



31 July 2009

*To the Independent Board Committee and the Independent Shareholders of  
Shenzhen High-tech Holdings Limited*

Dear Sirs/Madams,

**MAJOR AND CONNECTED TRANSACTION  
WHITEWASH WAIVER APPLICATION**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Supplemented Agreement, the transactions contemplated thereunder and the Whitewash Waiver, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 31 July 2009, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

The Purchaser, the Vendor and the Guarantor entered into the Agreement and the Supplemental Agreement on 4 June 2009 and 12 June 2009 respectively, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares and the Loan at an aggregate consideration of HK\$278,000,000 (subject to adjustment) which will be satisfied by (i) the issue and allotment of 650,000,000 new Shares by the Company at an issue price of HK\$0.265 per Share; and (ii) cash payment of HK\$105,750,000 on Completion. The Acquisition constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules. Given the Vendor is ultimately wholly and beneficially owned by the Guarantor, who is also the Chairman, an executive Director and a substantial shareholder of the Company, the Vendor is a connected person of the Company under the Listing Rules and therefore the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the Vendor and the parties acting in concert with it (including the Guarantor and Thing On Group Limited) hold an aggregate of 356,589,589 Shares which represent approximately 29.31% of the existing issued share capital of the Company. Immediately after Completion, the Vendor and the parties acting in concert with it will hold an aggregate of 1,006,589,589 Shares which will represent approximately 53.93% of the enlarged issued share capital of the Company after the issue of the Consideration Shares. In such circumstances, an obligation on the part of the Vendor and the parties acting in concert with it to make a general offer for all the Shares not already owned or agreed to be acquired by the Vendor and the parties acting in concert with it will arise under Rule 26 of the Takeovers Code as a result of the issue of the Consideration Shares to the Vendor. An



application has been made by the Vendor to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the prior approval by the Independent Shareholders at the SGM.

Pursuant to Note 1 on the Notes on Dispensations from Rule 26 of the Takeovers Code and Rule 14A.18 of the Listing Rules, (i) the Vendor and the parties acting in concert with it (including the Guarantor and Thing On Group Limited) and (ii) any Shareholders who are involved in or interested in the Acquisition and/or the Whitewash Waiver will be required to abstain from voting for the approval of the Acquisition and the transactions contemplated thereunder, the allotment and issue of the Consideration Shares and the Whitewash Waiver at the SGM.

The Independent Board Committee comprising a non-executive Director, namely Mr. Liu Sing Piu, Chris and three independent non-executive Directors, namely Mr. Lee Kuo Ching, Stewart, Miss Chong Kally and Mr. Chung Koon Yan, have been appointed to advise the Independent Shareholders in relation to the Supplemented Agreement, the transactions contemplated thereunder and the Whitewash Waiver. Mr. Wong Ngo, Derick, a non-executive Director, was not appointed as a member of the Independent Board Committee, as the Board does not consider him to be independent in light of the fact that he is a son of the elder brother of Mr. Wong Chung Tak, the Guarantor and the beneficial owner of the Vendor as well as the Chairman, an executive Director and a substantial shareholder of the Company. Our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee.

## **BASIS OF OUR ADVICE**

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are



no other facts or representations the omission of which would make any statements in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, the Vendor, Yue Tin and the Guarantor.

## PRINCIPAL FACTORS TAKEN INTO ACCOUNT

The principal factors and reasons that we have taken into consideration in arriving at our opinion are set out as follows:

### 1. Background of the Acquisition

#### *Information on the Group*

The Group is principally engaged in property investment and trading. Based on the information set out in the annual report of the Company for the year ended 31 December 2008 ("**2008 Annual Report**"), the audited financial results of the Company for each of the three years ended 31 December 2008 are summarised as follows:

	2008	2007	2006
	HK\$'000	HK\$'000	HK\$'000
Turnover	352,469	31,778	311,458
Profit/(loss) attributable to equity holders of the Company	68,565	102,222	(114,598)
Total assets	1,257,321	1,156,188	790,025
Total liabilities	94,515	64,497	27,363
Equity attributable to equity holders of the Company	1,162,806	1,091,691	762,662
Cash and cash equivalents	439,762	228,138	218,262

For the year ended 31 December 2006, the Group recorded an audited turnover of approximately HK\$311.5 million, which comprises (i) turnover of approximately HK\$293.9 million from discontinued operations in high-tech computer and server manufacturing and related business operations; and (ii) turnover of approximately HK\$17.5 million from continuing operations. The loss for the year ended 31 December 2006 was mainly attributable to (i) provision of allowance of approximately HK\$40.8 million for the properties held for sale in the PRC as a result of the macro-economic austerity control measures implemented by the PRC government; (ii) share of results of associates and jointly controlled entities which recorded a loss of approximately HK\$17.9 million and HK\$13.6 million respectively; and (iii) provision of allowance for the amount due from a jointly controlled entity, and for loans to the jointly controlled entity, and for impairment loss of the investments in the PRC which all in aggregate amounted to approximately



HK\$33.9 million. The business of manufacture and sale of high-tech computers and servers was discontinued in the year ended 31 December 2006 and the Group has been principally engaged in property investment and property holding thereafter.

For the year ended 31 December 2007, the Group recorded an audited turnover of approximately HK\$31.8 million, representing a decrease of approximately 89.80% as compared to that for the year ended 31 December 2006. The significant decrease was mainly due to the absence of turnover contribution from the discontinued operation as compared to approximately HK\$293.9 million recorded in the year ended 31 December 2006. Despite the decrease in turnover for the year ended 31 December 2007, there was an increase in the profit for the year from the loss of approximately HK\$114.6 million for the year ended 31 December 2006 to the profit of approximately HK\$102.2 million for the year ended 31 December 2007. Such increase was mainly due to (i) the write back of provision for properties held for sale in the PRC of approximately HK\$40.8 million as mentioned in the above paragraph; (ii) the increase in profit achievement from the Company's capital market investments to approximately HK\$28.7 million from approximately HK\$1.1 million in previous year, representing an increase of over 26 times; (iii) the substantial drop of the total expenses of the Group to HK\$0.9 million as compared to HK\$9.5 million recorded in the year ended 31 December 2006 as a consequence of the realignment of the operating strategies in respect of the property business in the PRC; and (iv) the increase in gain in fair value of investment properties from approximately HK\$1.5 million for the year ended 31 December 2006 to approximately HK\$47.3 million for the year ended 31 December 2007, representing an increase of approximately HK\$40.8 million.

For the year ended 31 December 2008, the Group's turnover increased by over ten times to HK\$352.5 million from approximately HK\$31.8 million for the year ended 31 December 2007. The substantial increase was mainly due to the increase in turnover from the sale of properties held for sale. Despite the increase in turnover for the year ended 31 December 2008, the profit for the year decreased by approximately 32.9% to approximately HK\$68.6 million from approximately HK\$102.2 million for the year ended 31 December 2007, the decrease was mainly attributable to (i) allowances of properties held for sale of approximately HK\$53.4 million; (ii) the loss in fair value of investment properties of approximately HK\$6.3 million as compared to the gain in fair value of approximately HK\$47.3 million for the year ended 31 December 2007; and (iii) other financial net expense of approximately HK\$20.9 million as compared to the other financial net income of approximately HK\$28.7 million generated in the year ended 31 December 2007.

The Company has made the July Announcement on 22 July 2009 that the financial results of the Group for the six months ended 30 June 2009 are expected to decrease significantly as compared to those for the six months ended 30 June 2008. The Company considers that the significant decrease in the financial results of the Group for the six months ended 30 June 2009 was mainly attributable to the significant decrease in the revenue generated from property trading as compared to those in the first half year of 2008. The above statements as disclosed in the July Announcement constitute a profit estimate under Rule 10 of the Takeovers



Code. Shareholders are advised to refer to Appendix IV to the Circular for the opinions expressed by Grant Thornton and us on the estimate of the financial results of the Group for the six months ended 30 June 2009. Save as disclosed in the July Announcement, the Directors confirmed that as at the Latest Practicable Date there is no material change in the financial or trading position or outlook of the Company since 31 December 2008, being the date on which the latest published audited accounts of the Company were made up. Based on our review on the unaudited management accounts of the Group for the six months ended 30 June 2009 which has been prepared on a basis consistent in all material respects with the accounting policies and calculations normally adopted by the Group, we note that (i) there is no material impact to the available financial resources of the Group as at 30 June 2009 comparing with 31 December 2008 (being the latest audited accounts were made up); and (ii) the decrease in revenue for the six months ended 30 June 2009 resulting from decrease in revenue generated from property trading is in line with the Group's strategy that the Group is holding its portfolio of trading properties pending for an ideal price to sell. Based on no material impact to the Group's available financial resources as stated above and the recent positive performance of the property markets in Hong Kong and the PRC as stated in the paragraph headed "Overview of the property markets in Hong Kong and Beijing, the PRC" below, we are of the view that the profit warning as disclosed in the July Announcement would not have material impact to the Group for the Acquisition so far as the Independent Shareholders are concerned.

As disclosed in the 2008 Annual Report, the current major property project of the Group in the PRC is Shun Jing Yuan in Chaoyang, Beijing which is a high-end residential apartment project with an European-style luxury design. In addition, the Company will continue to specialize in property investment and trading in the PRC and Hong Kong with prudent strategy in anticipation of steady returns. Further, the Company will also continue to look for suitable investment opportunities in other areas with stable returns, i.e. projects characterized by stable cash inflows and simple management mechanism. However, after discussion with the management of the Company, we understand that the Group prefers to focus on the property market for the time being and would not actively look for investment opportunities in other areas in 2009. As the Group is principally engaged in property investment and trading and all properties of the Group are located in Hong Kong and the PRC, we are of the view that the prospects of the Group will depend on the performance of the property markets in Hong Kong and the PRC. Based on the statistics and factors as mentioned in the section headed "Overview of the property markets in Hong Kong and Beijing, the PRC" below including, in particular (i) the recovery of price indices of private properties in Hong Kong from March 2009 to May 2009; and (ii) the general increasing trend in the average selling prices of private residential properties in Beijing in 2009, we consider that the future prospects of the property markets in Hong Kong and Beijing are positive and therefore it is appropriate for the Group to enhance its property portfolio through the Acquisition.

*Background of the Supplemented Agreement*



The Purchaser, the Vendor and the Guarantor entered into the Agreement and the Supplemental Agreement on 4 June 2009 and 12 June 2009 respectively, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares and the Loan at an aggregate consideration of HK\$278,000,000 (subject to adjustment) which will be satisfied by (i) the issue and allotment of 650,000,000 Shares by the Company at an issue price of HK\$0.265 per Share; and (ii) cash payment of HK\$105,750,000 on Completion.

The Sale Shares include 2 ordinary shares of HK\$1 each in the share capital of Yue Tin, which represent the entire issued share capital of Yue Tin while the Loan represents the entire principal amount of the shareholder's loan owing by Yue Tin to the Vendor together with all interest thereon as set out in the Completion Accounts. The Loan amounted to HK\$143,241,295.52 as at the date of the Agreement and remained the same as at the Latest Practicable Date.

*Information on Yue Tin*

Yue Tin was established by the Vendor and the Guarantor in 1990 and is legally and beneficially owned as to 50% (i.e. 1 share) by the Vendor and the remaining 50% (i.e. 1 share) of the issued share capital of Yue Tin is legally held by the Guarantor on trust for the Vendor. Yue Tin is principally engaged in investment in and holding of the Properties, details of which are as follows:

Location	Use	Market value as at 31 May 2009
(i) Office Units 1 and 2 on 24th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong	Office	HK\$242,000,000
(ii) Shops Nos. 4 and 5 on Ground Floor, Flats 1, 2, 3, 4, 5, 6, 7 and 8 on the 1st Floor, Flats 3 and 4 on the 2nd Floor, South Wall Mansion, 63, 63A, 65, 67, 69 and 71 South Wall Road, Kowloon City, Kowloon, Hong Kong	Shops and residential	HK\$28,000,000



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(iii)	Flat A on 23rd Floor of Block 2 and Car Parking Space No. 31 on 2nd Basement, Ronsdale Garden, 25 Tai Hang Drive, Jardine's Lookout, Hong Kong	Residential	HK\$8,900,000
(iv)	Unit No. 1611, Beijing Henderson Centre, 18 Jian Guo Men Nei Da Jie, Dong Cheng District, Beijing, the PRC	Residential	HK\$3,177,125 (RMB2,800,000)

Further details of the Properties are included in the valuation report as disclosed in Appendix V of the Circular. As disclosed in the audited accountants' report of Yue Tin set out in Appendix II of the Circular, Yue Tin had audited net assets of approximately HK\$84,829,000, HK\$166,574,000 and HK\$85,327,000 as at 31 March 2007, 2008 and 2009 respectively. For each of the three years ended 31 March 2009, the audited turnover of Yue Tin was approximately HK\$7,359,000, HK\$7,010,000 and HK\$7,519,000 respectively. The turnover was contributed from the rental income and the property management fee income generated from the investment properties in Hong Kong. Save for the property located at Room 2401, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong and the HK Residential Property to be leased to the Vendor at market rent upon Completion, all HK Properties were leased out and have generated rental income to Yue Tin.

The audited net profits after tax of Yue Tin for each of the two years ended 31 March 2008 were HK\$24,056,000 and HK\$81,745,000 respectively and the audited net loss after tax of Yue Tin for the year ended 31 March 2009 was HK\$81,247,000. The results for the three years ended 31 March 2009 were mainly influenced by the change in the fair value of investment properties which the audited net gain in the fair value of investment properties for each of the two years ended 31 March 2008 were HK\$28,304,000 and HK\$98,589,000 respectively while the audited net loss in the fair value for the year ended 31 March 2009 was HK\$100,541,000. Having discussed with the management of the Company, we understand that the net loss in the fair value of investment properties for the year ended 31 March 2009 was mainly attributable to the financial crisis in the second half of 2008 which affected the property values. Shareholders should note that the value of the investment properties may fluctuate and the future performance of Yue Tin will mainly depend on the valuations of the Properties as at the relevant balance sheet dates and the amount of rental income and property management fee income generated from the Properties during the relevant periods.

## **2. Overview of the property markets in Hong Kong and Beijing, the PRC**



The following table illustrates the price indices of various private properties (domestic, office and retail) in Hong Kong from November 2007 to May 2009:

	Domestic	Office	Retail
November 2007	113.9	191.3	186.4
December 2007	117.9	199.0	188.8
January 2008	123.2	203.3	193.5
February 2008	125.5	207.6	197.2
March 2008	126.4	208.4	200.8
April 2008	124.7	208.5	202.9
May 2008	126.4	211.5	203.8
June 2008	126.6	211.3	205.9
July 2008	124.9	205.6	200.7
August 2008	122.9	200.0	195.6
September 2008	121.9	207.4	185.5
October 2008	114.3	186.0	178.4
November 2008	104.9	173.5	172.4
December 2008	104.8	165.4 *	170.2 *
January 2009	107.1	157.5 *	163.1 *
February 2009	107.8	154.1 *	162.8 *
March 2009	109.1 *	150.4 *	164.9 *
April 2009	113.1 *	159.3 *	167.7 *
May 2009	115.5 *	163.5 *	173.7 *

\* *provision figures*

*Source: Hong Kong Property Review – Monthly Supplement July 2009 prepared by Rating and Valuation Department, The Government of Hong Kong*

The property market in Hong Kong had grown since 2003 and reached the peak in mid-2008. Since then, as reflected by the above indices, the property prices in Hong Kong have dropped dramatically until March 2009 due to the global financial crisis in the second half of 2008. However, the price indices of domestic, office, and retail properties showed a recovery from March 2009 to May 2009 by increase of approximately 5.9%, 8.7% and 5.3% respectively.





The table below shows the latest available average selling prices of private residential properties in different areas in Beijing in 2009:

Location in Beijing	Period from January 2009 to February 2009 RMB/ Sq.m.	Period from January 2009 to March 2009 RMB/ Sq.m.	Period from January 2009 to April 2009 RMB/ Sq.m.	Period from January 2009 to May 2009 RMB/ Sq.m.	Period from January 2009 to June 2009 RMB/ Sq.m.
Within the 4th Ring	14,226	15,124	15,593	16,510	16,967
Between the 4th Ring and the 5th Ring	14,447	14,797	15,204	15,744	15,748
Between the 5th Ring and the 6th Ring	7,206	8,258	8,941	9,308	9,296
Outside the 6th Ring	6,703	6,836	7,226	7,550	7,603

*Source: Beijing Statistical Information Net compiled by Beijing Municipal Bureau of Statistics*

We note that the PRC Property is located in the prime central area which is within the 4th Ring of Beijing. The above table shows that the average selling prices of private residential properties in Beijing in each area was in a general increasing trend from February 2009 to June 2009.

Based on the above statistics and factors, including, in particular (i) the recovery of price indices in private properties in Hong Kong from March 2009 to May 2009; and (ii) the general increasing trend in the average selling prices of private residential properties in Beijing in 2009, we are of the view that the future prospects of the property markets in Hong Kong and Beijing are positive and therefore it is appropriate for the Group to enhance its property portfolio through the Acquisition.

As disclosed in the audited accountants' report of Yue Tin set out in Appendix II of the Circular, the income of Yue Tin for each of the three years ended 31 March 2009 were approximately HK\$7,359,000, HK\$7,010,000 and HK\$7,519,000 respectively. In addition, the net gains in fair value of investment properties of Yue Tin for each of the two years ended 31 March 2008 were approximately HK\$28,304,000 and HK\$98,589,000 respectively while the net loss in fair value of investment properties of Yue Tin for the year ended 31 March 2009 was approximately HK\$100,541,000. Given (i) the financial performance of Yue Tin was mainly



affected by the change in fair value of investment properties instead of rental income generated from the investment properties; and (ii) Yue Tin has secured the tenancy agreements in respect of the HK Properties and such payment terms (including the rentals) are in line with the market standard as disclosed in the paragraph headed "Reasons for and benefits of the Acquisition" below, we are of the view that the inclusion of the rental market figures in this letter is not essential.

### **3. Reasons for and benefits of the Acquisition**

After Completion, the Group intends to use the Properties as follows:

- (a) the HK Commercial Properties will be used by the Group either for self-use or investment purposes. The Group has used one of the HK Commercial Properties, i.e. Room 2406, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong as its office under a tenancy agreement dated 11 August 2008. Further, the Board considers that, given that the relevant HK Commercial Properties at World-Wide House are located at the prime office area in Hong Kong and all of the HK Commercial Properties have currently been leased out or will be leased out upon Completion, the Acquisition is a good opportunity for the Group to acquire good quality commercial properties in order to strengthen its investment portfolio and provide a steady income stream to the Group;
- (b) the HK Residential Property will be leased to the Vendor upon Completion to provide a steady income stream to the Group; and
- (c) the PRC Property may be leased to other third party or parties after Completion, but it will be used by the Group as the accommodation of the Directors and management staff when they travel to Beijing for business before the same has been leased out.

The Directors consider that the Acquisition will benefit the Group with the anticipated growth in the value of the Properties. The Directors also consider that the Acquisition is in the interests of the Company and the terms of the Supplemented Agreement are on normal commercial terms and were arrived at after arm's length negotiations, which are fair and reasonable and are in the interests of the Shareholders as a whole.

As disclosed in the 2008 Annual Report, the Company will continue to specialize in property investment and trading in the PRC and Hong Kong with prudent strategy in anticipation of steady returns. Further, the Company will also continue to look for suitable investment opportunities in other areas with stable returns, i.e. projects characterized by stable cash inflows and simple management mechanism. However, after discussion with the management of the Company, we understand that the Group prefers to focus on property market for the time being and would not actively look for investment opportunities in other



areas in 2009. Based on the aforesaid, we consider the Acquisition is in line with the Group's business and development strategy and will provide steady income to the Group in the future as all the HK Properties (except the one to be used as the Group's office which will reduce its rental expenses) will generate rental income to the Group. We have discussed with the management of the Company on the terms of the tenancy agreements in respect of the HK Properties and obtained relevant market rental comparables from Savills. Based on the discussion with the management of the Company and review on the comparables provided by Savills, we are of the view that the payment terms under the relevant tenancy agreements for the HK Properties are in line with the market standard. In addition, as also disclosed in the 2008 Annual Report, the current major property project of the Group in the PRC is Shun Jing Yuan in Chaoyang, Beijing which is a high-end residential apartment project with an European-style luxury design. The PRC Property may be leased to other third party or parties after Completion and will be used by the Group as the accommodation of the Directors and management staff when they travel to Beijing for business before such lease. We consider the intended use of the PRC Property will enhance the possible rental income of the Group and will enhance the utility of the PRC Property as well as provide flexibility to the Group's management for their travel to Beijing before such lease which is in the interests of the Company and its Shareholders as a whole.

Based on the aforesaid and taking into account that, in particular, (i) the Acquisition is in line with the Group's business and development strategy; (ii) the Acquisition is expected to strengthen the Group's earnings base with respect to the rental income attributable to the HK Properties as mentioned above; (iii) the PRC Property provides flexibility to the Group's management for their work in Beijing before leasing to third party or parties; and (iv) the improving figures in the statistics of both the Hong Kong and Beijing property markets as shown above, we concur with the Directors that the Acquisition is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

#### **4. Terms of the Supplemented Agreement**

##### *Consideration*

The Consideration of HK\$278,000,000 (subject to adjustment) comprises the consideration for the assignment of the Loan calculated up to the Completion Date on a dollar-to-dollar basis and the consideration for the sale of the Sale Shares (the amount of which is equivalent to the Consideration minus the Loan Consideration) and will be satisfied by:

- (i) the issue and allotment of the Consideration Shares by the Company to the Vendor at an agreed issue price of HK\$0.265 per Share with an aggregate value of HK\$172,250,000; and
- (ii) cash payment in the sum of HK\$105,750,000 by the Purchaser to the Vendor,



on Completion.

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser with reference to (i) the unaudited net asset value of Yue Tin as at 30 April 2009; and (ii) the principal amount of the Loan as at the date of the Agreement.

As disclosed in the audited accountants' report of Yue Tin as set out in Appendix II to the Circular, the audited net assets of Yue Tin as at 31 March 2009 were approximately HK\$85,327,000. Taking into account the fact that (i) the Consideration includes the assignment of the Loan in the amount of approximately HK\$144,811,000 as at 31 March 2009 (HK\$143,241,295.52 as at the Latest Practicable Date); (ii) the Liabilities (other than the Loan and the Deferred Tax Provision) in the amount of approximately HK\$2,091,000, which will be deducted from the Consideration; (iii) the audited book value of the Properties as at 31 March 2009 in the amount of approximately HK\$250,933,000 which has not yet reflected the updated value of the Properties as shown in the valuation report as disclosed in Appendix IV to the Circular, which is HK\$282,077,125 as at 31 May 2009, the difference of which amounts to approximately HK\$31,144,125; and (iv) the major component of the deferred tax liabilities recognised by Yue Tin were mainly attributable to the upward revaluation of the investment properties as well as the leasehold land and buildings and their accelerated tax depreciation so arising, and such deferred tax liabilities recognised in respect of the revaluation of the Properties which amounted to approximately HK\$19,047,000 as at 31 March 2009 will be released upon disposal of the Properties as disclosed in note 17 to the audited accountants' report of Yue Tin as set out in Appendix II of the Circular, the adjusted net assets of Yue Tin would be approximately HK\$282,420,125 (which was arrived at based on the net asset value of Yue Tin of HK\$85,327,000 adjusted by adding the Loan in the amount of HK\$144,811,000 as at 31 March 2009, the Liabilities in the amount of HK\$2,091,000 as at 31 March 2009, the valuation difference in the amount of HK\$31,144,125 and the release of deferred tax liabilities in the amount of HK\$19,047,000 as at 31 March 2009 upon disposal of the Properties). We note that the Consideration of HK\$278,000,000 represents a slight discount (approximately 1.6%) to the adjusted net assets of Yue Tin.

In order to assess the valuation of the Properties (the "Valuation"), we have reviewed the relevant valuation report and enquired Savills, the independent valuer on the methodology adopted and assumptions made in arriving at the Valuation. We noted that Savills has applied the market approach in the determination of the Valuation. The market value of the Properties is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer which is consistent with the market practice in valuation of properties. We also noted that the Valuation is prepared in accordance with The HKIS Valuation Standards on Properties published by The Hong Kong Institute of Surveyors. Having discussed with Savills, we understand that:

- (i) the rationale of adopting the market approach as the valuation methodology is that the market approach is the most common method in the determination of the value



of the Properties; and

- (ii) the basis and assumptions include (a) the market value means the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion; (b) the transferable land use rights in respect of the PRC Property for specific terms at nominal land use fees have been granted and that any land grant premium payable has been fully paid; and (c) Yue Tin has enforceable title to the PRC Property and has free and uninterrupted rights to use, occupy or assign the property for the whole of the unexpired term as granted.

Having considered the above-mentioned rationale, basis and assumptions in arriving at the Valuation, we are satisfied that the methodology applied by Savills is reasonable.

The Properties were valued at HK\$282,077,125 by Savills as at 31 May 2009 and the Consideration represents approximately 1.4% discount of the Valuation. Based on our review and discussion with Savills, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the methodology adopted and the basis used in arriving at the value of the Properties in particular the market approach is the most common method adopted in the determination of the value of the Properties. Having considered all of the above, we are of the opinion that the Valuation provides a valid benchmark for the Directors to assess the fairness and reasonableness of the Consideration.

As stated on page 125 of the Circular, without qualifying their opinion, Grant Thornton (the reporting accountant of Yue Tin) draws attention to note 3.1 to the Financial Information (as defined in Appendix II to the Circular) which discloses that as at 31 March 2009, Yue Tin had net current liability position of HK\$146,559,000. This condition as disclosed in note 3.1 to the Financial Information, indicates the existence of a material uncertainty which may cast significant doubt about Yue Tin's ability to continue as a going concern. We note that the net current liability position of Yue Tin as at 31 March 2009 was mainly attributable to the accruals and other payables amounted approximately HK\$2,091,000 and the amounts due to ultimate holding company amounted approximately HK\$144,811,000. Taking into account the fact that (i) the amounts due to ultimate holding company of Yue Tin will be assigned to the Group upon Completion; (ii) the accruals and other payables which are categorized as Liabilities under the Supplemented Agreement will be deducted from the Consideration in accordance with the terms of the Supplemented Agreement; and (iii) the Group had net current assets of approximately HK\$934,604,000 as at 31 December 2008 which is significantly higher than the net current liabilities of Yue Tin, we consider that the net current liability position of Yue Tin as at 31 March 2009 would not have material impact to the Group and the Acquisition is fair and reasonable so far as the Company and the Independent Shareholders



are concerned.

Taking into account the fact that both of (i) the net asset value of Yue Tin after adjustment by the value of the Properties; and (ii) the Valuation are close to the Consideration, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

#### *Adjustment to the Consideration*

Pursuant to the Supplemented Agreement, the Vendor shall procure that the Completion Accounts be drawn up and delivered to the Purchaser on the Completion Date. Completion shall take place on the basis of the Completion Accounts. If the Completion Accounts shall show that Yue Tin has any Liabilities, the portion of the Consideration in the sum of HK\$105,750,000 payable by the Purchaser to the Vendor in cash shall be adjusted by the amount of such Liabilities, with no limit on the amount to be adjusted. The portion of the Consideration to be satisfied by the issue of the Consideration Shares will not be subject to any adjustment. If the Completion Accounts shall show that Yue Tin has any net profits, no adjustment shall be made to the Consideration. Given that the Consideration would only adjust downward in accordance with the Liabilities arisen on a dollar-to-dollar basis, we are of the view that the adjustment mechanism to the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Pursuant to the Supplemental Agreement, the definition of Liabilities was amended to exclude the deferred tax provision in an amount not exceeding HK\$30,000,000 to be provided for in the Completion Accounts in light of the upward revaluation of the Properties and their accelerated tax depreciation so arising. Considering the major component of the deferred tax liabilities recognised by Yue Tin were mainly attributable to the upward revaluation of the investment properties as well as the leasehold land and buildings and their accelerated tax depreciation so arising, and such deferred tax liabilities would be released upon disposal of the Properties as disclosed in note 17 to the audited accountants' report of Yue Tin as set out in Appendix II of the Circular, we consider the exclusion of Deferred Tax Provision from the adjustment of the Consideration is acceptable.

#### *Settlement of the Consideration*

The Consideration will be satisfied by the issue of the Consideration Shares and cash. According to the 2008 Annual Report, the Group had cash and cash equivalents of approximately HK\$439,762,000 and the Group did not have any outstanding bank loan as at 31 December 2008. Among the cash and cash equivalents of approximately HK\$439,762,000, approximately HK\$199,936,000 were denominated in Renminbi which is subject to foreign exchange control and are not freely exchangeable with other foreign currencies while approximately HK\$239,826,000 were denominated in currencies other than Renmenbi (the "**Non-RMB Cash and Cash Equivalents**"). We have discussed with the Directors and understand that if the entire amount of the Consideration of



HK\$278,000,000 is to be satisfied by cash, it will exert pressure on the working capital and the available financial resources for any suitable investment opportunities of the Group outside the PRC as the Non-RMB Cash and Cash Equivalents would not be sufficient to settle the entire amount of the Consideration. We concur with the Directors' view that settlement of part of the Consideration by issue of the Consideration Shares is in the interests of the Group as such method of settlement may result in lower financial risks to the Group as compared to external debt financing for the Acquisition which interest expenses will be incurred by the Group.

#### *Consideration Shares*

Upon Completion, the Company will allot and issue 650,000,000 Consideration Shares to the Vendor. The issue price of HK\$0.265 per Consideration Share (the "**Issue Price**") represents:

- (1) a discount of approximately 3.64% to the closing price of HK\$0.275 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (2) a discount of approximately 10.17% to the closing price of HK\$0.295 per Share as quoted on the Stock Exchange on 3 June 2009 (the "**Last Trading Day**"), being the last trading day prior to the signing of the Agreement;
- (3) a discount of approximately 7.34% to the average closing price of HK\$0.286 per Share as quoted on the Stock Exchange over the last 5 consecutive trading days up to and including the Last Trading Day;
- (4) a discount of approximately 1.85% to the average closing price of HK\$0.270 per Share as quoted on the Stock Exchange over the last 15 consecutive trading days up to and including the Last Trading Day;
- (5) a premium of approximately 1.15% to the average closing price of HK\$0.262 per Share as quoted on the Stock Exchange over the last 20 consecutive trading days up to and including the Last Trading Day; and
- (6) a discount of approximately 72.3% to the latest audited consolidated equity attributable to shareholders of HK\$0.956 per Share as at 31 December 2008.

The Issue Price was negotiated on an arm's length basis between the Company, the Purchaser and the Vendor with reference to the prevailing market prices of the Shares.

In assessing the fairness and reasonableness of the Issue Price, we have reviewed the share price performance and trading volume of the Shares from 1 June 2008 up to the Latest Practicable Date (the "**Review Period**"). The following chart and table illustrate the closing prices of the Shares and the trading volume of the Shares respectively during the Review Period:



Chart: Closing prices of the Shares during the Review Period

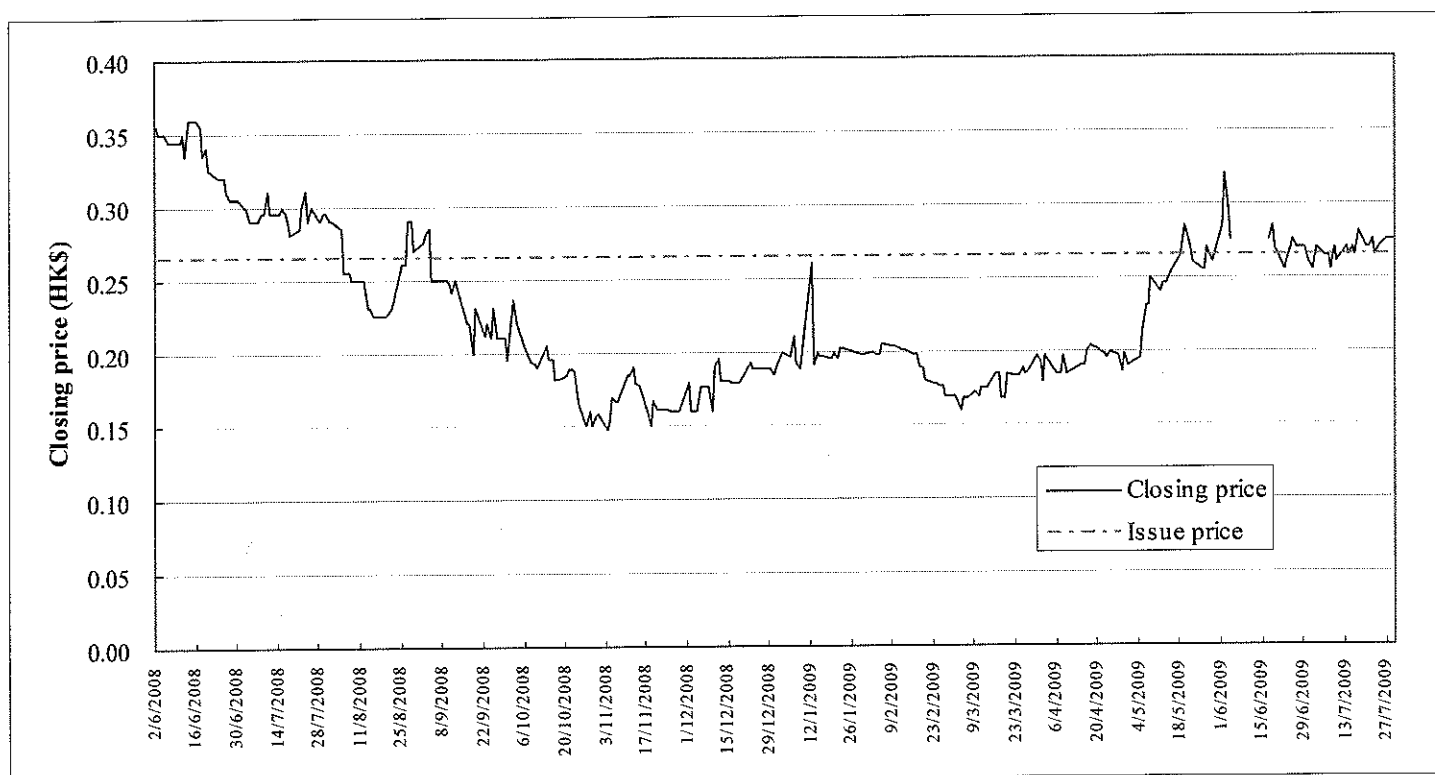






Table: Trading volume of the Shares during the Review Period

	Total trading volume for the month/ period	Average daily trading volume for the month/ period (Note 1)	Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date	Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date (Note 2)
<b>2008</b>				
June	8,565,800	428,290	0.04%	0.05%
July	10,539,800	479,082	0.04%	0.06%
August	19,265,000	1,013,947	0.08%	0.12%
September	32,936,200	1,568,390	0.13%	0.18%
October	11,727,853	558,649	0.05%	0.06%
November	2,003,500	100,175	0.01%	0.01%
December	2,933,979	139,713	0.01%	0.02%
<b>2009</b>				
January	9,155,000	508,611	0.04%	0.06%
February	6,942,778	347,139	0.03%	0.04%
March	2,908,439	132,202	0.01%	0.02%
April	8,465,600	423,280	0.03%	0.05%
May	36,690,200	1,931,063	0.16%	0.22%
June (up to the Last Trading Day)	138,423,000	46,141,133	3.79%	5.37%
After the Last Trading Day to the Latest Practicable Date	118,203,360	3,813,012	0.31%	0.44%

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/ period by the number of trading days during the relevant month/ period which exclude any trading day on which trading of Shares on the Stock Exchange was suspended for the whole trading day.



2. Based on 860,016,470 Shares held by the public Shareholders as at the Latest Practicable Date.

As shown in the chart above, during the Review Period, the closing price of the Shares decreased gradually from HK\$0.36 on 13 June 2008 to HK\$0.148 on 3 November 2008. Since then and up to early May 2009, the closing price of the Shares ranged between HK\$0.15 to HK\$0.21, except on 12 January 2009 which recorded HK\$0.26. Since early May 2009, the closing price of the Shares has grown significantly from HK\$0.195 on 4 May 2009 to HK\$0.295 on 3 June 2009, being the Last Trading Day prior to the signing of the Agreement and the Directors are not aware of the reason for the increase of the Share price during the period. Subsequent to the date of the Announcement and up to the Latest Practicable Date, the closing price of the Shares remained stable and ranged from HK\$0.255 to HK\$0.285 which represent within 10% discount and premium to the Issue Price (i.e. HK\$0.265) respectively. Given that (i) the Shares were traded below the Issue Price for most part of the Review Period (194 days out of 277 days); and (ii) the closing prices of the Shares have raised significantly without any specific reason since May 2009, we consider that it is more appropriate to analyse the fairness and reasonableness of the Issue Price with reference to the prices of the Shares for a longer period instead of those in the recent trading days only. In view of the Shares were traded below the Issue Price for most part of the Review Period (194 days out of 277 days); (ii) the Issue Price represents a premium of approximately 16.2% to the average closing price of HK\$0.228 per Share as quoted on the Stock Exchange during the Review Period, we consider that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

As illustrated in the table above, the average daily trading volume of the Shares in each month from June 2008 to May 2009 ranged from 100,175 Shares to approximately 1,931,063 Shares, representing approximately 0.01% and 0.16% respectively of the total number of Shares in issue as at the Latest Practicable Date, and approximately 0.01% and 0.22% respectively of the total number of Shares held by the public Shareholders as at the Latest Practicable Date. The trading volume of the Shares in early June 2009 grew substantially as compared with those of the previous year which the Directors are not aware of the reason of such increase. Subsequent to the date of the Announcement and up to the Latest Practicable Date, the trading volume of the Shares decreased significantly from approximately 42.9 million Shares on the Last Trading Day to approximately 5.6 million Shares on the Latest Practicable Date. Although the average daily trading volume of the Shares grew in early June 2009, there is no assurance that the average daily trading volume will maintain at such level in the future. Given the generally low trading volume of the Shares in the past and there is no assurance that the average daily trading volume in early June 2009 will maintain in the future, the Group may face difficulty in placing new shares to third parties to raise the adequate financial resources for the Acquisition. We have discussed with the management of the Company and are given to understand that the Group has conducted preliminary request to arrange the requisite financing by way of placing of new shares to third parties but the market response was not positive. As such, the Directors consider that the issue and allotment of the Consideration Shares to the Vendor is a more



feasible and practicable way to settle the Consideration as compared with raising additional fund by way of placing of new Shares to third parties. We concur with the Directors' view that the allotment and issue of the Consideration Shares for the settlement of part of the Consideration is an appropriate method as equity fund raising by way of placing of new Shares may not be feasible in light of the historical low trading volume of the Shares. In addition, we are of the view that the settlement of part of the Consideration by way of the allotment and issue of the Consideration Shares will reduce the Group's cash outflow which is in the interests of the Company and the Independent Shareholders as a whole.

We also note that the latest published audited consolidated net assets per Share of approximately HK\$0.956 as at 31 December 2008 (based on 1,216,606,059 Shares in issue) will be diluted to HK\$0.692 (based on 1,866,606,059 Shares in issue after the issue of the Consideration Shares) after Completion. The Issue Price represents a discount of approximately 61.7% to the diluted consolidated net assets per Share. We understand that price-to-book ratio is one of the methods in valuing listed companies engaged in property investment and trading. However, in general fund raising exercises such as placing, it is common to determine the placing price with reference to the market prices of the relevant shares instead of the net assets value per share. Given that (i) the nature of the Consideration Shares to be issued to the Vendor as part of the Consideration is similar to the placing of new Shares for fund raising in order to finance the Acquisition; and (ii) the Shares have been traded far below (at least 48.0% based on the highest closing price of the Shares of HK\$0.36 as at 13 June 2008) the consolidated net asset value per Share during the Review Period which means the net asset value per Share cannot reflect the market value of the Shares, we consider that the market price of the Shares should prevail in assessing the fairness of the Issue Price instead of net asset value per Share and the discount of the Issue Price to the consolidated net asset value per Share is acceptable.

Based on the facts that (i) the Issue Price represents a premium over the majority of the closing prices of the Shares during the Review Period; (ii) the Issue Price represents a premium of approximately 16.2% to the average closing price of HK\$0.228 per Share as quoted on the Stock Exchange during the Review Period; (iii) the generally low trading volume of the Shares during the Review Period; and (iv) the Shares have been traded far below (at least 48.0% based on the highest closing price of the Shares of HK\$0.36 as at 13 June 2008) the consolidated net asset value per Share during the Review Period, we consider that the Issue Price is fair and reasonable to the Company and the Independent Shareholders as a whole.

According to the analysis as stated above, we are of the view that the basis for determining the terms of the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned, and the terms of the Acquisition are on normal commercial terms and are in the interests of the Company and the Independent Shareholders as a whole.



## 5. Dilution of the shareholding interests in the Company

The shareholding structures of the Company before and after Completion are as follows:

Name of Shareholders	Existing		Upon Completion assuming no New Warrants and share options are exercised		Upon Completion assuming that the New Warrants and share options are exercised in full (Note 1)	
	No. of Shares held	%	No. of Share held	%	No. of Shares held	%
<i>The Vendor and parties acting in concert with it :</i>						
- Thing On Group Limited (Note 2)	356,589,589	29.31	356,589,589	19.10	356,589,589	16.65
- The Vendor (Note 2)	-	-	650,000,000	34.83	650,000,000	30.35
<i>Sub-total :</i>	<u>356,589,589</u>	<u>29.31</u>	<u>1,006,589,589</u>	<u>53.93</u>	<u>1,006,589,589</u>	<u>47.00</u>
<i>Directors :</i>						
Tse Kam Fai	-	-	-	-	7,100,000	0.33
Wong Ngo, Derick	-	-	-	-	6,900,000	0.32
Chong Kally	-	-	-	-	6,900,000	0.32
<i>Sub-total :</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,900,000</u>	<u>0.97</u>
<i>Public Shareholders :</i>						
Power Ace Limited (Note 3)	-	-	-	-	120,000,000	5.61
Willfame Group Limited (Note 3)	60,000,000	4.93	60,000,000	3.21	60,000,000	2.80
Time Favour Limited (Note 4)	-	-	-	-	120,000,000	5.61
Year Top Limited (Note 4)	30,524,000	2.51	30,524,000	1.64	30,524,000	1.43
Other public Shareholders	769,492,470	63.25	769,492,470	41.22	783,492,470	36.58
	<u>1,216,606,059</u>	<u>100.00</u>	<u>1,866,606,059</u>	<u>100.00</u>	<u>2,141,506,059</u>	<u>100.00</u>



Notes :

- (1) The assumption does not take into account any exercise of the share options by the Guarantor and his spouse, Ms. Ng Ka Fong Jenny. The Guarantor and Ms. Ng Ka Fong Jenny have undertaken that they will not exercise their respective options from the date of the Agreement up to and inclusive of the Completion Date.
- (2) The entire issued share capital of the Vendor is wholly and beneficially owned by Thing On Holdings International Limited, a company wholly and beneficially owned by Thing On Group Limited which is in turn wholly and beneficially owned by Mr. Wong Chung Tak, the Chairman of the Company and an executive Director.
- (3) Each of Power Ace Limited and Willfame Group Limited is wholly owned by Ms. Juvy Ngo Ting.
- (4) Each of Time Favour Limited and Year Top Limited is wholly owned by Ms. Lucy Tin Chua.

As shown in the above table, the shareholding interests of the public Shareholders will be diluted from approximately 70.69% as at the Latest Practicable Date to 46.07% after the allotment and issue of the Consideration Shares upon Completion. Having considered that (i) the Acquisition can enhance the property portfolio and generate rental income to the Group, which is in line with the stated business strategy of the Group and could strengthen the future income of the Group; (ii) the Consideration is fair and reasonable as elaborated in the section headed "Terms of the Supplemented Agreement" above, and (iii) the Consideration to be partly satisfied by the issue of the Consideration Shares would reduce the financial burden of the Group in raising the necessary funding for the Acquisition, we are of the opinion that the issue of the Consideration Shares would enable the Group to enlarge its capital base and is an appropriate method to satisfy part of the Consideration. Having considered the above, we consider that the shareholding dilution effect arising from the issue of the Consideration Shares is acceptable.

**6. Financial effects of the Acquisition on the Group**

Upon Completion, the Company will beneficially own the entire issued share capital of Yue Tin. According to the accounting policies of the Group, Yue Tin will be treated as an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the Group.

*(i) Earnings*

After the Acquisition, Yue Tin will become a wholly-owned subsidiary of the Company. The future earning of the Group will be affected by the valuation of the Properties at each balance sheet date and the amount of rental income and property management fee income to be generated from the Properties.



*(ii) Net assets value*

The audited net asset value of the Group as at 31 December 2008 was approximately HK\$1,162.8 million. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the unaudited pro forma net asset value of the Enlarged Group attributable to the Shareholders after Completion would be approximately HK\$1,291.6 million.

We also note that the latest published audited consolidated net assets per Share of approximately HK\$0.956 as at 31 December 2008 (based on 1,216,606,059 Shares in issue as at the Latest Practicable Date) will be diluted to HK\$0.692 (based on 1,866,606,059 Shares in issue after the issue of the Consideration Shares) after Completion which represents approximately 27.6% decrease. In view of the benefits arising from the Acquisition including but not limited to (i) the Acquisition can enhance its property portfolio and generate rental income to the Group, which is in line with the stated business strategy of the Group and could increase the future income of the Group; (ii) the Consideration is fair and reasonable as elaborated in the section headed "Terms of the Supplemented Agreement"; and (iii) the Consideration to be partly satisfied by the issue of the Consideration Shares would reduce the financial burden of the Group in raising the necessary funding for the Acquisition, we consider that the decrease in the net assets per Share after Completion is acceptable.

*(iii) Liquidity and financial resources*

Pursuant to the Supplemented Agreement, part of the Consideration which amounts to HK\$105,750,000 will be paid in cash (subject to adjustment as stated above). Based on the 2008 Annual Report, the Group had cash and cash equivalents of approximately HK\$439,762,000 as at 31 December 2008. Assuming no adjustment is required to be made to the Consideration on Completion and the Group will be required to settle part of the Consideration in cash in the amount of HK\$105,750,000, the cash and cash equivalents would be reduced by HK\$105,750,000, representing approximately 24.0% of the cash and cash equivalents of approximately HK\$439,762,000 of the Group as at 31 December 2008.

As disclosed in the 2008 Annual Report, the Group managed to maintain its liquidity at a healthy level and therefore the Group did not have any outstanding bank loan as at 31 December 2008. As the Acquisition will not involve any borrowing, there will be no impact to the gearing of the Group.

**7. The Whitewash Waiver**

Assuming no further Shares will be issued by the Company prior to the allotment and issue of the Consideration Shares upon Completion, the interests held by the Vendor and the parties acting in concert with it (including the Guarantor and Thing On Group Limited)



will increase from approximately 29.31% to approximately 53.93% of the issued share capital of the Company as enlarged by the Consideration Shares. In such circumstances, an obligation on the part of the Vendor and the parties acting in concert with it to make a general offer for all the Shares not already owned or agreed to be acquired by the Vendor and parties acting in concert with it will arise under Rule 26 of the Takeovers Code as a result of the issue of the Consideration Shares to the Vendor. An application has been made by the Vendor to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the prior approval by the Independent Shareholders at the SGM. According to the Supplemented Agreement, Completion shall be subject to the conditions precedent that, inter alia, the Whitewash Waiver having been granted by the Executive and approved by the Independent Shareholders at the SGM. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Purchaser shall not be bound to proceed with the purchase of the Sale Shares and/or the assignment of the Loan and the Supplemented Agreement shall cease to have any effect. The Executive has indicated that the Whitewash Waiver will be granted and will be subject to, among others, approval by the Independent Shareholders at the SGM by way of poll.

## **RECOMMENDATION**

Having taken into account the principal factors and reasons referred to the above, in particular:

- there is no material impact to the available financial resources of the Group as at 30 June 2009 comparing with 31 December 2008 (being the latest audited accounts were made up) and the decrease in revenue for the six months ended 30 June 2009 resulting from decrease in revenue generated from property trading is in line with the Group's strategy that the Group is holding its portfolio of trading properties pending for an ideal price to sell and the profit warning as disclosed in the July Announcement would not have material impact to the Group for the Acquisition so far as the Independent Shareholders are concerned;
- the positive future prospects of the property markets in Hong Kong and Beijing as reflected by the recovery of price indices in private properties in Hong Kong from March 2009 to May 2009 and the general increasing trend in the average selling prices of private residential properties in Beijing in 2009;
- the enhancement of the Group's property portfolio through the Acquisition and the possible rental income to be generated from the Properties, which is in line with the stated business strategy of the Group and could strengthen the future income of the Group;
- both the net asset value of Yue Tin after adjustment by the value of the Properties and the Valuation are close to the Consideration;
- the Consideration to be partly satisfied by the issue of the Consideration Shares would



reduce the financial burden of the Group in raising the necessary funding for the Acquisition; and

- the Issue Price represents a premium over the majority of the closing prices of the Shares during the Review Period and the Issue Price represents a premium of approximately 16.2% to the average closing price of HK\$0.228 per Share as quoted on the Stock Exchange during the Review Period,

we are of the opinion that the Acquisition, the terms of the Supplemented Agreement and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We also consider that the terms of the Supplemented Agreement are on normal commercial terms and is in the ordinary and usual course of business of the Company. We therefore advise the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Supplemented Agreement, the transactions contemplated thereunder, the issue of the Consideration Shares and the Whitewash Waiver.

Yours faithfully,  
For and on behalf of  
**Cinda International Capital Limited**

**Thomas Lai**      **Robert Siu**  
*Executive Director*   *Executive Director*