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Corporate Finance Advisory

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27 November 2015

To the Independent Board Committee and the Independent Shareholders of Shihua Development Company Limited

Dear Sirs,

(I) PROPOSED OPEN OFFER IN THE PROPORTION OF FOUR (4) OFFER SHARES FOR EVERY ONE (1) ADJUSTED SHARE HELD ON THE RECORD DATE;
(II) APPLICATION FOR THE WHITEWASH WAIVER;

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer, the Underwriting Agreement and the Whitewash Waiver, details of which are set out in the section headed "Letter from the Board" (the "**Letter from the Board**") in the Company's circular dated 27 November 2015 (the "**Circular**") to the Shareholders, of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 7 October 2015, the Board proposed to raise approximately HK$251.2 million before expenses and subject to the Set Off, by issuing 2,920,568,484 Offer Shares at the Subscription Price of HK$0.086 per Offer Share on the basis of four (4) Offer Shares for every one (1) Adjusted Share held on the Record Date.

As the Open Offer will result in an increase in the Company's issued share capital by more than 50%, the Open Offer is subject to, among other things, the approval by the Independent Shareholders at the SGM. Pursuant to Rule 7.19(6) of the Listing Rules, any controlling shareholder of the Company and his associates, or where there is no such controlling shareholder of the Company, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will need to abstain from voting in favour of the resolution relating to the Open Offer. As at the Latest Practicable Date, Achieve Prosper is the controlling shareholder of the Company.

As at the Latest Practicable Date, the Concert Group owns, controls or has direction over 1,088,375,571 Shares, representing approximately 37.27% of the existing issued share capital of the Company. In addition to the above, Achieve Prosper also holds the outstanding Convertible Bonds which are convertible into a maximum of 436,046,511 new Shares at the conversion price of HK$0.1720 per Share (subject to adjustment) as at the Latest Practicable Date. Save for the Convertible Bonds, the Concert Group did not hold any outstanding convertible securities, options, warrants or derivative of the Company which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

Achieve Prosper and Wang Xing Qiao have given the Undertakings in favour of the Company, among other things, that: (a) they will subscribe for the 1,085,755,568 Offer Shares and 2,620,000 Offer Shares respectively to which they will be entitled to pursuant to the terms of the Open Offer; (b) the Shares or the Adjusted Shares (as the case may be) comprising their current shareholding will remain registered in their respective name at the close of business at the Record Date as they are on the date of the Underwriting Agreement; and (c) they will procure that the applications in respect of the 1,085,755,568 Offer Shares and 2,620,000 Offer Shares respectively comprising its entitlements under the Open Offer will be lodged with the Registrar by no later than the Latest Time for Acceptance and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents.

Achieve Prosper has also undertaken not to exercise the conversion right attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date.

The maximum number of Adjusted Shares which could be taken up by the Concert Group under the Open Offer and the Underwriting Agreement is 2,465,939,061 Adjusted Shares.

Assuming:

(a) Achieve Prosper and Wang Xing Qiao subscribes for its entitlement of the Open Offer in full in accordance with the Undertakings;

(b) not all Qualifying Shareholders (other than the Concert Group) take up the Offer Shares to which they are entitled to upon completion of the Open Offer; and

(c) Achieve Prosper takes up such number of Untaken Shares under the Underwriting Agreement which will have the effect of increasing the voting rights of the Concert Group in the Company by more than 2% from the lowest percentage holding of the Concert Group in the Company in the 12-month period ending on and inclusive of the date of taking up of such number of Untaken Shares,

the Concert Group will, as a result of this acquisition of voting rights in the Company, incur an obligation to make a mandatory offer for all the Adjusted Shares other than those held or agreed to be acquired by the Concert Group, unless the Whitewash Waiver is granted.

An application has been made by Achieve Prosper to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll, whereby the Concert Group, and those who are interested in, or involved in, the

Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver, will abstain from voting in respect of all resolution(s) related to the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

The grant of the Whitewash Waiver is a condition precedent to the underwriting obligations of the Underwriters, which may not be waived. If the Whitewash Waiver is not granted, the Underwriting Agreement will not become unconditional and the Open Offer will not proceed.

The Company has established the Independent Board Committee to advise the Independent Shareholders as to (i) whether the Open Offer, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders, and (ii) voting by the Independent Shareholders on the relevant resolutions in the SGM by poll. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in those regards.

We are independent from, and are not associated with the Company, Achieve Prosper, Hong Kong Shihua, Liaoning Shihua Property, Mr. Wang Jing and Mr. Wang Xing Qiao and their family members, or their respective substantial shareholder(s), or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of it/them. In the past two years prior to the date of the Underwriting Agreement, we have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company for the following transactions:

Date of the relevant circulars and our letters of advice	**Nature of the transaction**
28 April 2015	Refreshment of the general mandate
29 April 2015	Major and connected transaction in relation to the Acquisition

We had also been appointed as an independent financial adviser to the independent board committee and independent shareholders of the Company in respect of a proposed rights issue of the Company on 29 April 2015, which was subsequently terminated on 17 June 2015. Apart from normal professional fees paid or payable to us in connection with the previous appointments mentioned above, as well as this appointment as the Independent Financial Adviser in respect of the Open Offer and the Whitewash Waiver, 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 the aforementioned previous appointments would not affect our independence, and that we comply with Rule 2.6 of the Takeovers Code and are eligible to give independent advice in respect of the Open Offer and the Whitewash Waiver to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date. Should there be any material changes after the Latest Practicable Date, the Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed in the Circular, having made all reasonable enquiries, that to the best of their knowledge, opinion expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular 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, conducted any independent in-depth investigation into the business affairs of the Group.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or otherwise, since these are particular to their own circumstances. 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.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Open Offer and the Whitewash Waiver, we have considered the following principal factors and reasons:

1. Background information and outlook of the Group

(a) Business of the Group

The Group is engaged in the business of design and sale of a wide range of electronic products, investment in properties and securities trading.

The Group has recently developed its property investment business with the following two acquisitions:

(I) Acquisition of Property A

According to the circular of the Company dated 31 March 2015, a sale and purchase agreement dated 16 January 2015 ("**SP Agreement A**") was entered into between Benxi Xinhua Property Management Company Limited* (本溪信華物業管理有限公司) ("**Purchaser A**"), an indirect wholly-owned subsidiary of the Company, as purchaser and Benxi Xincheng Property Development Company Limited* (本溪鑫城房地產開發有限公司) ("**Vendor A**"), who was an Independent Third Party and did not hold any Share as at the date of SP Agreement A, as vendor. Pursuant to SP Agreement A, Vendor A has agreed to sell and Purchaser A has agreed to acquire a property at a consideration of RMB105,000,000 ("**Property A**"). The considerations shall be settled (a) as to RMB50,000,000 payable by the allotment and issue of 400,000,000 Shares to Vendor A (or its nominee(s)) upon completion; (b) as to RMB10,000,000 payable by Purchaser A to Vendor A on 10 February 2015; and (c) as to RMB45,000,000 payable by Purchaser A to Vendor A on or before 31 October 2015 for repayment of a loan owed by Vendor A (which is due on 24 March 2019) which is secured by a mortgage of Property A and such mortgage will be released and discharged upon repayment of the loan. As advised by the management of the Company, part (a) and part (b) of the consideration were settled on 10 February 2015. Meanwhile, Purchaser A is under negotiations with Vendor A in relation to certain technical details in respect of the construction, including but not limited to the details of the infrastructure, quality check reports and the final checklists. Accordingly, the payment of part (c) of the consideration has been delayed and not yet settled as at the Latest Practicable Date. As advised by the management of the Company, we understand that the aforesaid technical details would have no significant impact on the timetable of decoration and operation of Property A. Accordingly, we are of the view that the aforesaid technical details would not affect our views on the Open Offer and the Whitewash Wavier.

Property A is located in the intersection of Digong Road (地工路) and Shengli Road (勝利路), Mingshan District, Benxi, Liaoning Province, the PRC, which is the core commercial district of Benxi. Property A, being one of the buildings located at the property development project of Vendor A, namely Xincheng Plaza (鑫城廣場), is a 17-storey building with two basement floors. The site area and the preliminary gross floor area of Property A are 3,335.00 sq.m. and 17,788.58 sq.m. (including all the above-ground and under-ground areas) respectively. It consists of retail shops of approximately 3,000.00 sq.m. on the ground floor of Property A. Vendor A has warranted that the final gross floor area of the Property would not be less than 17,500.00 sq.m. It was intended that Property A would be used as hotel and office. The main construction of Property A has been completed and it can be used after decoration, which is expected to be completed in the second quarter of 2016.

The acquisition of Property A was completed on 10 February 2015. Further details of the above acquisition of Property A including, among other things, the reasons for and benefits of this acquisition and the principal terms of SP Agreement A, is disclosed in the circular of the Company dated 31 March 2015.

(II) Acquisition of Property B

According to the circular of the Company dated 29 April 2015, a sale and purchase agreement dated 17 March 2015 ("**SP Agreement B**") was entered into between Benxi Tongshengyuan Industry Company Limited* (本溪同盛遠實業有限公司) ("**Purchaser B**"), an indirect wholly-owned subsidiary of the Company, as purchaser and Liaoning Shihua Property as vendor. Pursuant to SP Agreement B, Liaoning Shihua Property has agreed to sell and the Purchaser has agreed to acquire a property at a consideration of HK$208,276,000 ("**Property B**"). The consideration of the Acquisition has been satisfied by the issue of the Promissory Note by the Company to Liaoning Shihua Property or its nominee(s) on completion of SP Agreement B.

Property B is located at the intersection of Huanshan Road (環山路) and Guangyu Road (廣裕路), Pingshan District, Benxi, Liaoning Province, the PRC, which is one of the core commercial districts of Benxi. Property B is part of the property development project of Liaoning Shihua Property, namely Shihua – Meilan City (實華一美蘭城), and is a shopping mall of the development project. The preliminary gross floor area of Property B is 23,700.06 sq.m. The main construction of Property B has been completed and it can be used after decoration, which is expected to be completed in the second quarter of 2016. Property B has not yet generated any income as at the Latest Practicable Date.

Property B is subject to a premises lease agreement, pursuant to which Wal-Mart (Liaoning) Store Co. Ltd. has agreed to lease potions of level 1, basement level 1 and basement level 3 of Property B, totalling 14,643 sq.m., for operating a "Wal-Mart" store.

The acquisition of Property B was completed on 3 August 2015. Further details of the above acquisition of Property B including, among other things, the reasons for and benefits of this acquisition and the principal terms of SP Agreement B, is disclosed in the circular of the Company dated 29 April 2015.

(b) ***Financial results of the Group***

	For the year ended 31 March		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Audited)
Turnover	515,408	366,953	381,863
Cost of sales	(465,183)	(408,857)	(322,811)
Gross profit/(loss)	50,225	(41,904)	59,052
Loss for the year	**(58,387)**	**(189,364)**	**(247,131)**

As stated in the annual report 2014 of the Company, for the year ended 31 March 2014, the turnover of the Group dropped by approximately 28.8% to approximately HK$367.0 million as compared with a turnover of approximately HK$515.4 million for the previous year. The turnover of the Group was mainly generated from the business segment of design, manufacture and sale of electronic products. The Group recorded a gross loss of approximately HK$41.9 million for the year ended 31 March 2014 as compared with gross profit of approximately HK$50.2 million for the previous year. It is stated in the annual report that the decrease in turnover and in turn the gross loss were due to the continued decline in the TV/DVD sales where demand was falling and selling prices were depressed due to price cutting competition. As a result, the Group's financial results further deteriorated and recorded a substantial loss of approximately HK$189.4 million for the year ended 31 March 2014 as compared with loss of approximately HK$58.4 million for the previous year.

As stated in the annual report 2015 of the Company, for the year ended 31 March 2015, the turnover of the Group increase by approximately 4.1% to approximately HK$381.9 million as compared with a turnover of approximately HK$367.0 million for the previous year. The gross profit of the Group improved to approximately HK$59.1 million as compared with a gross loss of approximately HK$41.9 million for the same period in previous year. However, the Group recorded one-off losses for the year ended 31 March 2015 totalling approximately HK$193.0 million, including (i) the loss arising from the issue of convertible bonds of approximately HK$38.5 million (which was the difference between the gross proceeds from the issue of the convertible bonds and fair values of the convertible bonds after revaluation); (ii) loss on deconsolidation of subsidiaries of approximately HK$15.6 million; and (iii) loss arising from distribution in specie of shares in a subsidiary of approximately HK$138.9 million. As a result, the Group recorded a loss of approximately HK$247.1 million for the year ended 31 March 2015 as compared with loss of approximately HK$189.4 million for the previous year.

(c) ***Current financial position***

The Group had a cash balance of approximately HK$36.7 million and a net assets of approximately HK$97.3 million as at 31 March 2015. Taking into account (i) the placing of 486,760,000 new Shares of the Company as announced by the Company on 14 July 2015 and completed on 30 July 2015 (the "**Placing**"), with a net proceed of approximately HK$59.6 million; (ii) the acquisitions of Property A and Property B as detailed above, the adjusted cash balance and net assets of the Group would be approximately HK$96.3 million and HK$156.9 million respectively. In view of (i) the Promissory Note of approximately HK$208.3 million issued as the consideration for the acquisition of Property B as disclosed above; and (ii) the Amount Payable to Shareholder as at the Latest Time for Acceptance, together amounting to approximately HK$228.3 million, we consider that the Open Offer would strengthen the financial position of the Company by reducing the total liabilities of the Group after the Set Off.

(d) ***Prospects***

At present, we understand from the Directors that it has been the Group's business strategy to diversify its business and to further enhance the Shareholders' value. The two aforementioned acquisitions of Property A and Property B in Liaoning Province, the PRC, both of which were intended for the use of rental purpose, will enable the Group to diversify its existing business in design and sale of electronic products and broaden its source of revenue.

Indicators	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Cumulative annual growth rate** *(Note)*
Gross Domestic Product of the PRC (in billion RMB)	31,675.2	34,562.9	40,890.3	48,412.4	53,412.3	58,801.9	63,613.9	15.0%
Gross Regional Product of Liaoning Province (in billion RMB)	1,366.9	1,521.2	1,845.7	2,222.7	2,484.6	2,721.3	2,862.7	15.9%
Average Wage of Employed Persons in Urban Units in the PRC (in RMB)	28,898	32,244	36,539	41,799	46,769	51,483	56,339	11.8%
Average Wage of Employed Persons in Urban Units in Liaoning Province (in RMB)	27,179	30,523	34,437	38,154	41,858	45,505	Not Available	10.9%
Household Consumption Expenditure in Liaoning Province (in RMB)	9,690	10,906	13,016	15,635	17,999	20,156	Not Available	15.8%
Total Retail Sales of Consumer Goods in Liaoning Province (in billion RMB)	503.2	581.3	688.8	809.5	930.4	1,058.1	1,185.7	18.7%

Source: National Bureau of Statistics of the PRC ("NBS") and the Government of Liaoning Province

Note: As the statistics on (i) the average wage of employed persons in urban units in Liaoning Province; and (ii) household consumption expenditure in Liaoning Province are only available up to year 2013, the cumulative annual growth rates (**"CAGR"**) of these two time series are calculated for the six-year period from 2008 to 2013, while the CAGRs of other time series are calculated for the seven-year period from 2008 to 2014

According to the latest official statistics available on the online database of NBS and the respective Statistical Communiqués of Liaoning Province on the National Economic and Social Development for years 2008 to 2014 published by the Government of Liaoning Province, the economy of the PRC has been expanding rapidly, where the gross domestic product recorded a

CAGR of approximately 15.0%. In particular, the economy of Liaoning Province recorded a slightly higher CAGR of 15.9% for its gross regional product. The average wage of employed persons in urban units in both the PRC and Liaoning Province have been increasing, with CAGRs of approximately 11.8% and 10.9% respectively.

Meanwhile, the household consumption expenditure in Liaoning Province recorded a CAGR of approximately 15.8%, and the total retail sales of consumer goods in Liaoning Province recorded a CAGR of approximately 18.7%. These reflected that the retail market in Liaoning Province has also been growing in recent years, which might due to, among other factors, the increase in average wage of employed persons as mentioned above. Such growth of the retail market would likely increase the demand for commercial properties for retail purpose.

Taking into account that (i) the economy of the PRC and Liaoning Province have been thriving; (ii) the average wage of employed persons in urban units in the PRC and Liaoning Province has been increasing; and (iii) the household consumption expenditure and total retail sales of consumer goods in Liaoning Province have been rising, we considers that the outlook of the property investment business as mentioned above, which is the main focus of the Group's business, is positive.

The division of sale of a wide range of electronic products recorded, for the year ended 31 March 2015, (i) a revenue of approximately HK$381.86 million, representing an increase of approximately 4.06% as compared with that for the year ended 31 March 2014; and (ii) a gross loss of approximately HK$54.2 million, representing an improvement from the gross loss of approximately HK$172.06 million for the year ended 31 March 2014. Such improvement was due to, among others, the decrease in allowance for obsolete and slow-moving inventories and doubtful debts and impairment loss in respect of property, plant and equipment amounting to approximately HK$77.26 million. As the division of electronic products produced unsatisfactory results in the previous two years, the Board will focus its development direction into the Group's property investment business and apply a conservative measure for the sales of electronic products business. However, we also understand that the Group currently has no intention to introduce any major change to the existing operation of the electronic products business, and will continue the existing operation of the electronic products business along with the development of the property investment business.

As disclosed in the annual report 2015 of the Company and as advised by the management of the Company, we understand that electronics products of the Group are mainly sold in North America, in particular in the United States of America (the "**U.S.**") and Canada, which accounted for approximately 82.1% and approximately 8.7% of the revenue of the Group for the year ended 31 March 2015 respectively.

Indicators	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**CAGR** *(Note)*
Gross Domestic Product of the U.S. (in billion U.S. dollar)	1,471.9	1,441.9	1,496.4	1,551.8	1,615.5	1,666.3	1,734.8	2.8%
Gross Domestic Product of Canada (in billion Canada dollar)	1,645.9	1,567.0	1,662.7	1,770.0	1,831.2	1,893.8	1,974.8	3.1%

*Source: Statistics Canada (Canada's official statistical office) ("**SC**") and Bureau of Economic Analysis of the U.S. ("**BEA**")*

Note: The CAGRs are calculated for the seven-year period from 2008 to 2014.

According to the latest official statistics available on SC and BEA, we note that both the economies of the U.S. and Canada have been growing, with CAGRs of gross domestic product of approximately 2.8% and 3.1% respectively. More particularly, we note that the growths were slightly faster in recent years, as reflected by the growths of gross domestic products from 2013 to 2014 of the U.S. and Canada of approximately 4.1% and 4.3% respectively. In view of the continuous growth of both economies, we are of the view that the outlook of the electronic product business of the Group will be positive.

Although securities trading is one of the principle activities of the Group, its present operation scale is minimal (with no revenue and a segment loss of approximately HK$18,000 for the year ended 31 March 2015, and a total segment assets of approximately HK$453,000 as at 31 March 2015) as compared to the Group's other principal businesses such as property investment (the total assets of the Group consists largely of properties) and sale of the electronic products (the revenue generated from the sales of electronic products contributed to all of the total revenue of the Group for the year ended 31 March 2015). Having considered (i) the insignificant operation scale of the securities trading business; and (ii) business development of the Group with focus on diversifying into the property investment business as well as continuing the operation of the electronic products business, the development direction of the Group is not in the securities trading business.

2. Background of and Reasons for the Open Offer

(a) *Use of proceeds from the Open Offer*

The gross proceeds and the estimated net proceeds from the Open Offer will be approximately HK$251.2 million and approximately HK$244.5 million respectively.

The net proceeds of the Open Offer to the Company of approximately HK$244.5 million are intended to be used as follows:

(i) approximately HK$208.3 million for repaying the whole amount due to Achieve Prosper under the Promissory Note;

(ii) approximately HK$20.0 million for repaying the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance (as at 30 September 2015, the Amount Payable to Shareholder was approximately HK$18.5 million); and

(iii) the remaining balance of approximately HK$16.2 million will be used for the Group's property investment business. As at the Latest Practicable Date, the Group was in preliminary discussion with a seller (which is an independent third party) for the acquisition of a piece of land in the PRC for commercial use. The Group has not entered into any legally-binding agreement with such seller. The Company will make relevant disclosure pursuant to the Listing Rules as and when appropriate. Subject to the negotiation with the seller and the final terms of the acquisition, it is estimated that the consideration of the land together with the construction cost shall be not more than RMB12.5 million.

Pursuant to the Set Off, the amount due under the Promissory Note (being HK$208,276,000) and the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance will set off, on a dollar-to-dollar basis, against (i) the aggregate Subscription Price which Achieve Prosper is obliged to pay to subscribe for its entitlement under the Open Offer in full pursuant to the Undertakings; and (ii) the aggregate Subscription Price which Achieve Prosper is obliged to pay for the Untaken Shares under the Underwriting Agreement.

Assuming all Offer Shares are subscribed by the Qualifying Shareholders, the sum of approximately HK$93.4 million, being aggregate Subscription Price payable by Achieve Prosper under the Undertakings, will partially set off against the amount due under the Promissory Note. After the Set Off, the remaining balance of amount due under the Promissory Note of approximately HK$114.9 million and the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance (estimated to be approximately HK$20 million) will be settled by the Company by cash using the proceeds of the Open Offer.

Assuming none of the Offer Shares are subscribed by the Qualifying Shareholders (except that Achieve Prosper and Wang Xing Qiao will subscribe for their respective entitlement under the Open Offer in full pursuant to the Undertakings), and Achieve Prosper and Kingston Securities (together with the sub-underwriters procured by it) take up all Untaken Shares pursuant to the Underwriting Agreement, the aggregate Subscription Price payable by Achieve Prosper of approximately HK$211.8 million will set off against the full amount due under the Promissory Note of approximately HK$208.3 million and part of the outstanding balance of the Amount Payable to Shareholder of approximately HK$3.5 million. After the Set Off, the remaining outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance (estimated to be approximately HK$16.5 million will be settled by the Company by cash using the proceeds of the Open Offer.

As at the Latest Practicable Date, Achieve Prosper has not issued any formal demand for repayment under the Promissory Note because the Promissory Note, pursuant to its terms, would not become payable until the Company has generated, obtained and/or raised fund for not less than HK$200 million. However, Achieve Prosper has agreed to the Set Off pursuant to the Underwriting Agreement, and has indicated that it would agree to the Company's repayment of the remaining outstanding amount of the Promissory Note upon completion of the Open Offer.

The Company is of the view that (i) the redemption of the outstanding amount of approximately HK$208.3 million of the Promissory Note; and (ii) the repayment of the outstanding balance of the Amount Payable to Shareholder of approximately HK$20.0 million as at the Latest Time for Acceptance would reduce the Group's liabilities, and thus results in a lower gearing ratio and improves the Group's financial position. This would facilitate the Group in obtaining financing for possible investment opportunities in the future to support the Group's long-term growth. Taking into account the recent volatility in the stock markets, the Directors (excluding the independent non-executive Directors) consider that it is in the Company's interest to raise funds by way of the Open Offer at the soonest opportunity to repay the Promissory Note.

The Group is principally engaged in, among other businesses, investment in properties. We are of the view that the allocation of approximately HK$16.2 million to be used for the Group's property investment business is consistent with the Group's business development. Also, we understand from the management of the Company that the Group has identified a potential investment opportunity and was in preliminary discussion with a seller for the acquisition of a piece of land in the PRC for commercial use, although no terms have been agreed or fixed. In view of the above, we consider that the allocation of approximately HK$16.2 million to be used for the Group's property investment business is fair and reasonable.

We have also reviewed latest estimate on the Group's funding needs for the next 12 months prepared by the Board, including key assumptions and factors used to prepare such estimate. To estimate the Group's funding needs for the next 12 months, the Board has analysed the operational cash flow and future capital needs of the Group based on the current market condition and the information in its hands (excluding the aforesaid possible acquisition of land which is still in preliminary negotiation where no any legally-binding agreement has been entered into), details of which is set out in the paragraph headed "17. Use of Proceeds" under the Letter from the Board. Based on such funding needs estimate, we are of the view and concur with the view of the Board that following completion of the Capital Reorganisation and the Open Offer, after taking into account (i) the financial resources available to the Group; and (ii) that the consideration of the aforesaid possible acquisition of land together with the construction costs is estimated to be not more than RMB12.5 million, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular, in the absence of unforeseeable circumstances with a positive cash and cash equivalents balances, a steady cash flow generated from the electronic product trading business (notwithstanding small fluctuations in cash flow in individual months) and rental income expected to be generated from Property A and Property B (the actual amount of rental income to be generated will be subject to factors that are out of the Group's control, such as the market demand for the properties, the then prevailing market condition and the actual terms of the leases which are to be negotiated with the potential tenants. As at the Latest Practicable Date, the Group has secured one lease with Wal-Mart (Liaoning) Store Co. Ltd. (沃爾瑪(遼寧)百貨有限公司) for Property B, details of which are set out in the Company's circular dated 29 April 2015). We are also advised by the management of the Company that any funding needs arising from the potential investments will be derived from the Group's operations, the proceeds from the placing of Shares as completed on 30 July 2015 and the Open Offer. However, the Board will also consider possible fund raising activities if it is necessary or appropriate and beneficial to the Company.

Based on our review on the Group's business and its current financial position (as detailed in the above subsection headed "Background information and outlook of the Group"), we consider that (i) the use of proceeds from the Open Offer for repaying the amount due under the Promissory Note and the Amount Payable to Shareholder as at the Latest Time for Acceptance (together amounting to approximately HK$228.3 million) can improve the financial position of the Group by reducing the total liabilities of the Group and is thus fair and reasonable; (ii) the lowered gearing ratio after the Set Off may facilitate the Group in obtaining financing for possible investment opportunities in the future should they arise to support the Group's long-term growth; and (ii) the use of the remaining portion of net proceeds after the Set Off for the Group's property investment business is consistent with the current business development of the Group.

(b) Fund raising alternatives

As advised by the Directors, the Board has considered alternative means of fund raising before resolving to the Open Offer, including debt financing (such as bank borrowings), rights issue and placing of new Shares. Regarding debt financing, the Directors are of the view that its availability is uncertain and it will be subject to negotiations with banks which may take considerable time. It will also increase the Group's interest burden.

Besides, the Directors consider that the placing would only be available to certain placees who were not necessarily the existing Shareholders and would dilute their shareholding in the Company.

The Directors have also examined the possibility of fund raising by way of a rights issue which is similar to an open offer except that it allows shareholders to trade their nil-paid entitlements in the market. Despite a rights issue will provide an exit for the Qualifying Shareholder who do not take up their assured entitlements by selling their nil-paid rights, the Directors noted that the adoption of such trading arrangements will carry additional expenses and administrative and liaison work for the Company and other professional parties, such as the share registrar, the Underwriters, the financial printer and legal advisers. It is estimated that the additional costs and expenses of around HK$300,000 will be incurred for such administrative work and the arrangement of trading the nil-paid rights. Having considered and balanced against the additional administrative work and cost in connection with the trading arrangements of nil-paid rights, and given that all Qualifying Shareholders can have an equal opportunity to participate in the Open Offer, the Directors are of the view that raising funds by way of the Open Offer is a more cost-effective option than a rights issue.

After taking into account the benefits and cost of each of the alternatives, the Board is of the view that the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates and minimise the cost of fund raising.

Although a rights issue which would allow the Independent Shareholders to sell their nil-paid rights should they decide not to participate in the fund raising exercise would provide more flexibility to the Independent Shareholder, taking into account that (i) debt financing and bank borrowing will incur further interest burden to the Group; (ii) the Open Offer will enable the Shareholders to maintain their proportionate interests in the Company should they so wish; and (iii) a rights issue instead of the Open Offer will incur additional costs and expenses for administrative work and the arrangement of trading the nil-paid rights, we are of the view that the Open Offer is an appropriate means for fund raising under the current circumstances.

(c) Our view

Despite the fact that a rights issue instead of the Open Offer will provide more flexibility to the Independent Shareholders, having considered that (i) there is a fund raising need to repay the outstanding amount of the Promissory Note and outstanding balance of the Amount Payable to Shareholder, which can improve the balance sheet of the Group; (ii) the gross domestic products of PRC and Liaoning Province, average wage of employed persons in urban units in the PRC and Liaoning Province, household consumption expenditure in Liaoning Province and total retail sales of consumer goods in Liaoning Province have been increasing, which reflect the positive outlook of the economy and property market in the PRC and more particularly in Liaoning Province, where Property A and Property B are located (detailed of which is set out above in the subsection headed "Background information and outlook of the Group"); (iii) the Open Offer, offering all Qualifying Shareholders an equal opportunity to participate in the future development of the Group without interest burden, is an appropriate means for fund raising as discussed above, we are of the view that the Open Offer as a method of raising funds and for the Set Off and the Group's property investment business is fair and reasonable and in the interests of the Company and the Independent Shareholders.

3. Principal terms of the Open Offer

(a) *Basis of the Open Offer*

The Company proposes to raise approximately HK$251.2 million before expenses and subject to the Set Off, by issuing 2,920,568,484 Offer Shares at the Subscription Price of HK$0.086 per Offer Share on the basis of four (4) Offer Shares for every one (1) Adjusted Share held on the Record Date.

The Offer Shares (when allotted, fully paid or credited as fully paid and issued) will rank pari passu in all respects with the Adjusted Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. Dealings in the Offer Shares will be subject to payment of stamp duty in Hong Kong.

(b) *Basis in Determining the Subscription Price*

The Subscription Price is HK$0.086 per Offer Share, payable in full on application. The Subscription Price represents:

(i) a discount of approximately 82.52% to the adjusted closing price of HK$0.492 per Adjusted Share, based on the closing price of HK$0.123 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(ii) a discount of approximately 83.33% to the adjusted average closing price of HK$0.516 per Adjusted Share, based on the average closing price of HK$0.129 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 Capital Reorganisation;

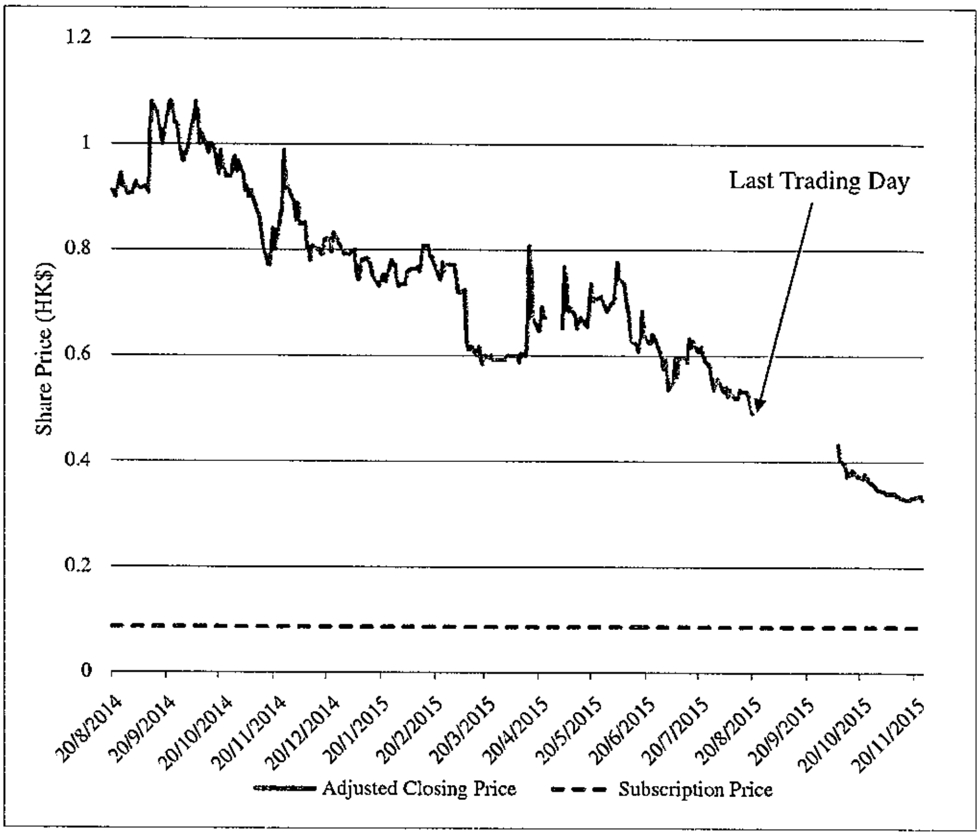
(iii) a discount of approximately 48.56% to the theoretical ex-entitlement price of approximately HK$0.167 per Adjusted Share after the Open Offer, based on the closing price of HK$0.123 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

(iv) a discount of approximately 35.47% to the audited net asset value per Adjusted Share of approximately HK$0.133 as at 31 March 2015 as adjusted for the Capital Reorganisation;

(v) a discount of approximately 40.00% to the audited net asset value per Adjusted Share of approximately HK$0.215 as at 31 March 2015 as adjusted for (a) the Placing completed on 30 July 2015; (b) the acquisition of Property A and Property B as detailed above; and (c) the Capital Reorganisation; and

(vi) a discount of approximately 73.78% to the adjusted closing price of HK$0.328 per Adjusted Share, based on the closing price of HK$0.082 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the trading price of the Adjusted Shares (assuming the Capital Reorganisation becoming effective) for the period from 20 August 2014, being the 12-month period prior to the date of the Underwriting Agreement, up to and including the Last Trading Day (the "**Pre-announcement Period**") and further up to the Latest Practicable Date (together, the "**Review Period**"). The chart below illustrates the daily closing price of the Shares (adjusted for the effect of the Capital Reorganisation, the "**Adjusted Closing Price**") versus the Subscription Price of HK$0.086 per Offer Share during the Review Period:



Source: the website of the Stock Exchange

Note: Trading of the Shares was suspended from 27 April 2015 to 30 April 2015 and from 21 August 2015 to 7 October 2015.

As shown in the above chart, we note that during the Pre-announcement Period, the Adjusted Closing Price showed a general downward trend from early October 2014 to mid-April (with a short term reversal from 18 November 2014 to 26 November 2014), and followed by a fluctuation. During the Pre-announcement Period and assuming the Capital Reorganisation becoming effective, the highest Adjusted Closing Price and the lowest Adjusted Closing Price were HK$1.08 recorded on 12 September 2014, 22 September 2014, 23 September 2014 and 7 October 2014 and HK$0.492 recorded on 20 August 2015 respectively. The Subscription Price of HK$0.086 represents a discount of approximately 92.0% and 82.5% to such highest and lowest Adjusted Closing Price respectively during the Pre-announcement Period.

Following the resumption of trading of the Shares on 8 October 2015 and up to the Latest Practicable Date, the Adjusted Closing Price showed a general downward trend from HK$0.432 to HK$0.328. During the Review Period, the highest Adjusted Closing Price was the same as in the Pre-announcement Period being HK$1.08, while the lowest Adjusted Closing Price was HK$0.328 recorded on 16 November 2015 to 18 November 2015 and 25 November 2015. During the Review Period, the Subscription Price of HK$0.086 represents a discount of approximately 92.0% and 73.8% to such highest and lowest Adjusted Closing Price respectively.

As advised by the management of the Company, no alternative structures were considered by the Company for the Open Offer. As disclosed in the Letter from the Board, the Subscription Price and the subscription ratio of four Offer Shares for every one Adjusted Shares held were arrived at after arm's length negotiation between the Company and the Underwriters with reference to, among other things:

(i) the general declining trend of the prevailing trading prices of the Shares in the past six months (notwithstanding the occasional resurgence of the trading price during April and May 2015) and the theoretical ex-entitlement price after the Open Offer based on closing price of Shares as quoted on the Stock Exchange on the Last Trading Day;

(ii) the net loss recorded by the Company for the two years ended 31 March 2015;

(iii) the discount of the subscription price for various announced rights issues and open offers conducted with capital reorganisation by companies listed on the Stock Exchange in the 6-month period immediately preceding the Last Trading Day; and

(iv) the then prevailing market conditions and the volatility of the stock markets for the one month period before entering into the Underwriting Agreement.

As disclosed in the Letter from the Board under the section headed "3. Subscription Price", in planning the Open Offer, the Directors have considered (i) the general declining trend of the prevailing trading prices of the Shares in the six months preceding the Last Trading Day, the net loss recorded by the Company for the two years ended 31 March 2015; and (ii) the various announced rights issues and open offers conducted with capital reorganisation by companies listed on the Stock Exchange in the 6-month period immediately preceding the Last Trading Day, where the discount rate of the Open Offer of approximately 82.52% is slightly higher than the average discount of approximately 76.63% represented by those rights issues and open offers, and are of the view that (i) it is necessary to set the Subscription Price at a discount level that would likely enhance the attractiveness of the Open Offer and increase the incentive of Qualifying Shareholders to take up their entitlements to participate in the potential growth of the Group; and (ii) the existing structure of the Open Offer is appropriate in meeting the current funding needs of the Group.

Given the past share price performance (a general downward trend from early October 2014 to mid-April) of the Company, the comparable analysis as detailed below and the need to increase the attractiveness of the Offer Shares to the Qualifying Shareholders and the Underwriter, we are of the view and concur with the view of the Directors that the proposed discount of the Subscription Price to the prevailing market price of the Company is fair and reasonable.

We have also reviewed all the open offers announced by the companies listed on the Stock Exchange in the six calendar months prior to and up to the date of the Underwriting Agreement, and identified an exhaustive list of 13 open offers which have subscription ratios above 1-for-2 and therefore would be subject to shareholders' approval (the "**Open Offer Comparable(s)**"). We also attempted to include a criterion to focus on companies listed on the Stock Exchange which are principally engaged in either (i) property investment (the total assets of the Group consists largely of property) or (ii) sales of electronic products (the revenue generated in the sales of electronic products contributed to all of the total revenue of the Group for the year ended 31 March 2015), but noted that none of these companies conducted an open offer in the six calendar months prior to and up to the date of the Underwriting Agreement. Given their difference in business nature, past financial performance as well as funding requirements, the Open Offer Comparables may not be the same as the Open Offer. Nevertheless, based on (i) the Open Offer Comparables represented the most recent structure of Open Offers as accepted by other equity underwriters in Hong Kong in the recent six months prior to the date of the Underwriting Agreement; (ii) the terms of the Open Offer Comparables were determined under similar market condition and sentiment during the aforesaid period and they might be able to reflect the recent trend of open offer transactions in the Hong Kong stock market; and (iii) the size of the Open Offer Comparables is adequate with more than ten samples for the purpose of comparison during the six month period, we consider that the Open Offer Comparables are fair and representative samples for the purpose of providing a general reference for the recent market practice in relation to (i) the subscription prices of other proposed open offers as compared to the relevant prevailing market share prices; (ii) maximum dilution effect; (iii) underwriting commissions; and (iv) application for excess offer shares under the recent market conditions and sentiments.

Details regarding the Open Offer Comparables are set out below:

Initial announcement	Company	Stock code	Premium/ (Discount) to closing price on last trading day (%) (*Note 1*)	Premium/ (Discount) to the theoretical ex-entitlement price (%) (*Note 1*)	Premium/ (Discount) to the consolidated net assets value per share	Excess application	Underwriting commission (%)	Maximum dilution (*Note 3*)
13 March 2015	Capital VC Limited	2324	(76.60)	(28.60)	(97.25) (*Note 2*)	No	1	87.50%
18 March 2015	Celebrate International Holdings Limited	8212	(92.90)	(29.70)	(97.23) (*Note 2*)	Yes	3	96.77%
24 March 2015	Chinese Energy Holdings Limited	8009	(40.48)	(25.37)	(42.31) (*Note 1*)	No	2.5	50.00%
24 April 2015	RCG Holdings Limited	802	(78.40)	(37.80)	(87.88) (*Note 2*)	No	2	83.33%
4 May 2015	China Vehicle Components Technology Holdings Limited	1269	(86.80)	(76.60)	(67.84) (*Note 2*)	Yes	2	50%
10 May 2015	Merdeka Mobile Group Limited	8163	(76.62)	(52.13)	164.71 (*Note 1*)	Yes	2.5	66.67%
13 May 2015	Mastermind Capital Limited	905	(59.50)	(28.10)	(53.85) (*Note 2*)	No	3.5	66.67%
8 June 2015	China National Culture Group Limited	745	(76.40)	(61.80)	7.50 (*Note 1*)	No	2	50%
17 June 2015	Long Success International (Holdings) Limited	8017	(89.38)	(75.94)	0.52 (*Notes 1 & 4*)	Yes	2.5	62.50%
8 July 2015	Sau Sun Tong Holdings Limited	8200	(12.28)	(6.54)	(52.73) (*Note 2*)	No	2.5	50%
24 July 2015	China 33 Media Group Limited	8087	(75.61)	(28.57)	(62.14) (*Note 2*)	No	1.5	87.50%
14 August 2015	Lerado Group (Holding) Company Limited	1225	(68.09)	(34.78)	(88.59) (*Note 2*)	No	2	66.67%
19 August 2015	SEEC Media Group Ltd.	205	(62.96)	(30.07)	(64.66) (*Note 2*)	No	2	75.00%
		Average	(68.92)	(39.69)	(45.19)		2.23	68.66%
		Maximum	(92.90)	(76.60)	(97.25)		1.00	50.00%
		Minimum	(12.28)	(6.54)	164.71		3.50	96.77%
		Company	(82.52)	(48.56)	(35.47) or (40.00) (*Note 5*)	No	2	80.00%

Notes:

1. Based on the figures disclosed in the initial announcements of the Open Offer Comparables respectively.

2. In the event the figures are not available in the initial announcements of the Open Offer Comparables, the figures are calculated based on the respective subscription prices and the net assets values per share of the Open Offer Comparables as disclosed in their respective latest annual report or interim report.

3. Maximum dilution effect of each Open Offer is calculated as: (number of offer shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the offer shares under the basis of entitlement + number of offer shares to be issued under the basis of entitlement) x 100%).

4. Long Success International (Holdings) Limited recorded an unaudited consolidated net liabilities per share of approximately HK$0.092 as at 31 December 2014 (adjusted for the effect of a proposed capital reorganisation) and the subscription price of approximately HK$0.43 per share represents a premium of approximately HK$0.52. It is excluded for the calculation of average discount to the consolidated net asset value per share.

5. The Subscription Price represents a discount of approximately (i) 35.47% to the audited net asset value per Adjusted Share of approximately HK$0.133 as at 31 March 2015 (as adjusted for the Capital Reorganisation); and (ii) 40.00% to the audited net asset value per Adjusted Share of approximately HK$0.215 as at 31 March 2015 (as adjusted for (a) the Placing completed on 30 July 2015; (b) the acquisition of Property A and Property B as detailed above; and (c) the Capital Reorganisation).

As shown on the above list of the Open Offer Comparables, the subscription prices of most of the Open Offer Comparables were set at discounts to (i) the respective closing prices on the last trading day prior to the date of the corresponding announcements, ranging from a discount of approximately 12.28% to 92.20% with an average discount of approximately 68.92%; and (ii) the theoretical ex-entitlement prices, ranging from approximately 6.54% to approximately 76.60% with an average discount of approximately 39.69%. The discount represented by the Subscription Price to (i) the Adjusted Closing Price on the Last Trading Day of approximately 82.52%; and (ii) the theoretical ex-entitlement price of approximately 48.56% were slightly higher than the respective average discounts of the Open Offer Comparables but still within the range of discounts.

We note that the subscription prices of 10 out of 13 Open Offer Comparables were set at discounts to the respective consolidated net asset value per share, and the average discount of the Open Offer Comparables was approximately 45.19%. The discounts represented by the Subscription Price of approximately (i) 35.47% to the audited net asset value per Adjusted Share as at 31 March 2015 (as adjusted for the Capital Reorganisation); and (ii) 40.00% to the audited net asset value per Adjusted Share as at 31 March 2015 (as adjusted for (a) the Placing; (b) the acquisition of Property A and Property B; and (c) the Capital Reorganisation) were both less than the average discount of the Open Offer Comparables of approximately

45.19%. Accordingly, we are of the view that the discounts represented by the Subscription Price on the net assets value per Adjusted Share, both before and after adjustments, were in line with the general market practice and is fair and reasonable.

Having considered that:

(i) the use of proceeds from the Open Offer for the Set Off is fair and reasonable as detailed above;

(ii) the use of the remaining portion of net proceeds after the Set Off for the Group's property investment business is consistent with the current business development of the Group;

(iii) taking into account the benefits and cost of each of the alternatives, the Open Offer represents an appropriate means for fund raising to strengthen its balance sheet without facing the increasing interest rates and minimise the cost of fund raising;

(iv) it is a common market practice that the subscription price of an open offer is normally set at a discount to the prevailing market prices of the relevant shares so as to increase the attractiveness of the Open Offer and to encourage the existing shareholders to participate in it;

(v) as a general market reference, the discounts represented by the Subscription Price to the Adjusted Closing Price on the Last Trading Day and to the theoretical ex-entitlement price were both above the average discounts represented by the Open Offer Comparables;

(vi) also as a general market reference, the discounts represented by the Subscription Price to the adjusted audited net asset value per Adjusted Share as at 31 March 2015, both before and after adjustments, were below the average discount represented by the Open Offer Comparables; and

(vii) the Subscription Price was a commercial decision made by the Company after arm's length negotiation between the Company and the Underwriters with reference to various factors as disclosed above;

we consider it is justifiable for the Company to set the Subscription Price at a substantial discount, which is above the average discounts represented by the Open Offer Comparables, so as to increases the attractiveness of the Open Offer to the Qualifying Shareholders and to induce the Underwriters to participate in the underwriting of the Open Offer. Having considered the abovementioned and that all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlements in full at the same price to maintain their respective proportionate shareholdings in the Company, we are of the opinion and concur with the Directors that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders.

(c) Underwriting Commission

The commission rate was determined after arms' length negotiations between the Company and the Underwriter with reference to current prevailing market rate. As shown on the above table of the Open Offer Comparables, we note that the underwriting commissions of the Open Offer Comparables were within a range of 1% to 3.5%, and have an average of approximately 2.23%, of the aggregate subscription price in respect of the numbers of underwritten shares. Considering that the underwriting commission of 2.0% payable to the Underwriters is within the range of those of the Open Offer Comparables and is close to the average of them, we consider that the underwriting commission of the Underwriting Agreement accords with the market rate and is fair and reasonable.

(d) No Application for Excess Offer Shares

As stated in the Letter from the Board, if application for excess Offer Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures, including preparing and arranging the excess application forms, reviewing the relevant documents, liaising with professional parties and printing of application forms, etc.

Considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Company's potential future development by subscribing for his entitlements under the Open Offer and maintaining their respective pro rata shareholding interests in the Company, the Directors (excluding the independent non-executive Directors) is of the view that the benefits of offering the excess application procedures do not justify the additional efforts and costs, and it is fair and reasonable and in the interests of the Company and the Independent Shareholders not to offer any excess application to the Qualifying Shareholders.

With reference to the Open Offer Comparables as listed in the table above, 9 of the 13 Open Offer Comparables did not make arrangements for application for excess offer shares. Having considered that the absent of application for excess offer shares (i) is in line with the general market practice as reflected by the Open Offer Comparables; (ii) can lower additional costs; and (iii) allows the Qualifying Shareholders to maintain their respective pro-rata shareholding, we are of the view that such arrangement is fair and reasonable to the Company and the Independent Shareholders.

(e) ***Subscription ratio and potential dilution effect on the interests of the Independent Shareholders***

Upon completion of the Open Offer, 2,920,568,484 Offer Shares will be issued. Qualifying Shareholders who elect to subscribe for their assured entitlements in full under the Open Offer will retain their current proportionate shareholding in the Company. Qualifying Shareholders who do not elect to subscribe for their assured entitlements in full under the Open Offer will be diluted after completion of the Open Offer by a maximum of 80.0%.

As disclosed in the paragraph headed "Use of proceeds from the Open Offer" above, the Open Offer with net proceeds of approximately HK$244.5 million is conducted for the Set Off and the Group's property investment business, and is fair and reasonable and in the interests of the Company and the Independent Shareholders. Assuming the amount of fund raising maintains at approximately HK$250 million, in the event that the subscription ratio was set at lesser proportion (such as one Offer Share for one Adjusted Share), the subscription price of any Open Offer would have to be higher than the Subscription Price, which would not be acceptable by the Underwriters, and such discount of the Subscription Price to the prevailing market price of the Share cannot be maintained and available to the Qualifying Shareholders.

Having considered that (i) the subscription ratio has to be set with reference to the Subscription Price such that the net proceeds from the Open Offer can be maintained at approximately HK$244.5 million; (ii) the net proceeds of approximately HK$244.5 million from the Open Offer are intended to be used for the Set Off (which would lower the gearing ratio of the Group) and the Group's property investment business; and (iii) the Subscription Price is fair and reasonable as detailed above in the paragraph headed "Basis in determining the Subscription Price", we are of the view that subscription ratio of the Open Offer is fair and reasonable.

As shown on the above table of the Open Offer Comparables, we note that maximum dilutions of the Open Offer Comparables were within a range of 50% to approximately 96.77%, with an average maximum dilution of approximately 68.66%. The maximum dilution of the Open Offer of 80% was slightly higher than the average maximum dilution of Open Offer Comparables but still within the range of maximum dilutions.

Despite the dilution effect by the Open Offer of a maximum of 80.0%, having taken into account that:

(i) the Open Offer would set off the outstanding amount of approximately HK$208.3 million of the Promissory Note and the outstanding balance of the Amount Payable to Shareholder as at the Latest Time for Acceptance of HK$20.0 million, and therefore strengthen the capital base of the Group;

(ii) the Open Offer is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportionate interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company;

(iii) the discount of the Subscription Price was necessary to encourage the Qualifying Shareholders to participate the Open Offer and such discount is above the average discount represented by the Open Offer Comparables as detailed above; and

(iv) the maximum dilution effect only occur when the Qualifying Shareholders do not subscribe for their proportionate Offer Shares,

we consider the possible dilution effect on the Independent Shareholders to be acceptable.

4. Financial effects of the Open Offer

Net tangible asset

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the unaudited consolidated net tangible assets of the Group attributable to owners of the Company was approximately HK$79.6 million as at 31 March 2015. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company would increase to approximately HK$330.8 million as at 31 March 2015 upon completion of the Open Offer.

Upon completion of the Open Offer, the unaudited pro forma adjusted consolidated net tangible assets per Adjusted Share would increase from approximately HK$0.03 to approximately HK$0.09.

5. Whitewash Waiver

As at the Latest Practicable Date, the Concert Group owns, controls or has direction over 1,088,375,571 Shares, representing approximately 37.27% of the existing issued share capital of the Company. In addition to the above, Achieve Prosper also holds the outstanding Convertible Bonds which are convertible into a maximum of 436,046,511 new Shares at the conversion price of HK$0.1720 per Share (subject to adjustment) as at the Latest Practicable Date. Save for the Convertible Bonds, the Concert Group did not hold any outstanding convertible securities, options, warrants or derivative of the Company which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

Achieve Prosper and Wang Xing Qiao have given the Undertakings in favour of the Company, among other things, that: (a) they will subscribe for the 1,085,755,568 Offer Shares and 2,620,000 Offer Shares respectively to which they will be entitled to pursuant to the terms of the Open Offer; (b) the Shares or the Adjusted Shares (as the case may be) comprising their current shareholding will remain registered in their respective name at the close of business at the Record Date as they are on the date of the Underwriting Agreement; and (c) they will procure that the applications in respect of the 1,085,755,568 Offer Shares and 2,620,000 Offer Shares respectively comprising its entitlements under the Open Offer will be lodged with the Registrar by no later than the Latest Time for Acceptance and otherwise comply with the procedures for such acceptance and application as described in the Prospectus Documents.

Achieve Prosper has also undertaken not to exercise the conversion right attaching to the Convertible Bonds from the date of the Underwriting Agreement to the Record Date.

The maximum number of Adjusted Shares which could be taken up by the Concert Group under the Open Offer and the Underwriting Agreement is 2,465,939,061 Adjusted Shares. Based on the number of Shares of 1,088,375,571 held by the Concert Group as at the Latest Practicable Date, and taking into the effect of the Capital Reorganisation, the maximum number of Adjusted Shares held by the Concert Group would be 2,738,032,953, representing approximately 75.0% of the enlarged issued share capital of the Company upon completion of the Capital Reorganisation and the Open Offer.

Assuming:

(a) Achieve Prosper and Wang Xing Qiao subscribes for its entitlement of the Open Offer in full in accordance with the Undertakings;

(b) not all Qualifying Shareholders (other than the Concert Group) take up the Offer Shares to which they are entitled to upon completion of the Open Offer; and

(c) Achieve Prosper takes up such number of Untaken Shares under the Underwriting Agreement which will have the effect of increasing the voting rights of the Concert Group in the Company by more than 2% from the lowest percentage holding of the Concert Group in the Company in the 12-month period ending on and inclusive of the date of taking up of such number of Untaken Shares,

the Concert Group will, as a result of this acquisition of voting rights in the Company, incur an obligation to make a mandatory offer for all the Adjusted Shares other than those held or agreed to be acquired by the Concert Group, unless the Whitewash Waiver is granted.

An application has been made by Achieve Prosper to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll, whereby the Concert Group, and those who are interested in, or involved in, the Open Offer (save for any assured entitlement to the Open Offer as a Qualifying Shareholder), the Underwriting Agreement and/or the Whitewash Waiver, will abstain from voting in respect of all resolution(s) related to the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

Based on our analysis of the benefits and terms of the Open Offer, we consider that the Open Offer is in the interests of the Company and the Independent Shareholders. If the Whitewash Waiver is not approved by the Independent Shareholders at the SGM, the Open Offer will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Open Offer, i.e. setting off the outstanding amount of the Promissory Note and the outstanding balance of the Amount Payable to Shareholder and strengthening the balance sheet of the Group. Accordingly, we are of view that for the purposes of implementing the Open Offer, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is in the interests of the Company and the Independent Shareholders.

RECOMMENDATION

Taking into account the factors and reasons as mentioned in the section headed "Principal factors and reasons considered" above, including:

(i) the proceeds from the Open Offer can set off the outstanding amount of the Promissory Note and the outstanding balance of the Amount Payable to Shareholder, and strengthen the financial position of the Group;

(ii) taking into account the benefits and cost of each of the alternatives, the Open Offer represents an appropriate means for fund raising to strengthen its balance sheet without facing the increasing interest rates and minimise the cost of fund raising;

(iii) the discount of the Subscription Price to the market price is necessary to encourage the Qualifying Shareholders to participate in the Open Offer;

(iv) the discount of Subscription Price to the market price and to the net assets value per Adjusted Share is fair and reasonable;

(v) given the Subscription Price, the current subscription ratio of the Open Offer is necessary to maintain the net proceeds from the Open Offer at the current level of approximately HK$244.5 million for the Set Off and the Group's property investment business;

(vi) the underwriting commission of the Open Offer is fair and reasonable;

(vii) the absent of application for excess offer shares which can lower additional costs is in line with the general market practice;

(viii) the Open Offer is conducted on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportionate interests in the Company and allows the Qualifying Shareholders to participate in the future growth of the Company, and the maximum dilution effect only occur when the Qualifying Shareholders do not subscribe for their proportionate Offer Shares,

we consider that the terms of the Open Offer and the Underwriting Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer and the entering of the Underwriting Agreement are in the interests of the Company and the Independent Shareholders. Accordingly, we would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolutions to approve the Open Offer and the Underwriting Agreement to be proposed at the SGM.

The Open Offer are conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the Open Offer will not proceed. Having taken into account our recommendation on the Open Offer above, we consider the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders. Accordingly, we would advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution to approve the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Nuada Limited

Kim Chan
Director

Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 16 years of experience in corporate finance industry.