TC CAPITAL
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11 August 2016

The Independent Board Committee and the Independent Shareholders of
Artini China Co. Ltd.

Dear Sir/Madam,

(1) MAJOR TRANSACTION RELATING TO THE ACQUISITION OF ENTIRE INTEREST IN THE TARGET COMPANY; (2) CONNECTED TRANSACTION RELATING TO THE SUBSCRIPTION FOR NEW SHARES BY A CONTROLLING SHAREHOLDER; AND (3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder, the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular of Artini China Co. Ltd. (the "**Company**") dated 11 August 2016 issued to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

On 13 April 2016 (after trading hours), the Purchaser (an indirectly wholly-owned subsidiary of the Company), the Vendors and the Guarantor entered into the Acquisition Agreement pursuant to which the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares (representing all the issued shares of the Target Company) for an aggregate consideration of HK$160 million. In addition, on 13 April 2016 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company has conditionally agreed to allot and issue and the Subscriber has conditionally agreed to subscribe for a total of 2,440,000,000 Subscription Shares at the price of HK$0.074 per Subscription Share.

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As one or more of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM. In addition, given the Acquisition and the Subscription are inter-conditional, the Company voluntarily complies with the reporting, announcement and Independent Shareholders' approval requirements in respect of the Acquisition under Chapter 14A of the Listing Rules.

The Subscriber is a controlling shareholder of the Company and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the approval of the Independent Shareholders by way of poll at the SGM.

As at the Latest Practicable Date, the Subscriber held 1,085,267,988 Shares, representing approximately 42.23% of the voting rights of the Company. The Subscriber is wholly and beneficially owned by Mr. Tse who, in additional to his shareholding through the Subscriber, also held 14,824,000 Shares, representing approximately 0.58% of the voting rights of the Company as at the Latest Practicable Date. Upon completion of the Subscription, 2,440,000,000 Subscription Shares will be issued to the Subscriber, and the interests of the Concert Group in the voting rights of the Company will be increased from approximately 42.81% to approximately 70.66% (assuming that no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to completion of the Subscription). Accordingly, the Concert Group, in the absence of the Whitewash Waiver, would be obliged to make a general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by them.

An application to the Executive for the Whitewash Waiver has been made by the Subscriber. The Executive has agreed, subject to the approval of the Independent Shareholders at the SGM by way of poll and such other condition(s) as may be imposed by the Executive, to grant the Whitewash Waiver.

Given the Subscriber is beneficially wholly-owned by Mr. Tse and the Acquisition and the Subscription are inter-conditional, Mr. Tse, the Subscriber, their respective associates and parties acting in concert with any of them shall abstain from voting in respect of the resolution(s) approving the Acquisition, the Subscription (including the grant of a specific mandate for the issuance of new Shares pursuant to the Subscription) and the Whitewash Waiver at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lau Fai Lawrence, Mr. Lau Yiu Kit and Mr. Zeng Zhaohui, has been formed to give advice and recommendation to the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder, the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

We have been appointed by the Company to advise (i) the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Acquisition Agreement and the Subscription Agreement are on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole; (ii) the Independent Board Committee and the Independent Shareholders as to whether or not the Whitewash Waiver is fair and reasonable and in the interests of the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the Acquisition Agreement and the transactions contemplated thereunder, the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of us.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Circular; (ii) the Acquisition Agreement and the Subscription Agreement; (iii) the annual report of the Company for the years ended 31 March 2014 (the "**2014 Annual Report**"), 31 March 2015 (the "**2015 Annual Report**") and 31 March 2016 (the "**2016 Annual Report**"); (iv) the accountants' report on the Target Company for the period from 18 June 2013 (i.e. date of incorporation) to 31 December 2013, for the years ended 31 December 2014 and 31 December 2015 and for the three months ended 31 March 2015 and 31 March 2016 as set out in Appendix II to the Circular (the "**Accountants' Report of the Target Company**"); and (v) relevant market data and information available from the website of Stock Exchange. We have also relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the management of the Company. We have also studied the relevant market information and trends of the related industry. We have assumed that all such information, opinions, facts and representations, which have been provided to us by the Directors or the management of the Company, for which they are fully responsible, were true, accurate and complete in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

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

THE ACQUISITION

In formulating our opinions in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

I. Background to and reasons for entering into the Acquisition Agreement

1. *Background information of the Group, the Purchaser, the Vendors and the Target Company*

   a. Information on the Group and the Purchaser

   As stated in the Letter from the Board, the Company is an investment holding company. The Group is principally engaged in the development, design and export of fashion accessories and gifts and sales of own brand fashion accessories. The Purchaser is an indirect wholly-owned subsidiary of the Company and is principally engaged in the trading of fashion accessories and investment holding.

   As discussed with the management of the Company, the business of the Group has long been experiencing difficulties due to the weakened consumer sentiment caused by economic uncertainties in the PRC and sluggish performance of the European economy. In the latest three consecutive financial years that we have reviewed, the Group recorded substantial amount of losses. In order to achieve a business model breakthrough and strength its corporate image in the future, the Group continued to enhance the establishment and development of its e-commerce platform so as to devise new business models targeting Internet users. As stated in the 2016 Annual Report, the Group will promote the transformation of the "**Internet Plus**" innovation, and tried to seek suitable platforms, software companies, technical development personnel or other relative resources in the market, which would enable the Group's business operations to deeper integrate to internet, and bring the high-tech and big data to the conventional fashion jewelry industry.

Set out below is the financial information as extracted from the 2014 Annual Report, the 2015 Annual Report and the 2016 Annual Report:

	For the year ended 31 March		
	2016	**2015**	**2014**
	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	46,907	77,707	173,236
Loss before tax	(100,019)	(90,972)	(105,578)
Loss for the year	(100,030)	(90,990)	(108,320)

	As at 31 March		
	2016	**2015**	**2014**
	(Audited)	(Audited)	(Audited)
	HK$'000	*HK$'000*	*HK$'000*
Total assets	106,716	156,062	126,098
Total liabilities	49,397	25,953	66,695
Net assets	57,319	130,109	59,403
Pledged bank deposits and cash and cash equivalents	10,858	122,822	11,717

As depicted by the table above, the Group has recorded net loss for the three years ended 31 March 2014, 31 March 2015 and 31 March 2016.

According to the 2014 Annual Report and the 2015 Annual Report, the net loss of the Group for the two years ended 31 March 2015 was mainly attributable to (i) a decrease in turnover of the Group of approximately 55.1% from approximately HK$173.2 million for the year ended 31 March 2014 to approximately HK$77.7 million for the year ended 31 March 2015; (ii) a significant amount of selling and distribution expenses of the Group of approximately HK$30.6 million and HK$97.8 million for the years ended 31 March 2014 and 2015 respectively, which represented approximately 17.7% and 125.9% of the respective turnover, as a result of promotion for the retailing business; and (iii) a significant amount of administrative expenses of the Group of approximately HK$78.3 million and HK$39.9 million for the years ended 31 March 2014 and 2015 respectively, which represented approximately 45.2% and 51.3% of the respective turnover. Administrative expenses of the Group primarily comprised fixed assets depreciation, staff costs (including directors' remuneration) and legal and professional fee. The decrease in administrative expenses of the Group for the year ended 31 March 2015 as compared with the previous year was mainly due to the decrease in staff costs (including directors' remuneration). There was a decrease in staff as the Group disposed its manufacturing arms in December 2014.

According to the 2016 Annual Report, the increase of loss of the Group for the year ended 31 March 2016 was attributable to (i) the decrease in the Group's turnover of approximately 39.6% for the year ended 31 March 2016 as compared to that of the year ended 31 March 2015, mainly due to economic uncertainties in the PRC and the restructuring of the location of retailing points; (ii) the increase in selling expenses as a result of continuous promotion of the retailing business in order to maintain the Group's brand; (iii) the effect of share based payment expenses arising from the grants of share options by the Company in July and November 2015; (iv) losses on disposals of the investment properties for the year ended 31 March 2016 (as compared to gains on disposal of properties recorded for the year ended 31 March 2015); and (v) no significant gain on disposals of the subsidiaries for the year ended 31 March 2016 (as compared to significant gains on disposals of subsidiaries recorded for the year ended 31 March 2015).

Total assets and net assets of the Group were generally shrinking in the three years ended 31 March 2016, from approximately HK$126.1 million and HK$59.4 million as at 31 March 2014 to approximately HK$106.7 million and HK$57.3 million as at 31 March 2016, respectively. The decrease in total assets and net assets was mainly due to continuous sub-optimal operating performance of the Group. Pledged bank deposits and cash and cash equivalents of the Group were also shrinking over the period, from approximately HK$11.7 million as at 31 March 2014, increased to approximately HK$122.8 million as at 31 March 2015 and then decreased to approximately HK$10.9 million as at 31 March 2016. The increase in pledged bank deposits and cash and cash equivalents of the Group as at 31 March 2015 was mainly due to (i) proceeds from an open offer undertaken by the Company in November 2014; (ii) proceeds from sales of office premise in Hong Kong; and (iii) the proceeds from disposal of TCK Company Limited and its wholly owned subsidiary, the manufacturing arms of the Group, during the year ended 31 March 2015. The decrease in pledged bank deposits and cash and cash equivalents of the Group as at 31 March 2016 was mainly due to the losses in the operation for the year ended 31 March 2016.

All net proceeds from the placing of the Shares in the Company, which was completed in September 2015, had been utilised.

b. Information on the Vendors

As stated in the Letter from the Board, the principal business of each Vendor is investment holding. Mr. Zhuang is the sole director and ultimate legal and beneficial owner of each Vendor. The Vendors and Mr. Zhuang are Independent Third Parties and as at the Latest Practicable Date, did not hold any Shares.

c. Information on the Target Company

As set out in the Letter form the Board, the Target Company is a company incorporated in Hong Kong with limited liability that is principally engaged in developing and selling software related applications which can be purchased by businesses to facilitate e-commerce of their products and services. As at the Latest Practicable Date, the Target Company was owned as to 94% by Stand Charm and 6% by Dragon Max.

The management of the Company advised that the Target Company commenced operation in September 2013. The management of the Target Company has over five years' experience in developing software related application for internet retail business. Three of the software developed by the Target Company, namely PrimeView 微信分銷管理平臺軟件 2.0.0 (PrimeView WeChat Sales Management Platform Software 2.0.0*), PrimeView 微信即時通訊平臺軟件 2.0.0 (PrimeView WeChat Instant Messaging Software 2.0.0*) and PrimeView 電子商城平臺軟件 2.0.0 (PrimeView Electronic Emporium Platform Software 2.0.0*) had been registered with 中華人民共和國國家版權局 (National Copyright Administration of the People's Republic of China) in February 2016.

As stated in the Letter from the Board, as at the Latest Practicable Date, the existing product of the Target Company was 易銷E店 (Easy Sales Electronic Shop*) ("**Easy Shop**"), which is a multi-layer distribution system designed for use with WeChat, a telecommunications software developed primarily for smart phone. Through Easy Shop, WeChat users can engage as the distributor of an enterprise and market a product to friends in their circle. An enterprise can manage the distributors more effectively and efficiently by obtaining sales record of the distributors, the sales network of the distributors and monthly commission of the distributors through the backstage system of Easy Shop. Besides, Easy Shop can improve the seamless shopping experience across multiple channels, including both online and offline, to the customer. The software of Easy Shop can be modified for applying in other mobile shopping apps.

The management of the Company believes that these marketing tools represent a new trend of e-commerce with the potential to boost the sales of the end sellers, who are the target customers of the Target Company. Moreover, the Target Company has the resources to develop software for the intellectual technology to be installed in the fashionable and smart accessories which the Group plans to promote as mentioned in the paragraph headed "Reasons and benefits for entering into the Acquisition Agreement" below.

Although the Target Company currently has only one product, in view of that the management of the Target Company has over five years of experience in developing software related application for internet retail business (the management of the Company advised that the 5 employees of the Target Company who have more than five years of experience in developing software related application have developed 8 applications), the Directors believe the Target Company can still develop and launch new software related application that is compatible with smart accessories, which can be (i) used by the Company to further expand its internet retail business or create synergy for the Group's existing business such as enhancement on the platform for the Group's existing sales, obtaining a better understanding on the customer's needs and spending behavior and further development on smart jewellery accessories; and (ii) sold to other target customers to make profits.

The Company has no plan to terminate the employment of any other employees or other personnel of the Target Company after the completion of the Acquisition, and will continue to operate the Target Company's business.

Financial information and business model

Set out below is certain financial information of the Target Company as extracted from the Accountants' Report of the Target Company, prepared in accordance with generally accepted accounting standards in Hong Kong, which is included in Appendix II to the Circular:

	For the period from 18 June 2013 (date of incorporation) to 31 December 2013 (audited) *(HK$'000)*	For the year ended 31 December 2014 (audited) *(HK$'000)*	For the year ended 31 December 2015 (audited) *(HK$'000)*	For the three months ended 31 March 2015 (unaudited) *(HK$'000)*	2016 (audited) *(HK$'000)*
Turnover	11	1,162	12,295	–	2,328
(Loss)/profit before tax	(11)	(52)	9,659	(107)	1,108
(Loss)/profit for the period/year	(11)	(52)	8,095	(107)	925

The audited net assets of the Target Company as at 31 December 2015 and 31 March 2016 was approximately HK$8.2 million and HK$9.1 million respectively.

As depicted by the table above, turnover of the Target Company increase from approximately HK$11,000 for the period from 18 June 2013 (date of incorporation) to 31 December 2013 to HK$1,162,000 (all of which is revenue from sale of goods (i.e. sale of mobile phones installed with Easy Shop)) for the year ended 31 December 2014 and further to approximately HK$12,295,000 (of which revenue from sale of goods (i.e. sale of mobile phones installed with Easy Shop) is approximately HK$1,148,000 and provision of software-related application developing service (i.e. sale of Easy Shop together with the provision of maintenance services on Easy Shop) is approximately HK$11,147,000)) for the year ended 31 December 2015, representing an increase of approximately 958.1%. Turnover of the Target Company increased from nil for the three months ended 31 March 2015 to approximately HK$2,328,000 (all of which is provision of software-related application developing service (i.e. sale of Easy Shop and revenue of maintenance services on Easy Shop with existing customers)) for the three months ended 31 March 2016. The increase in turnover for the year ended 31 December 2014 and 31 December 2015 and for the three months ended 31

March 2016 was mainly due to (i) the Target Company commenced its operation in September 2013 and generated its revenue largely starting from May 2014; and (ii) the Target Company had successfully marketed its products to customers in a number of industries, including frozen and processed food distribution, as well as merchandise and jewellery retail for the year. In 2014, the Target Company targeted the individual seller in WeChat, so it sold mobile phones installed with Easy Shop to a wholesaler of mobile phones. In 2015, the Target Company targeted small medium enterprises and these customers will afford the maintenance fees. Thus the Target Company had secured a number of software maintenance contracts for the year ended 31 December 2015 and the three months ended 31 March 2016. The Target Company recorded a profit of approximately HK$8,095,000 for the year ended 31 December 2015 as compared to a loss of approximately HK$52,000 for the year ended 31 December 2014 and a loss of approximately HK$11,000 for the period from 18 June 2013 (date of incorporation) to 31 December 2013. In addition, the Target Company recorded a profit of approximately HK$925,000 for the three months ended 31 March 2016 as compared to a loss of approximately HK$107,000 for the three months ended 31 March 2015. The Target Company had a profit for the year ended 31 December 2015 and for the three months ended 31 March 2016 was mainly due to the increase in turnover while most of the operating costs of the Target Company was fixed cost. The relatively modest net profit of the Target Company for the three months ended 31 March 2016 was mainly influenced by (i) the decrease in monthly maintenance income, as there were slight adjustments on the monthly maintenance fee after the renewal of software maintenance contracts with customers in January 2016; and (ii) the increase in monthly staff costs from approximately HK$200,000 in December 2015 to approximately HK$320,000 in March 2016, as more sale personnel and technical staff who are responsible for the maintenance services and the product development has been employed in the first quarter of 2016 in order to cope with the future development of the Target Company.

As stated in the Letter from the Board, for the period from 18 June 2013 (date of incorporation) to 31 December 2014, there is no revenue generated from the software-related application development service segment as none of the customers who bought the mobile phone which installed with Easy Shop had entered into software maintenance contract with the Target Company.

As the Target Company expected that the revenue from software-related application development service will be the major income and account for a significant proportion of its revenue in the next few years when compared with the revenue from sales of goods, for the year ended 31 December 2015, the Target Company is focusing on soliciting customers who would like to use the software maintenance service by entering software maintenance contracts with them. At the same time, the Target Company were also selling mobile phone which installed with Easy Shop to those customers. Eventually, the Target Company can (i) maintain a long term relationship with its existing customers by providing maintenance services to them; and (ii) generate stable revenue from such customers in the future.

From year 2016 onwards, other than selling the mobile phone installed with Easy Shop, the Target Company also sold Easy Shop as a standalone product to individual end-users directly. The Target Company will provide individual end-users with an user manual and online assistance to assist them to install Easy Shop by themselves. With this new selling channel, the Target Company believed that the standalone products can target new customers who desire flexibility in hardware, such as mobile phones and computers, and eventually maximize the number of customers.

For the period from 18 June 2013 (date of incorporation) to 31 December 2013, the two years ended 31 December 2015, and the three months ended 31 March 2015 and 2016, revenue generated from sales of goods were approximately HK$10,906, HK$1,162,005, HK$1,147,923, nil and nil respectively. After the successful development of Easy Shop in 2013, the Target Company started outsourcing the production process of installing Easy Shop in the mobile phones to third party manufacturers and subsequently the Target Company purchased the goods from such manufacturers and resold to its customer. Those mobile phones were not manufactured by the Target Company. For the period from 18 June 2013 (date of incorporation) to 31 December 2013, the two years ended 31 December 2015 and the three months ended 31 March 2015 and 2016, 8, 500, 524, nil and nil mobile phones were respectively sold.

In 2014, the Target Company had only one customer, which was a wholesaler of mobile phones. In 2015, the Target Company had four new customers which (i) were small and medium enterprises from different industries, including frozen and processed food industry and jewellery industry; and (ii) engaged the Target Company to provide maintenance services. While these customers entered into the software maintenance contracts (including sale of Easy Shop) with the Target Company and paid monthly maintenance fee to the Target Company, the Target Company also sold to them mobile phones which installed with the Easy Shop. For the three months ended 31 March 2016, the Target Company renewed the software maintenance contracts with four existing customers. Also, for the three months ended 31 March 2016, it also sold the Easy Shop as a standalone product to five individual end-users. For the period from 18 June 2013 (date of incorporation) to 31 December 2013, the two years ended 31 December 2014 and 2015, and the three months ended 31 March 2015 and 2016, revenue generated from software-related application development service were nil, nil, approximately HK$11,147,260, nil and approximately HK$2,328,309 respectively.

As the maintenance services provided by the Target Company include (i) modifying the software in response to the markets needs from time to time (whereas the software prohibits any modification without authorisation by the Target Company); and (ii) providing training to customers' staff, the nature of software maintenance contract is different from license agreement for its customers to use Easy Shop. Once the Easy Shop is installed in the mobile phone, the customer can access to it without paying any further license fee.

The management of the Company advised that the Target Company had four and five customers as at 31 December 2015 and 31 May 2016 respectively. To the best knowledge of the Directors, all customers of the Target Company are Independent Third Parties. Four of these five existing customers of the Target Company started the relationship with the Target Company in 2015.

Shareholders should note that the Target Company currently has only one product and five enterprises customers as at 31 May 2016 and thus its operation performance is currently solely reliant on this product and few customers. The future business prospects of the Target Company depends on a number of factors including in the following: (i) the continuous success of the Target Company's product; (ii) its successful development and launch of new software related application that is compatible with smart accessories; (iii) the renewal of the maintenance contracts with the existing customers; and (iv) its success in securing new customers in order to minimize the risk of customer concentration. There is no assurance that the existing software of the Target Company will continue to be well-received by the market, or that the Target Company will be able to successfully develop and launch new software that is well-received by the market or that the Target Company will be able to maintain its relationship with the customers or explore and secure new customers, and in the event the existing/new software developed by the Target Company is not well-received by the market and/or its relationship with its customers cannot be maintained, and/or its customer base cannot be strengthened, the prospect, financial conditions and results of operations of the Enlarged Group will be materially and adversely affected.

Industry overview

Overview of the online retailing in Asian markets

According to a report namely "2015-16 Outlook for the retail and consumer products sector in Asia" (the "**2015-16 Outlook Report**") issued by PricewaterhouseCoopers Limited in February 2015, Asian markets, especially China, are driving growth in e-commerce globally. They are also well primed for sales made using mobile devices (m-commerce) and social media (s-commerce). The latter is still nascent, but interest has been lodged by Asian firms. Japanese e-commerce firm Rakuten has invested heavily in online pinboard community Pinterest, with a view to using the network as a storefront for popular items. Alibaba's purchase of a US$586 million stake in Sina Weibo in 2013, a Chinese Twitter-like service, has highlighted the value that social media could hold for online retailers.

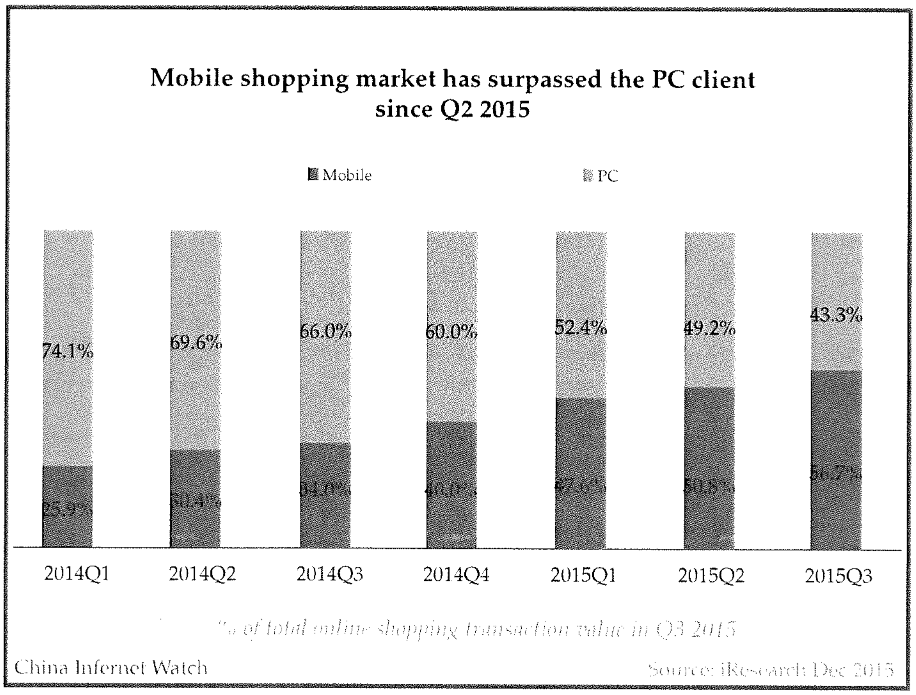
According to the 2015-16 Outlook Report, McKinsey, a management consultancy, expects Chinese e-commerce sales to reach US$650 billion by 2020. In China, mobile payments accounted for 8% of total online transactions in 2013, up from just 1.5% in 2011. Data from iResearch show that 26% to 30% of web visits (through browsers and apps) are made by smartphones and tablets, and mobile devices already contribute to 15% of orders. According to the 2015-16 Outlook Report, if the current trend continues, there is a high likelihood that mobile payments will account for 20%-30% of online transactions by 2016.

According to the 2015-16 Outlook Report, Hong Kong's heavily-concentrated population and high level of Internet penetration make it a promising prospect for online retail. A culture that favours bargain-hunting and a hands-on shopping experience will mean that a large amount of shopping continues to be done offline. Yet, couponing and Groupon-type sites, as well as social media or mobile applications linking location services to special offers, are increasingly blurring the line between online and bricks-and-mortar retail.

Overview of the China mobile shopping market and the China mobile social networking Apps

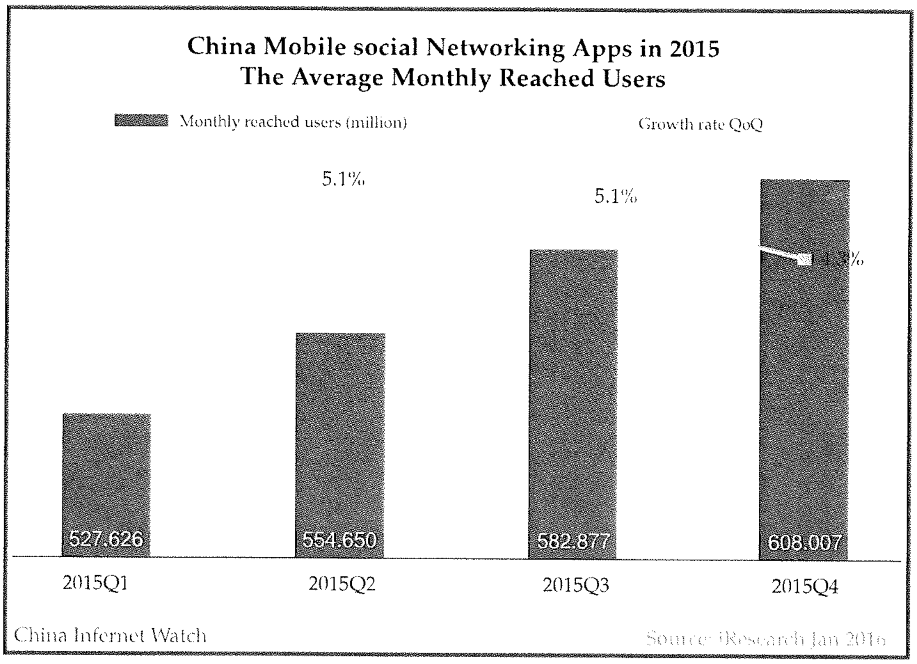
As we have not found any official statistics on mobile shopping market and the mobile social networking Apps in China, we have reviewed two articles on the website of China Internet Watch. According to the website of China Internet Watch, China Internet Watch is part of Incitez Pte. Ltd. China Internet Watch shares China market intelligence, online insights, China Internet statistics, online trends and marketing strategies. According to the website of Incitez Pte. Ltd. Incitez Pte. Ltd. is a data-driven digital marketing company based in Singapore with another office in China providing digital strategy consulting and digital development, with experts in digital marketing for over 10 years Having assessed the background of China Internet Watch, we consider it is appropriate and fair to quote the articles.

According to an article namely "China's Mobile Shopping Exceeded US80 billion in Q3 2015" dated 25 January 2016 issued on the website of China Internet Watch, China's mobile shopping market reached more than RMB519.99 billion with an increase of 120.9% quarter-on-quarter in third quarter of 2015 according to iResearch. Mobile shopping market has developed quickly in China. The growth rate of mobile shopping came faster than the overall online shopping market in third quarter of 2015. Mobile shopping transaction sales reached RMB519.99 billion in third quarter of 2015 accounting for 56.7% of total internet shopping sales.



Mobile shopping continued to reach China internet users. Transactions on mobile client accounted for 56.7% overall online sales with 5.9% higher compared to the previous quarter and 22.7% higher compared to the same period last year.

According to an article namely "Top 6 China Mobile Social Networking Apps" dated 7 April 2016 issued on the website of China Internet Watch, the average monthly reached users by mobile social networking apps in China exceeded 608 million in fourth quarter of 2015 according to data from iResearch. China's top 6 mobile social apps by the total number of monthly reached users in fourth quarter of 2015 are WeChat/Weixin (535 million), QQ (496 million), Momo (56.9 million), Aliwangwang (27.4 million), Yixin (14.4 million), and DDChong (8.83 million; formerly called Laiwang).



According to an article namely "WeChat is the cornerstone of e-commerce in China" published on the website of WeChat Marketing Experts, Chinese internet users shift from computers to cell phones. In 2016 Chinese New Year, WeChat has seen a total of 8.08 billion transactions via red envelopes which is almost double what PayPal did 4.9 billion transactions in entire year 2015.

2. Reasons and benefits for entering into the Acquisition Agreement

As stated in the 2016 Annual Report, in the past, the retail market continued to deteriorate without any abating. Because of the high rental of shopping mall spaces and declining customer flows, the management of the Company has been exploring means to expand its distribution channel outside of the Group's existing retail business model.

As stated in the 2016 Annual Report, with the rapid development of electronic commerce in recent years, it brought the huge and profound influence to brick and mortar business. The internet is constantly permeating traditional industries, and blurring the divisions across industries. The management of the Company considers that the integration between traditional industry and e-commerce represents the general market trend. Therefore, the Group has promoted the transformation of "Internet Plus" innovation, and tried to seek suitable platforms, software companies, technical development personnel or other relative resources in the market, which would enable the Group's business operations to deeper integrate to internet, and bring the high-tech and big data to the conventional fashion jewelry industry. The completion of the Acquisition is expected to bring synergy with the Group's existing business, such as enhancement on the platform for the Group's existing online sales, obtaining a better understanding on the customer's needs between both sides in its retail and internet sales and further development on smart jewellery accessories. The management of the Company believes that the new concept of the combination of "Internet + Traditional accessories + Smart wearable + Big health + Big data" (i.e. by using traditional accessories with smart wearable functions to provide health suggestions to customers based on users' data through the Internet in order to cater for the trends of healthy life) will be a broad prospective blue ocean in the future. In order to implement such new concepts, the Target Company will assist the Company in developing softwares to transmit the data, such as the amounts of calories consumed each day collected from the smart wearable into the health information which can be used by the customers in their mobile phone and enable them to have a better understanding about their personal health, so that they can improve their health accordingly. The Company will continue to review its retail business model after completion of the Acquisition and will consider means to optimise deployment of resources as and when appropriate.

As stated in the Letter from the Board, with the growing popularity of online shopping, the Company considered that it is necessary to expand its internet retail market. The Company has over three years' experience in internet retail business prior to the entering into the Acquisition Agreement. The Company has considered expanding its internet retail business by outsourcing or acquiring the relevant software from the market. However, having considered that (i) the Company may not have full control in operation and efficient software customization if it is outsourced; and (ii) the software require upgrades from time to time and/or continuous development in order to meet the fast-changing environment, the Directors are of the view that acquiring a company with existing technology, software and expertise is the most appropriate way to expand its internet retail market.

By using Easy Shop, the existing software developed by the Target Company, the Directors are of the view that the operation of the Company's internet retail business can be improved and expanded in below several ways:

(i) engaging WeChat users as the Company's distributors to promote its products, which can boost its internet sales business;

(ii) analysing customer's behavior and thereby improving the Company's ability to assess and react to changes in consumer demand, preferences and tastes; and

(iii) strengthening the Company's inventory management and order management by reducing lead time.

Based on the above, the Directors are of the view that the software and related applications developed by the Target Company will enable the Group to expand its internet retail business, which would increase the sales of the Group's products and in turn improve the competitiveness of the Group and is essential for the sustainable development of the Group in the long run. Moreover, the Directors expected that there will be synergy to be created for the Group's existing business after completion of the Acquisition, such as enhancement on the platform for the Group's existing online sales, obtaining a better understanding on the customer's needs and spending behavior and further development on smart jewellery accessories.

As discussed with the management of the Company, the Company considers the Acquisition would enable the Company to expand its business into application software industry, especially application software applied in mobile shopping. Through the Acquisition, the Group would be able to generate income from sale of goods (i.e. sale of smartphone installed with Easy Shop) and/or provision of software-related application developing service (i.e. sale of Easy Shop and/or provision of maintenance services to the platform). The Company confirmed that they will not change the above existing business model of the Target Company immediately after the completion of the Acquisition.

Having taken into account (i) the Acquisition is in line with the Group's business development strategy as mentioned above, i.e. (a) the Target Company will enable the Group to expand its internet retail business and can develop software for the intellectual technology to be installed in the fashionable and smart female health products to be developed by the Group; and (b) the Acquisition would enable the Company to expand its business into application software industry, especially application software applied in mobile shopping; and (ii) the Target Company was making profit for the year ended 31 December 2015 and the three months ended 31 March 2016 as mentioned in the paragraph headed "Information on the Target Company" above, we consider that the entering into the Acquisition Agreement is fair and reasonable insofar as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole, despite the entering into the Acquisition Agreement being not in the ordinary and usual course of business of the Group.

II. Principal terms of the Acquisition Agreement

On 13 April 2016 (after trading hours), the Purchaser, the Vendors and the Guarantor entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell the Sale Shares (representing all the issued shares of the Target Company) for an aggregate consideration of HK$160 million. The principal terms of the Acquisition Agreement have been set out in the Letter from the Board and are summarized below.

Date: 13 April 2016 (after trading hours)

Parties: Artini Sales Company Limited (as the Purchaser)

Stand Charm and Dragon Max (as the Vendors)

Mr. Zhuang (as guarantor of the Vendors' obligations under the Acquisition Agreement)

Assets being acquired: The Sale Shares, representing all the issued shares of the Target Company.

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company.

Consideration of the Acquisition Agreement: The consideration for the Acquisition under the Acquisition Agreement is HK$160 million in total and all payments will be apportioned between Stand Charm and Dragon Max as to 94% and 6% respectively, proportionate to their respective shareholding in the Target Company. The consideration is payable to a designated account of the Vendors in three installments as follows:

(i) HK$100 million within 14 days of completion of Subscription;

(ii) HK$30 million within 14 days after completion of and an agreement being reached between the Purchaser and the Vendors on the Target Company's June 2016 Accounts and provided that the profit after tax attributable to shareholders based on such unaudited management accounts is not less than HK$5 million; and

(iii) HK$30 million within 14 days after completion of and an agreement being reached between the Purchaser and the Vendors on the Target Company's December 2016 Accounts for the full year ending 31 December 2016 and provided that the profit after tax attributable to shareholders is not less than HK$11 million.

For the avoidance of doubt:

(i) the second installment of the consideration for the Acquisition will only be payable when (a) the Target Company's June 2016 Accounts is available and has been agreed upon by the Purchaser and the Vendors; and (b) the profit after tax attributable to the shareholders of the Target Company as set out in the Target Company's June 2016 Accounts is not less than HK$5 million. As at the Latest Practicable Date, the Vendors had prepared the Target Company's June 2016 Accounts, the contents of which were still pending agreement by the Company for the purpose of the Acquisition Agreement; and

(ii) the third installment of the consideration for the Acquisition will only be payable when (a) the Target Company's December 2016 Accounts is available and has been agreed upon by the Purchaser and the Vendors; and (b) the profit after tax attributable to shareholders of the Target Company as set out in the Target Company's December 2016 Accounts is not less than HK$11 million.

Further updates in respect of the determination of the consideration under the Acquisition Agreement will be disclosed by the Company by way of an announcement or disclosure in its annual report as and when appropriate.

Conditions precedent: Completion of the Acquisition is conditional upon, among other things, upon the fulfillment of the following conditions precedent:

(i) the Whitewash Waiver being granted by the Executive;

(ii) all the conditions precedent under the Subscription Agreement (except the satisfaction of conditions precedent under the Acquisition Agreement) having been satisfied (including, among other things, the approval by the Independent Shareholders of the Acquisition Agreement and the transactions contemplated thereunder);

(iii) each key employee of the Target Company (including Mr. Zhuang) as specified in the Acquisition Agreement (none of whom was a Shareholder as at the Latest Practicable Date) having signed an employment contract with the Purchaser or its nominee in the form and substance satisfactory to the Purchaser and effective on the date of completion of the Acquisition;

(iv) the Purchaser having completed the financial and legal due diligence review on the Target Company and being satisfied with the results of such review in all aspects;

(v) all necessary approvals and/or consents in relation to authorizing the execution, delivery and performance of the Acquisition Agreement and the transactions contemplated thereunder having been obtained by the Vendors and/or the Target Company;

(vi) the consummation of the transactions contemplated under the Acquisition Agreement not having been restrained, enjoined or otherwise prohibited by any applicable laws and regulations, any order, injunction, decree or judgment of any court or other governmental authority;

(vii) all representations, warranties and undertakings given by the Vendors under the Acquisition Agreement remaining true, accurate and complete, and none of the provisions of the Acquisition Agreement having been breached in any material respect; and

(viii) there being no material adverse change in the financial position, business or operations of the Target Company.

Any of the above conditions precedent (other than in paragraphs (i) and (ii) above) can be waived by the Purchaser.

If all of the conditions precedent set out in the Acquisition Agreement have not been fulfilled and/or waived (as the case maybe) on or before the Long Stop Date or such other date as may be agreed by the Vendors and the Purchaser, each of the Vendors and the Purchaser has the right to terminate the Acquisition Agreement (other than the provisions in relation to, among others, confidentiality, notice and governing law, which shall survive) and thereafter no party shall have any liability save for antecedent breaches. As at the Latest Practicable Date, condition (v) set out above has been fulfilled.

Completion of the Acquisition: Completion of the Acquisition will, subject to all the conditions precedent set out above (to the extent not waived) being fulfilled, take place on the fourth Business Day after the date of the fulfillment or waiver of such conditions precedent or such later date as the parties to the Acquisition Agreement may agree in writing.

As stated in the Letter from the Board, Mr. Zhuang is one of the key employees of the Target Company. The management of the Company advised that each key empolyee of the Target Company will sign the employment contract in the form provided by the Company before the completion of the Acquisition. The management of the Company further advised that the purpose of such arrangement is to ensure smooth operations of the Target Company immediately after the Completion and the Company did not take into account of such arrangement in determining the consideration for the Acquisition.

III. Evaluation of the consideration for the Acquisition

As stated in the Letter from the Board, the consideration for the Acquisition was arrived at based on normal commercial terms after arm's length negotiation between the Purchaser and the Vendors with reference to, among the other things, (i) the historical financial performance of the Target Company; (ii) the growth and development potential and prospect of the Target Company, having considered the fact that the Target Company (a) was making profit for the year ended 31 December 2015 and the three months ended 31 March 2016; (b) has stable monthly maintenance income from software maintenance contract which are renewable annually; and (c) has the resources to develop software related application that is compatible with smart accessories; (iii) the anticipated synergy to be created for the Group's existing business after completion of the Acquisition, such as enhancement on the platform for the Group's existing online sales, obtaining a better understanding on the customer's needs and spending behavior and further development on smart jewellery accessories; and (iv) the historical price-to-earnings ratio of selected comparable companies that (a) are currently listed on the Main Board of the Stock Exchange; and (b) are primarily engaged in software related application business in Hong Kong and the PRC.

Given the fact that (i) at 12 April 2016, the historical price-to-earning ratio of the comparable companies mentioned above in 2015 ranged from approximately 4.6 times to 53.1 times, with the average of approximately 28.0 times; (ii) the Target Company's business is expected to bring synergy with the Group's existing business after completion of the Acquisition as the Company intend to develop its internet retail business with the Target Company with a view to improving the sale of the Group's products and in turn the profitability and the competitiveness of the Group which are essential for the sustainable development of the Group in the long run, the Directors are of the view that the implied price-to-earning ratio of approximately 19.8 times based on the net profit of the Target Company for the year ended 31 December 2015, is fair and reasonable. Given the major feature of the above selected comparable companies are similar to that of the Target Company, i.e. all of them are primarily engaged in software related application business in Hong Kong and the PRC, we concur with the Company's selection basis of the above comparable companies.

As stated in the Accountants' Report of the Target Company, the Target Company recorded a revenue of approximately HK$1,162,000 for the year ended 31 December 2014, all of which is revenue from sale of goods, i.e. sale of mobile phones installed with Easy Shop. The Target Company recorded a revenue of approximately HK$12,295,000 for the year ended 31 December 2015, of which revenue from sale of goods (i.e. sale of mobile phones installed with Easy Shop) is approximately HK$1,148,000 and provision of software-related application developing service (i.e. sale of Easy Shop together with the provision of maintenance services on Easy Shop) is approximately HK$11,147,000. The Target Company signed four contracts for the provision of software-related application developing service for the year ended 31 December 2015. As stated in the Letter from the Board, the Target Company has stable monthly maintenance income from software maintenance contracts which are renewable annually. The management of the Company advised that it is the sales strategy of the Target Company to sell the application software together with the maintenance services and its target customers are small medium enterprises who can afford the maintenance fees. The Target Company puts emphasis on client relationship with its existing customers and wants to maintain a long-term relationship with its existing customers to obtain the maintenance contract. Given (i) it is the sales strategy of the Target Company to sell the application software together with the maintenance services; (ii) the customers require the maintenance services to modify the software in response to the market needs from time to time as the software is prohibited from any modification without authorisation by the Target Company and to provide training to its staff; (iii) all the four customers of the Target Company in 2015 have renewed the maintenance contract in 2016; and (iv) the Target Company has signed a software maintenance contract with a new customer in May 2016 with a contract sum of HK$3 million for the year 2016 and subject to renewal in January 2017, we concur with the Directors' view that service income is recurring and sustainable as to support the implied price-to-earning of the Target Company at 19.8 times, although there is only less than three years of track record of revenue for the Target Company.

1. *Comparable companies analysis*

In order to assess the fairness and reasonableness of the consideration for the Acquisition, we have attempted to identify comparable software related application (according to the classification of Bloomberg) companies (the "**Comparable Companies**") that (i) are currently listed on the Main Board of the Stock Exchange; and (ii) are primarily engaged in software related application business in Hong Kong and the PRC (i.e. generating more than 50% of their revenue from software related application business). The Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. Shareholders should note that the businesses, operations and prospects of the Target Company are not the same as those of the Comparable Companies and as such, the Comparable Companies may only be used to provide a general reference only.

In our assessment, we have considered price-to-earnings ratio ("**P/E**") which are commonly used to assess the financial valuation of a company engaged in software related application business. P/E analysis of the Comparable Companies are shown below.

Company name	**Ticker**	**Market capitalization**(Note 1) *(HK$ million)*	**P/E**(Note 2) *(times)*
Feiyu Technology International Company Ltd.	1022	2,169.2	29.6
Sinosoft Technology Group Limited	1297	4,851.6	26.1
Century Sage Scientific Holdings Limited	1450	504.2	8.6
Chanjet Information Technology Company Limited – H Shares	1588	2,067.6	N/A(Note 3)
Tian Ge Interactive Holdings Limited	1980	5,790.1	31.5
BAIOO Family Interactive Limited	2100	1,126.8	9.3
Sino-i Technology Limited	250	2,330.0	48.7
Kingdee International Software Group Company Limited	268	8,086.6	59.7
Kingsoft Corporation Limited	3888	18,941.4	39.0
Boyaa Interactive International Limited	434	2,218.8	4.8
Forgame Holdings Limited	484	1,413.5	N/A(Note 3)
Inspur International Limited	596	1,379.4	N/A(Note 3)

Company name	Ticker	Market capitalization(Note 1)	P/E(Note 2)
		(HK$ million)	*(times)*
North Asia Resources Holdings Limited	61	1,877.2	N/A(Note 3)
Ourgame International Holdings Limited	6899	2,267.3	17.0
NetDragon Websoft Inc.	777	13,163.4	N/A(Note 3)
IGG Inc	799	4,662.3	10.4
		Average	25.9
		Maximum	59.7
		Minimum	4.8
The Target Company(Note 4)			19.8

Source: calculated from data from the website of the Stock Exchange

Notes:

1. The market capitalizations of the Comparable Companies are calculated by multiplying the share price and the number of issued shares of the respective companies as at the Latest Practicable Date.

2. P/Es of the Comparable Companies are calculated by dividing their market capitalization by the profits attributable to equity holders of the respective companies according to their latest financial reports.

3. The company incurred loss for the latest financial year.

4. The implied P/E of the Target Company is calculated by dividing the consideration for the Acquisition by the profit of the Target Company for the year ended 31 December 2015.

As illustrated above, the P/Es of the Comparable Companies range from approximately 4.8 times to 59.7 times (the "**Comparable Companies P/E Range**"), with the average of approximately 25.9 times (the "**Average Comparable Companies P/E**").

We note that the implied P/E of the Target Company is 19.8 times, which is lower than the Average Comparable Companies P/E and within the Comparable Companies P/E Range. As such, we are of the view that the consideration for the Acquisition is fair and reasonable in this regard.

2. *Comparable transactions analysis*

In order to assess the fairness and reasonableness of the consideration for the Acquisition, to the best of our endeavours, we have reviewed transactions from 14 April 2015 (being the date of one year before the date of the Acquisition Agreement) to 13 April 2016 (being the date of the Acquisition Agreement) which involved acquisition of equity interests in software application business (according to the classification of Bloomberg) (the "**Comparable Transactions**") by companies listed on the Stock Exchange. The Comparable Transactions have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. Shareholders should note that the businesses, operations and prospects of the Target Company are not the same as the target companies of the Comparable Transactions and as such, the Comparable Transactions may be used to provide a general reference only.

Similar to the Comparable Companies analysis, in our assessment, we have considered P/E as our benchmark and the analysis of the Comparable Transactions are shown below.

Announcement date	Target name	Listed company	Ticker	Transaction size	P/E (times)(Note 1)
7 May 2015	Shenzhen Cneop Technology Co., Ltd	Forefront Group Limited	885	HK$38.4 million for 38.75% equity interest in the target company	22.9
7 May 2015	Wise Visual Holdings Limited	China Information Technology Development Limited	8178	HK$80.0 million for 25% equity interest in the target company	N/A(Note 2)
10 July 2015	Promethean World PLC	NetDragon Websoft Inc.	777	HK$1,012.7 million for 100% equity interest in the target company (maximum)	N/A(Note 2)
30 October 2015	Cfu Come Ltd	C Cheng Holdings Limited	1486	HK$20.3 million for 80.5% equity interest in the target company	N/A(Note 2)

Announcement date	Target name	Listed company	Ticker	Transaction size	P/E (times)(Note 1)
26 November 2015	Genesis Business Holdings Limited	Credit China Holdings Limited	8207	RMB560 million for 35% equity interest in the target company	17.5
11 December 2015	Four Directions Investment Limited	Finsoft Financial Investment Holdings Limited	8018	HK$20.0 million for 30% equity interest in the target company	18.5
8 January 2016	Wuhan Jiuxin Puhui Financial Information Services Company Limited	Tian Ge Interactive Holdings Limited	1980	RMB20.8 million for 20% equity interest in the target company	N/A(Note 3)
14 January 2016	Charm Team Group Limited	China Mobile Games and Cultural Investment Limited	8081	HK$2 for 49% equity interest in the target company	N/A(Note 2)
28 March 2016	Wanliyun Medical Information Technology Beijing Co., Ltd.	Alibaba Health Information Technology Limited	241	RMB225 million for 25% equity interest in the target company	N/A(Note 2)
				Average	19.6
				Maximum	22.9
				Minimum	17.5
The Target Company(Note 4)					19.8

Source: calculated from data from the website of the Stock Exchange

Notes:

1. The P/Es of the Comparable Transactions are calculated by dividing the consideration by the then profit of the respective company.

2. The target company incurred loss for the then latest financial year.

3. The respective announcement did not mention the financial information of the target company.

4. The implied P/E of the Target Company is calculated by dividing the consideration for the Acquisition by the profit of the Target Company for the year ended 31 December 2015.

As illustrated above, the P/Es of the Comparable Transactions range from approximately 17.5 times to 22.9 times (the "**Comparable Transactions P/E Range**"), with the average of approximately 19.6 times (the "**Average Comparable Transactions P/E**").

We note that the implied P/E of the Target Company is 19.8 times, which is within the Comparable Transactions P/E Range and slightly above the Average Comparable Transactions P/E. As such, we are of the view that the consideration for the Acquisition is fair and reasonable in this regard.

IV. Conclusion

Taking into account that (i) the entering into the Acquisition Agreement is fair and reasonable insofar as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole, despite the entering into the Acquisition Agreement being not in the ordinary and usual course of business of the Group, as mentioned in the paragraph headed "Reasons and benefits for entering into the Acquisition Agreement" above; (ii) the consideration for the Acquisition is fair and reasonable as far as the Company and the Shareholders as a whole are concerned as mentioned in the paragraph headed "Evaluation of the consideration for the Acquisition" above; and (iii) the Acquisition and the Subscription would bring positive impact to the performance and the net assets value of the Group and are beneficial to the Group from the financial point of the view as mentioned in the section headed "Financial effects of the Acquisition and the Subscription" below, we are of the view that, though the entering into of the Acquisition Agreement is not in the ordinary and usual course of business of the Group, the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

THE SUBSCRIPTION

In formulating our opinions in respect of the Subscription, we have taken into consideration the following principal factors and reasons:

I. Background to and reasons for entering into Subscription Agreement and use of proceeds from the Subscription

1. *Background information of the Subscriber and Mr. Tse*

As stated in the Letter from the Board, the Subscriber is an investment holding company that is beneficially wholly-owned by Mr. Tse. As at the Latest Practicable Date, the Concert Group held 1,100,091,988 Shares, representing approximately 42.81% of all the issued shares of the Company.

Mr. Tse is the executive Director, chairman, and chief executive officer of the Company and possesses more than 20 years' experience in the fashion ornament and jewellery wholesale industry. He also has experience in property investment, mineral exploration and mineral trade and sales.

2. *Use of proceeds from the Subscription and reasons and benefits for entering into the Subscription Agreement*

As stated in the Letter from the Board, the gross proceeds from the Subscription and the net proceeds (after deducting estimated expenses, including mainly legal and professional fees) from the issue of the Subscription Shares) from the Subscription is estimated to be approximately HK$181 million and approximately HK$178 million, respectively. Based on the estimated net proceeds, the net subscription price would be approximately HK$0.073 per Subscription Share. The Group intends to apply approximately HK$160 million of the net proceeds from the Subscription to finance the cash consideration for the Acquisition and to use approximately HK$18 million of the net proceeds from the Subscription as the general working capital of the Group.

According to the 2016 Annual Report, the cash and cash equivalents of the Group as at 31 March 2016 was approximately HK$10.9 million, the Directors are of the view that Company does not have sufficient cash to satisfy the consideration for the Acquisition.

The Board had considered the availability of the following funding alternatives (apart from the Subscription) for the cash consideration for the Acquisition and to increase the working capital of the Company:

(i) debt financing: the Board does not consider this to be appropriate for the Group since it would increase the gearing level of the Group and the Group would have to incur interest expenses which would impose additional financial burden on the Group's future cash flows;

(ii) equity financing through placement of new Shares to independent investors: the Company encountered difficulties in engaging a placing agent, which the Board believes to be attributable to the relative small market capitalization of the Company and the low trading volume of the Shares under the current market sentiment; and

(iii) a rights issue or an open offer: the Company encountered difficulties in procuring an independent underwriter in Hong Kong in underwriting a rights issue or an open offer of the Company. Moreover, in light of the uncertainty involved, the Subscriber was not willing to act as an underwriter of a right issue or an open offer.

In light of the above, the Board is of the view that equity financing by way of the Subscription is the most appropriate means of raising additional capital to finance the cash consideration for the Acquisition and to increase the working capital as it is:

(i) more practicable and direct under a volatile market and the uncertain global market conditions currently prevailing;

(ii) less costly and no interest expenses will need to be paid;

(iii) less time consuming; and

(iv) in the interest of the Group and the Independent Shareholders as a whole, given it signifies the confidence of the Company's controlling shareholder in the existing and future development potentials of the Group.

The management of the Company advised that a rights issue or an open offer is more time consuming and cumbersome as more documentation to be prepared. The management of the Company further advised that the Subscriber indicated that he has commercial difficulties to be underwriter of right issue or an open offer due to uncertainty of fund commitment of the Subscriber.

Based on the above, the Directors consider that the Subscription represents a straightforward and cost-effective means of financing for the Group.

Taking into account that (i) the additional financial burden incurred by debt financing; (ii) the difficulties in the equity financing through placement of new Shares and conducting a rights issue or an open offer and its deep discount due to the low trading volume of the Shares; and (iii) the benefits of the Subscription as described above, we concur with the Directors that it is in the interest of the Company and the Independent Shareholders to raise fund by the Subscription.

Having taken into account (i) the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole as mentioned in the paragraph headed "Conclusion" in the section headed "The Acquisition" above; and (ii) the Subscription represents a straightforward and cost-effective means of financing the Acquisition as mentioned above, we consider that, despite the entering into of the Subscription Agreement being not in the ordinary and usual course of business of the Group, the entering into the Subscription Agreement is fair and reasonable under the Group's present development.

II. Principal terms of the Subscription Agreement

Date:	13 April 2016 (after trading hours)
Parties:	Walifax Investments Limited (as the Subscriber) The Company (as the Issuer)
The Subscription Shares:	The Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 2,440,000,000 Subscription Shares. As at the Latest Practicable Date, there were 2,569,840,644 Shares in issue and the Subscription Shares represent approximately 94.95% of all the issued shares of the Company as at the Latest Practicable Date and, assuming that there is no change in the share capital of the Company other than the issue of the Subscription Shares since the Latest Practicable Date up to completion of the Subscription, approximately 48.70% of all the issued shares of the Company upon completion of the Subscription as enlarged by the issue of the Subscription Shares.
Subscription Price:	HK$0.074 per Subscription Share

Ranking:	The Subscription Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with all the other existing Shares in issue at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.
Specific mandate:	The Subscription Shares are to be issued pursuant to a special mandate to be sought from the Independent Shareholders by way of poll at the SGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.
Conditions precedent to the completion of the Subscription:	Completion of the Subscription is conditional upon the fulfillment of the following conditions precedent:

(i) the obtaining of the Whitewash Waiver, and if such approval is subject to any conditions imposed by the SFC, such conditions being reasonably acceptable to the Subscriber (it being acknowledged that any condition requiring the approval of Shareholders other than the Subscriber or its associates (as defined in the Listing Rules) is acceptable to the Subscriber);

(ii) the Acquisition Agreement becoming unconditional in accordance with its terms;

(iii) the approval by the Shareholders who are not required to abstain from voting under the Listing Rules and the Takeovers Code of each of the following at the SGM in accordance with the requirements of the Listing Rules and the Takeovers Code:

(a) the Subscription Agreement and the transaction contemplated thereunder, including the allotment and issue under a specific mandate of the Subscription Shares;

(b) the Whitewash Waiver; and

(c) the Acquisition Agreement and the transactions contemplated thereunder;

(iv) the listing of, and permission to deal in, all the Subscription Shares having been granted by the Stock Exchange (either unconditionally or subject only to allotment and matters ancillary thereto) and if such approval is subject to any conditions imposed by the Stock Exchange, such conditions having been fulfilled;

(v) the Shares remaining listed and traded on the main board of the Stock Exchange at all times from the date of the Subscription Agreement up to the date of completion of the Subscription, save for any temporary suspension in connection with the approval and clearance of the documents relating to the transactions contemplated under the Subscription Agreement and the Acquisition Agreement by the SFC or the Stock Exchange prior to their release of publication;

(vi) no indication being received prior to the completion of the Subscription from the SFC and the Stock Exchange to the effect that the listing of the Shares on the main board of the Stock Exchange shall or may be withdrawn or objected to;

(vii) all the authorizations, approvals, consents, waives, and permits of the relevant authorities of the relevant jurisdictions which are necessary to give effect to the Subscription Agreement and the Subscription as required by all laws or regulations applicable to the Company and the Subscriber having been granted, received and obtained, or where such approval, consent, waiver or permit is given subject to conditions, on such conditions as are acceptable to the Company and the Subscriber (as the case may be) acting reasonably;

(viii) the warranties made, or any of the undertakings given, by the Company under the Subscription Agreement remaining true and correct in all material respects; and

(ix) there not having occurred at any time any material adverse change or development in the financial or trading position of the Group.

None of the above conditions precedent can be waived by the parties to the Subscription Agreement, save that the Subscriber may, in its absolute discretion, waive the conditions precedent in paragraphs (viii) and (ix) above by notice in writing to the Company.

If all of the conditions precedent set out in the Subscription Agreement have not been fulfilled and/or waived (as the case may be) on or before the Long Stop Date or such other date as may be agreed by the Subscriber and the Company in writing, the Subscription Agreement will automatically terminate with immediate effect (other than the provisions in relation to, among others, notice, governing law and confidentiality, which shall survive), in which case, neither party thereto will have any liability to the other party save for any antecedent breaches of the Subscription Agreement.

None of the above conditions precedent has been fulfilled as at the Latest Practicable Date.

Completion of the Subscription:	Completion of the Subscription will, subject to the Whitewash Waiver and the listing permission contemplated in the condition precedent set out in paragraph (iv) above not being revoked or withdrawn, take place on the second Business Day after the fulfillment or waiver of the conditions precedent to the completion of the Subscription (or such later date as parties to the Subscription Agreement may agree in writing).

III. Evaluation of the Subscription Price

1. *Historical price analysis*

As stated in the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and the Subscriber with reference to, among other factors, the financial position of the Group, the historical trading volume of the Shares on the Stock Exchange and the recent trading prices of the Shares as quoted on the Stock Exchange. The issue price per Subscription Share of HK$0.074 represents:

(i) a discount of approximately 24.5% to the closing price of HK$0.0980 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a discount of approximately 26.7% to the closing price of HK$0.101 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;

(iii) a discount of approximately 47.1% to the closing price of HK$0.140 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(iv) a discount of approximately 22.4% to the average closing price of HK$0.0954 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;

(v) a discount of approximately 22.5% to the average closing price of HK$0.0955 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

(vi) a discount of approximately 26.9% to the average closing price of HK$0.1013 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and

(vii) a premium of approximately 231.8% over and above the Group's audited consolidated net asset value attributable to the Shareholders per Share as at 31 March 2016, the date to which the latest audited consolidated financial results of the Company were made up to, of approximately HK$0.0223 (based on a total of 2,569,840,644 Shares as at Latest Practical Date and the Group's audited consolidated net asset value attributable to the Shareholders of approximately HK$57,319,000 as at 31 March 2016).

The Directors believe the discount to the closing price on the date of the Subscription Agreement of approximately 26.7% as represented by the Subscription Price is reasonable in view of the following reasons:

(i) the Subscription Price represents a premium of approximately 231.8% over and above the Group's audited consolidated net asset value attributable to the Shareholders per Share as at 31 March 2016 of approximately HK$0.0223; and

(ii) the average daily trading volume of the Shares for the last 30 trading days up to and including the Last Trading Day were approximately 23,700,000 Shares, representing a percentage of the average total number of Shares held by the public Shareholders of approximately 1.429%. Given the low trading volume of the Shares, it is difficult for the Company to conduct a sizeable equity fund raising activities with independent investors due to the lack of interest of them.

To assess the fairness and reasonableness of the Subscription Price, we set out the following analyses which include reviews on both the historical price and trading liquidity of the Shares.

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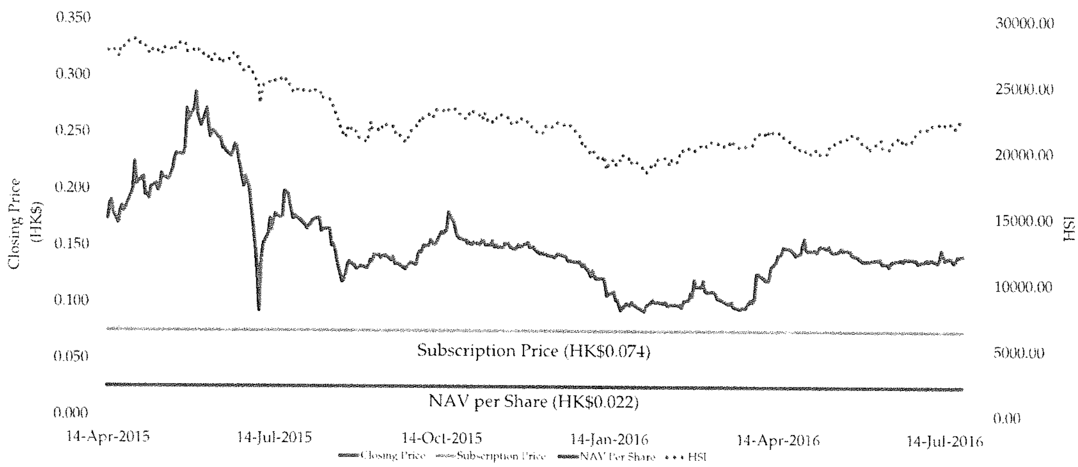
The chart below illustrates the daily closing prices of the Shares and Hang Seng Index (the "**HSI**") during the period from 14 May 2015 (being one year before the date of the Subscription Agreement) up to and including the Latest Practicable Date (the "**Review Period**"):



Source: Bloomberg

During the Review Period, the daily closing price of the Shares ranged from HK$0.09 per Share to HK$0.285 per Share. The Subscription Price falls below the above prices but represents a premium over the Group's audited consolidated net asset value attributable to the Shareholders per Share as at 31 March 2016. If short term fluctuation is excluded, we note that the daily closing price of the Shares has been on a declining trend during the Review Period.

For the purpose of assessing the trading liquidity of the Shares, we set out below the total monthly trading volume, the average daily trading volume per month and the respective percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date and total number of Shares held by public shareholders as at the Latest Practicable Date during the Review Period.

Month	Total monthly trading volume (Number of Shares)	Average daily trading volume [Note 1] (Number of Shares)	Percentage of average daily trading volume to total number of Shares in issue [Note 2] (%)	Percentage of average daily trading volume to total number of Shares held by public shareholders [Note 3] (%)
2015				
April (14 April 2015 to 30 April 2015)	2,161,088,184	166,237,553	6.469%	11.311%
May	1,357,476,857	71,446,150	2.780%	4.861%
June	793,852,968	36,084,226	1.404%	2.455%
July	537,127,962	24,414,907	0.950%	1.661%
August	104,776,470	5,238,824	0.204%	0.356%
September	352,509,937	17,625,497	0.686%	1.199%
October	638,102,500	31,905,125	1.242%	2.171%
November	421,005,500	20,047,881	0.780%	1.364%
December	402,761,044	18,307,320	0.712%	1.246%
2016				
January	337,491,500	16,874,575	0.657%	1.148%
February	243,826,000	13,545,889	0.527%	0.922%
March	489,140,762	22,233,671	0.865%	1.513%
April	798,122,210	39,906,111	1.553%	2.715%
May	405,886,000	19,327,905	0.752%	1.315%
June	217,012,500	10,333,929	0.402%	0.703%
July	373,727,000	17,796,524	0.693%	1.211%
August (Up to the Latest Practicable Date)	164,563,000	32,912,600	1.281%	2.239%

Source: Bloomberg

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume of the Shares for the month by the number of trading days during the month.

2. Based on 2,569,840,644 Shares in issue as at the Latest Practicable Date.

3. Based on 1,469,748,656 Shares held by the public Shareholders as at the Latest Practicable Date.

During the Review Period, the average daily trading volume of the Shares as a percentage of the total number of Shares in issue as at the Latest Practicable Date ranged from approximately 0.204% to 6.469% while the average daily trading volume of the Shares as a percentage of the total number of Shares held by the public Shareholders as at the Latest Practicable Date ranged from approximately 0.356% to 11.311%.

During the Review Period, the average daily trading volume of the Shares was generally below 2.00% of total number of Shares in issue as at the Latest Practicable Date except for the period from April 2015 to May 2015 during which the overall stock market was booming as evidenced by the continuous growth of the closing price of the Shares as well as the HSI, as illustrated in Chart above. We also note that the trading volume of the Shares raised to 234,506,460 Shares on 14 April 2016, the date after the Announcement. Apart from the trading volume from April 2015 to May 2015 and on 14 April 2016, the Shares were generally illiquid in the open market.

Based on the above average daily trading volume of Shares as a percentage of the total number of Shares in issue as at the Latest Practicable Date as well as average daily trading volume of Shares as a percentage of the total number of Shares held by the public Shareholders as at the Latest Practicable Date, we are of the view that the trading of the Shares was relatively thin and inactive during the Review Period.

2. *Comparable Issues Analysis*

In order to further assess the fairness and reasonableness of the Subscription Price, we have identified 27 transactions (the "**Comparable Issues**") in relation to subscriptions/placing involving issue of new ordinary shares by companies listed on the Stock Exchange (excluding delisting company) which would trigger mandatory general offer but applied for whitewash waiver and announced during the Review Period. Shareholders should noted that the subject companies in the Comparable Issues may have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. The circumstances surrounding such subscriptions/placing may also be different from those relating to the Company. We have compared the respective issue price of the Comparable Issues with the Subscription, details of which are set out in the table below:

Date of announcement	Company name	Stock Code	(Discount)/ premium of the issue price (to)/over the closing price per share on the last trading day prior to/on the date of the announcement/ agreement (%)	(Discount)/ premium of the issue price (to)/over the closing price per share on the last five trading days prior to/on the date of the announcement/ agreement (%)	(Discount)/ premium of the issue price (to)/over the closing price per share on the last ten trading days prior to/on the date of the announcement/ agreement (%)
15 April 2015	Shougang Concord Grand (Group) Limited	730	(7.9)	(6.2)	(3.1)
13 May 2015	21 Holdings Limited	1003	(79.2)	(70.4)	(68.0)
20 May 2015	China City Railway Transportation Technology Holdings Company Limited	1522	(15.4)	(11.8)	(2.9)
27 May 2015	China Jinhai International Group Limited	139	(74.0)	(67.4)	(64.7)
29 May 2015	Reorient Group Limited	376	(77.8)	(73.7)	(71.1)
4 June 2015	World Wide Touch Technology (Holdings) Limited	1282	(41.0)	(36.8)	(32.3)
16 July 2015	A8 New Media Group Limited	800	(12.3)	6.5	(14.1)
31 July 2015	Mascotte Holdings Limited	136	(97.9)	(97.6)	(97.5)
5 August 2015	Shanghai Tonva Petrochemical Co., Ltd.	1103	(4.8)	(15.8)	(13.0)
10 August 2015	Beijing Capital Land Limited	2868	2.4	6.1	4.1

Date of announcement	Company name	Stock Code	(Discount)/ premium of the issue price (to)/over the closing price per share on the last trading day prior to/on the date of the announcement/ agreement (%)	(Discount)/ premium of the issue price (to)/over the closing price per share on the last five trading days prior to/on the date of the announcement/ agreement (%)	(Discount)/ premium of the issue price (to)/over the closing price per share on the last ten trading days prior to/on the date of the announcement/ agreement (%)
27 August 2015	China Seven Star Holdings Limited	245	(89.9)	(87.7)	(86.6)
30 August 2015	Global Bio-chem Technology Group Company Limited	809	(31.1)	(25.1)	(29.9)
12 October 2015	SRE Group Limited	1207	(74.4)	(73.3)	(73.5)
4 December 2015	Yuhua Energy Holdings Limited	2728	0.0	(2.2)	(2.4)
10 December 2015	China Jiuhao Health Industry Corporation Limited[(Note)]	419	(86.2)	(87.7)	(87.9)
14 December 2015	Optics Valley Union Holding Company Limited	798	(15.8)	(13.0)	(14.9)
16 December 2015	FDG Electric Vehicles Limited	729	0.0	(3.9)	(5.1)
5 January 2016	Addchance Holdings Limited	3344	(60.8)	(66.9)	(61.4)
16 February 2016	Varitronix International Limited	710	(33.7)	(34.5)	(33.4)
19 February 2016	Sino Credit Holdings Limited	628	(55.5)	(56.5)	(54.5)
25 February 2016	Jiangxi Copper Company Limited	358	(2.0)	(6.2)	(3.4)

Date of announcement	Company name	Stock Code	(Discount)/ premium of the issue price (to)/over the closing price per share on the last trading day prior to/on the date of the announcement/ agreement (%)	(Discount)/ premium of the issue price (to)/over the closing price per share on the last five trading days prior to/on the date of the announcement/ agreement (%)	(Discount)/ premium of the issue price (to)/over the closing price per share on the last ten trading days prior to/on the date of the announcement/ agreement (%)
29 February 2016	Hang Fat Ginseng Holdings Company Limited	911	(85.1)	(84.3)	(92.3)
7 March 2016	Nickel Resources International Holdings Company Limited	2889	(23.1)	(15.1)	(15.1)
27 April 2016	Hin Sang Group (International) Holding Co. Ltd.	6893	(33.33)	(22.37)	(23.0)
17 May 2016	New Times Energy Corporation Limited	166	(3.14)	(1.3)	(3.8)
25 May 2016	O Luxe Holdings Limited	860	0.0	(1.6)	(8.0)
13 July 2016	Sino Golf Holdings Limited	361	(63.2)	(59.9)	(54.0)
	Average		(39.5)	(37.4)	(37.5)
	Minimum		(97.9)	(97.6)	(97.5)
	Maximum		8.0	6.5	4.1
	The Subscription	789	(26.7)	(22.4)	(22.5)

Source: from relevant announcements/circulars or calculated form data on the website of the Stock Exchange

Note: A distribution, comprised a distribution of cash and shares, of the company was completed on 6 October 2015. The respectively closing price represented the theoretical ex-entitlement closing price (after excluding the pro forma value of distribution per share).

As set out in the table above, the issue price of the Comparable Issues (i) as compared to their respective closing price on the last trading day prior to/on the date of the announcement/agreement ranges from a discount of approximately 97.9% to a premium of approximately 8.0%, with an average of a discount of approximately 39.5%; (ii) as compared to the average closing price for the last five trading days prior to/on the date of the announcement/agreement ranges from a discount of approximately 97.6% to a premium of approximately 6.5%, with an average of a discount of approximately 37.4%; (iii) as compared to the average closing price for the last ten trading days prior to/on the date of the announcement/agreement ranges from a discount of approximately 97.5% to a premium of approximately 4.1%, with an average of a discount of approximately 37.5%. The discount represented by the Subscription Price to the closing price/average closing price of the Shares on each of (i) the Last Trading Day; (ii) the last five trading days up to and including the Last Trading Day; and (iii) the last 10 trading days up to and including the Last Trading Day is lower (i.e. more favourable to the Company) than the average discount and within the range of discounts of the Comparable Issues.

Although the Subscription Price represents a discount to the closing prices of the Shares, having taken into account (i) the Subscription Price represents a premium over the audited consolidated net asset value per Share as at 31 March 2016; (ii) the price of the Shares was in a declining trend during the Review Period; (iii) the low liquidity in the trading of the Shares during the Review Period, which may imply that it would be difficult for the Company to further raise funds due to the lack of interest from potential investors; and (iv) the discounts of the Subscription Price over the closing prices of the Shares are lower (i.e. more favourable to the Company) than all the discounts of the Comparable Issues, we are of the view that the Subscription Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

IV. Effects on the shareholding of existing Shareholders

The following table sets out the shareholdings in the Company as at the Latest Practicable Date and immediately after the completion of the Subscription (assuming there are no changes to the share capital and shareholding structure of the Company other than the issue of the Subscription Shares from the Latest Practicable Date to the date of completion of the Subscription):

	As at the Latest Practicable Date		Immediately after completion of the Subscription (assuming no Outstanding Options are exercised)[(Note 4)]		Immediately after completion of the Subscription (assuming all Outstanding Option are exercised)[(Note 4)]	
	No. of Shares	%	*No. of Shares*	%	*No. of Shares*	%
Controlling Shareholder						
The Subscriber[(Note 1)]	1,085,267,988	42.23	3,525,267,988	70.37	3,525,267,988	65.43
Mr. Tse[(Note 2)]	14,824,000	0.58	14,824,000	0.29	41,495,400	0.77
Sub-total of the Subscriber and persons acting concert with it	1,100,091,988	42.81	3,540,091,988	70.66	3,566,763,388	66.20
Executive Director(s)						
Mr. Lin Shao Hua	–	–	–	–	26,671,400	0.50
Public						
Grantees of Outstanding Options (other than Mr. Tse and the Directors)[(Note 3)]	–	–	–	–	324,699,800	6.03
Other Public Shareholders	1,469,748,656	57.19	1,469,748,656	29.34	1,469,748,656	27.27
	2,569,840,644	100.0	5,009,840,644	100.0	5,387,883,244	100.0

Notes:

1. The Subscriber is beneficially wholly-owned by Mr. Tse.
2. Mr. Tse is the executive Director, chairman and chief executive officer of the Company.
3. None of these grantee of the Outstanding Options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates or parties acting in concert with the Subscriber.
4. Full exercise of the Outstanding Option would result in a maximum of 378,042,600 new Shares being fallen to be allotted and issued to its holders.

As illustrated above, the shareholding of the existing public Shareholders would be reduced from approximately 57.19% as at the Latest Practicable Date to approximately 29.34% upon completion of the Subscription assuming no Outstanding Options are exercised and approximately 33.30% immediately upon completion of the Subscription and the exercise in full of the outstanding Options.

There will be substantial dilution to the shareholding interest of the existing public Shareholders as a result of the Subscription. However, having taken into account (i) the benefits to be derived by the Group from the Subscription as set out in the paragraph headed "Use of proceeds from the Subscription and reasons and benefits for entering into the Subscription Agreement" above; (ii) that the Subscription Price is considered to be fair and reasonable as set out in the paragraph headed "Evaluation of the Subscription Price" above; and (iii) the difficulties in conducting a rights issue or an open offer, which can maintain pro-rata shareholding of the public Shareholders, as mentioned in the paragraph headed "Use of proceeds from the Subscription and reasons and benefits for entering into the Subscription Agreement" above, we consider that the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription is acceptable.

V. The Whitewash Waiver

Upon completion of the Subscription, 2,440,000,000 Subscription Shares will be issued to the Subscriber, and the interests of the Concert Group in the voting rights of the Company will be increased from approximately 42.81% to approximately 70.66% (assuming that no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to completion of the Subscription). Accordingly, the Concert Group, in the absence of the Whitewash Waiver, would be obliged to make a general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by them.

An application to the Executive for the Whitewash Waiver has been made by the Subscriber. The Executive has agreed, subject to the approval of the Independent Shareholders at the SGM by way of poll and such other condition(s) as may be imposed by the Executive, to grant the Whitewash Waiver.

Each of the Subscriber and Mr. Tse has undertaken to the Company that apart from the Subscription Agreement, the Subscriber and Mr. Tse will not and each of them will procure persons acting in concert with each of them respectively will not from the date of the Subscription Agreement until the date of completion of the Subscription acquire or dispose of or enter into any agreement or arrangement to acquire or dispose of any voting rights in the Company.

Shareholders and potential investors should be aware that, upon completion of the Subscription, the Concert Group will hold more than 50% of the voting rights of the Company. Hence, the Subscriber may increase its holdings of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The Subscription is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. If the Whitewash Waiver is not approved, the Subscription will not proceed. The Acquisition will also not proceed as the Acquisition and the Subscription are inter-conditional.

Having considered (i) the Subscription is a reasonable financing alternative available to the Group; (ii) the Subscription would provide funds to settle the consideration of the Acquisition and the Acquisition is fair and reasonable as mentioned in the section headed "The Acquisition" above; (iii) the dilution effect as a result of the Subscription being acceptable as mention in the paragraph headed "Effects on the shareholding of existing Shareholders" above; and (iv) the Acquisition and the Subscription would bring positive impact to the performance and the net assets value of the Group and are beneficial to the Group from the financial point of the view as mentioned in the section headed "Financial effects of the Acquisition and the Subscription" below, we are of the view that the granting of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VI. Conclusion

Taking into account that (i) the entering into the Subscription Agreement is fair and reasonable, despite the entering into the Subscription Agreement being not in the ordinary and usual course of business of the Group, as mentioned in the paragraph headed "Use of proceeds from the Subscription and reasons and benefits for entering into the Subscription Agreement" above; (ii) the Subscription Price is fair and reasonable as far as the Company and the Independent Shareholders are concerned as mentioned in the paragraph headed "Evaluation of the Subscription Price" above; (iii) the dilution effect to the shareholding interest of the existing public Shareholders as a result of the Subscription being acceptable as mention in the paragraph headed "Effects on the shareholding of existing Shareholders" above; (iv) the granting of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole as mentioned in the paragraph headed "The Whitewash Waiver" above; and (v) the Acquisition and the Subscription would bring positive impact to the performance and the net assets value of the Group and are beneficial to the Group from the financial point of the view as mentioned in the section headed "Financial effects of the Acquisition and the Subscription" below, we are of the view that, though the entering into the Subscription Agreement is not in the ordinary and usual course of business of the Group, the terms of the Subscription Agreement are on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders and the Whitewash Waiver is fair and reasonable and in the interests of the Independent Shareholders.

FINANCIAL EFFECTS OF THE ACQUISITION AND THE SUBSCRIPTION

(i) Effect on net profit

As stated in the Letter from the Board, upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial information of the Target Company will be consolidated into the consolidated financial statements of the Group. As set out in the accountants' report on the Target Company in Appendix II to the Circular, the revenue reached approximately HK$12.3 million and HK$2.3 million for the year ended 31 December 2015 and for the three months ended 31 March 2016 respectively, and profit after taxation reached approximately HK$8.1 million and HK$0.9 million for the year ended 31 December 2015 and for the three months ended 31 March 2016 respectively. After completion of the Acquisition, the revenue and profit after taxation of the Target Company will be consolidated in the consolidated financial statements of the Group. As such, we consider that the Acquisition will have a positive impact on the net profit of the Group. The management of the Company advised that the Subscription will not have any effect on the net profit of the Group.

(ii) Effect on net assets value

As stated in the 2016 Annual Report, the audited consolidated net assets of the Group as at 31 March 2016 was approximately HK$57.3 million comprising total assets of HK$106.7 million and total liabilities of approximately HK$49.4 million. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the unaudited pro forma net assets of the Enlarged Group would increase to approximately HK$230.3 million, comprising unaudited pro forma total assets of approximately HK$283.6 million and unaudited pro forma total liabilities of approximately HK$53.3 million. The net asset value per Share would increase from approximately HK$0.0223 as at 31 March 2016 to approximately HK$0.0460 immediately upon completion of the Acquisition and the Subscription (calculated by dividing the unaudited pro forma net assets of the Enlarged Group of approximately HK$230.3 million by the number of Shares in issue immediately after completion of the Acquisition and the Subscription (assuming no Outstanding Options are exercised) of 5,009,840,644 Shares). As such, we consider that the Acquisition and the Subscription will have a positive impact on the net assets value of the Group.

As the Acquisition and the Subscription would bring positive impact to the performance and the net assets value of the Group, we are of the view that the Acquisition and the Subscription are beneficial to the Group from the financial point of the view.

Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon the completion of the Acquisition and the Subscription.

RECOMMENDATION

Having taken into account the above principal factors and reasons stated in the paragraphs headed "Conclusion" in the sections headed "The Acquisition" and "The Subscription" above respectively, we consider that, though the entering into the Acquisition Agreement and the Subscription Agreement are not in the ordinary and usual course of business of the Group, (i) the terms of the Acquisition Agreement and the Subscription Agreement are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Independent Shareholders; and (ii) the Whitewash Waiver is fair and reasonable and in the interests of the Independent Shareholders.

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Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour, and we also recommend that Independent Shareholders vote in favour, of the ordinary resolution as set out in "Notice of SGM" to the Circular, which to be proposed at the SGM in this regard.

Yours faithfully,
For and on behalf of
TC Capital International Limited

Edward Wu
Chairman

Note: *Mr. Edward Wu has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2005. Mr. Wu has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.*

*The English translation of the Chinese name(s) in this letter, where indicated with * is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.*