



红日资本有限公司
RED SUN CAPITAL LIMITED

10 April 2024

To: *The Independent Board Committee and the Independent Shareholders of
Grand Field Group Holdings Limited*

Dear Sirs,

**CONNECTED TRANSACTION
IN RELATION TO
SUBSCRIPTION OF THE NEW CONVERTIBLE BOND**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription (together with the transactions contemplated therein, including the issue of the New Convertible Bond under specific mandate), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 10 April 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 6 March 2024 in relation to, among other things, the Subscription.

On 31 October 2022, the Existing Convertible Bond was issued to the Subscriber at a principal amount of HK\$95,896,475.43 with an interest rate of 6% per annum and a maturity date of 18 months from the date of issue (i.e. 30 April 2024).

On 6 March 2024 (after trading hours of the Stock Exchange), the Company, entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for the New Convertible Bond with a principal amount of not less than HK\$100,869,000 and not more than HK\$101,912,000. The subscription price of the New Convertible Bond will be fully settled on a dollar-for-dollar basis, by way of set-off of the outstanding principal amount of the Existing Convertible Bond together with all accrued and unpaid interest (including the interest accrued under the Standstill Agreement, if entered into) which shall be paid by the Company to the Subscriber of the Existing Convertible Bond as at the Completion Date. Accordingly, no immediate cash outflow will be incurred in the settlement of the principal amount of the Existing Convertible Bond.

Completion of the Subscription Agreement shall take place on the Completion Date (or such other date as may be agreed between the respective parties) and completion of the Subscription Agreement is conditional upon the satisfaction (or waiver in accordance with the terms of the Subscription Agreement) of the conditions precedent to the Subscription, details of which please refer to the section headed “THE SUBSCRIPTION – Conditions precedent” set out in the Letter from the Board.

The initial Conversion Price of the New Convertible Bond is HK\$2.60 per Consolidated Share (equivalent to HK\$0.13 per Existing Share as adjusted for the effect of the Share Consolidation) and the New Convertible Bond will carry an interest of 6% per annum, accrued daily and repayable on every six calendar months. In case of delay in paying the principal or interest, the default interest rate will be 10% per annum. The New Convertible Bond will mature at the end of the 36 months from the issue date of issue.

LISTING RULES IMPLICATIONS

As set out in the Letter from the Board, as at the Latest Practicable Date, the Subscriber and her close associate, subject to the due registration of the transfer of offer Shares in respect of which valid acceptances were received under the Partial Offer that became unconditional in all respects and subsequently closed on 3 April 2024, in aggregate held 135,343,209 Existing Shares, representing approximately 55.3% of the total existing number of issued Shares. As a substantial Shareholder, the Subscriber is a connected person of the Company and the Subscription constitutes a connected transaction of the Company and is subject to reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules. The Subscriber, being a Shareholder with material interest in the Subscription, and her close associates will abstain from voting on the proposed resolution to approve the Subscription at the SGM. Each of Mr. Kwok Siu Bun and Ms. Kwok Siu Wa Alison, being an uncle and an aunt, respectively, of the Subscriber and the Directors, had abstained from voting on the Board resolutions for approving the Subscription Agreement and the transactions contemplated thereunder.

The Conversion Shares to be allotted and issued pursuant to the New Convertible Bond are proposed to be issued pursuant to a specific mandate to be granted by the Independent Shareholders by way of poll at the SGM. An application has been made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares. Upon completion of the Subscription Agreement, an announcement regarding the principal amount of the New Convertible Bond and the number of Conversion Shares (based on the initial Conversion Price) issuable thereunder will be made by the Company.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors, namely, Mr. Hui Pui Wai Kimber, Mr. Liu Chaodong and Mr. Tsui Matthew Mo Kan, has been formed to advise the Independent Shareholders in relation to the Subscription. All members of the Independent Board Committee have confirmed to the Company that they are independent with respect to the Subscription and are thus suitable to give advice and recommendation to the Independent Shareholders.

Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee. We do not by this letter warrant the merits of the above transaction other than to form an opinion for the purpose of the Listing Rules. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Subscription is on normal commercial terms and fair and reasonable and the transactions contemplated under the Subscription Agreement are in the interests of the Company and the Shareholders as a whole; and (ii) advise the Independent Shareholders on how to vote on the proposed resolutions in respect thereof at the SGM.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules, which

included, among others, (i) obtained the Subscription Agreement and reviewed the terms thereunder; (ii) reviewed the Announcement; (iii) reviewed the contents as set out in the Letter from the Board, including the reasons for the Subscription and use of proceeds; (iv) reviewed the information as set out in the announcement of the Company dated 27 March 2024 (the “**2023 Results Announcement**”) for our analysis on the background and historical financial performance of the Group; (v) conducted market research on the share price performance against the initial Conversion Price from 7 March 2023 up to and including the Latest Practicable Date (the “**Review Period**”) and the trading liquidity of the Shares, respectively; (vi) obtained sampled transactions for the purpose of our fairness and reasonableness analysis of the terms of the New Convertible Bond; and (vii) conducted our analysis on the initial Conversion Price, the interest rate and the maturity period of the New Convertible Bond.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement contained in the Circular, including this letter, incorrect or misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected with the Company nor any other parties that could reasonably be regarded as relevant to our independence, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the proposed issue of the New Convertible Bond under specific mandate and transactions contemplated under it.

Save for our appointments (the “**Previous Engagements**”) as the independent financial adviser for (i) the connected transaction in relation to the subscription of new convertible bond, the circular of which was dated 10 October 2022; and (ii) the Partial Offer by Halcyon Securities Limited for and on behalf of Rhenfield to acquire a maximum of 110,809,306 shares in the

Company, the composite offer and response document of which was dated 29 February 2024 (the “**Composite Document**”), there was no engagement between the Company and Red Sun Capital Limited in the last two years.

Having considered that (a) the remuneration for our engagement to opine on the Subscription Agreement and the transactions contemplated thereunder and the Previous Engagements are (i) determined at market level and (ii) not conditional upon successful passing of the resolutions to be proposed at the relevant special general meeting; and (b) our engagements are on normal commercial terms, we consider ourselves independent and eligible to give independent advice in respect of the Subscription.

Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE SUBSCRIPTION AGREEMENT

In arriving at our opinion in respect of the Subscription Agreement, we have taken into consideration the following principal factors and reasons:

(1) Principal business and financial information of the Group

As set out in the Letter from the Board, the principal activities of the Group are investment holding, property development, property investment, hotel operation and general trading. The Group principally operates in Guangdong Province and Jiangsu Province of the PRC with revenue and results derived mainly from its operations in the PRC and the principal assets of the Group are located in the PRC.

Set out below are the summarised consolidated income statements of the Group for the years ended 31 December 2022 and 2023 as extracted from the 2023 Results Announcement.

(i) *Summary of consolidated statement of profit or loss*

	For the year ended	
	31 December	
	2023	2022
	HK\$'000	HK\$'000
	(audited)	(audited)
Revenue	264,515	139,285
Property development	185,076	108,941
Property investment	29,305	24,115
Hotel operation	7,710	2,353
General trading	37,506	3,501
Others	4,918	375
Gross profit	59,924	18,999
Loss before tax	(14,640)	(683,939)
Loss for the year	(73,220)	(593,714)
Loss for the year		
attributable to:		
Owners of the Company	(47,026)	(392,648)
Non-controlling interests	(26,194)	(201,066)

Financial performance for the year ended 31 December 2022 (the "FY2022") and the year ended 31 December 2023 (the "FY2023")

As set out in 2023 Results Announcement, the Group recorded revenue of approximately HK\$264.5 million for FY2023, representing an increase of approximately 89.9% from approximately HK\$139.3 million for FY2022, while the Group's gross profit amounted to approximately HK\$59.9 million for FY2023 compared to approximately HK\$19.0 million for FY2022, representing an increase of approximately 215.4%.

Loss for the year attributable to the owners of the Company amounted to approximately HK\$47.0 million for FY2023 compared to approximately HK\$392.6 million for FY2022. The year-on-year decrease in loss for the year attributable to the owners of the Company was primarily due to (i) the increase in revenue and gross profit of the Group from approximately HK\$139.3 million and HK\$19.0 million respectively for FY2022 to approximately HK\$264.5 million and HK\$59.9 million respectively for FY2023; (ii) the reduction in administrative expenses of the Group from approximately HK\$61.6 million for FY2022 to approximately HK\$49.1 million for FY2023; (iii) the recognition of one-off fair value gain on investment properties of the Group amounted to HK\$42.4 million for FY2023 as opposed to the one-off fair value loss on investment properties of the Group of approximately HK\$380.5 million for FY2022; (iv) the absence of one-off impairment loss on properties for sale under development and goodwill of the Group for FY2023; and (v) a significant reduction in provision in relation to litigation of the Group from approximately HK\$49.2 million for FY2022 to approximately HK\$0.7 million for FY2023.

(ii) *Summary of consolidated statement of financial position of the Group*

	As at 31 December 2023 HK\$'000 (audited)	As at 31 December 2022 HK\$'000 (audited)
Non-current assets	1,916,501	1,980,193
Current assets	715,847	841,066
Total assets	2,632,348	2,821,259
Non-current liabilities	751,347	816,818
Current liabilities	728,705	745,285
Total liabilities	1,480,052	1,562,103
Net assets	1,152,296	1,259,156
Net assets attributable to:		
Owners of the Company	506,710	569,143
Non-controlling interests	645,586	690,013

We noted from the 2023 Results Announcement that the Group recorded net asset attributable to owners of the Company of approximately HK\$506.7 million as at 31 December 2023 compared to approximately HK\$569.1 million as at 31 December 2022.

Total assets of the Group amounted to approximately HK\$2,632.3 million as at 31 December 2023 and approximately HK\$2,821.3 million as at 31 December 2022, respectively. As at 31 December 2023, total assets of the Group mainly comprised of (i) investment properties of approximately HK\$1,718.9 million as at 31 December 2023 compared to approximately HK\$1,765.7 million as at 31 December 2022; (ii) properties for sales under development of approximately HK\$430.0 million as at 31 December 2023 compared to approximately HK\$544.3 million as at 31 December 2022; (iii) properties for sale of approximately HK\$190.9 million as at 31 December 2023 compared to approximately HK\$204.5 million as at 31 December 2022; and (iv) property, plant and equipment of approximately HK\$177.6 million as at 31 December 2023 compared to approximately HK\$194.6 million as at 31 December 2022.

Total liabilities of the Group amounted to approximately HK\$1,480.1 million as at 31 December 2023 and approximately HK\$1,562.1 million as at 31 December 2022, respectively. As at 31 December 2023, total liabilities of the Group mainly comprised of (i) interest-bearing borrowings of approximately HK\$641.3 million as at 31 December 2023 compared to approximately HK\$648.5 million as at 31 December 2022; (ii) trade and other payables of approximately HK\$293.6 million as at 31 December 2023 compared to approximately HK\$412.3 million as at 31 December 2022; (iii) deferred tax liabilities of approximately HK\$290.0 million as at 31 December 2023 compared to approximately

HK\$287.8 million as at 31 December 2022; and (iv) tax payable of approximately HK\$159.9 million as at 31 December 2023 compared to approximately HK\$122.4 million as at 31 December 2022.

(2) Reasons for and benefits of the Subscription and use of proceeds

(a) Group overview

As set out in the Letter from the Board, as stated in the 2023 Results Announcement, there was a significant increase in revenue from 2022 of approximately HK\$139.3 million to approximately HK\$264.5 million, while the Group still recorded a net loss of approximately HK\$73.2 million for FY2023. Based on the 2023 Results Announcement, such net loss had already taken into account (i) the increase in revenue and gross profit of the Group; (ii) the reduction in administrative expenses of the Group; (iii) the recognition of one-off fair value gain on investment properties as compared to one-off fair value loss on investment properties of the Group in FY2022; (iv) the absence of one-off impairment loss on properties for sale under development and goodwill of the Group; and (v) a significant reduction in provision in relation to litigation of the Group. Meanwhile, according to the 2023 Results Announcement, the Group still recorded a relatively high net debt position (calculated based on the aggregated borrowings of the Company less cash) of approximately HK\$692.8 million, of which HK\$273.1 million were included as current liabilities as at 31 December 2023 and the cash and cash equivalents of the Group as at 31 December 2023 was approximately HK\$40.9 million. The Group also recorded net current liabilities position of approximately HK\$12.9 million as at 31 December 2023.

According to the National Bureau of Statistics set out in the Letter from the Board, the total gross floor area of residential buildings sold recorded a drop of approximately 26.8% in 2022 as compared to 2021, which dropped further by approximately 8.2% in 2023. On the other hand, the operating profit of property developers in the PRC recorded considerable drop over the past five years from approximately RMB1,854.4 million in 2018 to approximately RMB926.3 million in 2022. Meanwhile, the real estate development prosperity index (also known as the national real estate climate index and, according to the National Bureau of Statistics, the most appropriate level of national real estate climate index is 100, the moderate level is between 95 and 105, the lower level is below 95, and the higher level is above 105) during each of the twelve months in 2023 was below 95, and the index reached 93.36 in December 2023, being the lowest point in 2023. Taking into account the current market sentiment and based on the development and selling progress of the projects, the expected tax and construction fees to be paid and loan repayment, it is currently expected that no significant net operating cash inflow would be generated from the existing projects of the Group in the coming twelve months.

Meanwhile, the Company had been in preliminary discussion with potential purchaser for possible assets realisation to generate proceeds that may, among other things, settle the outstanding principal of the Existing Convertible Bond. However, taking into account the uncertainties of completion of such possible asset realisation as caused by the recent market sentiment, the fact that the asking price proposed by the potential purchaser was significantly lower than the target selling price of the relevant properties of the Group; and some of the properties now being held by the Group are subject to a charge or pledge, the Company considers that assets realisation at such asking price is currently not an attractive option nor is it in the best interests to the Company and the Shareholders as a whole.

As set out in the Letter from the Board, taking into account of the financial position and expected operating cash flow to be generated by the Group, and given that the prevailing market prices and trading volume of the Shares may not be favourable to a fund raising exercise for substantial amount by way of issue of very substantial amount of new Shares (which may represent over 300% of the total existing number of issued Share based on recent market prices of the Share) to independent third party(ies) or to existing Shareholders on a pro rata basis (e.g. rights issue and open offer) where considerable discount to the market prices of the Shares may be required, while further taking into account the facts that (i) the aggregated number of Existing Shares traded on the Stock Exchange for the entire year ended 31 December 2023 only represented approximately 7.7% of the then total issued Shares; and (ii) the closing price of the Existing Shares had decreased by approximately 64.9% during such period, the Company considered that there may not be sufficient demand from the existing Shareholders for a relatively large scale of rights issue or open offer to raise funds to repay the outstanding principal and interest of the Existing Convertible Bond when due, and, therefore, has decided to negotiate with the Subscriber on the proposed settlement plan of the Existing Convertible Bond and both the Company and the Subscriber agreed to settle the amount to be due under the Existing Convertible Bond principally through the entering into the Subscription Agreement.

The subscription price of the New Convertible Bond will be fully settled on a dollar-for-dollar basis, by way of set-off of the outstanding principal amount of the Existing Convertible Bond together with all accrued and unpaid interest (including the interest accrued under the Standstill Agreement, if entered into) which shall be paid by the Company to the Subscriber of the Existing Convertible Bond as at the Completion Date. Accordingly, no immediate cash outflow will be incurred in the settlement of the principal amount of the Existing Convertible Bond.

As regards bank borrowings exercises, the ability for a company to obtain bank borrowings with favourable terms generally and largely depends on, among others, the company's profitability, financial position and may be subject to lengthy due diligence and internal risk assessment by and negotiations with bank and usually requires pledge of assets by the borrower. Taking into account that (i) the Group is at a loss-making position for FY2023 and FY2022 with loss for the year of approximately HK\$73.2 million and approximately HK\$593.7 million, respectively; (ii) the Group recorded net current liabilities of approximately HK\$12.9 million as at 31 December 2023; (iii) the Group recorded gearing ratio, which was defined to be interest-bearing borrowings over shareholders' equity, of approximately 127% as at 31 December 2023, it is less likely for the Group to obtain additional mid-term or long-term sizeable bank loans timely with favourable terms due to the reasons as discussed above.

After taking into account that: (i) the full settlement of the outstanding principal amount of, and the outstanding interest attributable to, the Existing Convertible Bond will not exert immediate cash outflow burden on the Group; (ii) the New Convertible Bond bears the interest rate of 6% per annum which was below the range of interest rates of the unsecured borrowings of the Group as at 31 December 2023 (which ranged from 9% to 12% per annum as at 31 December 2023); (iii) the Subscription will secure the continuing financial support from the Subscriber to the Group's business development and operation; (iv) upon conversion of the New Convertible Bond, the financial position of the Group would be improved; (v) a fund raising exercise for substantial amount by way of issue of very substantial amount of new Shares to independent third party(ies) or to existing Shareholders on a pro rata basis where considerable discount to the market prices of the Shares would be required; and (vi) equity fund raising alternatives such as placing or rights issue or open offer of new Shares is subject to underwriting uncertainty and may incur a higher transaction cost such as underwriting and other fees, the Board considers and we concur that the terms of the Subscription Agreement and the transaction contemplated thereunder, including the issuance of the New Convertible Bond, are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(3) Financial Raising Activities of the Company during the past 12 months

The Company has not conducted any fund raising activities in the 12 months prior to the date of the Announcement.

(4) Principal terms of the Subscription Agreement

Key terms of the Subscription Agreement and background of the Subscriber

As set out in the Letter from the Board, on 6 March 2024 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the New Convertible Bond with a principal amount of not less than HK\$100,869,000 and not more than HK\$101,912,000. The subscription price of the New Convertible Bond will be fully settled on a dollar-for-dollar basis, by way of set-off of the outstanding principal amount of the Existing Convertible Bond together with all accrued and unpaid interest (including the interest accrued under the Standstill Agreement, if entered into) which shall be paid by the Company to the Subscriber of the Existing Convertible Bond as at the Completion Date. Please refer to the Letter from the Board in relation to other principal terms of the Subscription Agreement.

The initial Conversion Price of the New Convertible Bond is HK\$2.60 per Consolidated Share (equivalent to HK\$0.13 per Existing Share as adjusted for the effect of the Share Consolidation), subject to adjustments as provided in the New Convertible Bond instrument in each of cases stated in the Letter from the Board, and the New Convertible Bond will carry an interest of 6% per annum, accrued daily and repayable on every six calendar months. In case of delay in paying the principal or interest, the default interest rate will be 10% per annum. The New Convertible Bond will mature at the end of the 36 months from the date of issue of the New Convertible Bond. Further details of the Subscription Agreements are set out in the Letter from the Board.

Assuming full conversion of the maximum principal amount of the New Convertible Bond of HK\$101,912,000 million at the initial Conversion Price, a maximum of 39,196,923 Consolidated Shares with aggregate nominal value of HK\$7,839,384.60 will be issued, representing approximately 320.0% of the total existing number of issued Shares and approximately 76.2% of the total existing number of issued Shares as enlarged by the issue of the Conversion Shares. Investors shall note that the conversion of the New Convertible Bond is subject to the conversion restrictions under the New Convertible Bond as set out as below.

Conversion right of the New Convertible Bond shall not be exercised by the holder the New Convertible Bond if: (i) the holder the New Convertible Bond and parties acting in concert with it will directly or indirectly control or be interested in such percentage of voting rights of the Company which the holder the New Convertible Bond would be obliged to make a mandatory general offer under the Takeovers Code unless (a) a waiver from strict compliance to make a mandatory general offer under Rule 26.1 of the Takeovers Code is obtained in accordance with the requirement of the Takeovers Code; or (b) a general offer is made in accordance with the requirement of the Takeovers Code; (ii) the Company will be unable to meet the public float requirements under the Listing Rules; or (iii) the holder the New Convertible Bond or the Company will as a result of the issue of the relevant Conversion Shares be in breach of the Listing Rules, the Takeovers Code or applicable laws or regulations.

Maturity

The New Convertible Bond has a maturity of 36 months from the date of issue, if that is not a Business Day, the first Business Day thereafter.

Interest rate

The interest rate of the New Convertible Bond is 6% per annum, accrued daily and repayable on every six calendar months. In case of delay in paying the principal or interest, the default interest rate will be 10% per annum. The interest rate of the New Convertible Bond was arrived after arm's length negotiation between the Company and the Subscriber after taking into account the interest rate of the Existing Convertible Bond, the interest rate of the borrowings of the Group (which ranged from 5.15% to 12.00% per annum for all borrowings as at 31 December 2023 and ranged from 9% to 12% for unsecured borrowing as at 31 December 2023), the factors set for the in the paragraph below and the market sentiment of the property development industry in the PRC.

Taking into account that (i) the New Convertible Bond bears the same interest rate of 6% per annum as that of the Existing Convertible Bond and is slightly above the low-end, while represented a discount of approximately 50% to the high-end of the range of interest rates of both secured and unsecured borrowings of the Group as at 31 December 2023; (ii) the New Convertible Bond bears interest rate of 6% per annum which is below the range of interest rate of unsecured borrowings of the Group as at 31 December 2023 from 9% to 12%; and (iii) the existing cash level of the Group, the Directors consider that the interest rate of the New Convertible Bond is fair and reasonable, and further taking into account that the New Convertible Bond is unsecured in nature, the Directors consider that the interest rate of the New Convertible Bond is not less favourable than the interest rate charged by the independent third parties.

(5) Evaluation of the initial Conversion Price

The initial Conversion Price, being HK\$2.6 per Consolidated Share (equivalent to HK\$0.13 per Existing Share as adjusted for the effect of the Share Consolidation). As stated in the Letter from the Board, the initial Conversion Price was arrived at after arm's length negotiation between the Company and the Subscriber after taking into account of the prevailing market price of the Shares, the recent operation and financial performance of the Group, the current market conditions and trends of the property market which the Group is principally engaging in. In considering the fairness and reasonableness of the initial Conversion Price, we have conducted the following analyses:

We note that the initial Conversion Price of HK\$2.6 per Consolidated Share (equivalent to HK\$0.13 per Existing Share as adjusted for the effect of the Share Consolidation) represents:

- (i) a premium of approximately 0.8% over the adjusted closing price of HK\$2.58 per Consolidated Share (based on the closing price of HK\$0.129 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Share Consolidation);
- (ii) a premium of approximately 5.7% over the adjusted closing price of HK\$2.46 per Consolidated Share (based on the closing price of HK\$0.123 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Consolidation) (the "**Implied Premium – LTD**");
- (iii) a premium of approximately 3.3% over the adjusted average closing price of approximately HK\$2.516 per Consolidated Share (based on the average closing price of approximately HK\$0.1258 per Existing Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation) (the "**Implied Premium – Five Days Average**");
- (iv) a premium of approximately 5.9% to the adjusted average closing price of HK\$2.454 per Consolidated Share (based on the average closing price of HK\$0.1227 per Existing Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation);
- (v) a premium of approximately 7.1% to the adjusted average closing price of HK\$2.428 per Consolidated Share (based on the average closing price of HK\$0.1214 per Existing Share as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Consolidation); and

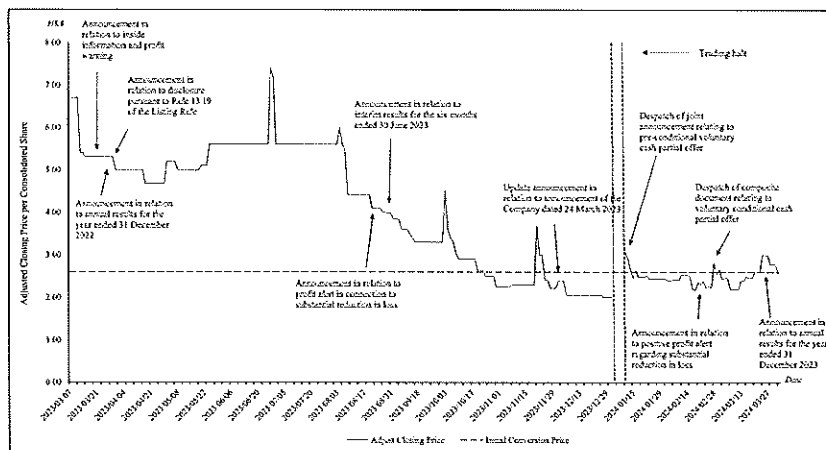
- (vi) a discount of approximately 93.7% to the net assets attributable to owners of the Company of approximately HK\$2.07 per Share as at 31 December 2023 (calculated by dividing the net assets attributable to owners of the Company as at 31 December 2023, based on the 2023 Results Announcement, by the number of Shares in issued as at 31 December 2023).

In order to further assess the fairness and reasonableness of terms of the New Convertible Bond, we have performed review on (i) the adjusted daily closing price of the ordinary Shares as quoted on the Stock Exchange during the Review Period, being a period of twelve months prior to the date of the Subscription Agreement up to and including the Latest Practicable Date; (ii) the trading volume of the ordinary Shares during the Review Period; and (iii) the comparison on the issuance of convertible bonds by companies listed on the Stock Exchange.

Share price performance against the initial Conversion Price during the Review Period

We have reviewed the movements in the adjusted closing price per Consolidated Share (as adjusted for the effect of the Share Consolidation) during the Review Period, being a period of twelve months prior to the date of the Subscription Agreement up to and including the Latest Practicable Date, in order to assess the fairness and reasonableness of the initial Conversion Price. We consider that a period of 12 months is sufficient to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the initial Conversion Price and the theoretical adjusted closing price of the Shares (as adjusted for the effect of the Share Consolidation), calculated by aggregating the relevant closing price of 20 Existing Shares with a view to providing a meaningful comparison to the initial Conversion Price under the Subscription (the “Adjusted Closing Price”).

Adjusted Closing Price performance against the initial Conversion Price during the Review Period



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

Note: During the Review Period, the trading in the Shares had been halted on 4 January 2024 and trading was resumed on 10 January 2024.

Although there were 164 trading days out of 246 trading days that the Adjusted Closing Price per Consolidated Share was higher than the initial Conversion Price during the Review Period and up to the Last Trading Day, the closing price has been on a decreasing trend in general from the Adjusted Closing Price of HK\$6.70 per Consolidated Share on 7 March 2023 to the Adjusted Closing Price of HK\$2.46 per Consolidated Share on the Last Trading Day as illustrated in the above chart, with the highest and lowest Adjusted Closing Price per Consolidated Share being HK\$7.40 on 28 June 2023 and HK\$2.00 on 28 December 2023, 29 December 2023, 2 January 2024 and 3 January 2024, respectively.

Since the commencement of the Review Period and up to the trading day immediately before the date of announcement in relation to profit alert in connection to substantial reduction in loss attributable to owners of the Company for the six months ended 30 June 2023 dated 23 August 2023, the Adjusted Closing Price per Consolidated Share has been fluctuated in the range of HK\$4.10 (22 August 2023) and HK\$7.40 (28 June 2023). Subsequently, from 23 August 2023 to the Last Trading Day, the closing price generally experienced a downward trend and the Adjusted Closing Price per Consolidated Share has been decreased from HK\$4.10 on 23 August 2023 to HK\$2.46 on the Last Trading Day.

As depicted in the above chart, we noted the sudden surge in closing price occurred on 28 June 2023, taking the Adjusted Closing Price per Consolidated Share to HK\$7.40. We have made enquired with the Management and were advised that save for the publication of announcements of the Company as described above chart, the Directors were not aware of any specific reasons which may have an impact of the fluctuations of Share prices during the Review Period.

On 20 February 2024 (after trading hours of the Stock Exchange), the Company announced a positive profit alert in relation to the expected substantial reduction in loss for FY2023 and the Adjusted Closing Price were then decreased from HK\$2.36 per Share on 20 February 2024 to HK\$2.30 per Consolidated Share on 21 February 2024 and fluctuated between HK\$2.20 per Consolidated Share and HK\$3.00 per Consolidated Share until the Latest Practicable Date.

Having considered that the initial Conversion Price was arrived at after arm's length negotiation between the Company and the Subscriber after taking into account of the prevailing market price of the Shares, the recent operation and financial performance of the Group, the current market conditions and trends of the property market which the Group is principally engaging in, the Directors are of the view and we concur that the initial Conversion Price determined with reference to the prevailing market prices of the Shares is fair and reasonable and in the interests of the Company and the Shareholders.

Historical share price performance against the net asset value per Consolidated Share

The initial Conversion Price represents a discount of approximately 93.7% to the net assets attributable to owners of the Company as at 31 December 2023 of approximately HK\$41.4 per Consolidated Share (the "NAV per Consolidated Share") (based on the net assets attributable to owners of the Company of approximately HK\$506,710,000 as at 31 December 2023 and Consolidated Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Share Consolidation). As set out in the Letter from the Board, while it was also noted that (i) the Shares had been consistently traded at a substantial discount to the consolidated net assets attributable to owners of the Company per Share over the past two years immediately preceding the date of the Subscription Agreement calculated based on the latest available consolidated net assets attributable to owners of the Company during the respective periods with a discount ranged from approximately 84.1% to 95.2%; (ii) it is not uncommon for the shares of property development companies to trade at a considerable discount to their respective net assets value per share (for illustration purpose only, according to Bloomberg, an exhaustive list of 15 out of 22 property development companies with focus in the PRC market and similar revenue scale of the Group (being companies (i) listed on the Stock Exchange; (ii) recorded a revenue ranging from HK\$100 million to HK\$400 million as real estate developer and owner in its latest financial year; and (iii) with not less than 90% of its revenue generated from the PRC in its latest financial year) had a price-to-book ratio of less than 0.3 as at the Latest Practicable Date); (iii) over 85% of the total assets of the Group as at 31 December 2023 were investment properties which was illiquid in nature, and (iv) the real estate development prosperity index (also known as the national real estate climate index) in the PRC, according to the National Bureau of Statistics, was relatively low during 2023, the Directors considered and we concur that the net assets per Share may not be an appropriate indicator of the valuation of the Group taking into account such market sentiment.

Trading liquidity of Shares

We have conducted analysis on the historical trading volume and liquidity of the Shares, together with a summary of number of days with trading in the month/period, average daily trading volume of the Shares in the month/period and the percentages of average daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period, are set out in the table below.

Month/period	Number of days with trading of Shares in the month/period	Average daily number of Shares traded per trading days in the month/period	% of average daily number of Shares traded to the total number of Shares in issue <i>(Note 1)</i>
2023			
March <i>(from 7 March 2023)</i>	5	139,789	0.06%
April	2	3,682	< 0.01%
May	4	11,000	< 0.01%
June	5	19,086	0.01%
July	3	930	< 0.01%
August	5	9,652	< 0.01%
September	5	7,642	< 0.01%
October	10	158,600	0.06%
November	4	34,545	0.01%
December	4	27,363	0.01%
2024			
January	9	376,806	0.15%
February	14	192,947	0.08%
March	17	243,055	0.10%
April <i>(up to and including the Latest Practicable Date)</i>	1	137,667	0.06%
Minium			< 0.01%
Maximum			0.15%
Average			0.04%

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

Notes:

1. Calculated based on the total number of the Shares in issue at the end of month/period, where applicable.

As set out in the table above, during the Review Period, the percentage of average daily trading volume of the Shares by month/period were in the range of less than 0.01% to approximately 0.15% with an average of approximately 0.04% as to the total number of issued Shares. We also note that no trading activity of the Shares was recorded in 173 out of 261 trading days during the Review Period. As such, the thin trading liquidity may hinder third parties underwriter to participate when the Company try to pursue fund raising exercise by way of placement, rights issue or open offer of new Shares.

Market comparable analysis

In order to assess the fairness and reasonableness of the terms of the New Convertible Bond, we have, on a best effort basis, conducted a search of all recent issues of convertible bond(s) or convertible note(s) under specific mandate by companies listed on the Stock Exchange (excluding (i) the issuance for acquisition, and (ii) those are perpetual in term and have no maturity date, which we considered to be not comparable to the convertible bond(s) or convertible note(s) in terms of the nature as the perpetual convertible bond(s) or convertible note(s) offer a steady stream of interest indefinitely and the principal is generally not redeemable while the convertible bond(s) are redeemable at maturity date) for the period of six-month period prior to the Last Trading Day (the “Comparable Issues”) through published information on the Stock Exchange’s website (the “Criteria”). We consider that the six-month period is appropriate in providing a general reference for the recent market practice in relation to the key terms of the Comparable Issues under similar market conditions, given that (i) the timeframe is sufficient in generating a reasonable and meaningful amount of samples for the purpose of our analysis; and (ii) the inclusion of all Comparable Issues without any artificial selection or filtering on our part represents a true and fair view of the recent market trends for similar transactions conducted by other listed issuers in Hong Kong. Based on such Criteria, we have identified 17 Comparable Issues on an exhaustive basis.

To the best of our knowledge, effort and endeavour and based on our search conducted according to the Criteria, the Comparable Issues is an exhaustive list of issue of convertible bond(s) and convertible note(s) meeting the Criteria. Shareholders should note that the size, principal business, scale of the market capitalization, profitability and financial positions may be not the same as the Comparable Issues and we have not conducted any in-depth investigation into the size, principal business, scale of the market capitalization, profitability and financial positions of the Comparable Issues. This analysis is aiming in providing a general reference for the recent market practice in relation to the key terms of the Comparable Issues under similar type of transactions, we consider that our comparable analysis on the terms of the convertible bonds without limiting to companies that are with similar size, principal business, scale of the market capitalization, profitability and financial positions as that of the Group is fair and reasonable and useful for Independent Shareholders’ reference.

We set out our findings in the table below:

Date of announcement	Stock code	Company name	Interest rate per annum (%)	Maturity (year)	Premium/(discount) of conversion price over/to the closing price on the last trading day/on the date of the respective announcement/agreement (%)	Premium/(discount) of conversion price over/to the average closing price of five trading days prior to and including the last trading day/on the date of the respective announcement/agreement (%)	Relation between subscriber and company
11 Sep 2023	704	Husoke Holdings Limited	8.0	2.0	(0.6)	0.0	connected person
12 Sep 2023	1736	China Parenting Network Holdings Limited	8.0	0.5	0.0	2.2	independent third party
22 Sep 2023	1380	China Kingstone Mining Holdings Limited	2.0	3.0	(44.2)	(43.6)	independent third party
28 Sep 2023	707	Asia Television Holdings Limited	8.0	2.0	177.8	122.2	independent third party
29 Sep 2023	496	Kasen International Holdings Limited	5.0	1.5	20.0	32.8	connected person
6 Oct 2023	8365	Hatcher Group Limited	0.0	2.0	9.6	10.8	independent third party
16 Oct 2023	959	Century Entertainment International Holdings Limited	0.0	3.0	13.3	8.5	connected person
16 Nov 2023	310	Prosperity Investment Holdings Limited	8.0	2.0	10.7	10.7	connected person
20 Nov 2023	2772	Zhongliang Holdings Group Company Limited	3.0	3.7	321.3	313.8	independent third party
2 Jan 2024	8613	Oriental Payment Group Holdings Limited	12.0	4.5	0.0	4.0	connected person
3 Jan 2024	8370	Zhi Sheng Group Holdings Limited	0.0	2.0	45.3	45.3	independent third party
15 Jan 2024	8356	CNC Holdings Limited ("CNC Holdings") (Note 3)	0.8	2.0	1,533.3 (Note 1)	1,533.3 (Note 2)	connected person
15 Jan 2024	8356	CNC Holdings (Note 3)	0.8	2.0	1,533.3 (Note 1)	1,533.3 (Note 2)	connected person
23 Jan 2024	616	Eminence Enterprise Limited	5.0	5.0	(4.8)	(5.8)	connected person
26 Jan 2024	1039	Changyou Alliance Group Limited	8.0	3.0	342.0	308.0	connected person
30 Jan 2024	910	China Sandi Holdings Limited	2.0	10.0	4.7	(0.2)	connected person
22 Feb 2024	821	Value Convergence Holdings Limited	0.0	3.0	1.7	2.2	independent third party
		Maximum	12.0	10.0	342.0	313.8	
		Minimum	0.0	0.5	(44.2)	(43.6)	
		Average	4.2	3.0	59.8	54.1	
		Median	3.0	2.0	9.6	8.5	
		The Company	6.0	3.0	5.7	0.5	connected person

Source: The website of the Stock Exchange (www.hkex.com.hk) and adopted from the relevant announcements.

Note:

- Given the premium of conversion price over the closing price on the last trading day for CNC Holdings of approximately 1,533.3%, is notably higher than other Comparable Issues, with the next closest comparable being at a premium of approximately 342.0%, thus such was considered to be an outlier and excluded from the analysis on the conversion price over the closing price.
- Given the premium of conversion price over the average closing price of five trading days prior to and including the last trading day for CNC Holdings of approximately 1,533.3%, is notably higher than other Comparable Issues, with the next closest comparable being at a premium of approximately 313.8%, thus such was considered to be an outlier and excluded from the analysis on the conversion price over the closing price.
- As set out in the announcement of CNC Holdings dated 15 January 2024, there were two convertible bonds with principal amount of HK\$64,127,855 and HK\$16,240,000, respectively, issued by CNC Holdings, therefore they were separately disclosed in the table above in order not to distort the analysis.

As shown in the above table, we noted that the conversion prices of the Comparable Issues ranged from (i) a discount of approximately 44.2% to a premium of approximately 342.0% over the respective closing prices of the shares on the last trading day/on the date of the relevant announcement/agreement (the “LTD Range”), with a median premium of approximately 9.6% (the “LTD Median”) and an average premium of approximately 59.8% (the “LTD Average”); and (ii) a discount of approximately 43.6% to a premium of approximately 313.8% over the respective average closing prices of the shares on the last five consecutive trading days prior to and including the last trading day/on the date of the respective announcement/agreement (the “Five Days Range”), with a median discount of approximately 8.5% (the “Five Days Median”) and an average discount of approximately 54.1% (the “Five Days Average”). We noted that the Implied Premium – LTD of approximately 5.7% falls within the LTD Range and represents a lower premium than the LTD Median and the LTD Average. Besides, we also noted that the premium of the initial Conversion Price of approximately 0.5% over the average closing price for last five consecutive trading days up to and including the Last Trading Day falls within the Five Days Range and represents a lower premium than the Five Days Median and the Five Days Average.

Excluding CNC Holdings, being the outlier, we noted from the above table that the LTD Range of the Comparable Issues ranged from a discount of approximately 44.2% to a premium of approximately 342.0%. Among the Comparable Issues, there were seven out of 15 Comparable Issues issued with less than 10% premium/discount of its conversion price over/to closing price per share on the last trading day prior to/on the date of the relevant announcement/agreement, which concluded that it is normal in market issues of convertible bonds/notes based on the then prevailing market share price as determination basis for the conversion price. Therefore, we are of the view that the case of the initial Conversion Price set close to the prevailing closing prices of the Shares on the Last Trading Day is reasonable.

Having considered that (i) the closing price per Share experienced several abrupt movements during the Review Period and there have been following an overall sliding trend since July 2023 and up to the Last Trading Day; (ii) the initial Conversion Price is close to the prevailing adjusted market prices of the Shares, representing (a) the Implied Premium – LTD of approximately 5.7%; and (b) the Implied Premium – Five Days Average of approximately 3.3%, which would give incentive to Subscriber to exercise the conversion rights attaching to the New Convertible Bond upon maturity of the New Convertible Bond and the Company would have no cash pressure on loan repayment to the Subscriber and the gearing position of the Company would be improved through the reduction of interest-bearing liabilities; (iii) the Implied Premium of the initial Conversion Price is within the LTD Range; and (iv) the Implied Premium – Five Days Average of the initial Conversion Price is within the Five Days Range, we are of the view that the initial Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

Analysis on the interest rate

We note that the interest rates in respect of the Comparable Issues ranged from nil to 12.0% per annum (the “Interest Range”), with an average of approximately 4.2% per annum and a median of approximately 3.0% per annum. The interest rate of the New Convertible Bond therefore falls within the Interest Range of the Comparable Issues and is higher than the average and median interest rate of the Comparable Issues. Notwithstanding that the profitability and financial positions of the Group may not be the same as the Comparable Issues, the analysis of Comparable Issues provides a general reference for the recent market practice in relation to the interest rates of the convertible bonds based on sufficient numbers of sampling transactions. Having considered that the Comparable Issues is an exhaustive list of issue of convertible bond(s) based on our search conducted according to the Criteria, the comparable analysis on the interest rate of the convertible bonds without limiting to companies that are with similar profitability and financial positions as that of the Group is fair and useful for Independent Shareholders’ reference.

As stated in the Letter from the Board, we noted that (i) the interest rate of the New Convertible Bond bears the same interest rate of 6% per annum as that of the Existing Convertible Bond and is slightly above the low-end (i.e. 5.15%), while represented a discount of approximately 50% to the high-end (i.e. 12.00%), of the range of interest rates of both secured and unsecured borrowings of the Group as at 31 December 2023; and (ii) the New Convertible Bond bears interest rate of 6% per annum which is below the range of interest rate of unsecured borrowings of the Group as at 31 December 2023 (i.e. 9% to 12%).

Having considered that (i) the New Convertible Bond bears interest rate of 6% per annum which is below the range of interest rate of unsecured borrowings of the Group as at 31 December 2023 (i.e. 9% to 12%) and the New Convertible Bond is unsecured in nature; and (ii) the interest rate of the New Convertible Bond is within the Interest Range of the Comparable Issues, we are of the view that the interest rate charged under the New Convertible Bond is not less favourable than the interest rate offered by independent third parties and is fair and reasonable.

Analysis on the maturity period

Furthermore, it is also noted that the maturity period of the Comparable Issues ranged from 0.5 year to ten years. The maturity of the New Convertible Bond therefore falls within the range of the maturity of the Comparable Issues. Accordingly, we are of the view that the maturity of the New Convertible Bond to be fair and reasonable.

(6) Financial effects of the Subscription

The financial effects as a result of the Subscription set out below are purely for illustrative purposes only and do not reflect the future financial position of the Company or the Group after the completion of the Subscription.

Effect on net assets value and gearing ratio

As set out in the Letter from the Board, the subscription price of the New Convertible Bond will be fully settled on a dollar-for-dollar basis, by way of set-off of the outstanding principal amount of the Existing Convertible Bond together with all accrued and unpaid interest (including the interest accrued under the Standstill Agreement, if entered into) which shall be paid by the Company to the Subscriber of the Existing Convertible Bond as at the Completion Date. Accordingly, no immediate cash outflow will be incurred in the settlement of the principal amount of the Existing Convertible Bond. It is expected that the New Convertible Bond will not have an immediate material impact on the net asset value and gearing ratio of the Group.

(7) Dilution effect on the shareholding interests of the existing public Shareholders

Save as the Existing Convertible Bond, as at the Latest Practicable Date, there were no other outstanding options, warrants, derivatives, or other securities which carry rights to subscribe for or be converted into Shares.

The table below illustrates the shareholding structures of the Company as at the date of Latest Practicable Date (assuming the due registration of the transfer of offer Shares in respect of which valid acceptances were received under the Partial Offer has been completed) and immediately upon the Share Consolidation becoming effective and full conversion of (i) the minimum principal amount of the New Convertible Bond of HK\$100,869,000 and (ii) the maximum principal amount of the New Convertible Bond of HK\$101,912,000, at the initial Conversion Price only (assuming there shall be no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date and up to the occurrence of the relevant events mentioned below):

	As at the Latest Practicable Date (Note 1)		Assuming Share Consolidation becoming effective and upon			
	Number of Shares	Approximate %	(i) full conversion of the minimum principal amount of the New Convertible Bond (being HK\$100,869,000)		(ii) full conversion of the maximum principal amount of the New Convertible Bond (being HK\$101,912,000)	
			Number of Shares	Approximate % (Note 3)	Number of Shares	Approximate % (Note 3)
Rhenfield (Note 2)	134,868,679	55.07	6,743,433	13.21	6,743,433	13.11
Ms. Tsang (Note 3)	474,530	0.19	38,819,495	76.05	39,220,649	76.24
Mr. Tsang (Note 3)	76,950	0.03	3,847	0.01	3,847	0.01
Ms. Kwok Wai Man Nancy (Note 3)	1,343,950	0.55	67,197	0.13	67,197	0.13
Sub-total	136,764,109	55.84	45,633,972	89.40	46,035,126	89.49
Directors:						
Mr. Kwok Siu Bun	150,000	0.06	7,500	0.01	7,500	0.01
Ms. Kwok Siu Wa Alison	300,000	0.12	15,000	0.03	15,000	0.03
Ms. Chow Kwai Wa Charmaine	195,000	0.08	9,750	0.02	9,750	0.02
Public Shareholders	107,546,304	43.90	5,377,317	10.54	5,377,317	10.45
Total	244,955,413	100.00	51,043,539	100.00	51,444,693	100.00

Notes:

1. Assuming the due registration of the transfer of offer Shares in respect of which valid acceptances were received under the Partial Offer has been completed.
2. Rhenfield is owned as to 50% by Mr. Tsang Yee and 50% by Ms. Tsang.
3. Mr. Tsang and Ms. Kwok Wai Man Nancy are parents of Mr. Tsang Yee and Ms. Tsang.
4. Pursuant to the terms of the New Convertible Bond, the Subscriber has agreed and undertaken to the Company that it shall not exercise any of the Conversion Rights if the Company will be unable to meet the public float requirements under the Listing Rules. Accordingly, scenarios above are shown for illustrative purpose only.

According to the terms of New Convertible Bond, the Subscriber shall have the right to convert the New Convertible Bond in whole or in part (in an integral multiple of HK\$1,000,000) of the outstanding principal amount of the New Convertible Bond, save that if at any time the aggregate outstanding principal amount of the New Convertible Bond is less than HK\$1,000,000, the whole (but not part only) of such aggregate outstanding amount may be converted, on any Business Day during the conversion period, subject to the restrictions on the exercise of the Conversion Rights that conversion right of the New Convertible Bond shall not be exercised by the Subscriber if: (i) the holder the New Convertible Bond and parties acting in concert with it will directly or indirectly control or be interested in such percentage of voting rights of the Company which the holder the New Convertible Bond would be obliged to make a mandatory general offer under the Takeovers Code unless (a) a waiver from strict compliance to make a mandatory general offer under Rule 26.1 of the Takeovers Code is obtained in accordance with the requirement of the Takeovers Code; or (b) a general offer is made in accordance with the requirement of the Takeovers Code; (ii) the Company will be unable to meet the public float requirements under the Listing Rules; or (iii) the Subscriber or the Company will as a result of the issue of the relevant Conversion Shares be in breach of the Listing Rules, the Takeovers Code or applicable laws or regulations. Therefore, the exercise of New Convertible Bond will subject to the above restrictions and the minimum public shareholding requirement under Listing Rules shall not be affected. Please refer the details of situations when subject to adjustments.

The potential conversion of the New Convertible Bond upon exercise of the Conversion Rights by the holder(s) of the New Convertible Bond would bring dilution to the current shareholding interests of the Shareholder. Having considered that (i) the principal terms of the New Convertible Bond are fair and reasonable as discussed above; (ii) any form of non-pro rata fund raising activities would also have dilution effect to all Shareholders; and (iii) if the Company satisfies future funding needs through the issue of consideration shares and/or other convertible securities, such issue will still have dilution effect to all existing Shareholders, we concur with the Directors' view that the issue of the New Convertible Bond is an appropriate debt financing plan for the Company.

RECOMMENDATION

Having taken into consideration the factors and reasons stated above, we are of the opinion that although the entering into of the Subscription Agreement is not in the ordinary and usual course of business of the Group, it is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Subscription Agreement.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited



Robert Siu
Managing Director

Note: Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 type (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry.