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

2 August 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(I) PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE; AND (II) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, and as to voting at the EGM details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 2 August 2019 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Subject to, among other conditions, the approval by the Independent Shareholders at the EGM, the Board proposed to raise gross proceeds of approximately HK$189.8 million (before expenses) on the basis of three (3) Rights Shares for every two (2) Shares held on the Record Date by issuing 451,915,605 Rights Shares at the Subscription Price of HK$0.42 per Rights Share (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date). The Rights Issue is only available to the Qualifying Shareholders and will not be extended to Non-Qualifying Shareholders.

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On 3 July 2019, the Underwriter and the Company entered into the Underwriting Agreement which is conditional upon the Independent Shareholders' approval. Pursuant to the Underwriting Agreement, the Underwriter (in addition to the obligations of Mr. Ng and his close associates, and Mr. Paul Ng under their respective Irrevocable Undertakings) has conditionally agreed to fully underwrite 301,673,195 Rights Shares (including 18,450,466 Rights Shares and 7,500,000 Rights Shares that Ms. Cheung and Mr. Gorges are entitled to subscribe respectively) subject to the terms and conditions set out in the Underwriting Agreement, in particular the fulfilment of the conditions precedent contained therein. Details of the major terms and conditions of the Underwriting Agreement are set out in the section headed "The Underwriting Agreement" in the Letter from the Board.

As the Rights Issue, if proceeded with, will increase the number of the issued shares of the Company by more than 50%, the Rights Issue is conditional on approval by the Independent Shareholders at the EGM by a resolution on which the Directors (excluding the independent non-executive Directors) and chief executive of the Company and their respective associates shall abstain from voting in favour under Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules since there is no controlling shareholder. Accordingly, (i) Mr. Ng, being a Director, and his associates (namely the Underwriter, Fung Shing Group Limited, Parkfield Holdings Limited, Ronastar Investments Limited and Mr. Paul Ng) who held an aggregate of 100,161,607 Shares, representing approximately 33.24% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) Ms. Cheung, being a Director, who held 12,300,311 Shares, representing approximately 4.08% of the issued share capital of the Company as at the Latest Practicable Date, shall abstain from voting in the resolution to approve the Rights Issue in the EGM by way of poll under the Listing Rules.

As at the Latest Practicable Date, Mr. Ng, the Substantial Shareholder of the Company and an executive Director and the Chairman of the Board, holds the beneficial interests in all the issued share capital of the Underwriter. Therefore, the Underwriter is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the Underwriting Agreement constitute connected transactions for the Company under the Listing Rules and the Underwriting Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Assuming no acceptance by the Qualifying Shareholders under the Rights Issue (other than acceptance pursuant to the Irrevocable Undertakings) and no placement made under the Compensatory Arrangements, the Underwriter will be required to subscribe for and take up 301,673,195 Rights Shares (including 18,450,466 Rights Shares and 7,500,000 Rights Shares that Ms. Cheung and Mr. Gorges are entitled to subscribe respectively) in full, and it will result in an increase in the aggregate shareholding of the Underwriter and parties acting in concert with it (including but not limited to Mr. Ng and his close associates, Mr. Paul Ng, Ms. Cheung and Mr. Gorges) from approximately 38.98% of the existing issued share capital of the Company to approximately 75.59% of the then enlarged issued share capital of the Company immediately after completion of the Rights Issue. Accordingly, the Underwriter and parties acting in concert with it (including but not limited to Mr. Ng and his close associates, Mr. Paul Ng, Ms. Cheung and Mr. Gorges) would be required to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it unless the Whitewash Waiver is granted.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver, will be granted and will be conditional upon, among others, the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders voting in person or by proxy at the EGM by way of poll. The Underwriter (holding 7,178,761 Shares, representing approximately 2.38% of the Shares currently in issue as at the Latest Practicable Date) and parties acting in concert with it, namely Mr. Ng, Mr. Paul Ng, Ms. Cheung, Mr. Gorges, Fung Shing Group Limited, Parkfield Holdings Limited and Ronastar Investments Limited (holding 11,133,264 Shares, 11,700,000 Shares, 12,300,311 Shares, 5,000,000 Shares, 23,526,030 Shares, 44,623,680 Shares and 1,999,872 Shares, representing approximately 3.70%, 3.88%, 4.08%, 1.66%, 7.81%, 14.81% and 0.66% of the Shares currently in issue as at the Latest Practicable Date, respectively) which in aggregate amounted to approximately 117,461,918 Shares or approximately 38.98% of the Shares in issue as at the Latest Practicable Date, and any Shareholder who is involved in, or interested in, the Underwriting Agreement, the Rights Issue and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth, Hon. Raymond Arthur William Sears, Q.C. and Mr. Tung Woon Cheung Eric, has been established to advise the Independent Shareholders in connection with the Rights Issue, the Underwriting Agreement and the Whitewash Waiver and to make a recommendation as to whether the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, are in the interests of the Company and the Shareholders as a whole, and as to voting in respect of the relevant resolutions at the EGM. Our appointment has been approved by the Independent Board Committee. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

We are independent from the Company and the Underwriter, their respective controlling shareholders and any parties acting, or presumed to be acting, in concert with any of them or any company controlled by any of them. As at the Latest Practicable Date, Lego Corporate Finance did not have any relationships with or interests in the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company, the Underwriter, their respective controlling shareholders and any parties acting, or presumed to be acting, in concert with any of them or any company controlled by any of them. Accordingly, we are considered eligible to give independent advice in relation to the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of this letter and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and/or the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continue to be so until the date of this letter. The Company shall inform the Independent Shareholders as soon as possible if there is any material change to such information in accordance with the Listing Rules and Rule 9.1 of the Takeovers Code up to and including the date of the EGM.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries consist of securities, commodities, bullion and forex broking and trading, margin financing, money lending, provision of corporate advisory and underwriting services, asset and wealth management, property investment, media publications and financial public relation services, sales of jewellery products and investment holding. Set out in Table 1 below are certain consolidated financial information of the Group for each of the three years ended 31 December 2016, 2017 and

2018 as extracted from the annual reports of the Company for the year ended 31 December 2017 (the "**Annual Report 2017**") and 31 December 2018 (the "**Annual Report 2018**"), respectively.

Table 1: Financial information of the Group

	For the year ended 31 December		
	2018	**2017**	**2016**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
— Broking	42,497	52,707	30,324
— Trading and investment	(37,225)	114,713	36,437
— Margin financing and money lending	28,911	28,069	22,138
— Corporate advisory and underwriting	30,014	26,124	21,284
— Asset and wealth management	2,790	3,288	968
— Property investment	11,939	10,606	9,401
— Media publications and financial public relation services	54,889	17,609	—
— Jewellery business	9,092	—	—
— Other business	1,006	1,219	814
Total	143,913	254,335	121,366
Profit/(loss) for the year	(239,766)	52,539	(56,703)
Profit/(loss) for the year attributable to equity holders of the Company	(239,750)	52,539	(56,703)

	As at 31 December		
	2018	**2017**	**2016**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	687,026	572,467	480,862
Current assets	1,600,373	2,038,317	1,842,632
Current liabilities	1,185,496	1,231,133	1,050,576
Net current assets	414,877	807,184	792,056
Non-current liabilities	187,543	212,955	178,458
Net assets	914,360	1,166,696	1,094,460

For the year ended 31 December 2017

For the year ended 31 December 2017, the Group recorded revenue of approximately HK$254.34 million, representing an increase of approximately 109.56% as compared to approximately HK$121.37 million for the previous year. With reference to the Annual Report 2017, we noted that the increase in revenue was mainly attributable to (i) the increase in revenue from the broking business by approximately HK$22.38 million as a result of the increase in average market turnover due to local market rally; (ii) the increase in revenue from trading and investment from approximately HK$36.44 million to approximately HK$114.71 million as resulted from positive market sentiment amidst the market rally during the year; and (iii) the recognition of revenue of approximately HK$17.61 million from the media publications and financial public relation services for the year ended 31 December 2017 since completion of acquisition of a financial media group in January 2017.

For the year ended 31 December 2017, the Group recorded profit for the year attributable to equity holders of the Company of approximately HK$52.54 million, against the loss attributable to equity holders of the Company of approximately HK$56.70 million for the previous year. With reference to the Annual Report 2017, we noted that the such turnaround from loss to profit was largely attributable to (i) improvement in operating results of brokerage operations; and (ii) the record of a gain on the Group's financial assets at fair value through profit or loss of approximately HK$10.99 million against the fair value loss of approximately HK$66.67 million for the year ended 31 December 2016, amidst a market rally for the year ended 31 December 2017.

As at 31 December 2017, the net current assets and net assets of the Group amounted to approximately HK$807.18 million and approximately HK$1,166.70 million, respectively, which maintained relatively stable as compared to those as at 31 December 2016.

For the year ended 31 December 2018

For the year ended 31 December 2018, the Group recorded revenue of approximately HK$143.91 million, representing a decrease of approximately 43.42% as compared to approximately HK$254.34 million for the previous year. Based on the Annual Report 2018, we noted that such decrease was mainly attributable to (i) the negative revenue from trading and investment of approximately HK$37.23 million as recorded for the year ended 31 December 2018 against the positive revenue of HK$114.71 million for the previous year; and (ii) the decrease in brokerage commission income due to the overall weak investment sentiment for the year brought about by the uncertainty in trade disputes between the United States and the PRC and signs of deceleration of the PRC economy, among others.

For the year ended 31 December 2018, the Group recorded loss for the year attributable to equity holders of the Company of approximately HK$239.75 million, against the profit attributable to equity holders of the Company of approximately HK$52.54 million for the previous year. With reference to the Annual Report 2018, we noted that the loss-making performance of the Group was primarily resulted from (i) the decrease in revenue for the year ended 31 December 2018 as discussed in the above paragraph; and (ii) the recognition of the fair value loss of approximately HK$146.91 million as compared to the fair value gain of approximately HK$10.99 million as recorded for the previous year.

As at 31 December 2018, the net current assets and net assets of the Group amounted to approximately HK$414.88 million and approximately HK$914.36 million, respectively. The respective decreases in net current assets and net assets of the Group was mainly due to the combined effects of (i) the decrease in the proprietary trading portfolio as the stock price decreased; (ii) the decrease in the cash balance as result of operation loss; and (iii) the acquisition of a media group by the Group in March 2018 which recorded a net liability position.

2. Reasons for the Rights Issue and the proposed use of proceeds

As disclosed in the Letter from the Board, the gross proceeds from the Rights Issue amount to approximately HK$189.8 million before expenses. The estimated expenses in relation to the Rights Issue, including the financial, legal, and other professional advisory fees, underwriting commission, placing commission, printing and translation expenses will be borne by the Company. After exclusion of the aforementioned estimated expenses, the estimated net proceeds from the Rights Issue amounts to approximately HK$184.7 million, which is intended to be applied as to (i) approximately HK$170 million for the increase of the capital base of the Group in order to meet the new regulatory standards; and (ii) approximately HK$14.7 million for use as the Group's general working capital, including but not limited to administrative expenses such as employees' salaries.

Margin financing business of the Group and the intended use of proceeds

With reference to the Annual Report 2018, it is noted that South China Securities Limited ("**SCS**"), a wholly-owned subsidiary of the Group, is principally engaged in securities broking, margin financing and the provision of underwriting services. As seen from Table 1 in the above section headed "1. Background information of the Group", the revenue from the Group's margin financing and money lending business demonstrated a generally increasing trend, which recorded at approximately HK$28.91 million and contributed approximately 20.09% of the Group's revenue for the year ended 31 December 2018, being one of the key income sources of the Group. On 4 April 2019, the Guidelines with respect to the new requirements for Securities Margin Financing Activities (the "**Guidelines**") was published by the SFC, which shall become effective on 4 October 2019. According to the Guidelines, a securities margin financing (SMF) broker should take reasonable steps to avoid excessive exposure to outstanding margin calls, for example, the total amount of outstanding margin call of all margin clients should not exceed its shareholders' funds, or the total amount of long outstanding margin call of all margin clients should not exceed 25% of its shareholders' funds. In assessing the amount of required fund to increase the capital base of the Group in order to continue the margin financing business in compliance with the Guidelines, we have primarily taken into consideration (i) the long outstanding margin calls of SCS as at 30 June 2019 of all of its margin clients; (ii) the amount of shareholders' fund of

SCS as at 30 June 2019; and (iii) the historical monthly closing balances of long outstanding margin calls of all margin clients of SCS for the past six months ended 30 June 2019. Based on our review of the long outstanding margin calls of SCS as well as its shareholders' fund as at 30 June 2019, we noted that the shortfall between the shareholders' fund of SCS as at 30 June 2019 and the required amount of shareholders' funds as computed in accordance to the Guidelines such that the amount of long outstanding margin calls shall not exceed 25% of the shareholders' funds and that the total amount of outstanding margin call of all margin clients of SCS to stay below the level of its shareholders' funds, is comparable to the amount of approximately HK$170 million proposed to be used for replenishment of share capital of SCS. On the other hand, we noted that the recent monthly closing balances of long outstanding margin calls of SCS for the past six months ended 30 June 2019 were relatively stable and the average monthly closing balances during the period was comparable to that as at 30 June 2019. Based on the foregoing, we are of the view that the intended utilisation of the net proceeds from the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned.

Replenishment of the Group's general working capital

It is intended that as to approximately HK$14.70 million of the net proceeds from the Rights Issue will be applied as the Group's general working capital, including but not limited to administrative expenses such as employees' salaries. For the year ended 31 December 2018, the Group recorded a loss for the year of approximately HK$239.77 million and net cash flows used in operating activities of approximately HK$93.45 million. Therefore, adding the allocated net proceeds from the Rights Issue of approximately HK$14.70 million to the cash on hand of the Group of approximately HK$108.46 million as at 31 December 2018, the Group would have available fund of approximately HK$123.16 million, which would only cover less than six months of the average monthly operating expenses of the Group of approximately HK$20.80 million based on the operating expenses of the Group of approximately HK$249.55 million for the year ended 31 December 2018.

Financing alternatives considered by the Company

Upon enquiry with the management of the Company, we understand that the Board has considered various means of fund raising such as debt financing/bank borrowings and placing of new Shares, before resolving to the Rights Issue. With respect to debt financing/bank borrowings, the Company has approached certain commercial banks to explore the possibility of raising the necessary amount of fund for the Group. However, given the recent financial performance of the Group in particular its loss-making performance for the year ended 31 December 2018, the commercial banks are not willing to finance the proposed business plans including but not limited to margin financing of the Group. Further, the commercial banks generally requested for the provision of significant assets of the Group as collaterals in order to secure the loan. With reference to the Annual Report 2018, we noted that as at 31 December 2018, the current and non-current interest-bearing bank and other borrowings of the Group amounted to approximately HK$639.90 million in aggregate, of which more than 97% were secured. As advised by the Company, other than the collaterals for the existing banking facilities of the Group, the Group does not have any other material asset collaterals to obtain bank borrowings with favourable terms and meaningful loan size. Given that the Group would not be able to provide material pledge for the potential loan, a higher interest rate on the loan may be requested by the commercial banks. In this regard, we have reviewed the effective interest rate for unsecured bank loans of the Group as disclosed in the Annual Report 2018 which is based on Hong Kong Interbank Offered Rate (HIBOR), ranged from HIBOR+3.5% per annum to HIBOR+3.75% per annum. Based on the data available from the Hong Kong Monetary Authority, the average 1-month HIBOR in June 2019 amounted to 2.35% per annum. Based on the gross proceeds of the Rights Issue of approximately HK$189.8 million and the top range of the aforesaid interest rate, the estimated finance costs amounted to approximately HK$11.58 million per annum, which is significantly higher than the expenses expected to be incurred from the Rights Issue of approximately HK$5.1 million.

On the other hand, any placing exercise would only be conducted on a best-effort basis which may impose uncertainty on the final amount of proceeds to be raised and subject to market condition. Placing exercise also does not allow the Qualifying Shareholders the rights to participate in the enlarged capital base of the Company on an equitable basis and their shareholdings in the Company would be diluted without being offered an opportunity to maintain their respective pro-rata interests in the Company, unlike the Rights Issue. In contrast, the Rights Issue is on fully underwritten basis such that the degree of certainty on the amount of funds to be raised from the Rights Issue would be higher as compared to a placing exercise.

We noted that the Company had not approached any other independent underwriters with respect to the Rights Issue since the Underwriter is indirectly wholly owned by Mr. Ng, who is also the Substantial Shareholder of the Company with sufficient financial backing and a track record of completing capital market deals successfully with the Company. Considering that the underwriting of the Rights Shares by the Underwriter signify strong support and confidence from the Substantial Shareholder in the future development of the Group, and the fact that the Underwriter has previous business relationship with the Company would mitigate any potential leakage of material inside information, we concur with the Company's view that the engagement with the Underwriter for the underwriting of the Rights Shares is fair and reasonable.

In view of the above and in particular, (i) the Group does not have material asset as collaterals for obtaining bank borrowings with favourable terms as required by commercial banks; (ii) placing of new Shares will immediately dilute the shareholding interests of the Qualifying Shareholders without offering them equal opportunities to participate in the enlargement of the capital base of the Company and the potential growth of the Group; and (iii) other than those Rights Shares agreed to be taken up pursuant to the Irrevocable Undertakings, the Rights Issue is fully underwritten by the Underwriter, a company wholly-owned by Mr. Ng, who is the Chairman, an executive Director and Substantial Shareholder of the Company, which is a show of confidence in the Group's future development, we concur with the Board's view that raising funds by way of the Rights Issue is the most preferred option over the other financing alternatives.

In light of that (i) the stable revenue recorded from the margin financing business of the Group for the past years and it is in the interest of the Group and its Shareholders to engage in such business; (ii) it is necessary for SCS to increase its share capital in compliance with the Guidelines in order to continue its margin financing business under the existing scale; (iii) the proposed utilisation of the net proceeds and the allocation amount is consistent with the requirements as stipulated under the Guidelines which shall become effective late this year; (iv) the cash level of the Group, which amounted to approximately HK$108.46 million as at 31 December 2018, is not sufficient to increase the capital of SCS in order for it to comply with the Guidelines in view of its historical margin financing scale; and (v) the Rights Issue is the most preferred option over the other financing alternatives considered by the Company under present circumstances, we are of the view that the Rights Issue and accordingly the proposed use of proceeds thereof is fair and reasonable.

3. Principal terms of the Rights Issue

3.1 The Underwriting Agreement

On 3 July 2019, the Underwriter and the Company entered into the Underwriting Agreement in respect of the Rights Issue. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to fully underwrite all the Rights Shares other than those agreed to be taken up by Mr. Ng and his close associates (namely (i) the Underwriter; (ii) Fung Shing Group Limited; (iii) Parkfield Holdings Limited; and (iv) Ronastar Investments Limited), and Mr. Paul Ng pursuant to their respective Irrevocable Undertakings. Set out below is a summary of the Underwriting Agreement.

Date	:	3 July 2019
Underwriter	:	Uni-Spark Investments Limited, which is wholly-owned by Mr. Ng beneficially.
Total number of Rights Shares underwritten by the Underwriter	:	301,673,195 Rights Shares (having taken into account of the Irrevocable Undertakings and assuming no new Share being issued and no Share being repurchased on or before the Record Date and no placement made under the Compensatory Arrangements)
Commission	:	The Underwriter will receive 2% of the aggregate Subscription Price of the Underwritten Shares as underwriting commission

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiation between the Company and the Underwriter.

Further details of the Rights Issue are set out below:

Basis of the Rights Issue	:	Three Rights Shares for every two Shares held at the close of business on the Record Date
Subscription Price	:	HK$0.42 per Rights Share
Number of existing Shares in issue as at the Latest Practicable Date	:	301,277,070 Shares
Number of Rights Shares	:	451,915,605 Rights Shares, assuming no further issue of new Share(s) and no repurchase of Share(s) on or before the Record Date
Number of issued shares of the Company upon completion of the Rights Issue	:	753,192,675 Shares, assuming no further issue of new Share(s) other than the Rights Shares and no repurchase of Share(s) on or before completion of the Rights Issue
Amount to be raised	:	Approximately HK$189.8 million before expenses

The estimated expenses of the Rights Issue (including the financial, legal, and other professional advisory fees, underwriting commission, placing commission, printing and translation expenses) are estimated to be approximately HK$5.1 million and will be payable by the Company.

As at the Latest Practicable Date, there are outstanding Share Options carrying the right to subscribe for a total number of 233,077 Rights Shares at an exercise price of HK$9.75 per Share, which are exercisable from 9 June 2018 to 8 June 2020 (both dates inclusive) granted and exercisable under the share option scheme. Save for the foregoing, there are no other options, warrants or other convertible securities granted by the Company that are subsisting as at the Latest Practicable Date.

Assuming no new Shares are issued and no repurchase of Shares on or before the Record Date, the number of 451,915,605 Rights Shares to be issued pursuant to the terms of the Rights Issue represents:

(a) approximately 150.00% of the total number of the existing issued Shares of 301,277,070 as at the Latest Practicable Date;

(b) approximately 60.00% of the total number of issued Shares as enlarged by the allotment and issue of the Rights Shares immediately upon completion of the Rights Issue.

In addition, pursuant to the Underwriting Agreement, the Underwriter agreed to take appropriate steps to maintain the minimum public float for the Shares in compliance with Rule 8.08(1) of the Listing Rules, including entering into sub-underwriting agreement to place out its Shares, if necessary.

According to the Underwriter, should it be found that the Underwriter is required to underwrite an amount of Rights Shares that would result in the public float for the Shares falls below 25% upon the latest time for placing of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by the Bookrunner, the sub-underwriter will be the ultimate subscriber of the Rights Shares as it would be called upon to fulfil its sub-underwriting commitment.

As at the Latest Practicable Date, the Underwriter confirms that it has sub-underwritten its underwriting obligations under the Underwriting Agreement to one sub-underwriter, namely Supreme China Securities Limited (with a maximum number of 4,500,000 Rights Shares sub-underwritten), which together with its ultimate beneficial owners are Independent Third Parties and does not hold any Shares as at the Latest Practicable Date. Should the sub-underwriter underwrite such 4,500,000 Rights Shares, it would only own approximately 0.60% of the enlarged issued share capital of the Company, upon completion of the Rights Issue. Thus, public float issue will not be triggered as a result of the Rights Issue. In view of the above, we consider that appropriate and sufficient measures will be in place to maintain the public float requirements as required under the Listing Rules.

In determining the current subscription ratio and the Subscription Price of the Rights Issue, we note that the Company has considered various factors, including (i) as in other market precedents, that a reasonable discount to the closing price of the Share is necessary to attract the Shareholders to participate in the Rights Issue; (ii) the funding needs of the Group; (iii) the recent rights issues conducted by other Hong Kong listed issuers; (iv) the Subscription Price has to be set at a discount to the closing price of Share that is acceptable to the Underwriter; and (v) the dilution effect to the existing Shareholders as further discussed in the below section headed "4. Potential dilution effect on the interests of the Independent Shareholders". In balancing the factors aforementioned, the Directors consider that the subscription ratio of three Rights Shares for every two existing Shares to be appropriate. Given the net proceeds of HK$184.7 million is necessary to meet its funding requirements, we consider setting a higher subscription price or a more dilutive subscription ratio (which would have corresponding effects of reducing the applicable discount of the subscription price to the closing market prices of the Shares, or increasing the dilution impact) to be not commercially practical based on our comparison with other rights issue transactions recently conducted in the Hong Kong stock market, and taking into account the pricing and dilution effect of the Comparables (as defined below) as further discussed under the sub-section headed "*3.1.1 Assessment of the Subscription Price*" below.

We set out our methodology and analysis on the terms of the Rights Issue in assessing if the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The same methodology and analytical assessment would also be applied to a rights issue that is underwritten by an independent third party had the Company was successfully to enlist the commitment of an independent underwriter.

3.1.1 Assessment of the Subscription Price

The Subscription Price for the Rights Shares is HK$0.42 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

(a) a discount of approximately 16.00% to the closing price of HK$0.500 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 7.08% to the theoretical diluted price of approximately HK$0.452 per Share taking into account the closing prices of the Shares as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 14.46% to the average of the closing prices of approximately HK$0.491 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 14.81% to the average of the closing prices of approximately HK$0.493 per Share based on the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 12.50% to the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(f) a discount of approximately 86.16% to the audited consolidated net asset value attributable to the Shareholders as at 31 December 2018 as extracted from the Annual Report 2018 of approximately HK$3.035 per Share as at 31 December 2018;

(g) a discount of approximately 86.47% to the adjusted net asset value (the "**Adjusted NAV**") attributable to the Shareholders as at 31 December 2018 of approximately HK$3.105 per Share (based on the adjusted consolidated net assets value of approximately HK$935.36 million which represents the sum of the consolidated net assets of the Group of approximately HK$914.36 million as at 31 December 2018 and the excess of approximately HK$21 million of the market value of the investment property of approximately HK$550 million as at 31 May 2019 as shown in the valuation report set out in Appendix III to the Circular over the fair value of such property of approximately HK$529 million as recognised in the Annual Report 2018, divided by the number of Shares in issue as at the Latest Practicable Date of 301,277,070 Shares); and

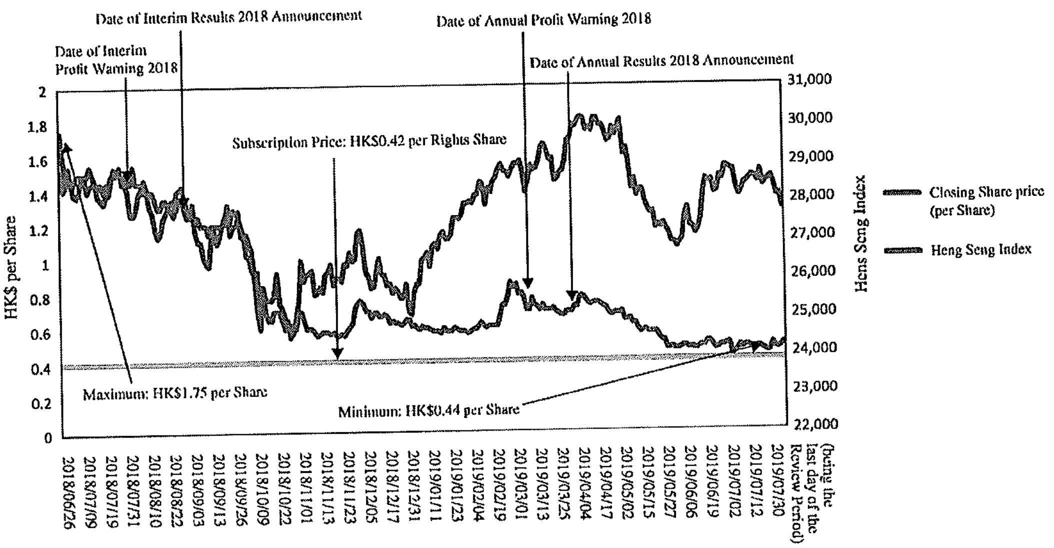
(h) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of a discount of approximately 9.60% represented by the theoretical diluted price of HK$0.452 per Share to the benchmarked price of approximately HK$0.500 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the closing price on the Last Trading Day of HK$0.500 per Share and the average closing prices of the Shares as quoted on the Stock Exchange in the five (5) consecutive trading days immediately prior to the Last Trading Day of approximately HK$0.491 per Share).

Each Qualifying Shareholder will be entitled to subscribe for the Rights Shares at the same Subscription Price in proportion to his/her/its shareholding held on the Record Date.

a. Historical Share price performance and trading volume of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing prices of the Shares on the Stock Exchange for the period from 26 June 2018 (being approximately twelve-month period prior to the Last Trading Day, i.e. 3 July 2019), up to and including the Latest Practicable Date (the "**Review Period**"). We consider that such period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison between the historical closing prices of the Shares and the Subscription Price. On 8 November 2018, the Company completed a share consolidation which became effective from 8 November 2018. In comparison of the Subscription Price to the historical closing price of the Shares, the historical daily closing prices of the Shares as quoted from the Stock Exchange prior to the effective date of the share consolidation and within the Review Period have been adjusted to reflect the closing Share prices on consolidated basis.

Chart 1: Daily closing price of the Shares during the Review Period



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

As shown in Chart 1 above, the closing prices of the Shares during the Review Period ranged from HK$0.44 per Share to HK$1.75 per Share, with an average closing price of HK$0.81 per Share. The Subscription Price of HK$0.42 per Rights Share represents a discount of approximately 76.00% and 3.45% to the highest and lowest closing price of the Shares respectively and represents a discount of approximately 48.39% to the average closing price of the Shares during the Review Period.

The closing price of the Shares exhibited a generally decreasing trend since June 2018 from the highest position of HK$1.75 per Share to a low position of HK$0.55 per Share on 29 October 2018, and then surged to HK$0.72 per Share on 30 November 2018, HK$0.86 per Share on 28 February 2019 and HK$0.77 per Share on 12 March 2019. On 3 August 2018, the Company issued a profit warning announcement pursuant to which the Group expected to record a loss for the six months ended 30 June 2018 (the "**Interim Profit Warning 2018**"). On 28 August 2018, the Company issued an interim results announcement pursuant to which the Group recorded a loss for the six months ended 30 June 2018 (the "**Interim Results 2018 Announcement**"). On 1 March 2019, the Company issued another profit warning announcement pursuant to which the Group expected to record a loss for the year ended 31 December 2018 (the "**Annual Profit Warning 2018**"). On 20 March 2019, the Company issued an annual results announcement pursuant to which the Group recorded a loss for the year ended 31 December 2018 (the "**Annual Results 2018 Announcement**"). We have discussed with the management of the Company regarding the possible reason of the general declining trend in Share prices and we were advised that save for the above-mentioned profit warning announcements, the Interim Results 2018

Announcement and the Annual Results 2018 Announcement, they were not aware of any matters which might have an impact on the closing prices of the Shares. We are also advised that they are not aware of any reason of the respective rebounds in the closing prices of the Shares on 30 November 2018, 28 February 2019 and 12 March 2019.

We have also compared the performance of Hong Kong Heng Seng Index (the "**HSI**") with the closing price of the Shares during the Review Period, for most of the time, we noted that fluctuation of the closing price of the Shares is in line with the HSI.

Apart from the daily closing price of the Shares, we have also reviewed the average daily trading volume per month of the Shares for the Review Period as set out in the following Table 1.

Table 1: Average daily trading volume of the Shares

	Number of trading days	**Average daily trading volumes**	**Average daily trading volumes to total number of Shares in issue**	**Average daily trading volumes to total number of Shares held by Independent Shareholders**
		(Approximate number of Shares) *(Note 1)*	*(Approximate %)* *(Note 2)*	*(Approximate %)* *(Note 3)*
2018				
June (from 26 June 2018)	4	219,625	0.07	0.12
July	21	208,263	0.07	0.11
August	23	141,831	0.05	0.08
September	19	71,646	0.02	0.04
October	21	924,750	0.31	0.50
November	22	536,962	0.18	0.29
December	19	333,230	0.11	0.18
2019				
January	22	120,939	0.04	0.07
February	17	725,924	0.24	0.40
March	21	157,592	0.05	0.09
April	19	190,131	0.06	0.10
May	21	226,929	0.08	0.12
June	19	51,000	0.02	0.03
July (up to and including the Latest Practicable Date)	21	557,273	0.18	0.30

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

Notes:

1. Computed by dividing the monthly trading volumes of the Shares by the total number of trading days of the respective corresponding months/periods.

2. Computed by dividing the average daily trading volumes of the Shares by the total issued Share capital of the Company of 301,277,070 Shares as at the Latest Practicable Date.

3. Computed by dividing the average daily trading volumes of the Shares by the total issued Share capital of the Company held by the Independent Shareholders of 183,762,152 Shares as at the Latest Practicable Date.

As shown in the Table 1 above, the highest average daily trading volume to total number of Shares in issue held by Independent Shareholders of 0.50% appeared in October 2018, of which 5 out of 21 trading days was over 0.50% of the total number of Shares in issue held by Independent Shareholders. The second and third highest average daily trading volume to total number of Shares in issue held by Independent Shareholders of 0.40% and 0.30% appeared in February and July 2019, of which 5 out of 17 trading days and 6 out of 21 trading days were over 0.40% and 0.30% of the total number of Shares in issue held by Independent Shareholders, respectively. The particularly high volatility in October 2018 and February 2019 was in line with the fluctuation as seen from the above analysis of the closing price of the Shares during the corresponding period and hence more active trading in the Shares. In respect of the particularly high volatility in July 2019, considering that the Announcement in relation to, among others, the Rights Issue was published on 3 July 2019 and that the Subscription Price represents a discount to the then closing price of the Shares, it is anticipated that the active trading of the Shares was due to the market sentiment arising from the Rights Issue. The average daily trading volume of Shares in each month/period as a percentage of the total number of Shares in issue held by Independent Shareholders ranged from approximately 0.03% to 0.50%, which indicates a relatively thin trading liquidity. Given the relatively thin trading liquidity of the Share during the Review Period, it would be difficult for the Shareholders to acquire a substantial block of the Shares in the open market, without exerting impact on the Share price. Accordingly, we consider that it is reasonable for the Subscription Price to be set at a discount to the prevailing historical closing prices of the Shares in order to attract the Qualifying Shareholders to participate in the Rights Issue, and to maintain their respective shareholding interests in the Company.

b. Comparison with other rights issues

We have also compared the terms of the Rights Issue to those of other rights issues conducted by other companies listed in Hong Kong. We have identified an exhaustive list of 8 fully-underwritten rights issue exercises with underwriter(s) as connected person(s) and/or independent third parties both of which we consider appropriate as the principal terms such as subscription price and underwriting commission rate have been agreed after arm's length negotiation between the relevant parties as announced by companies listed on the Stock Exchange (the "**Comparables**") during the six-month period prior to and including the Last Trading Day ("**Analysis Period**"). We consider the Analysis Period is adequate and appropriate given that (i) such period would provide us with the recent and relevant information to demonstrate the prevailing market practice prior to the Last Trading Day; and (ii) we were able to identify sufficient samples for comparison within the Analysis Period. The exhaustive list with aforesaid selection criteria is a fair and representative sample to be taken as a general reference of the recent market practices in relation to rights issues. Although the businesses, operations, financial positions and prospects of the Company may not be the same as those of the subject companies of the Comparables, it can still demonstrate the recent market practices of rights issue exercises in the market conducted by Hong Kong listed companies. We have not conducted any independent verification with regard to the businesses and operations of the subject companies of the Comparables. Set out below is a summary of the Comparables.

Table 2: Summary of the Comparables

Company Name (Stock Code)	Date of Announcement	Principal businesses	Premium/(discount) of the subscription price over/to the closing price per share/H share (as the case may be) on the last trading day prior to/on the date of the respective underwriting agreements *(Approximate)* %	Premium/(discount) of the subscription price over/to the theoretical ex-rights price per share/H share (as the case may be) on the last trading day prior to/on the date of the respective underwriting agreements *(Approximate)* %	Premium/(discount) of the subscription price over/to the consolidated net asset value per share *(Approximate)* % *(Note 1)*	Maximum dilution *(Approximate)* % *(Note 2)*	Underwriting commission %	Involved connected person(s) as underwriter(s) *(Yes/No)*
International Standard Resources Holdings Limited (91)	13/6/2019	Exploitation of natural gases and sale of electronic components	(32.96)	(34.07)	33.78	33.33	2.50	No
Xinjiang Goldwind Science & Technology Co., Ltd. (2208)	18/3/2019	Manufacture and distribution of wind turbine generator sets and spare parts, provision of wind power services, investment and development of wind farms	(20.75)	(18.04)	(82.16) *(Note 3)*	15.97	0 *(Note 4)*	No

Company Name (Stock Code)	Date of Announcement	Principal businesses	Premium/ (discount) of the subscription price over/to the closing price per share/H share (as the case may be) on the last trading day prior to/on the date of the respective underwriting agreements *(Approximate)* %	Premium/ (discount) of the subscription price over/to the theoretical ex-rights price per share/H share (as the case may be) on the last trading day prior to/on the date of the respective underwriting agreements *(Approximate)* %	Premium/ (discount) of the subscription price over/to the consolidated net asset value per share *(Approximate)* % *(Note 1)*	Maximum dilution *(Approximate)* % *(Note 2)*	Underwriting commission %	Involved connected person(s) as underwriter(s) *(Yes/No)*
APAC Resources Limited (1104)	11/3/2019	Trading of commodities and provision of financial and investment services	(14.73)	(10.35)	(70.72)	33.33	2.50	No
Birmingham Sports Holdings Limited (2309)	28/2/2019	Operation of football club	(43.18)	(33.63)	1.20	33.33	1.50	No
Southwest Securities International Securities Limited (812)	20/2/2019	Provision of brokerage, asset management and corporate finance services	(20.61)	(14.94)	111.30	33.33	2.50	No
Victory City International Holdings Limited (539)	19/2/2019	Manufacture and sale of garment products	(14.78)	(10.09)	(91.90)	33.33	1.00	No
GT Group Holdings Limited (263)	15/1/2019	Trading of goods, property development, brokerage and securities investment	(27.27)	(6.98)	(85.42)	80.00	3.00	No
Chen Xing Development Holdings Limited (2286)	11/1/2019	Residential and commercial properties development	(5.66)	(5.06)	7.68	16.67	0.25 *(Note 5)*	No
Maximum			(5.66)	(5.06)	111.30	80.00	3.00	
Minimum			(43.18)	(34.07)	(91.90)	15.97	0	
Average			(22.49)	(16.64)	(22.03)	34.91	1.66	
The Company			(16.00)	(7.08)	(86.16)	60	2	

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

Notes:

1. The consolidated net asset value per share was based on the latest available audited net asset value attributable to equity holders of the respective companies and the then outstanding number of shares in issue as at the last trading day prior to/on the date of the underlying underwriting agreements.

2. Maximum dilution on the shareholding of each of the Comparables is calculated as:

   ((number of rights shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the rights shares under the basis of entitlement + number of rights shares to be issued under the basis of entitlement) x 100%), e.g. for a rights issue with basis of one rights share for every one existing share, the maximum dilution effect is calculated as: (1/(1+1)*100%) = 50.0%.

3. For illustrative purpose, an approximate translation rate of RMB1.00=HK$1.13 was used in computing the discount.

4. As the details of the underwriting commission have not been disclosed in its announcement/circular, the underwriting commission was deemed to be zero for analytical purpose.

5. The underwriter will receive a fixed underwriting commission of HK$1.3 million, plus a discretionary bonus of 0.25% on the total amount to be raised.

Based on the above Table 2, we noted that:

(i) the subscription prices to the closing prices on the respective last trading day prior to the rights issue announcements of the Comparables ranged from a discount of approximately 5.66% to a discount of approximately 43.18% (the "**Comparable LTD Range**"), with an average discount of approximately 22.49% (the "**Comparable LTD Average**"). The discount of 16.00% to the closing price per Share on the Last Trading Day as represented by the Subscription Price (the "**LTD Discount**") is within the Comparable LTD Range and has a less discount than the Comparable LTD Average;

(ii) the subscription prices to the theoretical ex-rights prices per share based on the respective last trading day prior to the rights issue announcements of the Comparables ranged from a discount of approximately 5.06% to a discount of approximately 34.07% (the "**Comparable TERP Range**"), with an average discount of approximately 16.64% (the "**Comparable TERP Average**"). The discount of the Subscription Price of the Rights Issue to the theoretical ex-rights price per Share on the Last Trading Day (the "**TERP Discount**") is approximately 7.08%, which is within the Comparable TERP Range and has a less discount than the Comparable TERP Average;

(iii) the subscription prices to the consolidated net asset value (the "**NAV**") per share ranged from a premium of approximately 111.30 % to a discount of approximately 91.9% (the "**Comparable Price-to-NAV Range**"), with an average of discount of approximately 22.03% (the "**Comparable Price-to-NAV Average**"). The Subscription Price as compared to the NAV per Share (the "**Price-to-NAV Discount**") and the Adjusted NAV per Share (the "**Price-to-Adjusted NAV Discount**") as at 31 December 2018 is at a discount of approximately 86.16% and 86.47%, respectively, which are both within the Comparable Price-to-NAV Range and have a higher discount than the Comparable Price-to-NAV Average; and

(iv) the underwriting commissions ranged from 0% to 3% (the "**Commission Range**"), with an average of approximately 1.66% (the "**Commission Average**") and the underwriting commissions payable to the Underwriter is within the Commission Range and higher than the Commission Average.

While we noted that each of the Price-to-NAV Discount and Price-to-Adjusted NAV Discount falls within the Comparable Price-to-NAV Range and is higher than the Comparable Price-to-NAV Average, given that (1) the respective subscription price of all the Comparables was determined with reference to the then market price of the shares, but not the consolidated net asset value per share; and(2) the Comparable Price-to-NAV Range is wide and scattered, from a premium of approximately 111.30% to a discount of approximately 91.9%, we considered that the Comparable Price-to-NAV Range and the Comparable Price-to-NAV Average may not be appropriate indicators for assessing the Subscription Price, and despite the underwriting commission payable to the Underwriter is higher than the Commission Average, which is less favorable as compared to other Comparables, taking into account that (i) each of the LTD Discount and the TERP Discount under the Rights Issue has lesser discount than the respective Comparable LTD Average and Comparable TERP Average, (ii) the overall declining trend of the closing prices of the Shares during the Review Period; and (iii) the generally thin liquidity of the Shares during the Review Period, we are of the view that the principal terms, including the Subscription Price and the underwriting commission payable to the Underwriter, are on normal commercial term, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

3.2 The Placing Agreement

Pursuant to Rule 7.21(2) of the Listing Rules, as the Underwriter, being the Shareholder and indirectly wholly-owned by Mr. Ng, acts as an underwriter of the Rights Issue, the Company must make arrangements described in Rule 7.21(1)(b) of the Listing Rules to dispose the Unsubscribed Rights Shares and the NQS Unsold Rights Shares by offering the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to independent placees for the benefit of Shareholders to whom they were offered by way of the Rights Issue. There will be no excess application arrangements in relation to the Rights Issue as required by Rule 7.21(2) of the Listing Rules.

The Company therefore appointed the Bookrunner to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares after the Latest Time for Acceptance to independent placees on a best-effort basis, and any premium over the aggregate amount of (i) the Subscription Price for those Rights Shares; and (ii) the expenses of the Bookrunner (including any other related expenses/fees), that is realised, will be paid to those No Action Shareholders. The Bookrunner will, on a best-effort basis, procure acquirers for all (or as many as possible) of those Unsubscribed Rights Shares and the NQS Unsold Rights Shares if a premium over the Subscription Price and the expenses of procuring such acquirers (including any related commissions and any other related expenses/fees) can be obtained. Any unsold Unsubscribed Rights Shares and the NQS Unsold Rights Shares will be taken up by the Underwriter pursuant to the terms of the Underwriting Agreement.

On 3 July 2019 (after trading hours), the Company and the Bookrunner entered into the Placing Agreement, pursuant to which the Bookrunner has conditionally agreed to procure independent placees, on a best-effort basis, to place the Unsubscribed Rights Shares and the NQS Unsold Rights Shares. Details of the principal terms of the Placing Agreement are set out in the Letter from the Board. Pursuant to the Placing Agreement, a fixed fee of HK$100,000 shall be payable to the Bookrunner and the Bookrunner shall be reimbursed for the expenses in relation to the placing (including but not limited to all out-of-pocket expenses actually incurred by the Bookrunner for placing the Unsubscribed Rights Shares and the NQS Unsold Rights Shares), which the Bookrunner is authorised to deduct from the payment to be made by it to the Company at the Placing Completion Date.

In assessing the fairness and reasonableness of the principal terms of the Placing Agreement, including the commission fees payable to the Bookrunner, we have primarily made reference to recent placing exercises ("**Placing Comparables**") conducted as a result of the compensatory arrangement as required under the Listing Rules in connection with rights issue/open offer exercises conducted by other listed issuers in Hong Kong, as announced on the Stock Exchange since 3 July 2018, the date on which amendments to the Listing Rules in respect of rights issue/open offer came into effect, up to and including the date of the Announcement, which in our view represents a reasonable and appropriate time period given that such period would provide us with relevant comparable transactions which are conducted under the Listing Rules requirements with respect to rights issue/open offer as the Rights

Issue. We therefore consider that the Placing Comparables are fair and representative samples. We have identified an exhaustive list of 6 Placing Comparables which are set out in Table 3 below:

Table 3: Summary of the Placing Comparables

Company (Stock code)	Date of announcement	Commission fee/ rate payable to the bookrunner
i-CABLE COMMUNICATIONS LIMITED (1097)	9 November 2018	The higher of HK$200,000 or 1.75% of the gross proceeds from the subscription of the unsubscribed rights shares and reimbursed for the expenses in relation to the placing
i-CABLE COMMUNICATIONS LIMITED (1097)	25 January 2019	The higher of HK$200,000 or 1.75% of the gross proceeds from the subscription of the unsubscribed/unsold rights shares and reimbursed for the expenses in relation to the placing
Sing Lee Software (Group) Limited (8076)	13 March 2019	The higher of HK$100,000 or 2% of the gross proceeds from the subscription of the unsubscribed/unsold rights shares and reimbursed for the expenses in relation to the placing
Prosperity International Holdings (H.K.) Limited (803)	2 April 2019	5% of the gross proceeds from the subscription of the unsubscribed/unsold rights shares and reimbursed for the expenses in relation to the placing
JTF International Holdings Limited (8479)	3 April 2019	The higher of HK$100,000 or 1% of the gross proceeds from the subscription of the unsubscribed/unsold rights shares, subject to a maximum of HK$200,000
Food Idea Holdings Limited (8179)	11 June 2019	HK$150,000 will be reimbursed for the expenses in relation to the placing

Based on our review, we noted that the commission fees payable to the respective bookrunners under the Placing Comparables are either a fixed fee or based on certain proportion of the gross proceeds from the subscription of the unsubscribed/unsold shares, and/or reimbursed for the expenses in relation to the placing which the bookrunner is authorised to deduct from the payment to be made by it at completion. Hence, we consider that the fixed fee of HK$100,000 payable to the Bookrunner is not uncommon, and is comparable to those under the Placing Comparables. Further, we have reviewed other principal terms of the Placing

Comparables including the determination basis of the placing price of the unsubscribed/unsold shares and termination clauses thereof and are of the view that the principal terms of the Placing Agreement are generally consistent with the market practice. Given that (a) the Compensatory Arrangements would provide (i) a distribution channel of the Unsubscribed Rights Shares and the NQS Unsold Rights Shares to the Company; and (ii) a compensatory mechanism for No Action Shareholders; and (b) the terms of the Placing Agreement and in particular the fixed commission fee payable to the Bookrunner are generally consistent with the market practice, we concur with the Company that the Compensatory Arrangements are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole, and would safeguard the interest of the Independent Shareholders.

4. Potential dilution effect on the interests of the Independent Shareholders

The changes in shareholding structure of the Company arising from completion of the Rights Issue is set out in the section headed "SHAREHOLDING STRUCTURE OF THE COMPANY" in the Letter from the Board. It is noted that, the shareholding interest of the public Shareholders will be diluted from approximately 61.00% as at the Latest Practicable Date to approximately 25% immediately after completion of the Rights Issue assuming nil acceptance of the Rights Shares by the Qualifying Shareholders other than the Shareholders and Directors who have provided Irrevocable Undertakings and no placement made under the Compensatory Arrangement, representing a maximum potential dilution of 59.02%.

Notwithstanding the potential dilution impact to the public Shareholders who do not participate in the Rights Issue, taking into consideration that (i) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Rights Shares so as to maintain their respective proportionate shareholding interest in the Company; (ii) the shareholding interest of the Qualifying Shareholders would not be diluted if they elect to subscribe for in full their assured entitlements; (iii) the dilution effect of the Rights Issue is within the range of that of the Comparables; (iv) the Rights Issue is the most appropriate financing alternative under present circumstances of the Company; and (v) a substantial portion of the net proceeds from the Rights Issue would be applied to the margin financing business of the Group which we consider fair and reasonable, we are of the opinion that the Rights Issue is in the interest of the Company and the Shareholders as a whole.

5. Financial effects of the Rights Issue

Net tangible assets

Based on the Annual Report 2018, the consolidated net tangible assets of the Group per Share was approximately HK$2.70, computed by dividing the total consolidated net tangible assets of the Group of approximately HK$813.50 million by the total number of issued Shares of 301,277,070. With reference to "Unaudited pro forma financial information of the Group" as set out in Appendix II of the Circular, assuming that completion of the Rights Issue took place on 31 December

2018, the unaudited pro forma adjusted consolidated net tangible assets of the Group was approximately HK$998.20 million as at 31 December 2018, while the unaudited pro forma adjusted consolidated net tangible assets of the Group per Share was approximately HK$1.33 as at 31 December 2018.

Liquidity

Based on the Annual Report 2018, the cash and bank balances of the Group amounted to approximately HK$108.46 million as at 31 December 2018. Immediately upon completion of the Rights Issue, the cash and bank balances of the Group is expected to increase by the estimated net proceeds of the Rights Issue of approximately HK$184.7 million. As such, the liquidity of the Group will be enhanced following completion of the Rights Issue.

Gearing ratio

As at 31 December 2018, the Group's gearing ratio, which is computed as net debt (which includes interest-bearing bank borrowings, other borrowings, less cash and bank balances) divided by capital plus net debt, was approximately 36.76%. Assuming the level of borrowings of the Group remains unchanged, the capital base of the Group would be enlarged and the cash and bank balances of the Group will increase upon completion of the Rights Issue. Accordingly, the gearing ratio of the Group will be improved as a result of the Rights Issue.

Notwithstanding that the consolidated net tangible assets per Share of the Company would decrease as a result of the Rights Issue, the liquidity and gearing ratio of the Group would be enhanced. As such, we consider that the overall financial effect to the Group upon completion of the Rights Issue is positive.

Shareholders should note that the above analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon completion of the Rights Issue.

6. The Whitewash Waiver

As at the Latest Practicable Date, Mr. Ng, the Substantial Shareholder of the Company, an executive Director, the Chairman of the Board and the beneficial owner of the entire interests in the Underwriter, is interested in 88,461,607 Shares, representing approximately 29.36% of the total number of issued Shares. Also, Ms. Cheung and Mr. Gorges, each a party acting in concert with the Underwriter, owns 12,300,311 Shares and 5,000,000 Shares as at the Latest Practicable Date, representing approximately 4.08% and 1.66% of the Shares currently in issue respectively. Each of Mr. Paul Ng and Ms. Jessica Ng, the son and the daughter of Mr. Ng, is presumed to be a party acting in concert with Mr. Ng and, hence, the Underwriter under the Takeovers Code by virtue of being a close relative of Mr. Ng. As at the Latest Practicable Date, Mr. Paul Ng owns 11,700,000 Shares, representing approximately 3.88% of the Shares currently in issue, and Ms. Jessica Ng does not hold any Share and other relevant securities (as defined in Note 4 to

Rule 22 of the Takeovers Code) of the Company. Accordingly, the Underwriter and the parties acting in concert with it are interested in 117,461,918 Shares in aggregate, representing approximately 38.98% of the Shares currently in issue.

Pursuant to the Underwriting Agreement, the Underwriter will subscribe for and take up 301,673,195 Rights Shares (including 18,450,466 Rights Shares and 7,500,000 Rights Shares that Ms. Cheung and Mr. Gorges are entitled to subscribe respectively) that are not subscribed for under the Rights Issue in the event that no Qualifying Shareholder (other than the Shareholders and Directors who have provided the Irrevocable Undertakings) takes up any Rights Share under the Rights Issue and no placement made under the Compensatory Arrangements.

If the Underwriter takes up the Underwritten Shares in full, it will result in an increase in the aggregate shareholding of the Underwriter and parties acting in concert with it (including but not limited to Mr. Ng and his close associates, Mr. Paul Ng, Ms. Cheung and Mr. Gorges) in the Company from approximately 38.98% of the existing issued share capital of the Company to approximately 75.59% of the then enlarged issued share capital of the Company immediately after completion of the Rights Issue. As the Underwriter and parties acting in concert with it, currently as at the Latest Practicable Date hold not less than 30%, but not more than 50%, of the voting rights of the Company collectively, if any one or more of them (including the Underwriter) acquires additional voting rights and such acquisition has the effect of increasing their collective holding of voting rights of the Company by more than 2% from the lowest collective percentage holding of such persons in the 12 month period ending on and inclusive of the date of the relevant acquisition, the Underwriter and parties acting in concert with it would be required to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Underwriter and parties acting in concert with it unless the Whitewash Waiver is granted.

In this regard, we note that the Underwriter has made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver, will be granted and will be conditional upon, among others, the approval of the Whitewash Waiver by at least 75% of the Independent Shareholders voting in person or by proxy at the EGM by way of poll. The Underwriter (holding 7,178,761 Shares, representing approximately 2.38% of the Shares currently in issue as at the Latest Practicable Date) and parties acting in concert with it, namely Mr. Ng, Mr. Paul Ng, Ms. Cheung, Mr. Gorges, Fung Shing Group Limited, Parkfield Holdings Limited and Ronastar Investments Limited (holding 11,133,264 Shares, 11,700,000 Shares, 12,300,311 Shares, 5,000,000 Shares, 23,526,030 Shares, 44,623,680 Shares and 1,999,872 Shares, representing approximately 3.70%, 3.88%, 4.08%, 1.66%, 7.81%, 14.81% and 0.66% of the Shares currently in issue as at the Latest Practicable Date, respectively), and any Shareholder who is involved in, or interested in, the Underwriting Agreement, the Rights Issue and/or the Whitewash Waiver shall abstain from voting on the relevant resolutions at the EGM. In the event that such an approval is not granted by the Executive or approved by the Independent Shareholders, the Rights Issue will not proceed.

Having considered (i) the reasons for and benefits of the Rights Issue and that it is the preferred method for fund raising for the Group as explained in the section headed "2. Reasons for the Rights Issue and the proposed use of proceeds" above; (ii) the Subscription Price is fair and reasonable and is in the interest of the Company and the Shareholders having regards to the historical market price of the Share during the Review Period and the subscription prices of the Comparables as discussed in the sub-section headed "3.1.1 Assessment of the Subscription Price" above; (iii) the aforementioned assessment that the maximum possible dilution effect to the Qualifying Shareholders is acceptable as discussed in the section headed "4. Potential dilution effect on the interests of the Independent Shareholders" above; and (iv) the overall positive expected financial effects as a result of the Rights Issue, in particular, the expected improvement in the liquidity and the gearing ratio of the Group, we are of the opinion that the granting and approval of the Whitewash Waiver, being a condition precedent to each of the Underwriting Agreement and the Placing Agreement, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Rights Issue.

RECOMMENDATIONS

Taking into consideration of the principal factors and reasons as set out in this letter, and in particular that:

(a) it is necessary for SCS to increase its share capital in compliance with the Guidelines in order to continue its margin financing business under the existing scale;

(b) the proposed utilisation of the net proceeds and the allocation amount is consistent with the requirements as stipulated under the Guidelines which shall become effective late this year;

(c) the Rights Issue is the most preferred option over the other financing alternatives considered by the Company under present circumstances taking into account the recent financial performance of the Group, among others;

(d) the principal terms of the Underwriting Agreement (including the commission rate, the Subscription Price and the subscription ratio) is in line with the market and, in particular, the LTD Discount and the TERP Discount has lesser discount than the respective Comparable LTD Average and Comparable TERP Average;

(e) the terms of the Placing Agreement are in line with the market and the Compensatory Arrangements would safeguard the interest of the Independent Shareholders; and

(f) the overall positive financial effects as a result of the Rights Issue, in particular, the expected improvement in liquidity and gearing ratio of the Group;

we are of the view that, although the entering into of the Underwriting Agreement and the Placing Agreement was not in the ordinary and usual course of business of the Group, the terms of the Rights Issue are normal commercial terms, fair and reasonable so far as the

Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Rights Issue, the Underwriting Agreement and the Whitewash Waiver.

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

Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the SFC and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the corporate finance advisory profession.