated expenses for the Open Offer of approximately HK$1.5 million, which the Management considered to be material. In addition, we understand from the Management that, having considered the prevailing market sentiment in the Hong Kong market and thin trading volume of the Shares, the Directors are of the view that there may be no active market in nil-paid rights. We consider that the Unsubscribed Arrangements will provide a compensatory mechanism for the No Action Shareholders to protect the interest of the Independent Shareholders. Hence, in view of (i) the continuous loss-making position of the Company for the two years ended 30 June 2023; (ii) the thin trading volume of the Shares; and (iii) the implementation of the Unsubscribed Arrangements, we concur with the Directors' view that the Open Offer is considered a more cost-effective and efficient fund raising method in light of the Company's circumstances, and is in the interest to the Company and the Shareholders as a whole.

Having considered the feasibility of various fund raising alternatives as discussed above, we concur with the Directors' view that the Open Offer is a preferred fund raising method available to the Group under the current circumstances of the Group.

In light of the above, having considered (i) the reasons for and benefits of the Open Offer, in particular, the funds being raise through the Open Offer are intended to facilitate the long-term development of the Group and to save financial costs to be incurred for the Company's funding needs; (ii) the Open Offer being a preferred fund raising method to the Company; and (iii) the Open Offer would allow the Company to strengthen its capital base and provide an opportunity to all Shareholders (other than the Non-Qualifying Shareholders) to participate in the growth of the Company in proportion to their shareholdings, we are of the view that the Open Offer is in the interests of the Company and the Shareholders as a whole.

3 Principal terms of the Open Offer

Set out below is a summary of the principal terms of the proposed Open Offer:

Basis of the Open Offer:	One (1) Open Offer Share for every two (2) existing Shares held by the Shareholders on the Record Date
Open Offer Price:	HK$0.20 per Open Offer Share
Number of Shares in issue as at the Latest Practicable Date:	1,064,089,378 Shares
Number of Open Offer Shares:	532,044,689 Open Offer Shares (assuming no change in the number of issued Shares from the Latest Practicable Date up to and including the Record Date)
Underwriter:	Dao He Investment Limited

As at the Latest Practicable Date, the Company has 33,080,000 outstanding Share Options granted under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 33,080,000 new Shares. Save for the above, the Company had no other outstanding warrants, options or convertible securities in issue or other similar rights which confer any right to convert into or subscribe for Shares as at the Latest Practicable Date. On 1 December 2023, each of Mr. Chen Hongwei, Mr. Shi Chenghu, Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang had given his/her irrevocable undertaking to the Company to the effect that he/she would not exercise any of his/her Share Options after 1 December 2023 until the Open Offer Completion or the earlier termination thereof. Accordingly, it is not expected that there will be any change in the number of issued Shares from the Latest Practicable Date up to and including the Record Date. On this basis, the aggregate number of the Open Offer Shares that will be allotted and issued represents (i) not more than 50% of the number of Shares in issue as at the date of this announcement; and (ii) approximately 33.33% of the number of Shares in issue as enlarged by the allotment and issue of the Open Offer Shares. Please refer to the section headed "The Irrevocable Undertakings — Optionholders' Undertakings" in the Letter for the Board for details of the Optionholders' Undertakings.

Open Offer Price

The offer price of HK$0.20 per Open Offer Share, payable in full by a Qualifying Shareholder upon application for the assured allotment of Open Offer Shares under the Open Offer, represents:

(i) a discount of approximately 54.02% over the closing price of HK$0.435 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 49.37% over the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the date of the Underwriting Agreement and the Placing Agreement;

(iii) a discount of approximately 49.49% over the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK$0.396;

(iv) a discount of approximately 49.43% over the average of the closing prices per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK$0.3955;

(v) a discount of approximately 16.46% to the theoretical ex-entitlement price of approximately HK$0.33 per Share based on the closing price of HK$0.395 per Share as quoted on the Stock Exchange on the Last Trading Day and the number of Shares as enlarged by the Open Offer Shares;

(vi) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 16.50% represented by the theoretical diluted price of approximately HK$0.33 to the benchmarked price of approximately HK0.396 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the date of the Underwriting Agreement and the Placing Agreement of HK$0.395 per Share and the average closing price of the Shares in the five trading days immediately prior to the date of this announcement of HK$0.396 per Share); and

(vii) a discount of approximately 44.44% to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2023 of approximately HK$0.36 per Share calculated based on the consolidated net assets of the Group attributable to the Shareholders of approximately RMB351.60 million (equivalent to approximately HK$383.03 million based on the exchange rate of RMB1.00 to HK$1.0894) as at 30 June 2023 as extracted from the annual report of the Company for the year ended 30 June 2023 and 1,064,089,378 Shares then in issue.

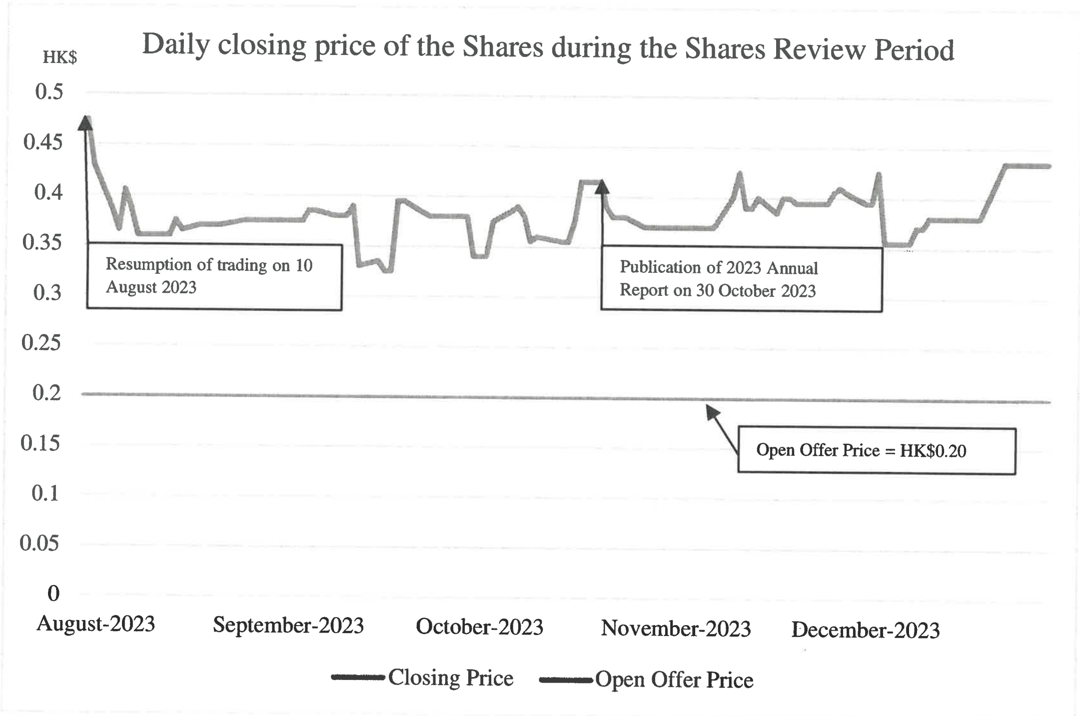
As stated in the Letter from the Board, the terms of the Open Offer were determined by the Board with reference to (i) the prevailing market condition; (ii) the prevailing market prices of the Shares; and (iii) the capital required for the Group's business development. The Open Offer Shares will be offered to all Shareholders and each Qualifying Shareholder will be entitled to apply for the Open Offer Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date.

4 Analysis of the Open Offer Price

In assessing the fairness and reasonableness of the Open Offer Price, we have reviewed the daily closing prices and trading volume of the Shares. According to the public information on the Stock Exchange, trading in the Shares had been suspended from 3 October 2022 and resumed on 10 August 2023. As such the review period of Shares covers from 10 August 2023 up to the Latest Practicable Date (the "**Shares Review Period**"), and we consider such review period is adequate, fair and representative to reflect the prevailing market condition and general trend of movement of the Shares, which reflects the correlation between the recent business performance of the Group as well as the latest market reaction in the Share price.

Historical Share performance

Set forth below is a graph that illustrates the movement of the closing prices of the Shares and the comparison against the Open Offer Price during the Shares Review Period:



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

As shown in the graph above, the closing prices of the Shares fluctuated within a range from HK$0.325 per Share to HK$0.475 per Share during the Shares Review Period, with an average closing price of approximately HK$0.382 per Share. The Open Offer Price of HK$0.20 per Share is below the lowest and highest closing prices of the Shares and represents a discount of approximately 38.5% and 57.9% to the lowest and highest closing price of the Shares during the Shares Review Period, respectively. The Open Offer Price is also lower than the average closing price of the Shares by approximately 47.6% during the Shares Review Period. In addition, we have enquired the Directors regarding the movements in the Share price during the Shares Review Period, in particular the fluctuation during the period, and we were advised by the Directors that they are not aware of any specific reason or event which might be related to the aforesaid movements. Notwithstanding that the Open Offer Price represents a discount to the Share price over the Shares Review Period, having considered (i) the funding needs of the Group; (ii) the negative impact caused by the litigations and claim involved by the Group as aforementioned; and (iii) the recent sluggish investor sentiment in the Hong Kong market as discussed in this section below, we are of the view that it is justifiable for the Company to offer a higher discount of the Open Offer Price to the prevailing Share price so as to increase the attractiveness of the Open Offer in order to satisfy the funding needs of the Group.

Historical trading volume of the Shares

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

	Average daily trading volume of Shares during the month *(Note 1)* *(Shares)*	**Percentage of average daily trading volume of Shares to the total number of issued shares** *(Note 2)* *(%)*	**Percentage of average daily trading volume of Shares to the Shares held by public Shareholders** *(Note 3)* *(%)*
2023			
August (starting from 10 August 2023) *(Note 4)*	489,000	0.046%	0.106%
September	188,421	0.018%	0.041%
October	1,391,200	0.131%	0.302%
November	33,364	0.003%	0.007%
December	318,316	0.030%	0.069%
2024			
January (up to the Latest Practicable Date)	333	n/m *(Note 5)*	n/m *(Note 5)*
Minimum	333	n/m	n/m
Maximum	1,391,200	0.131%	0.302%
Average	403,439	0.038%	0.088%

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

Notes:

1. Computed by dividing the total daily trading volume of the Shares by the number of trading days of the corresponding month/period.

2. Computed by dividing the average daily trading volume of the Shares by the total number of issued Shares of 1,064,089,378 Shares as at the Last Trading Day.

3. Computed by dividing the average daily trading volume of the Shares by the number of Shares held by other public Shareholders of 460,878,825 Shares as at the Last Trading Day. The number of Shares held by other public Shareholders is computed by the total number of issued Shares minus the Shares held by the Underwriter and parties acting in concert with it, the Directors and the substantial Shareholders.

4. The trading of the Shares was suspended from 3 October 2022 and resumed on 10 August 2023.

5. Respective percentages are less than 0.001%.

We note from the above table that the trading volume of the Shares ranged from approximately 333 Shares to 1,391,000 Shares during the Shares Review Period, representing (i) less than 0.001% to approximately 0.131% of a total of 1,064,089,378 Shares in issue as at the Latest Practicable Date; and (ii) less than 0.001% to approximately 0.302% of the Shares held by public Shareholders as at the Last Trading Day, which we considered that the trading volume of the Shares was thin during the Shares Review Period, where the percentage of the average daily trading volume of the Shares to (i) the total number of Shares in issue as at the Latest Practicable Date; and (ii) the Shares held by public Shareholders as at the Latest Practicable Date were generally below 0.05% and 0.10%, respectively. Hence, the Directors are of the view and we concur that, due to generally low liquidity of the Shares, it would be difficult for the Group to obtain favourable terms and/or sufficient funds through other ways of equity financing such as placement of new Shares.

Comparison with open offers

To further assess the fairness and reasonableness of the Open Offer Price, we have identified and reviewed an exhaustive list of seven comparable open offers (the "**Comparable Open Offers**") announced by listed issuers on the Stock Exchange (except for those being terminated or lapsed) for three years period immediately prior to the Last Trading Day and up to the Latest Practicable Date (the "**Comparable Review Period**"). Given that there is only one comparable open offer being identified for the one-year period immediately prior to the Latest Practicable Date, we therefore expanded the review period to three years and identified an exhaustive list of seven Comparable Open Offers. Notwithstanding the market conditions in Hong Kong market varies throughout the Comparable Review Period, we consider the Comparable Review Period of approximately three years to be sufficient and appropriate for our analyses as the Comparable Open Offers can provide a general reference as to the market practice of similar open offer transactions conducted by listed issuers in Hong Kong.

Shareholders should note that the listed issuers of the Comparable Open Offers may have different principal business activities, market capitalisations, profitability, financial positions and future prospects as compared to that of the Company. Despite the business and operation of the listed issuers of the Comparable Open Offers are not the same as the Group, the research result of Comparable Open Offers can demonstrate the market practice of similar transactions in relation to open offers conducted by companies during the Comparable Review Period.

Details of the Comparable Open Offers are summarised as below:

Date of announcement	Company	Principal business	Stock code	Basis of entitlement	Offer price *(HK$)*	Discount of the offer price to the closing price per share on the last trading day *(%)*	Discount of the offer price to the average closing prices per share for the last five consecutive trading days up to and including the last trading day *(%)*	Discount of the offer price to the average closing prices per share for the last ten consecutive trading days up to and including the last trading day *(%)*	Discount of the offer price to the consolidated NAV per share *(%)*	Placing commission *(%)*	Underwriting commission *(%)*	Theoretical dilution effect *(%)*
28 December 2023	Many Idea Cloud Holdings Limited	Provision of content marketing, digital marketing, public relations event planning services, media advertising services and Software as a Service interactive marketing services in the PRC	6696.HK	1 for 2	0.15	30.9	31.2	32.4	80.3	2.5	N/A	11.4
3 August 2023	First Shanghai Investments Limited	Securities investment, corporate finance, stockbroking, property development, property investment, hotel operations, medical and healthcare services, direct investment, investment holding and management	0227.HK	2 for 5	0.11	12.0	9.8	10.6	92.6	1.0	2.0	3.2
19 November 2021	First Shanghai Investments Limited	Securities investment, corporate finance, stockbroking, property development, property investment, hotel operations, medical and healthcare services, direct investment, investment holding and management	0227.HK	1 for 11	0.21	17.6	16.7	16.3	88.4	1.0	N/A	1.4
1 September 2021	Da Sen Holdings Group Limited	Sale and manufacture of plywood and property activities	1580.HK	3 for 5	0.04	65.5	65.2	65.2	75.8	N/A	N/A	24.6
23 July 2021	First Shanghai Investments Limited	Securities investment, corporate finance, stockbroking, property development, property investment, hotel operations, medical and healthcare services, direct investment, investment holding and management	0227.HK	1 for 5	0.27	19.4	17.9	17.2	85.3	1.0	N/A	3.0
24 June 2021	National United Resources Holdings Limited	Car rental service business	0254.HK	1 for 1	0.11	92.3	92.8	92.9	Net liabilities	1.5	2.0	72.0
26 March 2021	North Asia Strategic Holdings Limited	Hi-tech distribution and services, leasing and property and investment holding	8080.HK	1 for 5	0.71	14.5	19.0	20.9	83.6	2.5 *(Note 1)*	N/A	3.2
				Comparable range	**Average**	36.0	36.1	36.5	84.3	1.6	2.0	17.0
					Median	19.4	19.0	20.9	84.5	1.3	2.0	3.2
					Minimum	12.0	9.8	10.6	75.8	1.0	2.0	1.4
					Maximum	92.3	92.8	92.9	92.6	2.5	2.0	72.0
				Comparable range (excluding outliers) *(Notes 2 and 3)*	**Average**	18.9	18.9	19.5	86.1	1.6	2.0	4.4
					Median	17.6	17.9	17.2	85.3	1.0	2.0	3.2
					Minimum	12.0	9.8	10.6	80.3	1.0	2.0	1.4
					Maximum	30.9	31.2	32.4	92.6	2.5	2.0	11.4
	The Company			**1 for 2**	**0.20**	**49.37**	**49.49**	**49.43**	**44.44**	**1.0**	**Nil**	**16.5**

Notes:

1. Except for North Asia Strategic Holdings Limited (8080.HK) shall pay the placing agent the sum of (i) a fixed fee of HK$250,000 and (ii) 2.50% of the gross proceeds from the subscription of the unsubscribed shares issued at the completion of the placing, the placing commission charged for the rest of the Comparable Open Offers were charged based on a fixed percentage of the gross proceeds from the subscription of the unsubscribed shares issued at the completion of respective placing, where applicable.

2. Da Sen Holdings Group Limited (1580.HK) is excluded from the Comparable Open Offers as outlier, as it represents exceptional discount on the offer price due to respective open offer was being part of a debt restructuring exercise.

3. National United Resources Holdings Limited (0254.HK) is excluded from the Comparable Open Offers as outlier, as it represents exceptional discount on the offer price due to respective open offer was being part of a reorganisation exercise.

As illustrated in the table above, it is noted that the offer price of the Comparable Open Offers (excluding outliers) (i) ranged from a discount of approximately 12.0% to approximately 30.9% to the closing prices of the shares on the last trading day (the "**Comparable Discount Range of LTD**"), with an average discount of approximately 18.9%; (ii) ranged from a discount of approximately 9.8% to approximately 31.2% to the average closing prices of the shares for the last five consecutive trading days immediately prior to or up to and including the last trading day (the "**Comparable Discount Range of 5-Day**"), with an average discount of approximately 18.9%; and (iii) ranged from a discount of approximately 10.6% to approximately 32.4% to the average closing prices of the shares for the last ten consecutive trading days immediately prior to or up to and including the last trading day (the "**Comparable Discount Range of 10-Day**"), with an average discount of approximately 19.5%.

It is noted that the Open Offer Price represents (i) a discount of approximately 49.37% to the closing price of the Shares on the date of the Underwriting Agreement and the Placing Agreement, which is higher than the high end of the Comparable Discount Range of LTD and the relevant average discount of the Comparable Open Offers; (ii) a discount of approximately 49.49% to the average closing price of the Shares for the last five consecutive trading days up to and including the Last Trading Day, which is higher than the high end of the Comparable Discount Range of 5-Day and the relevant average discount of the Comparable Open Offers; (iii) a discount of approximately 49.43% to average closing price of the Shares for the last ten consecutive trading days up to and including the Last Trading Day, which is higher than the high end of the Comparable Discount Range of 10-Day and the relevant average discount of the Comparable Open Offers.

Despite the Open Offer Price is in general at a higher discount as compared to the high end of the discount ranges and the average discount of the Comparable Discount Range of LTD, Comparable Discount Range of 5-Day and Comparable Discount Range of 10-Day of the Comparable Open Offers, we are of the view that:

- all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer, whereas a higher discount of the Open Offer Price will be enjoyed by all Qualifying Shareholders without benefiting to any particular Shareholders;

- the thin trading liquidity of the Share as discussed above would result in difficulties for the Qualifying Shareholders in disposing of a substantial amount of the Shares in the open market after completion of the Open Offer. The higher discount of the Open Offer Price provide greater opportunity for the Qualifying Shareholders to recoup their investment costs and therefore increase the attractiveness of the Open Offer; and

- having considered the volatility and sluggish investor sentiment of the recent Hong Kong market, in particular, the Heng Seng Index swung by over 3,000 index points between the lowest trading day being closed at 16,201 and highest trading day being closed at 19,248 during the Shares Review Period and the total market capitalisation of all equity securities on the Stock Exchange dropped from approximately HK$35,666.8 billion as at the end of 2022 to approximately HK$32,120.8 billion as at 30 November 2023, and the negative impact caused by the litigations and claim involved by the Group as aforementioned, the Directors are of the view, and we concur that, a higher discount of the Open Offer Price as compared to those of the Comparable Open Offers (excluding outliers) could further increase the attractiveness for the Qualifying Shareholders in raising sufficient funds to satisfy the funding needs of the Group.

With respect to the discount of the Open Offer Price of approximately 44.44% to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2023, it is lower than corresponding range of discount of the Comparable Open Offers (excluding outliers) from approximately 80.3% to 92.6% and lower than average and median discount of the Comparable Open Offers of approximately 86.1% and 85.3%, respectively, and therefore no less favourable as compared to that of the Comparable Open Offers.

In addition, notwithstanding the theoretical dilution effect of the Open Offer represents a discount of approximately 16.50% on the theoretical dilution price of approximately HK$0.33 per Share as compared to the benchmarked price of approximately HK$0.396 per Share, which falls outside the range of the Comparable Open Offers (excluding outliers) from approximately 1.4% to 11.4%, the Open Offer does not result in a theoretical dilution effect of 25% or more and complied with the Listing Rules, hence we consider such dilution effect not excessive. For further discussion on the theoretical dilution effect, please refer to the section headed "5.4 Potential dilution effect on the interests of the Independent Shareholders" below.

Having considered that (i) the discount of the Open Offer Price is equally offered to all Qualifying Shareholders and only the Unsubscribed Shares will be underwritten at a price equivalent to the Open Offer Price by the Underwriter; (ii) the prevailing market condition and the thin liquidity of the Shares; and (iii) negative impact caused by the litigations and claim involved by the Group as aforementioned, we are of the view that it is justifiable for the Company to offer a higher discount of the Open Offer Price so as to increase the attractiveness of the Open Offer in order to satisfy the funding needs of the Group. In light of all of the above, we are of the opinion that the Open Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

5 The Placing Agreement and the Underwriting Agreement

5.1 Procedures in respect of the Unsubscribed Shares and the Unsubscribed Arrangements

As stated in the Letter from the Board, pursuant to Rule 7.26A(2) of the Listing Rules, as the Underwriter, being a substantial shareholder, will act as the underwriter of the Open Offer, the Company must make the arrangements described in Rule 7.26A(1)(b) of the Listing Rules and dispose of the Unsubscribed Shares by offering such Unsubscribed Shares to independent placees for the benefit of the relevant No Action Shareholders. There will be no excess application arrangements in relation to the Open Offer as stipulated under Rule 7.26A(1)(a) of the Listing Rules.

As further mentioned in the Letter from the Board, any Unsubscribed Shares (which comprise (i) the fractional Open Offer Shares aggregated as mentioned above; (ii) the Open Offer Shares that are not subscribed by the Qualifying Shareholders; and/or (iii) Open Offer Shares which would otherwise have been in the assured allotments of the Non-Qualifying Shareholders) will be first placed by the Placing Agent under the Unsubscribed Arrangements to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties, and if not successfully placed, will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

In order to comply with the Listing Rules, the Company has entered into the Placing Agreement with the Placing Agent to place the Unsubscribed Shares at the Placing Price. Any unplaced Unsubscribed Shares will then be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

5.2 Principal terms of the Placing Agreement

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

Placing Agent:	Yuen Meta (International) Securities Limited
Placing commission:	1.00% of the gross proceeds from the subscription of the Unsubscribed Shares successfully placed by the Placing Agent as at the date of Open Offer Completion, and HK$110,000 arrangement fee, whichever is higher
Placing Price:	Not less than HK$0.20 per Unsubscribed Share

Placing Period:	The Placing Period will commence on the second Business Day after the day on which the latest time for acceptance for the Open Offer Shares falls (i.e. 12 March 2024 under the current timetable), and end on the Placing End Date (i.e. 13 March 2024 under the current timetable) or such other dates as the Company may announce, being the period during which the Placing Agent will seek to effect the Unsubscribed Arrangements
Placees:	The Unsubscribed Shares are expected to be placed to investors who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties For the avoidance of doubt, no placee will become a substantial shareholder

As stated in the Letter from the Board, the Placing Agent will, on a best efforts basis during the Placing Period, seek to procure subscribers who (or as the case may be, their ultimate beneficial owner(s)) are not Shareholders and are otherwise Independent Third Parties for all (or as many as possible) of the Unsubscribed Shares. The Placing Agent confirms that it is an Independent Third Party, and that there is no other arrangement, agreement, understanding or undertaking with the Underwriter in relation to the Shares. As the Company has put in place the Unsubscribed Arrangements as required by Rule 7.26A(1)(b) of the Listing Rules, there will be no excess application arrangements in relation to the Open Offer as stipulated under Rule 7.26A(1)(a) of the Listing Rules. With respect to the placing commission, as illustrated in the table of the Comparable Open Offers above, we noted that the placing commission of 1.0% of the gross proceeds from the subscription of the Unsubscribed Shares under the Placing Agreement falls within the range of 1.0% to 2.5% and comparable to the average placing commission of 1.4% of the Comparable Open Offers, and hence we consider it is fair and reasonable so far as the Independent Shareholders are concerned. In this regard, the Directors are of the view, and we concur that, the Unsubscribed Arrangements will provide a compensatory mechanism for the No Action Shareholders, protect the interest of the Independent Shareholders, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

5.3 Principal terms of the Underwriting Agreement

Set out below are the principal terms of the Underwriting Agreements as extracted from the Letter from the Board:

Date:	1 December 2023 (as amended by a supplemental agreement dated 22 December 2023 made between the Company and the Underwriter)
Parties:	(i) The Company; and (ii) The Underwriter, being the underwriter to the Open Offer
Number of Open Offer Shares underwritten:	All such Unsubscribed Shares that have not been placed by the Placing Agent or they have been placed but the placees have not paid therefor at 4:00 p.m. on the Placing End Date
Commission:	Nil

As illustrated in the table as sets out in the section headed "4. Analysis of the Open Offer Price — Comparison with open offers" above, we note that the average commission received by underwriters of the Comparable Open Offers was at 2.0%. Pursuant to the Underwriting Agreement, the Underwriter will not charge any underwriting commission for the Open Offer and is therefore not less favorable than those of the Comparable Open Offers. In addition, we were given to understand from the Management that, prior to approaching the Underwriter, the Company has approached two independent brokers to act as the underwriter for the Open Offer but none of them is willing to undertake the equity fund raising activity of such a scale given the thin trading volume of the Shares and the prevailing condition of the Hong Kong market. The Management believes that even if the Company continues to approach more independent brokers and eventually identify a broker who is willing to act as underwriter for the Open Offer, a relatively high underwriting commission may be incurred. No commission will be charged by the Underwriter for the Open Offer is considered beneficial to the Company by avoiding any additional transaction cost to be incurred should the Company appoints a willing independent broker to act as the underwriter for the Open Offer. In view of the above, we concur with the Directors' view that the Underwriting Agreement is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

5.4 Potential dilution effect on the interests of the Independent Shareholders

The table below illustrates the possible shareholding structure of the Company as at the Latest Practicable Date and the possible changes upon completion of the Open Offer (assuming there is no other change in the shareholding structure of the Company between the Latest Practicable Date and completion date of the Open Offer):

	As at the Latest Practicable Date		**Immediately upon the Open Offer Completion, and assuming full acceptance by all Qualifying Shareholders**		**Immediately upon the Open Offer Completion, and assuming (a) no acceptance by any Qualifying Shareholder (other than the Underwriter and Mr. Fang); and (b) all the Unsubscribed Shares are placed under the Unsubscribed Arrangements**		**Immediately upon the Open Offer Completion, and assuming (a) no acceptance by any Qualifying Shareholder (other than the Underwriter and Mr. Fang); and (b) no Unsubscribed Shares are placed and all Unsubscribed Shares are taken up by the Underwriter**	
	Number of issued Shares	*%*	*Number of issued Shares*	*%*	*Number of issued Shares*	*%*	*Number of issued Shares*	*%*
Underwriter [(1)]	153,846,153	14.46	230,769,229	14.46	230,769,229	14.46	682,170,842	42.74
Mr. Fang	7,440,000	0.70	11,160,000	0.70	11,160,000	0.70	11,160,000	0.70
Sub-total	**161,286,153**	**15.16**	**241,929,229**	**15.16**	**241,929,229**	**15.16**	**693,330,842**	**43.44**
Mr. Chen Hongwei [(2)]	182,000	0.02	273,000	0.02	182,000	0.01	182,000	0.01
Mr. Shi Chenghu [(3)]	89,452,000	8.41	134,178,000	8.41	89,452,000	5.60	89,452,000	5.60
Sub-total [(4)]	**250,920,153**	**23.59**	**376,380,229**	**23.59**	**331,563,229**	**20.77**	**782,964,842**	**49.05**
Independent placees	—	—	—	—	451,401,613	28.28	—	—
Other public Shareholders	813,169,225	76.41	1,219,753,838	76.41	813,169,225	50.95	813,169,225	50.95
Total	**1,064,089,378**	**100.00**	**1,596,134,067**	**100.00**	**1,596,134,067**	**100.00**	**1,596,134,067**	**100.00**

Notes:

1. The Underwriter is an investment holding company beneficially and wholly owned by Mr. Fang. Under the Takeovers Code, Mr. Fang is a party acting in concert with the Underwriter by virtue of his shareholding in the Underwriter. As at the Latest Practicable Date, the Underwriter held 153,846,153 Shares and Mr. Fang held 7,440,000 Shares. Under the SFO, Mr. Fang was deemed to be interested in all the Shares registered in the name of the Underwriter.

2. Mr. Chen Hongwei is an executive Director. Under the Takeovers Code, as Mr. Chen Hongwei is a director of the Company which is subject to an offer that involves a whitewash application, he is presumed to be acting in concert with Mr. Fang under class (6) of the definition of "acting in concert".

3. Mr. Shi Chenghu is a non-executive Director. Under the Takeovers Code, as Mr. Shi Chenghu is a director of the Company which is subject to an offer that involves a whitewash application, he is presumed to be acting in concert with Mr. Fang under class (6) of the definition of "acting in concert".

4. This is a sub-total of issued Shares hold/to be held by the Underwriter and the party acting in concert with it (namely, Mr. Fang) and the other Directors who held Shares as at the Latest Practicable Date. Save as disclosed in this table, no other Director held any Share as at the Latest Practicable Date.

As illustrated above, if no Qualifying Shareholders takes up any Open Offer Share and no Unsubscribed Shares can be placed to independent placees, upon the Open Offer Completion, (i) the shareholding of the existing public Shareholders would be reduced from approximately 76.41% as at the Latest Practicable Date to approximately 50.95% of the enlarged issued share capital of the Company, and (ii) the aggregate shareholding of the Underwriter and Mr. Fang would be increased from approximately 15.16% as at the Latest Practicable Date to approximately 43.44%.

The Underwriter has undertaken to the Company under the Underwriting Agreement that if the subscription for the Untaken Offer Shares by the Underwriter pursuant to the Underwriting Agreement will result in insufficient public float of the Company within the meaning of the Listing Rules, the Underwriter will, subject to compliance with the Takeovers Code, take all appropriate steps including but not limited to the engagement of a placing agent to procure subscribers (who are Independent Third Parties) to subscribe for the Shares which would otherwise be required to be taken up by the Underwriter under the Underwriting Agreement in order to restore the minimum public float requirement of the Company in compliance with Rule 8.08(1)(a) of the Listing Rules.

Taking into account: (i) all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer in that the Qualifying Shareholders have their choice of whether to accept the Open Offer or not; (ii) the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Open Offer Shares for the purpose of maintaining their respective existing shareholding interests in the Company at the Open Offer Price; (iii) those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholding interests in the Company after the Open Offer; (iv) the inherent dilutive nature of open offers in general if the existing shareholders do not subscribe in full for their assured entitlements; (v) the Open Offer would enable the Group to improve its financial position and to fulfill the development plan of the Group; and (vi) the Unsubscribed Arrangements will provide a compensatory mechanism at the cost of the Company that would protect the interest of the Company's minority Shareholders in the Open Offer to address the concern that the Underwriter has the potential to increase its interests in the Company at a lower cost because the Open Offer Price is at a discount to the recent prevailing market price, we are of the view that the theoretical dilution effect of the Open Offer of a discount of approximately 16.5% is justifiable.

We are of the view that the implementation of the Open Offer is beneficial to the Company and the Shareholders as a whole despite the potential dilution impact to the shareholding interests of the existing public Shareholders, who do not participate fully or partly in the Open Offer, having regard to the potential mitigating measure such as the Unsubscribed Arrangements.

6 Financial effects of the Open Offer

6.1 Net assets

Assuming no other issue of Shares on or before the Record Date, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders would increase by approximately RMB$96.9 million (equivalents to approximately HK$104.5 million) from approximately RMB322.6 million as at 30 June 2023 to approximately RMB419.5 million upon completion of the Open Offer.

6.2 Liquidity

According to the 2023 Annual Report, as at 30 June 2023, the cash and cash equivalents of the Group was approximately RMB44.0 million and the Group had current assets of approximately RMB705.3 million, and current liabilities of approximately RMB592.6 million. Accordingly, the current ratio of the Group (being the current assets of the Group divided by the current liabilities of the Group) as at 30 June 2023 was approximately 1.19 times. Immediately upon completion of the Open Offer, the cash and cash equivalents of the Group is expected to increase by the expected net proceeds from the Open Offer of approximately RMB$96.9 million (equivalents to approximately HK$104.6 million), and accordingly the current ratio would improve to approximately 1.35 times.

6.3 Gearing ratio

As the net proceeds from the Open Offer will be used to repay bank borrowings which fall due within one year period, it is expected that the gearing ratio of the Group will be improved as a result of the Open Offer.

7 Whitewash Waiver

Assuming (i) there is no change in the number of issued Shares from the Latest Practicable Date up to and including the date of close of the Open Offer; (ii) none of the Qualifying Shareholders other than the Underwriter have taken up their entitlements under the Open Offer; and (iii) none of the Unsubscribed Shares have been taken up under the Unsubscribed Arrangements, the aggregate interests in the Company held by the Underwriter and Mr. Fang upon the close of the Open Offer will increase from the current level of approximately 15.16% to approximately 43.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Open Offer Shares. The Underwriter and Mr. Fang will, in the absence of the Whitewash Waiver, be obliged to make a mandatory cash offer for all issued Shares not already owned or agreed to be acquired by it pursuant to Rule 26 of the Takeovers Code.

An application has been made by the Underwriter and Mr. Fang to the Executive for the Whitewash Waiver. The Executive has indicated that it is minded to grant the Whitewash Waiver which will be conditional upon, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders voting in person or by proxy at the EGM; and (ii) the approval by more than 50% of the Independent Shareholders voting in person or by proxy at the EGM in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder.

Based on our analysis of the reasons for and benefits of, and the principal terms of the Open Offer, we consider that the Open Offer is fair and reasonable so far as the Independent Shareholders are concerned. If the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Open Offer will not proceed and the Company will scarify all the benefits that are associated with the Open Offer. Accordingly, we consider that the Whitewash Waiver is to facilitate the implementation of the Open Offer and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Open Offer, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions in respect of the Open Offer, the Underwriting Agreement and the transactions contemplated therein, and the Whitewash Waiver at the EGM.

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

Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 20 years of experience in the securities and investment banking industries.