PELICAN FINANCIAL
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PELICAN FINANCIAL LIMITED

15/F, East Exchange Tower, 38-40 Leighton Road, Causeway Bay, Hong Kong

26 May 2020

To the Independent Board Committee and the Independent Shareholders of Century Sunshine Group Holdings Limited

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND 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 respect of the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company dated 26 May 2020 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement and the Board Letter that, on 18 April 2020, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which, the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK$300 million, which may be converted into 1,600,000,000 Conversion Shares based on the initial Conversion Price of HK$0.1875 per Conversion Share upon full conversion, for a cash consideration of HK$300 million. The Convertible Bonds bear an interest rate of 8% per annum on the outstanding amount and mature on the date falling on the second anniversary of the date of issue.

The Conversion Shares shall rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of such Conversion Shares. The Conversion Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM. No application will be made by the Company for the listing of the Convertible Bonds, but the Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares falling to be issued upon conversion of the Convertible Bonds.

The Subscriber is wholly-owned by Mr. Chi, a controlling Shareholder and an executive Director, and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction of the Company, and is subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the Subscriber (a company wholly-owned by Mr. Chi) and parties acting in concert with it are interested in 1,660,860,200 Shares, representing approximately 36.25% of the issued share capital of the Company. Upon full conversion of the Convertible Bonds at the initial Conversion Price, assuming that there are no other changes in the issued share capital of the Company, the Subscriber and persons acting in concert with it will be interested in approximately 52.76% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares, which will trigger an obligation on the Subscriber/Mr. Chi to make a mandatory general offer for all the securities of the Company other than those already owned or agreed to be acquired by the Subscriber and parties acting in concert with it under Rule 26.1 of the Takeovers Code. Mr. Chi has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Conversion Shares to the Subscriber pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by at least 75% and more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll in respect of the Whitewash Waiver and the Subscription (including the grant of the Specific Mandate) respectively at the EGM.

The Board currently comprises three executive Directors and three independent non-executive Directors. The Independent Board Committee, which currently comprises all the independent non-executive Directors, Mr. Cheung Sound Poon, Mr. Sheng Hong and Mr. Lau Chi Kit, has been established to advise the Independent Shareholders as to the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

We are not connected with the directors, chief executive or substantial shareholders of the Company or any of their respective associates and also there is no relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence to act as independent financial adviser to the Company and therefore we considered that we are suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. In the last two years, there was no other engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive or substantial shareholders of the Company or any of their respective associates that could reasonably be regarded as relevant to our independence.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription is in the interests of the Company and the Shareholders as a whole; (iii) whether the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Subscription Agreement (including the grant of the Specific Mandate) and the Whitewash Waiver at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions. Our procedures include, among other things, review of relevant agreements, documents as well as information provided by the Company and verification of such information, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Subscription Agreement, the annual report for the year ended 31 December 2019 (the "**2019 Annual Report**"), the Announcement and the Circular. We have assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than those relating to the Subscriber and the parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

The sole director of the Subscriber (namely Mr. Chi) accepts full responsibility for the accuracy of the information contained in the Circular and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group, the Subscriber or their respective subsidiaries or associated companies.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the terms of the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver, we have considered the following principal factors and reasons:

1. Background information of the Group and the Subscriber

(a) The Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in fertiliser business, magnesium product business and metallurgical flux business.

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2019 as extracted from the 2019 Annual Report.

	For the financial year ended 31 December	
	2019	**2018**
	(audited)	*(audited)*
	HK$'000	*HK$'000*
Revenue		
— Fertiliser business	2,735,195	3,053,183
— Magnesium product business	1,515,291	1,537,781
— Metallurgical flux business	63,934	64,152
Total Revenue	**4,314,420**	**4,655,116**
Gross profit	**1,063,384**	**1,142,259**
Profit for the year	**428,254**	**572,837**

According to the 2019 Annual Report, for the year ended 31 December 2019, the Group recorded a revenue of approximately HK$4,314.4 million as compared to approximately HK$4,655.1 million for the year ended 31 December 2018, representing a decrease of approximately 7.3%. Such drop in revenue was mainly attributable to the decrease in the revenue from the Group's fertiliser business by approximately 10.4% between the two years, as a result of the implementation of "Relocation of Industries from City Urban Area to Industrial Parks" by Shandong Hongri production base which had led to the decrease in the Group's production volume of fertiliser products by approximately 15.1%. As shown in the above table, the Group's fertiliser business had contributed over 60% of its total revenue for the two years ended 31 December 2019, hence the drop in revenue from this segment had a major impact on the Group's financial performance.

Meanwhile, the Group recorded gross profit of approximately HK$1,063.4 million for the year ended 31 December 2019, representing a decrease of approximately 6.9% compared to that of approximately HK$1,142.3 million in 2018, mainly as a result of the decrease in the Group's revenue as discussed above. For the same reason, for the two years ended 31 December 2019, the Group's profit for the year decreased from approximately HK$572.8 million to approximately HK$428.3 million, representing a decrease of approximately 25.2%.

The consolidated assets and liabilities of the Group as at 31 December 2019 as extracted from the 2019 Annual Report, are summarized as follows:

	As at 31 December 2019 *(audited)* *HK$'000*	**As at 31 December 2018** *(audited)* *HK$'000*
Total assets		
— non-current assets	5,137,168	5,068,708
— current assets	2,490,397	2,405,859
Total liabilities		
— non-current liabilities	992,832	1,224,047
— current liabilities	2,364,822	2,293,902
Net current assets	**125,575**	**111,957**
Net assets	**4,269,911**	**3,956,618**

As at 31 December 2019, the non-current assets of the Group amounted to approximately HK$5,137.2 million, which mainly consisted of property, plant and equipment in the amount of approximately HK$3,866.1 million. The current assets of the Group as at 31 December 2019 amounted to approximately HK$2,490.4 million, which mainly included bank and cash balances of approximately HK$823.1 million, as well as prepayments, deposits and other receivables of approximately HK$634.4 million. As at 31 December 2019, the current liabilities of the Group amounted to approximately HK$2,364.8 million, which mainly consisted of borrowings (with terms within one year) of approximately HK$1,524.2 million, while the non-current liabilities of the Group amounted to approximately HK$992.8 million, which mainly consisted of borrowings (with terms more than one year but not exceeding five years) of approximately HK$536.1 million. The net assets of the Group was approximately HK$4,269.9 million as at 31 December 2019, which was higher than that of approximately HK$3,956.6 million as at 31 December 2018 by approximately 7.9%.

(b) The Subscriber

The Subscriber is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Chi, its sole director. As at the Latest Practicable Date, the Subscriber (a company wholly-owned by Mr. Chi) and parties acting in concert with it are interested in 1,660,860,200 Shares, representing approximately 36.25% of the issued share capital of the Company.

2. Equity fund raising activities in the past twelve months from the date of the Latest Practicable Date

The Company had not carried out any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

3. Reasons for and benefits of the Subscription and the use of proceeds

According to the Board Letter and our discussion with the Company, although the bank and cash balances of the Group as at 31 December 2019 amounted to approximately HK$823.1 million as stated in the 2019 Annual Report, the cash and bank balances of the Group, after excluding those of REMT Group, only amounted to approximately HK$561 million, with a majority of which being denominated in RMB and deposited in the PRC to meet its working capital requirement in the PRC. Meanwhile, (i) approximately HK$794 million of the Group's total borrowings (excluding those of REMT Group) were unsecured offshore borrowings which are subject to repayment or refinancing during the period between June 2020 and December 2020, and (ii) the Group (excluding REMT Group) had outstanding capital commitments of approximately HK$120 million for the ongoing construction projects, including the construction of ancillary facilities for Phase I of the Group's production base in Jiangxi, the PRC and the upgrade work on a production line of the Group's Jiangsu factory to increase the capacity from 150,000 tonnes per annum to 200,000 tonnes per annum, for the Group's fertiliser business in the PRC due before December 2020 (the "**Capital Expenditures**"). According to the 2019 Annual Report, Shandong Hongri Chemical Joint Stock Company Limited, a subsidiary of the Company, implemented the "Relocation of Industries from City Urban Area to Industrial Parks" under the requirement of the policy from Shandong Provincial Government in 2019, which had resulted in the Group's production being gradually transferred to the aforementioned Jiangxi and Jiangsu production bases. As discussed with the Directors, major construction works of Phase I of the Group's production base in Jiangxi had already been completed and the ongoing construction projects mostly regard the upgrade work on a production line of the Group's Jiangsu factory and hence they do not have an absolute completion date. Meanwhile, the Directors are of the view that, despite these construction projects are mostly for upgrade purposes, they would improve the Group's competitiveness in the industry and enable it to capture market opportunities when they arise with its strengthened production capacity.

As stated in the Board Letter, China has put in place a supportive policy environment which is conducive for the development of the green agriculture industry. Given that the Company has been developing, producing and selling ecological fertilisers for over a decade, and is a reputable player with strong brand influence in China's compound and organic fertiliser market, it is expected that the supportive policy measures carried out in China will further strengthen the development of the Group's green ecological fertiliser business. As such, the Company is of the view and we concur that the Group'sits continual investments in the green ecological fertiliser business, which involve the timely construction of the production facilities of the Group's fertiliser business in Jiangxi and Jiangsu, will bring a positive and satisfactory economic return to the Company and the Shareholders as a whole.

Given that the unsecured offshore borrowings and Capital Expenditures are due soon, the Board is resolved to proceed with the Subscription as a way to raise fund.

As stated in the section headed "Intended Use of Proceeds from the Subscription" in the Board Letter, the Company intends to use the net proceeds from the Subscription in the following manner:

(i) approximately HK$230 million (representing approximately 78.77% of the net proceeds) to partially refinance the Group's unsecured offshore borrowings (including accrued interest) from independent third parties to a lower interest rate (i.e. from approximately 9.1% per annum to 8% per annum with the weighted average interest rate of the Group's unsecured offshore borrowings being lowered from approximately 7.6% to 7.3% per annum), which is expected to put the Company in a better position when negotiating terms of financing with potential investors and financial institutions;

(ii) approximately HK$32 million (representing approximately 10.96% of the net proceeds) to settle the Capital Expenditures; and

(iii) approximately HK$30 million (representing approximately 10.27% of the net proceeds) to strengthen the general working capital for the payment of loan interests of the unsecured offshore borrowings as well as salary, office rental and other administrative expenses of the Group's operations in Hong Kong in the next twelve months upon Completion.

Additionally, in respect of the remaining Capital Expenditures due before December 2020, the Company is reviewing the progress of its capacity expansion plan and may adjust the capital expenditures level in light of the economic uncertainty due to the COVID-19 pandemic.

Furthermore, from our discussion with the Director, we note that the Directors had considered the potential dilution effect to the shareholding interests of the public Shareholders when entering into the Subscription. As discussed in the below section headed "Dilution effects on the shareholding structure of the Company upon full conversion of the Convertible Bonds" of this letter, upon the full conversion of the Convertible Bonds at the initial Conversion Price and assuming there is no change to the issued share capital of the Company and the shareholding in the Company other than the issue of the Conversion Shares, the shareholding of existing public Shareholders will be diluted by approximately 16.48% immediately. While such dilution impact would likely not appeal to certain Shareholders, it should be noted that such potential dilution effect is unavoidable when convertible securities are issued and regardless of the time of such issue. Taking into account the reasons for and benefits of the Subscription as discussed in this section and our view that the Subscription is currently the most appropriate and timely fund raising method available to the Company as discussed in next section of this letter, we agreed with the Directors that the possible dilution effect on the shareholding interests of the public Shareholders is acceptable.

In light of the above, we agree with the Directors that the Subscription would strengthen the quality of the Company's financial resources and liquidity position to navigate in the current unstable market conditions so that the Company will be in a better financial position to capture more business opportunities associated with its principal business ahead, while allowing the Group to settle the Capital Expenditures and hence complete the construction of its production facilities in Jiangxi and Jiangsu, and satisfying its needs to maintain sufficient working capital level for its operations and potential business expansion. In addition, since the Subscription reflects Mr. Chi's (the controlling Shareholder and chairman of the Board) confidence in and commitment to support the Group's business, we agree that the Subscription will further give the market confidence as to the Company's prospect.

Finally, from our discussion with the Director, we understand that while they consider the Subscription as currently the best financing option of the Company, the Subscription is not the Company's last resort that will impose any material adverse impact to the Company's financial position and operation if the Subscription is not going to proceed. However, given the reasons for and benefits of the Subscription as discussed above, the Directors consider, and we concur, that the Subscription is in the interest of the Company and the Shareholders as a whole.

4. Alternative fund raising methods

We were given to understand that apart from the issue of the Convertible Bonds, the Directors have considered alternative fund raising methods such as commercial debt financings (including bank borrowings), placing of new shares, rights issue or open offer. The management of the Company has continuously tried various alternatives during the past few months, but the recent instability of the local and global financial markets negatively affects the financing opportunities of the Company. Therefore, the Board resolved to proceed with the issue of the Convertible Bonds after taking into account the following:

(i) In respect of debt financing, and particularly bank borrowings, while they continue to play a key role in supporting the ongoing operating working capital for the Group, the Board considers that it might be uncertain and time consuming to rely solely on bank borrowings given the current financial market conditions in Hong Kong and the PRC. Furthermore, the Company has approached and negotiated (and some of these discussions are still ongoing) with independent third parties including (a) several banks and financial institutions for the refinancing of the Group's unsecured offshore borrowings in the first quarter of 2020, and the indicative interest rates quoted by these financial institutions for commercial debt financings ranged from mid-10% to upper 10% range, which are substantially higher than the weighted average interest rate of the Group's existing unsecured offshore borrowings of approximately 7.6%; and (b) financial institutions for the refinancing of the Company's listed term notes with a face value of SGD101.75 million (equivalent to approximately HK$559.63 million) and a coupon rate of 7.0%, and the Company notes that the interest rates for US dollar denominated debts issued by companies in the Greater China Region with similar credit ratings in March 2020 and April 2020 ranged from 11.00% to 12.75% (Source: Bloomberg). Given the higher interest rates associated debt financings, the Board considered that it will be difficult for the Company to obtain debt financings of such magnitude at the relevant time on acceptable terms;

(ii) In respect of equity financing, the Board considered it may require a discount on issue price to the prevailing market price of the Shares given (a) the recent market volatility and poor market conditions; and (b) the trading volume of the Shares has been thin in general (i.e. the monthly average daily trading volume of the Shares as a percentage of the total number of the Shares in issue during the twelve-month period ended the Last Trading Day ranged from approximately 0.01% to 0.13% and as a percentage of the number of the Shares held by public Shareholders as at the Latest Practicable Date ranged from approximately 0.02% to 0.20%). In addition, placing of new shares and convertible bonds will incur higher costs than the issue of the Convertible Bonds as the Company will need to pay commissions to the placing agent. Based on the Company's review of transactions involving placing of securities (i.e. shares and convertible bonds) of listed companies in Hong Kong for the past six months ended the Last Trading Day, the placing commission rates of these transactions ranged from 0.25% to 10% at an average of approximately 2.5%. As such, the Board did not pursue securities placing as it was considered to be less favourable to the Shareholders taking into account the additional costs and unfavourable pricing. The Board was also of the view that a rights issue or open offer will incur more transaction costs including but not limited to the additional costs and time spent in the preparation of the listing documents. Since such corporate exercises will be relatively more time consuming (approximately an additional 30 days to complete the fundraising exercise), it may result in the Company being subject to the adverse effects of the current volatile market, thereby increasing the uncertainty it faces in raising funds in time and may affect the overall business plan of the Group.

From our discussion with the Directors, we note that they consider it difficult to predict with certainty whether an economy turnaround will happen in the near future and are of the view that there is a possibility that the Share prices may remain stagnant in the second quarter of 2020, as evidenced by the fact that the Heng Seng Index has yet to return to its 2019 level at above 25,000 points as at the Latest Practicable Date. As such, although in the event that the Share price exceeds the Conversion Price, the Company may directly benefit by placing of shares at that time, the Directors consider it a hypothetical scenario, especially given the current global economic uncertainties and the thin trading volume of the Shares. In addition, as discussed above, placing of securities, or equity financing in general, are dependent upon the market demand for the Shares and would likely entail additional time and costs as well as unfavourable pricing, and hence the Directors are of the view that the issue of the Convertible Bonds remains the most preferable fund raising method currently available to the Company.

As stated in the Board Letter, the Company and Mr. Chi, the chairman of the Board, executive Director and controlling Shareholder discussed from time to time about the provision of shareholder's financing by Mr. Chi as an alternative means of financing to the Group subject to Mr. Chi being able to obtain personal financing. Mr. Chi informed the Company in mid-March 2020 that he was able to arrange personal financing to address the funding requirements of the Group. After preliminary arms' length negotiation with Mr. Chi and careful consideration of the terms of the financing options currently available to the Company and the recent markets conditions, the Company and Mr. Chi commenced the discussion on the proposal whereby the Subscriber is willing to subscribe for certain convertible bonds to be issued by the Company. As blackout period commenced on 18 January 2020, the parties worked towards finalising the terms of the Subscription and entering into the Subscription Agreement as soon as possible after the Company published its audited annual results for the year ended 31 December 2019 on 16 April 2020. Based on the Company's presentation to us and our review of the facility letter for the aforementioned personal financing obtained by Mr. Chi, we understand that the Company's current arrangement with Mr. Chi provides the most favourable financing terms compared to other financing options.

In addition to Mr. Chi, we note from our discussion with the Directors that, in seeking commercial debt financings from independent third parties during the past few months, the Company had also attempted to negotiate with them on the possibilities of an issue of convertible bonds by the Company. However, the Company had only obtained interest from one financial institution and the indicative interest rate quoted by such financial institutions was approximately 12%, with the conversion price premium proposed to be set at around 20%, similar to that represented by the Convertible Price, over the prevailing market price of the Shares at the time when entering into the potential engagement. Given the high interest rate and the other terms and restrictions imposed by such financial institution, the Directors were of the view that such engaging was not preferable and therefore did not proceed with such financial institution.

Given that (i) the Company had not been able to obtain favorable interest rates for debt financings from independent third parties; (ii) equity financings would entail additional time and costs as well as unfavourable pricing as discussed above; and (iii) the issue of convertible bonds to independent third parties at a more favourable interest rate was not practicable, we concur with the Directors that the issue of the Convertible Bonds is currently the most appropriate and timely fund raising method available to the Company and can better prepare the Company for unfavorable market conditions in Hong Kong and the PRC.

5. Principal terms of the Subscription Agreement

Set out below are the summary of principal terms of the Subscription Agreement as extracted from the Circular.

Date	:	18 April 2020
Parties	:	(i) China Century Sunshine Group Investment Limited (as Subscriber); and (ii) the Company (as issuer)
Principal amount:		HK$300,000,000
Maturity date:		The second anniversary of the date of issue of the Convertible Bonds (i.e. date of completion of the Subscription Agreement)
Interest rate:		8% per annum on the outstanding amount

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK$300 million, which may be converted into 1,600,000,000 Conversion Shares based on the initial Conversion Price of HK$0.1875 per Conversion Share upon full conversion.

As at the Latest Practicable Date, there were 4,581,116,843 Shares in issue. The Conversion Shares represent: (i) approximately 34.93% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 25.89% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares immediately after full conversion of the Convertible Bonds at the initial Conversion Price (assuming there is no other change to the issued share capital of the Company).

For details on the principal terms of the Convertible Bonds, please refer to sections titled "Principal terms of the Convertible Bonds" in the Board Letter.

6. Evaluation of the terms of the Convertible Bonds

(a) Analysis of the Conversion Price

As stated in the Board Letter, the Conversion Shares will be allotted and issued upon the exercise of the conversion right under the Convertible Bonds. The Conversion Price of HK$0.1875 per Conversion Share represents:

(i) A premium of approximately 28.42% over the closing price of HK$0.1460 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) A premium of approximately 18.67% over the closing price of HK$0.1580 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) A premium of approximately 18.82% over the average closing price of HK$0.1578 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares up to and including the Last Trading Day;

(iv) A premium of approximately 18.52% over the average closing price of HK$0.1582 per Share as quoted on the Stock Exchange for the 10 consecutive trading days of the Shares up to and including the Last Trading Day;

(v) A premium of approximately 11.94% over the average closing price of HK$0.1675 per Share as quoted on the Stock Exchange for the 30 consecutive trading days of the Shares up to and including the Last Trading Day;

(vi) A premium of approximately 0.21% over the average closing price of HK$0.1871 per Share as quoted on the Stock Exchange for the 60 consecutive trading days of the Shares up to and including the Last Trading Day; and

(vii) A discount of approximately 77.57% to the audited net assets value per Share attributable to equity holders of the Company of approximately HK$0.8358 based on the latest audited consolidated net asset value attributable to equity holders of the Company as at 31 December 2019 and the number of Shares in issue as at the Latest Practicable Date ("**NAV per Share**").

The Conversion Price was determined after arm's length negotiations between the Company andthe Subscriber having regard to the prevailing market price of the Shares and the market conditions at the time of entry into the Subscription Agreement.

Prevailing market price of the Shares and the market conditions

As stated in the Board Letter, the Directors noted the Shares have been traded at a general downward trend during the period from January 2020 up to and including the Last Trading Day (the "**Period**") due to the recent volatility and market downturn of the global economy, in particular in Hong Kong and China, as well as concerns over the COVID-19 pandemic in the Hong Kong stock market since January 2020. The highest and lowest closing prices of the Shares were HK$0.228 on 20 January 2020 and HK$0.151 on 18 March 2020 and 19 March 2020 respectively during the Period and the Conversion Price represents a discount of approximately 17.76% and a premium of approximately 24.17% to the highest and lowest closing price of the Shares respectively during the Period. Accordingly, the Conversion Price represents a slight discount of approximately 2.90% to the average closing price of HK$0.1931 per Share during the Period.

While we are aware that the Share prices only dropped to less than the Conversion Price in mid-March as illustrated in the next sub-section of this letter, we understand that the Conversion Price was determined with regard to the prevailing market prices of the Shares and the market conditions at the time of entering into the Subscription Agreement, which was around mid-April, and we are of the view that such basis of conversion price determination is common among issuers in Hong Kong when issuing convertible securities. In addition, as discussed in the previous section headed "Alternative fund raising methods" of this letter, the Company had sought alternative fund raising methods during the past few months before resolving to proceed with the Subscription in April. We understand from the Company that because of the time required for seeking and determining an appropriate fund raising method as well as for negotiating and entering into the Subscription, the Subscription happened in April instead of earlier and hence the Conversion Price was determined with regard to the prevailing market price of the Shares and the market conditions around the same period. In this regard, we agree with the Directors that, the Conversion Price reflects the fair market value of the Shares traded on the Stock Exchange and was an appropriate benchmark to reflect the prevailing market conditions and recent market sentiment.

Meanwhile, although the Conversion Price was only above the Share prices since mid-March, it is at a premium of approximately 19% over the prevailing market prices of the Shares at the time of entering into the Subscription Agreement (i.e. average closing prices of the Shares for the last 5 and 10 consecutive trading days of the Shares up to and including the Last Trading Day) and approximates the average closing price of the Shares for the 60 consecutive trading days of the Shares up to and including the Last Trading Day. Since the Conversion Price was determined after arm's length negotiations between the Company and the Subscriber, we consider it reasonable that the parties took reference from an average closing price of the Shares for a narrower period prior to the Last Trading

Day (60 consecutive trading days prior), instead of a wider period given the uncertainty and volatility in the global economy arose as a result of the COVID-19 pandemic. As discussed in the section headed "Alternative fund raising methods" of this letter, we understand that the Directors consider it difficult to predict with certainty whether an economy turnaround will happen in near future and are of the view there is a possibility that the Share prices may remain stagnant in the second quarter of 2020. As such, the Directors consider, and we concur, that it is prudent to enter into the Subscription with the Subscriber sooner than later in case the Share prices continue to drop and put further downward pressures on the Conversion Price.

NAV per Share

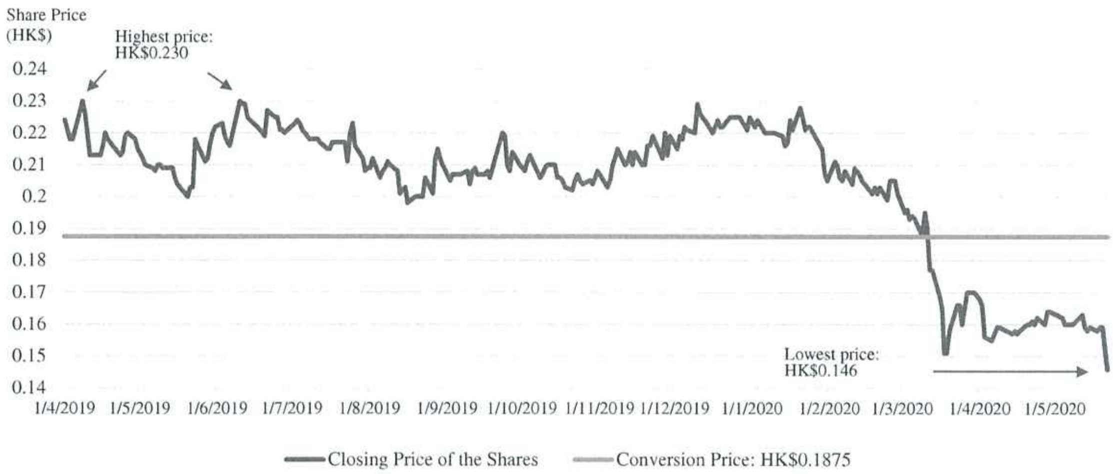
On the other hand, as stated in the Board Letter, the Directors were aware of the fact that the Conversion Price represents a discount of approximately 77.57% to the NAV per Share. However, considering the Shares had been consistently traded at a substantial discount to the net assets value per Share for the past three financial years calculated based on the audited net asset value attributable to Shareholders for the years ended 31 December 2017, 2018 and 2019 and the weighted average number of Shares in issue in the respective years (ranging from a minimum discount of approximately 49.17% to a maximum discount of approximately 78.22%), both the Subscriber and the Company considered, and we concur, that the prevailing market price of the Shares, instead of the NAV per Share, would be a more appropriate reference in determining the Conversion Price.

Further to the analysis above, when assessing the fairness and reasonableness of the Conversion Price, we have also taken into account (i) the daily closing price of the Shares as quoted on the Stock Exchange for the period from 1 April 2019 to the Latest Practicable Date, being a period of more than twelve months prior to the date of the Announcement and up to and including the Latest Practicable Date (the "**Review Period**"); and (ii) the comparison of the recent issue/placings of convertible bonds/notes (excluding the issue of convertible bonds/notes as a consideration of an acquisition and those issues of convertible bonds/notes which had been terminated and which are convertible into A shares) (the "**Comparable Issues**") to connected persons and independent third parties by listed issuers in Hong Kong announced for the period from 1 October 2019 to the Last Trading Day, being a period of more than six months prior to the date of the Announcement and up to and including the Last Trading Day (the "**Comparison Period**").

Historical share price performance

In order to assess the fairness and reasonableness of the Conversion Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange during Review Period. We consider that a sampling period of more than twelve months is adequate as it would provide a general overview of the recent price performance of the Shares for our analysis on the historical closing prices of the Shares and the Conversion Price. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

Chart 1: Historical daily closing prices of the Shares during the Review Period



Source: the website of the Stock Exchange

As illustrated in the chart above, the Shares have been traded at a general downward trend during the Review Period particularly since January 2020. During the Review Period, the Share price closed at its highest at HK$0.230 on 8 April 2019 and 10 June 2019 respectively, and at its lowest at HK$0.146 on 22 May 2020. The Conversion Price of HK$0.1875 therefore falls within the highest and lowest closing prices of the Shares, and represents a discount of 18.48% and a premium of 28.42% to the highest and lowest closing price of the Shares respectively during the Review Period. Meanwhile, the Conversion Price represents a discount of approximately 8.09% to the average closing price of HK$0.204 during the Review Period.

Meanwhile, as shown in the chart above, the closing price of the Shares had dropped from HK$0.19 on 11 March 2020 to HK$0.177 on 13 March 2020 and had not returned to a price level higher than HK$0.1875 since. As such, since 13 March 2020, the closing prices of the Shares had not exceeded the Conversion Price.

Market comparable analysis

To further assess the fairness and reasonableness of the key terms of the Convertible Bonds, we have conducted a search of Comparable Issues to connected persons and independent third parties by listed issuers in Hong Kong announced during the Comparison Period to understand the trend of the recent market practice. We consider that the six-month Comparison Period is appropriate in providing a general reference for the recent market practice in relation to the key terms of the Comparable Issues under similar market conditions, given that (i) the timeframe is sufficient in generating a reasonable and meaningful amount of samples for the purpose of our analysis; and (ii) the inclusion of all Comparable Issues without any artificial selection or filtering on our part represents a true and fair view of the recent market trends for similar transactions conducted by other listed issuers in Hong Kong.

In this regard, we have identified a total of 19 Comparable Issues during the Comparison Period. Although the Comparable Issues may have different sizes compared to that of the Company, we consider that the Comparable Issues are fair and representative samples, as we are of the view that including Comparable Issues of different sizes can reflect a more comprehensive market sentiment in our analysis.

Although the principal businesses, market capitalisations, profitability and financial positions of the companies of the Comparable Issues may be different from those of the Company, we consider that the Comparable Issues were determined under similar market conditions and sentiment and hence, provide a general reference on the key terms for this type of transaction in Hong Kong. Therefore, we consider, to the best of our knowledge and ability, that the Comparable Issues are exhaustive, fair and indicative in assessing the fairness and reasonableness of the key terms of the Convertible Bonds.

Table 1: Analysis of the Comparable Issues *(Note 1)*

Company name	Stock code	Date of announcement	Interest rate per annum	Maturity	Premium/ (discount) of conversion price over/to the closing price on the last trading day prior to/on the date of the respective announcement/ agreement	Premium/ (discount) of conversion price over/to the average closing price of five trading days prior to and including the last trading day prior to/on the date of the respective announcement/ agreement	Percentage of the number of conversion shares to the enlarged issued share capital
			%	*year*	%	%	%
South China Financial Holdings Limited	619	7-Apr-20	0	3	0	0.92	43.00
Sunshine Oilsands Ltd.	2012	1-Apr-20	8	2	26.40	0	47.07
Asia Energy Logistics Group Limited	351	27-Mar-20	0	3	(3.03)	(6.98)	37.69
Wai Chun Group Holdings Limited	1013	25-Feb-20	5	Perpetual	2.44	5.00	16.07
Titan Petrochemicals Group Limited	1192	18-Feb-20	5	2	63.27	67.36	2.48
Wai Chun Bio-Technology Limited	660	23-Jan-20	4	3	(7.43)	(9.50)	7.58
Viva Biotech Holdings	1873	23-Jan-20	2.5	5	26.00	25.10	13.50
Sino Biopharmaceutical Limited	1177	22-Jan-20	0	5	57.51	60.56	2.62
Huajun International Group Limited	377	22-Jan-20	0	5	208.94	204.49	29.95
ANTA Sports Products Limited	2020	14-Jan-20	0	5	40.00	42.70	2.95
Best Food Holding Company Limited	1488	13-Jan-20	0	7	7.27	9.87	29.51
Bosideng International Holdings Limited	3998	5-Dec-19	1	5	27.50	29.60	3.89
Shougang Concord International	697	29-Nov-19	0	2	(13)	(15.30)	12.39
iDreamSky Technology Holdings Limited	1119	26-Nov-19	2.5	3	2.40	5.20	3.79
Spring Real Estate Investment Trust	1426	25-Nov-19	1.8	2	14.20	12.50	11.10
Pacific Basin Shipping Limited	2343	31-Oct-19	3	6	31.90	36.40	10.92
Synergis Holdings Limited	2340	24-Oct-19	7	2	2.00	4.20	16.51
Ban Loong Holdings Limited	30	14-Oct-19	3	2	(0.80)	0	30.50
Victory City International Holdings Limited	539	14-Oct-19	5	2	64.60	65.00	11.40

Company name	Stock code	Date of announcement	Interest rate per annum	Maturity	Premium/ (discount) of conversion price over/to the closing price on the last trading day prior to/on the date of the respective announcement/ agreement	Premium/ (discount) of conversion price over/to the average closing price of five trading days prior to and including the last trading day prior to/on the date of the respective announcement/ agreement	Percentage of the number of conversion shares to the enlarged issued share capital
			%	*year*	%	%	%
		Maximum *(Note 2)*	8.00	Perpetual	64.60	67.36	47.07
		Median *(Note 2)*	2.50	3.00	10.74	7.54	11.90
		Minimum *(Note 2)*	0	2.00	(13.00)	(15.30)	2.48
		Average *(Note 2)*	2.66	3.47	18.96	18.48	16.83
The Company	**509**	**18 Apr 2020**	**8**	**2**	**18.67**	**18.82**	**25.89**

Source: the website of the Stock Exchange

Notes:

1. The respective interest rate per annum, term to maturity, the relevant premium/discount and issue sizes in terms of percentage are extracted from the relevant published announcements of the companies for the Comparable Issues.

2. We have excluded Huajun International Group Limited (Stock code: 377) ("**Huajun**") when arriving to these figures as we are of the view that the company is an outlier.

As shown in the above table, the conversion price of Huajun represents an exceptional high premium over its closing price per share on last trading day and over its average closing price for the last five consecutive trading days prior to its last trading day as compared with those of the other Comparable Issues (i.e. more than three times larger than the second highest premium of the Comparable Companies over their respective closing price per share on last trading day and over their respective average closing price for the last five consecutive trading days prior to their respective last trading day). According to the circular of Huajun dated 29 April 2020, although the board of Huajun observed that it is a common practice for listed issuers in Hong Kong to set their conversion price per share at a discount to the closing prices of their shares, in order to protect the interest of Huajun and its shareholders as a whole, the board of Huajun insisted to set the conversion price at a substantially high premium instead. After various arm's length negotiations between Huajun and the subscriber of its convertible bonds, the board of Huajun requested for the conversion price to be set at a relatively high price as compared to its prevailing market prices, in order to maximise the interest of Huajun and its shareholders as a whole.[1] Given that such practice is not common in the market as illustrated by the Comparable Issues, we are of the view that Huajun International Group Limited is an outlier and in order to avoid skewing our figures, we have excluded it when determining the maximum, minimum, median and average figures of the Comparable Issues.

After excluding the outlier, we note that the premium/(discount) of the conversion prices over/to the closing prices of the respective shares on the respective last trading days of the Comparable Issues ranged from a discount of approximately 13.0% to a premium of approximately 64.6%, with the average and median being a premium of approximately 19.0% and 10.7%, respectively, while the premium/(discount) of the conversion prices over/to the average closing prices of the respective shares for the last five trading days represented by the Comparable Issues ranged from a discount of approximately 15.3% to a premium of approximately 67.4%, with the average and median being a premium of approximately 18.5% and 7.5%, respectively. The premium of approximately 18.67% represented by the Conversion Price over the closing price of HK$0.158 per Share on the Last Trading Day, as well as the premium of approximately 18.82% represented by the Conversion Price over the average closing price of HK$0.1578 per Share for the five consecutive trading days of the Shares up to and including the Last Trading Day, therefore fall within the ranges of the Comparable Issues (excluding the outlier) and are above the median figure and approximate the average figure thereof.

Furthermore, as shown in the above table, the issue sizes (the percentage of the number of conversion shares to the enlarged issued share capital) are negatively correlated with the conversion prices of the Comparable Issues (excluding the outlier), given that for the same fund raising amount, a higher conversion price would entail a smaller amount of conversion shares, and vice versa. Hence, since conversion prices are often determined with regard to prevailing market prices of the shares, a lower conversion price resulted from decreasing market prices of the shares would likely lead to a larger issue size for the same fund raising amount. Save for this, we have not identified any other correlation between the issue size and/or maturity and other terms of the Comparable Issues.

Having considered that (i) the Conversion Price represents a premium over the closing price of the Shares on the Last Trading Day and on the Latest Practicable Date, as well as over the average closing price of the Shares for the five, 10, 30 and 60 consecutive trading days up to and including the Last Trading Day; (ii) the Conversion Price was determined after arm's length negotiations between the Company and the Subscriber having regard to the prevailing market price of the Shares; (iii) the Conversion Price is within the range of closing prices of the Shares during the Review Period, and had been above the closing prices of the Shares since 13 March 2020; and (iv) the premium represented by the Conversion Price over the closing price per Share on the Last Trading Day, as well as the premium represented by the Conversion Price over the average closing price for the five consecutive trading days of the Shares up to and including the Last Trading Day, fall within the ranges of the Comparable Issues (excluding the outlier) and are above the median figure and approximate the average figure thereof, we consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

[1] Please refer to https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801514.pdf

(b) Analysis of other principal terms of the Convertible Bonds

Interest rate

As shown in the above table, the interest rates of the Comparable Issues ranged from nil to 8% per annum, with the average and median being approximately 2.7% and 2.5% per annum, respectively. The interest rate of the Convertible Bonds, being 8% per annum, therefore falls within the range of the interest rates of the Comparable Issues and approach the high end among those of the Comparable Issues.

According to the 2019 Annual Report, as at 31 December 2019, the Group's weighted average effective interest rate of bank borrowing and other borrowings was approximately 7.01% per annum, which is about 1 percentage points lower than the interest rate of 8% per annum carried by the Convertible Bonds. Meanwhile, as discussed in the above section headed"Reasons for and benefits of the Subscription and the use of proceeds", the interest rate of the Group's unsecured offshore borrowings (including accrued interest) from independent third parties is approximately 9.1% per annum with their weighted average interest rate being approximately 7.6% per annum, which are 1.1 percentage points higher and 0.4 percentage points lower than the interest rate of 8% per annum carried by the Convertible Bonds, respectively. Despite the difference between the interest rate of the Convertible Bonds and the weighted average interest rate of the Group's unsecured offshore borrowings, we understand from the Directors that the Company intends to utilise the net proceeds from the Subscription to refinance those unsecured offshore borrowings which carry an interest rate higher than 8% per annum. Meanwhile, as discussed earlier, the Subscription would allow the Group to bring down the interest rate of these unsecured offshore borrowings from approximately 9.1% per annum to 8% per annum, and their weighted average interest rate from approximately 7.6% per annum to 7.3% per annum, and accordingly allow the Group to better position itself financially for future negotiations for other financings.

In addition, since the Convertible Bonds, when converted into Conversion Shares, will be recognized as equity of the Company and will hence improve the net asset position of the Company, we are of the view that the interest rate of 8% per annum carried by the Convertible Bond is acceptable as the potential benefit of the issue of the Convertible Bonds could not be achieved by bank borrowings.

Given that the interest rate of 8% per annum carried by the Convertible Bond is within the range of the interest rates of the Comparable Issues and can help lower the interest rate of part of the Group's unsecured offshore borrowings and enhance the Group's financial position, and that there are potential benefits associated with issue of the Convertible Bonds that could not be achieved by bank borrowings, we consider the interest rate, despite on the higher end of the range of those of the Comparable Issues, to be fair and reasonable so far as the Independent Shareholders are concerned.

Issue size

As for the issue size of the Convertible Bonds (the percentage of the number of conversion shares to the enlarged issued share capital), we note that the issue sizes of the Comparable Issues ranged from approximately 2.5% to 47.1%, with an average and median of approximately 16.8% and 11.9% respectively. The issue size of the Convertible Bonds of approximately 25.9% therefore falls within the range of the issue sizes of the Comparable Issues and is on the higher end among those of the Comparable Issues.

As discussed earlier, a lower conversion price resulted from decreasing market prices of the shares would likely lead to a larger issue size for the same fund raising amount. Such view is supported by the issue sizes of recent Comparable Issues (since late February), which are relatively larger compared to those of other Comparable Issues, likely due to the fact that the share prices of these companies had decreased significantly in the past few months and hence a larger issue size is required in order to raise the target fund raising amount. In this regard, we are therefore of the view that the issue size of the Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned, especially during this time given the uncertainty and volatility in the global economy arisen as a result of the COVID-19 pandemic.

Term to maturity

As for the terms to maturity, we note that the term to maturity of the Comparable Issues ranged from two years to perpetuality, with an average and median of approximately 3.5 years and 3 years respectively. The term to maturity of the Convertible Bonds of two years therefore falls within the range of the terms to maturity of the Comparable Issues and is fair and reasonable so far as the Independent Shareholders are concerned in our view.

(c) Section conclusion

Having considered the above, we are of the view that the terms of the Subscription Agreement, including the Conversion Price, interest rate, issue size and term to maturity, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Subscription, while not in the ordinary and usual course of business of the Company, is in the interest of the Company and the Shareholders as a whole.

7. Dilution effects on the shareholding structure of the Company upon full conversion of the Convertible Bonds

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after full conversion of the Convertible Bonds at the initial Conversion Price, earliest of which will be the first anniversary of the date of issue of the Convertible Bonds (assuming there is no other change to the issued share capital of the Company).

Table 2: Shareholding structure of the Company

	As at the Latest Practicable Date		**Immediately after full conversion of the Convertible Bonds at the initial Conversion Price**	
	No. of Shares	*%*	*No. of Shares*	*%*
Mr. Chi and the Subscriber *(Note 1)*	1,591,841,912	34.75%	3,191,841,912	51.64%
Mr. Chi's family *(Note 2)*	50,092,985	1.09%	50,092,985	0.81%
Directors				
Mr. Shum Sai Chit *(Note 3)*	14,666,305	0.32%	14,666,305	0.24%
Mr. Chi Jing Chao *(Note 4)*	1,633,998	0.04%	1,633,998	0.03%
Mr. Guo Mengyong *(Note 5)*	2,625,000	0.06%	2,625,000	0.04%
	18,925,303	0.42%	18,925,303	0.31%
Subtotal of Subscriber and parties acting in concert with it *(Note 6)*	**1,660,860,200**	**36.26%**	**3,260,860,200**	**52.76%**
Other Directors:				
Mr. Sheng Hong *(Note 6)*	1,775,000	0.04%	1,775,000	0.03%
Mr. Lau Chi Kit *(Note 6)*	2,000,000	0.04%	2,000,000	0.03%
	3,775,000	0.08%	3,775,000	0.06%
Public Shareholders	2,916,481,643	63.66%	2,916,481,643	47.18%
	4,581,116,843	100.00%	6,181,116,843	100.00%

Notes:

1. The Subscriber is wholly-owned by Mr. Chi and it did not own or have control or direction over any Shares as at the Latest Practicable Date. Mr. Chi personally owned 249,970,548 Shares (representing approximately 5.46% of the total number of issued Shares as at the Latest Practicable Date) and he was deemed to be interested in the 1,341,871,364 Shares (representing approximately 29.29 % of the total number of issued Shares as at the Latest Practicable Date) held by Alpha Sino by virtue of Mr. Chi's holding of approximately 83.74%of the issued share capital of Alpha Sino. Alpha Sino is owned as to approximately 83.74% by Mr. Chi, as to approximately 6.26% by Mr. Shum Sai Chit and as to 10% by Bande Investment Company Limited, a company wholly owned by Mr. Chi's siblings.

Mr. Chi and Alpha Sino, as chargors, charged 249,970,548 Shares and 792,591,364 Shares (together, the "**Charged Shares**"), respectively, (representing approximately 5.46% and 17.30% of the issued share capital of the Company as at the Latest Practicable Date, respectively) to Mr. Lo, Kai Ming Charles ("**Mr. Lo**") and Ms. Lee, Wai Yin Angela ("**Ms. Lee**"), as joint chargees (together, the "**Share Charges**") on 18 April 2020.

The Subscriber has entered into a facility letter with Hang Seng Bank, Limited (the "**Bank**") for a loan facility of up to HK$300 million (the "**Facility**") for financing the investment needs of the Group. The Subscriber intends to utilise the Facility to finance the subscription of the Convertible Bonds at Completion. The Facility is intended to be secured by, among others, a second legal charge over the Convertible Bonds from the Subscriber in favour of the Bank ("**HSB Second Charge over Convertible Bonds**") which is expected to be entered into at or shortly before Completion. As at the Latest Practicable Date, the terms and conditions of the HSB Second Charge over Convertible Bonds have yet been agreed upon by the parties thereto. In addition, the Facility will also be secured by certain third party security to be granted by Mr. Lo and Ms. Lee (together, the "**Security Providers**") at or shortly before Completion in favour of the Bank guaranteeing the Subscriber's obligations under the Facility. In consideration of the grant of such third party security by the Security Providers to the Bank, the Subscriber has provided or procured the provision of various securities in favour of the Security Providers, which include, insofar as the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company are concerned, (a) the Share Charges and (b) a first fixed legal charge over the Convertible Bonds on 18 April 2020, and has agreed to procure Alpha Sino to provide (c) a share charge over 549,280,000 Shares ("**Alpha Sino Further Shares**") upon the release of a share mortgage agreement of Alpha Sino (collectively, the "**Charges over Relevant Securities**"). As at the Latest Practicable Date, the Security Providers, being presumed class (9) concert parties with the Subscriber, did not own any Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company nor had they dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period. Please refer to pages III-10 and III-11 of Appendix III to the Circular for further details on the Share Charges and the concert party relationship between the Subscriber and Mr. Lo and Ms. Lee.

Pursuant to the Charges over Relevant Securities, the respective chargor thereunder charged or will charge (as the case may be) and assigned or will assign (as the case may be) to the Security Providers by way of security, among other things, the rights, titles, benefits and interests of the respective chargor in the Convertible Bonds, the Charged Shares and the Alpha Sino Further Shares (as the case may be), as continuing security for,among others, the due and punctual payment and discharge of all obligations and liabilities owed by the Subscriber, Mr. Chi and/or Alpha Sino to the Security Providers in connection with the Security Providers' provision of the third party security.

Under the Charges over Relevant Securities, the Security Providers shall be entitled to declare all or any part of the security created thereunder enforceable and, among other things, exercise their power to dispose of all and any of the Convertible Bonds, the Charged Shares and the Alpha Sino Further Shares which are subject to the relevant Charge over Relevant Securities, if the Bank gives notice of the occurrence of any breach or default under or in connection with the Facility and the Bank either demands repayment of the Facility or takes any step to enforce any of the third party security granted by the Security Providers. In addition, upon any of the Charges over Relevant Securities becoming enforceable, the Security Providers may exercise rights and enjoy benefits attaching to the Convertible Bonds, the Charged Shares and the Alpha Sino Further Shares (as the case may be), including but not limited to voting rights and rights to receive dividends. Under such circumstances, a mandatory general offer obligation may be triggered on the part of the Security Providers and/or their assignees. The Security Providers have confirmed to the Company that, in such event, the Security Providers will, and will procure their assignees to, comply with the relevant requirements under the Takeovers Code.

2. The shareholdings of Mr. Chi's family include the shareholding interests in the Company held by Mr. Chi's siblings and daughter of 13,356,143 Shares (representing approximately 0.29% of the total number of issued Shares as at the Latest Practicable Date) and 36,736,842 Shares (representing approximately 0.80% of the total number of issued Shares as at the Latest Practicable Date) respectively.

3. Mr. Shum Sai Chit is a director of Alpha Sino and he is a party acting in concert with the Subscriber.

4. Mr. Chi Jing Chao is the nephew of Mr. Chi and is an executive Director. By virtue of being an executive Director, Mr. Chi Jing Chao is presumed to be a party acting in concert with the Subscriber pursuant to class (6) presumption under the definition of "acting in concert" under the Takeovers Code until completion of the Subscription.

5. Mr. Guo Mengyong is the brother- in- law of Mr. Chi and is a non-executive Director. By virtue of being a non-executive Director, Mr. Guo Mengyong is presumed to be a party acting in concert with the Subscriber pursuant to class (6) presumption under the definition of "acting in concert" under the Takeovers Code until completion of the Subscription.

6. As at the Latest Practicable Date, there were 314,856,204 outstanding Options, of which 74,389,145 Options were granted to the Directors as below:

Directors	**Number of Options**	
	Exercise price at HK$0.3 per Share	**Exercise price at HK$0.78258 per Share**
Mr. Chi	20,000,000	—
Mr. Shum Sai Chit	20,000,000	—
Mr. Chi Jing Chao	8,000,000	—
Mr. Guo Mengyong	5,000,000	—
Mr. Cheung Sound Poon	5,000,000	—
Mr. Sheng Hong	5,000,000	—
Mr. Lau Chi Kit	5,000,000	6,389,145
Total	68,000,000	6,389,145

7. Save as the aforesaid, the Company had no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

8. Save as disclosed above, none of the Directors had any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date.

As shown in the above table, the shareholding of the existing public Shareholders will be diluted by approximately 16.48% from approximately 63.66% as at the Latest Practicable Date to approximately 47.18% immediately after the full conversion of the Convertible Bonds at the initial Conversion Price and assuming there is no change to the issued share capital of the Company and the shareholding in the Company other than the issue of the Conversion Shares. Nonetheless, taking into account that (i) the Subscription and the use of proceeds therefrom are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, due to the reasons set out in the section headed "Reasons for and benefits of the Subscription and use of proceeds" in this letter; (ii) the Subscription is currently the most appropriate and timely fund raising method available to the Company as discussed in the section headed "Alternative fund raising methods" in this letter; (iii) the Conversion Price represents a premium over the prevailing market prices of the Shares as at the Last Trading Day and the Latest Practicable Date as well as for the five consecutive trading days of the Shares up to and including the Last Trading Day; (iv) the premium represented by the Conversion Price over the market price of the Shares is above the median premium and approximates the average premium represented by the conversion prices of the Comparable Issues; and (v) the Convertible Bonds, when converted into Conversion Shares, will be recognized as equity of the Company and will hence enlarge the capital base, reduce the gearing ratio, and improve the net asset position of the Company, we consider that the possible dilution effect on the shareholding interests of the public Shareholders is acceptable and is fair and reasonable so far as the Independent Shareholders are concerned. Meanwhile, given that the Security Providers have confirmed to the Company that, in the event a mandatory general offer obligation is triggered by events such as any breach or default under or in connection with the Facility, the Security Providers will, and will procure their assignees to, comply with the relevant requirements under the Takeovers Code, we are of the view that such arrangement between the Security Providers and the Subscriber and/or Mr. Chi is fair and reasonable so far as the Independent Shareholders are concerned.

8. Future intentions of the Subscriber regarding the Group

The Subscriber intends to continue the existing business of the Group and there will be no change to the continued employment of the employees of the Group. The Subscriber has no intention to introduce any major changes to the existing operation and businesses of the Group including redeployment of any fixed assets of the Group other than in the ordinary course of business. We understand from the Company that, as at the Latest Practicable Date, the Subscriber did not have any plan or intention to convert any part of the Convertible Bonds into Conversion Shares upon Completion.

As detailed in the section headed "Principal Terms of the Convertible Bonds" in the Board Letter, the conversion right under the Convertible Bonds shall only be exercisable provided that any such conversion, among others, does not trigger any general offer obligation in respect of the shares of REMT, where applicable, pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code in the event statutory control (as defined in Note 8 to Rule 26.1 of the Takeovers Code) of the Company being acquired by the Bondholder or person(s) acting in concert with such Bondholder upon exercising of its conversion right under the Convertible Bonds, unless such Bondholder or person(s) acting in concert with such Bondholder complies with the general offer obligation(s) under Rule 26 of the Takeovers Code. The Subscriber has confirmed to the Company that if, as a result of the issue of the relevant Conversion Shares, a general offer obligation will be triggered on the part of the Subscriber or person(s) acting in concert with it for the shares of REMT pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code in the event statutory control (as defined in Note 8 to Rule 26.1 of the Takeovers Code) of the Company being acquired by the Subscriber or person(s) acting in concert with it, the Subscriber and parties acting in concert with it will comply with the general offer obligation under Rule 26 of the Takeovers Code. In such scenario, the Company may potentially be a party acting in concert with the Subscriber for the purpose of the general offer in respect of the shares of REMT.

As at the Latest Practicable Date, the Company (i) held 4,761,117,434 shares of REMT (representing approximately 72.31% of the issued share capital of REMT) and a convertible bond (the "**REMT Convertible Bond**") convertible into 1,050,000,000 shares of REMT (representing approximately 15.95% of the issued share capital of REMT as at the Latest Practicable Date); and (ii) had granted to an independent third party (the "**Optionholder**") a call option to acquire up to 200,000,000 shares of REMT (representing approximately 3.04% of the issued share capital of REMT as at the Latest Practicable Date) from the Company (the "**Call Option**"). For illustration purpose, assuming (i) only the REMT Convertible Bond is converted in full by the Company; and (ii) the REMT Convertible Bonds and the Call Option are converted/exercised in full by the Company and the Optionholder respectively, the Company would be interested in approximately 76.12% and 73.50% of the issued share capital of REMT (as enlarged by the issue and allotment of 1,050,000,000 shares of

REMT upon full conversion of the REMT Convertible Bond) respectively. As at the Latest Practicable Date, save for the 30,000,000, 20,000,000 and 3,000,000 share options of REMT held by Mr. Shum Sai Chit, Ms. Chi Bi Fen (elder sister of Mr. Chi) and Mr. Chi Jing Chao respectively, the Subscriber and party(ies) acting in concert with it did not hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of REMT (other than those held through the Company).

As discussed in the previous section of this letter, we consider that the possible dilution effect on the shareholding interests of the public Shareholders upon full conversion of the Convertible Bonds is acceptable. As such, our view is not affected by the Subscriber's plan or intention to convert any part of the Convertible Bonds into Conversion Shares upon Completion.

9. The Whitewash Waiver

As at the Latest Practicable Date, the Subscriber (a company wholly-owned by Mr. Chi) and parties acting in concert with it are interested in 1,660,860,200 Shares, representing approximately 36.25% of the issued share capital of the Company. Upon full conversion of the Convertible Bonds at the initial Conversion Price, 1,600,000,000 Conversion Shares will be allotted and issued to the Subscriber and the interest of the Subscriber and parties acting in concert with it in the voting rights of the Company will increase to approximately 52.76% of the issued share capital of the Company as enlarged by the allotment and issuance of the Conversion Shares (assuming there is no other change to the issued share capital of the Company).

As such, under Rule 26.1 of the Takeovers Code, the allotment and issuance of the Conversion Shares to the Subscriber will give rise to an obligation on the part of the Subscriber/Mr. Chi to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. Mr. Chi has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issuance of the Conversion Shares to the Subscriber pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

The Executive may or may not grant the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by at least 75% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll in respect of the Whitewash Waiver, and a separate approval by more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll in respect of the Subscription (including the grant of the Specific Mandate) at the EGM. The Subscriber/Mr. Chi and parties acting in concert with it and their respect associates and any other Shareholders who are involved or interested in the Subscription (including the grant of the Specific Mandate) and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription (including the grant of the Specific Mandate) and the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive, or if granted, is not approved by the Independent Shareholders, the Subscription will not proceed.

In view of that (i) the Subscription and the use of proceeds therefrom are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, due to the reasons set out in the section headed "Reasons for and benefits of the Subscription and use of proceeds" in this letter; (ii) the Subscription is currently the most appropriate and timely fund raising method available to the Company as discussed in the section headed "Alternative fund raising methods" in this letter; and (iii) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned for the purpose of proceeding with the Subscription.

RECOMMENDATION

Recommendation on the Subscription

Having considered the principal factors and reasons as discussed above and as summarised below:

(i) The proposed use of net proceeds from the Subscriptions can help refinance part of the Group's offshore borrowings to a lower interest rate, thereby improving the Company's financial position so that it can capture more business opportunities associated with its principal business ahead;

(ii) The Subscription reflects the confidence of and commitment to support the Group's business by Mr. Chi, being the controlling Shareholder and chairman of the Board. This will further give the market confidence as to the Company's prospect;

(iii) The Subscription is the most appropriate and timely fund-raising method for the Company amongst other fund raising methods and can better prepare the Company for unfavorable market conditions in Hong Kong and the PRC;

(iv) The Conversion Price is within the range of closing prices of the Shares during the Review Period and had been above the closing prices of the Shares since 13 March 2020;

(v) The Conversion Price is higher than the prevailing market prices of the Shares as at the Last Trading Day and the Latest Practicable Date as well as for the five, 10, 30 and 60 consecutive trading days of the Shares up to and including the Last Trading Day;

(vi) The premium represented by the Conversion Price over the prevailing market prices of the Shares on the Last Trading Day and for the five consecutive trading days of the Shares up to and including the Last Trading Day, fall within the ranges of the Comparable Issues (excluding the outlier) and are above the median and approximate the average figure thereof;

(vii) The interest rate of 8% per annum carried by the Convertible Bond is within the range of the interest rates of the Comparable Issues and can help to lower the interest rate of part of the Group's offshore borrowings which carry an interest rate of approximately 9.1% per annum; and

(viii) The level of dilution to the shareholding interests of the public Shareholders as a result of full conversion of the Convertible Bonds is acceptable.

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and that the Subscription is in the interests of the Company and the Shareholders as a whole, despite the entering into of the Subscription Agreement not being in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Subscription Agreement (including the grant of the Specific Mandate) and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Recommendation on the Whitewash Waiver

Meanwhile, having taken into consideration the reasons for and possible benefits of the Subscription and that the Subscription is conditional upon, amongst others, the Whitewash Waiver having been granted by the Executive and all conditions (if any) attached to the Whitewash Waiver having been satisfied, we consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Pelican Financial Limited

Charles Li*
Director

* *Mr. Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*