



21 January 2022

*To the Independent Board Committee and
the Independent Shareholders of
Bingo Group Holdings Limited*

Dear Sirs,

**CONNECTED TRANSACTION —
ISSUE OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate), the particulars of which have been set out in a circular to the Shareholders dated 21 January 2022 (the “**Circular**”) and in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Grand Moore Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders (i) as to whether the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) are on normal commercial terms or better and in the ordinary and usual course of business of the Group, the terms of the Subscription and Settlement Agreement 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; and (ii) as to the voting in respect of the ordinary resolution(s) to be proposed at the EGM to approve the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate). Details of the reasons for and benefits of the Subscription are set out in the “Letter from the Board” in the Circular (the “**Board Letter**”).

References are made to the announcement of the Company dated 7 December 2021 in relation to the subscription and settlement agreement and the announcement of the Company dated 28 December 2021 in relation to, inter alia, the supplemental agreement to the subscription and settlement agreement (the “**Supplemental Agreement**”). The Board announced that on 7 December 2021 (after trading hours of the Stock Exchange), the Company entered into the subscription and settlement agreement with the Subscriber, pursuant to which the Company conditionally agrees to issue and the Subscriber conditionally agrees to subscribe for or procure the subscription by its nominee(s) of the Convertible Bonds in the principal amount of HK\$19,000,000, the consideration of which shall be set-off against the outstanding principal amount of the Existing Bonds upon Completion.

The Subscriber, being a substantial Shareholder of the Company, is a connected person of the Company under Chapter 20 of the GEM Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and is subject to, among others, the Independent Shareholders’ approval at a general meeting of the Company.

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. CHOI Mei Ping, Mr. ONG King Keung and Mr. TSUI Wing Tak, has been formed to advise the Independent Shareholders as to whether the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders how to vote in relation to the ordinary resolution to approve the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) to be proposed at the EGM. The Company has appointed us, the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

It is noted from the Board Letter that the Company is also proposing the Share Consolidation whereby every ten (10) Existing Shares of HK\$0.01 each in the share capital of the Company will be consolidated into one (1) New Share of HK\$0.10 each. The effectiveness of the Share Consolidation is set as one of the conditions precedent to Completion.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and Settlement Agreement.

In the past two years, we have not acted as any financial adviser role to the Company, but we have acted as an independent financial adviser to the independent board committee of the Company in its major and connected transaction in relation to the acquisition of the remaining 30% of the entire issued share capital of Bingo Cinema Investment Company Limited and Bingo Cinema Management Company Limited, the details of which are set out in the Company's Circular dated 29 April 2020 (the "**Previous Appointment**"). Save for the current engagement as the Independent Finance Adviser and the Previous Appointment, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the Previous Appointment and the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries, their respective controlling shareholders or other parties that could reasonably be regarded as relevant to our independence; (ii) we have maintained our independence from the Company during the Previous Appointment, and our independence from the Company has not been compromised because of the Previous Appointment; and (iii) the aggregate professional fees paid/to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) pursuant to Rule 17.96 of the GEM Listing Rules.

BASIS OF ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information (if any). We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also 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 advisers and/or the Directors, the Management (where applicable), which have been provided to us.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all

reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapters 17 and 20 of the GEM Listing Rules.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. 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, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or prospects of the Company, the Subscriber, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate). The Company has been separately advised by its own professional advisers with respect to the Subscription and the preparation of the Circular (other than this letter).

We have assumed that the Subscription will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all necessary consents, authorisations and approvals in respect of the Subscription and Settlement Agreement, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Subscription. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Subscription, we have taken into consideration the following factors:

1. Information on the Group

As stated in the Board Letter, the Group is principally engaged in movie production, licensing and derivatives, crossover marketing and provision of interactive contents and cinema investment and management. Set out below is a summary of the consolidated financial information of the Group for each of the (i) years ended 31 March 2020 and 2021 (the “**Year 2020**” and “**Year 2021**”, respectively) and as at 31 March 2020 and 31 March 2021 as extracted from the Company’s annual report for the year ended 31 March 2021 (the “**2021**”

Annual Report”); and (ii) six months ended 30 September 2020 and 2021 (the “**First Half of 2021**” and “**First Half of 2022**”, respectively) and as at 30 September 2021 as extracted from the Company’s interim report for the six months ended 30 September 2021 (the “**2021 Interim Report**”):

	For the six months ended 30 September		For the year ended 31 March	
	2021 HK\$'000 (unaudited)	2020 HK\$'000 (unaudited)	2021 HK\$'000 (audited)	2020 HK\$'000 (audited)
Revenue	3,370	1,264	6,860	22,888
Gross profit	1,918	680	3,866	13,493
Loss attributable to owners of the Company	(7,428)	(14,132)	(21,488)	(41,475)

	30 September	As at 31 March	31 March
	2021 HK\$'000 (unaudited)	2021 HK\$'000 (audited)	2020 HK\$'000 (audited)
Total assets	36,524	43,948	82,342
Total liabilities	34,382	35,127	50,748
Net assets attributable to owners of the Company	3,096	9,399	35,531
Cash and cash equivalents	8,634	15,303	38,146

The Group generated all its revenue from its cinema business during the Year 2020, Year 2021 and First Half of 2022.

1.1 Financial performance of the Company during the Year 2020 and Year 2021

The Group’s consolidated revenue decreased by approximately HK\$16.0 million or approximately 70.0% from approximately HK\$22.9 million for the Year 2020 to approximately HK\$6.9 million for the Year 2021. The consolidated gross profit of the Group decreased by approximately HK\$9.6 million or approximately 71.1% from approximately HK\$13.5 million for the Year 2020 to approximately HK\$3.9 million for the Year 2021. The decrease in revenue and gross profit is primarily due to the drop in revenue from cinema business as a result of (i) operation suspension of cinemas due to the outbreak of COVID-19; and (ii) closure of the Group’s cinema in Linan in September 2020.

Despite the decrease in revenue and gross profit, the Group recorded consolidated loss attributable to owners of the Company of approximately HK\$21.5 million for the Year 2021, representing a year-on-year decrease of approximately 48.2% as compared to that of approximately HK\$41.5 million recorded during the Year 2020. The decrease in

loss for the Year 2021 was mainly attributable to (i) the absence of other loss of approximately HK\$14.5 million recorded during the Year 2020; (ii) the decrease in administrative expenses of approximately HK\$11.9 million; and (iii) the decrease in impairment of right-of-use assets of approximately HK\$5.0 million, which was partially offset by the decrease in gross profit of approximately HK\$9.6 million.

The Group reported a decrease in consolidated total assets from approximately HK\$82.3 million as at 31 March 2020 to approximately HK\$43.9 million as at 31 March 2021, representing a decrease of approximately 46.6%. The decrease in consolidated total assets was mainly due to the decrease in (i) cash and cash equivalents of approximately HK\$22.8 million; (ii) right-of-use assets of approximately HK\$9.9 million; and (iii) property, plant and equipment of approximately HK\$5.0 million.

The consolidated total liabilities of the Group decreased from approximately HK\$50.7 million as at 31 March 2020 to approximately HK\$35.1 million as at 31 March 2021, representing a decrease of approximately 30.8%. The decrease in total liabilities was due to the decrease in (i) lease liabilities of approximately HK\$8.8 million; and (ii) convertible bonds of approximately HK\$7.8 million.

Due to the combined effects of the aforementioned factors, the consolidated net assets attributable to owners of the Company decreased from approximately HK\$35.5 million as at 31 March 2020 by approximately 73.5% to approximately HK\$9.4 million as at 31 March 2021.

1.2 Financial performance of the Company during the First Half of 2021 and First Half of 2022

During First Half of 2022, the Group recorded unaudited consolidated revenue of approximately HK\$3.4 million, representing a period-on-period increase of approximately 166.6% when compared to that of approximately HK\$1.3 million recorded during First Half of 2021. The unaudited consolidated gross profit of the Group increased from approximately HK\$0.7 million in First Half of 2021 to approximately HK\$1.9 million in First Half of 2022. As disclosed in the 2021 Interim Report, the increase in both revenue and gross profit was due to re-opening of the Group's cinemas in Shanghai and Hangzhou in August 2020 which could not open commencing in late January 2020 as a result of the outbreak of COVID-19 in the very beginning of 2020.

The Group further recorded unaudited consolidated loss attributable to owners of the Company of approximately HK\$7.4 million for First Half of 2022, representing a period-on-period decrease of approximately 47.4% as compared to that of approximately HK\$14.1 million recorded during First Half of 2021. The decrease in loss for First Half of 2022 was mainly attributable to the tightened cost control measures implemented during the period in response to the severe business environment.

The Group reported a decrease in consolidated total assets from approximately HK\$43.9 million as at 31 March 2021 to approximately HK\$36.5 million as at 30 September 2021, representing a decrease of approximately 16.9%. With reference to the 2021 Interim Report, the decrease in consolidated total assets was caused by the (i) decrease in non-current assets of approximately HK\$4.9 million, which was mainly due to the decrease in loan to an associate of approximately HK\$5.7 million, which was partially offset by the increase in right-of-use assets of approximately HK\$1.1 million; and (ii) decrease in current assets of approximately HK\$2.5 million as a result of the decrease in (a) cash and cash equivalents of approximately HK\$6.7 million; (b) inventories of approximately HK\$0.9 million; and (c) other receivables, deposits and prepayments of approximately HK\$0.9 million, which was partially offset by a loan to an associate of approximately HK\$6.0 million.

The consolidated total liabilities of the Group decreased slightly from approximately HK\$35.1 million as at 31 March 2021 to approximately HK\$34.4 million as at 30 September 2021, representing a decrease of approximately 2.1%. The decrease in total liabilities was due to the combined effects of (i) the decrease in both convertible bonds and lease liabilities of approximately HK\$4.0 million and HK\$0.8 million respectively; and (ii) the provision of a loan from a Director of approximately HK\$5.0 million during First Half of 2022.

Due to the combined effects of the aforementioned factors, the unaudited consolidated net assets attributable to owners of the Company decreased from approximately HK\$9.4 million as at 31 March 2021 by approximately 67.1% to approximately HK\$3.1 million as at 30 September 2021.

The cash and cash equivalents of the Group decreased from approximately HK\$38.1 million as at 31 March 2020 to approximately HK\$15.3 million as at 31 March 2021 by approximately 59.9%, and further decreased by approximately 43.6% to approximately HK\$8.6 million as at 30 September 2021. Such amount of cash held by the Group is insufficient to fully repay the Existing Bonds (comprising the Straight Bonds with no conversion element and the Existing CBs with a conversion price that is out-of-money) with aggregate principal amount of HK\$20,000,000.

2. Information on the Subscriber

The Subscriber, Mr. CHIAU Sing Chi, is a controlling Shareholder and an executive Director and a brother of Ms. CHOW Man Ki Kelly, who is also a controlling Shareholder and an executive Director.

As at the Latest Practicable Date, Mr. CHIAU held 429,694,769 Existing Shares, among these Shares, 27,573,529 Existing Shares are beneficially held by Mr. CHIAU, and 402,121,240 Existing Shares are registered in the name of Beglobal Investments Limited and Golden Treasure Global Investment Limited, each of them being a company incorporated in the British Virgin Islands with limited liability. Beglobal Investments Limited and Golden Treasure Global Investment Limited are companies indirectly owned by the trust, the discretionary objects of which are Mr. CHIAU, Ms. CHOW Man Ki Kelly (each an executive Director) and their family.

3. Background of and reasons for the Subscription

3.1 Background of the Subscription

It is disclosed in the Board Letter that on 22 February 2010, the Company entered into the Service Agreement with Mr. CHIAU pursuant to which the Company agreed to appoint Mr. CHIAU as an executive director of the Company and Mr. CHIAU accepted the appointment with prescribed duties for an initial term of five years from the commencement date, being 1 June 2010. Upon expiry of the initial term of the Service Agreement, the Company has renewed Mr. CHIAU's appointment and as at the Latest Practicable Date remains a controlling shareholder of the Company (as defined under the GEM Listing Rules) and an executive Director.

As part of the remuneration contemplated under the Service Agreement, the Company has pursuant to the terms thereof issued convertible bonds in an aggregate principal amount of HK\$45 million to Mr. CHIAU in batches. The first batch of the convertible bonds in the principal amount of HK\$25 million was issued to Mr. CHIAU on the Commencement Date of 1 June 2010 and the remaining HK\$20 million were issued to Mr. CHIAU in four batches with HK\$5 million each annually on the anniversary of the date of the Commencement Date. The first batch of the convertible bonds in the principal amount of HK\$25 million were converted by Mr. CHIAU or redeemed by the Company with details as follows:

Date	Amount (HK\$)	Event
12 June 2015	12,250,000	Converted into ordinary shares of the Company
10 July 2015	2,750,000	Converted into ordinary shares of the Company
2 June 2020	10,000,000	Redeemed by the Company

The second batch of the convertible bonds in the principal amount of HK\$5 million became mature on 1 June 2021. Pursuant to the Undertaking, Mr. CHIAU has undertaken to extend the deadline for repayment of such principal amount for 1 year from 1 June 2021 to 1 June 2022. Since the conversion rights attached thereto has been expired upon the original maturity date, hence the second batch of the convertible bonds became the Straight Bonds of the Company.

As at the Latest Practicable Date, the aggregate outstanding principal amount of the Existing CBs is HK\$15 million which were the third, fourth and fifth batches of the convertible bonds issued to Mr. CHIAU pursuant to the Service Agreement and the breakdown thereof are as follows:

Principal amount	Maturity Date <i>(Note)</i>	Conversion Price (as adjusted pursuant to the terms thereof) of the Existing CBs
HK\$5 million	1 June 2022	HK\$0.53
HK\$5 million	1 June 2023	HK\$0.53
HK\$5 million	1 June 2024	HK\$0.53

Note: Pursuant to the terms of the Existing CBs, the original maturity dates of the 3 tranches of Existing CBs were 1 June 2022, 1 June 2023 and 1 June 2024 respectively. On 31 March 2020, in light of the then financial condition of the Company and as an intention to support the long-term operation of the Company, Mr. CHIAU has unilaterally given the Undertaking pursuant to which he has undertaken to extend the repayment date of such Existing CBs for 1 year from their respective original maturity dates. As such, the deadline for the Company to repay the Existing CBs were considered as 1 June 2023, 1 June 2024 and 1 June 2025 respectively.

3.2 Reasons for the Subscription and use of proceeds

As stated in the Board Letter, the Existing Bonds comprises of the Straight Bonds in the outstanding amount of HK\$5 million and the Existing CBs in the aggregate outstanding principal amount of HK\$15 million. The Straight Bonds have fallen due on 1 June 2021, and the Existing CBs are divided into three batches of HK\$5 million each, which shall fall due on 1 June 2022, 1 June 2023 and 1 June 2024 respectively. Pursuant to the Undertaking dated 30 March 2020 given by the Subscriber, he undertook to delay the deadline for the Company to repay the outstanding amount under the Existing Bonds for one year from their original maturity dates. As such, the Straight Bonds shall be repaid by the Company by 1 June 2022, and the three batches of Existing CBs shall be repaid by the Company on 1 June 2023, 1 June 2024 and 1 June 2025 respectively.

Despite such undertaking by the Subscriber to delay the repayment dates of the Existing Bonds in favour of the Company, taking into account the existing cash position of the Company, and the expected business development and operation plan of the Company for the coming few years which is expected to require much capital to support, the Company considered that it would be in the interest of the Company and the Shareholders if more cash would be kept by the Company for its business operation and development, and therefore there may not be sufficient idle cash to repay the Subscriber for the Existing Bonds. On the other hand, given the conversion price under the Existing CBs is substantially higher than the prevailing market prices of the Shares, upon arm's length negotiation between the Company and the Subscriber, the Subscriber is willing to support the Company in the long run and therefore agrees to subscribe for the

Convertible Bonds with a new and unified maturity date, giving the Company more flexibility in its capital management, and with a new Conversion Price which better reflect the prevailing market price level of the Shares.

As also stated in the Board Letter, no net proceeds will be received by the Company from the issue of the Convertible Bonds. The issuance of the Convertible Bonds would settle the Existing Bonds. The right of conversion given under the Convertible Bonds may also help to ease the cashflow pressure of the Company in case the Subscriber or any holders thereof are willing to exercise its conversion right. As an incentive to support the Company, the Subscriber is also willing to subscribe the Convertible Bonds at a discounted principal amount compared to the principal outstanding amount of the Existing Bonds to be set-off against the Subscription Price. As such, it provides more flexibility to the Company in its future cash management, and may be able to strengthen the capital base and reduce the short term liability of the Company, and thus improve the financial position of the Company.

As further stated in the Board Letter, the Company considered that raising additional funding to repay the Existing Bonds through debt financing will incur interest burden on the Group and may be subject to due diligence and negotiations with the banks which is relatively uncertain and time-consuming. The Convertible Bonds bear no interest and will not incur interest burden on the Group. Other fund raising methods such as rights issue or open offer may also involve relatively more time and cost to complete as compared to the issue of the Convertible Bonds. As stated in the Board Letter, the Subscriber is willing to support the Company in the long run and therefore agrees to subscribe for the Convertible Bonds at a discounted principal amount to settle the Existing Bonds.

4. Information on the Subscription

4.1 Principal terms of the Subscription and Settlement Agreement

Principal terms of the Subscription and Settlement Agreement are set forth below:

Date: 7 December 2021 (as supplemented by the Supplemental Agreement)

Parties: (i) the Company as issuer, and
(ii) the Subscriber.

The Subscriber, being a controlling Shareholder and an executive Director, is a connected person of the Company under the GEM Listing Rules.

Subscription Price: HK\$20,000,000

The Subscription Price shall be set off against the outstanding principal amount of the Existing Bonds of HK\$20,000,000 in aggregate.

- Conditions:
- (a) the GEM Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Conversion Shares;
 - (b) the passing by the Independent Shareholders who are entitled to vote and not required to be abstained from voting under the GEM Listing Rules at the EGM of the necessary resolution(s) to approve the Subscription and Settlement Agreement and the transactions contemplated hereunder;
 - (c) the Share Consolidation becoming effective;
 - (d) the warranties given by the Company under the Subscription and Settlement Agreement remaining true, accurate and complete in all material respects;
 - (e) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Subscription and Settlement Agreement and the transactions contemplated hereby having been obtained; and
 - (f) all necessary consents and approvals required to be obtained on the part of the Subscriber in respect of the Subscription and Settlement Agreement and the transactions contemplated hereby having been obtained.

The Company shall use its best endeavours to procure the fulfilment of the conditions (a), (b), (c), (d) and (e), and the Subscriber shall use its best endeavours to procure the fulfillment of the condition (f), as soon as practicable and in any event on or before 31 March 2022 (i.e. Long Stop Date) or such other date as may be agreed by the Company and the Subscriber in writing. The Subscriber may at any time by notice in writing to the Company waive the condition (d). All other conditions above are incapable of being waived.

In the event that the conditions of the Subscription and Settlement Agreement are not fulfilled (or waived as the case may be) on or before the Long Stop Date, the Subscription and Settlement Agreement shall lapse and become null and void and the parties thereto shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof.

As at the Latest Practicable Date, none of the conditions precedent above have been fulfilled or waived.

Completion: The Subscription and Settlement Agreement shall complete within three (3) Business Days after the day on which the conditions set out above are fulfilled or, as the case may be, waived (or such later date as may be agreed between the Company and the Subscriber in writing). Upon Completion, the outstanding principal amount of the Existing Bonds will be set-off against the Subscription Price in full, and the obligation and liability of the Company under the Existing Bonds will be extinguished and the Existing Bonds will be cancelled.

4.2 Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are set forth below:

Principal amount: HK\$19,000,000

Interest rate: The Convertible Bonds bear no interest.

Maturity date: Unless previously converted or purchased and cancelled as provided therein, the Company shall redeem each Convertible Bonds which remains outstanding by 4:00 p.m. on 31 December 2025, i.e. the Maturity Date at 100% of the principal amount of such Convertible Bonds.

Early Redemption: Neither the Company nor the holder(s) of the Convertible Bonds shall have the right to request for redemption of the Convertible Bonds (whether in whole or in part) at any time prior to the Maturity Date.

Ranking: The Convertible Bonds constitute direct, unconditional unsubordinated and unsecured obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company.

Conversion and the conversion restrictions:	The holder(s) of the Convertible Bonds will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares from the date of the issue of the Convertible Bonds up to 4:00 p.m. (Hong Kong time) on the day immediately prior to the Maturity Date, provided that at the time a conversion notice is issued, (i) any conversion of the Convertible Bonds does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code or such mandatory offer obligation has been waived on the part of the holder(s) of the Convertible Bonds which exercised the conversion rights, whether or not such mandatory offer obligation is triggered off by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds (if applicable, including any Shares acquired by the parties acting in concert with the holder(s) of the Convertible Bonds); and (ii) the public float of the Shares shall not be less than 25% (or any given percentage as required by the GEM Listing Rules for the minimum percentage of Shares being held by the public as per Rule 11.23 of the GEM Listing Rules) of the issued Shares of the Company at the time in compliance with the GEM Listing Rules.
Conversion Price:	The Conversion Price is initially HK\$0.275 per Conversion Share, subject to adjustment as set out in the Board Letter.
Adjustment events:	The Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events. Please refer to the sub-paragraph headed "Adjustment events" in the paragraph headed "Principal terms of the Convertible Bonds" in the Board Letter for further details of the adjustment mechanisms of the Conversion Price.
Voting:	The holder(s) of the Convertible Bonds will not be entitled to attend or vote at any general meeting of the Company by reason only it being the holder(s) of the Convertible Bonds.
Transfer:	With the prior notification to the Company, the Convertible Bonds may be transferable, provided that the Convertible Bonds may not be transferred to any connected person of the Company (as defined under the GEM Listing Rules) without prior written consent of the Company.

Assuming the Share Consolidation has taken place, based on the initial Conversion Price of HK\$0.275 per Conversion Share, a maximum number of 69,090,909 Conversion Shares will be allotted and issued upon exercise of the conversion rights attaching to the

Convertible Bonds in full, which represent: (i) approximately 67.31% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 40.23% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon the exercise of the conversion rights attaching to the Convertible Bonds in full. The maximum aggregate nominal value of the Conversion Shares is HK\$6,909,090.90.

The Conversion Shares will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

5. Assessment of the principal terms of the Convertible Bonds

5.1 Conversion Price

For comparison purpose, assuming the Share Consolidation has taken place on the date of the Announcement, the initial Conversion Price of HK\$0.275 per Conversion Share represents:

- (a) a premium of approximately 14.58% over the closing price of HK\$0.240 per New Share as quoted on the Stock Exchange on the date of the Subscription and Settlement Agreement (the “**Last Trading Day**”);
- (b) a discount of approximately 22.32% to the average of the closing prices of HK\$0.354 per New Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the Last Trading Day;
- (c) a premium of 25.00% over the closing price of HK\$0.220 per New Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (d) a premium of approximately 816.67% to the net assets value of approximately HK\$0.030 per New Share based on the published unaudited consolidated net assets attributable to owners of the Company of approximately HK\$3,096,000 as at 30 September 2021 as extracted from the 2021 Interim Report and the issued share capital of the Company of 1,026,444,669 Shares as the Last Trading Day.

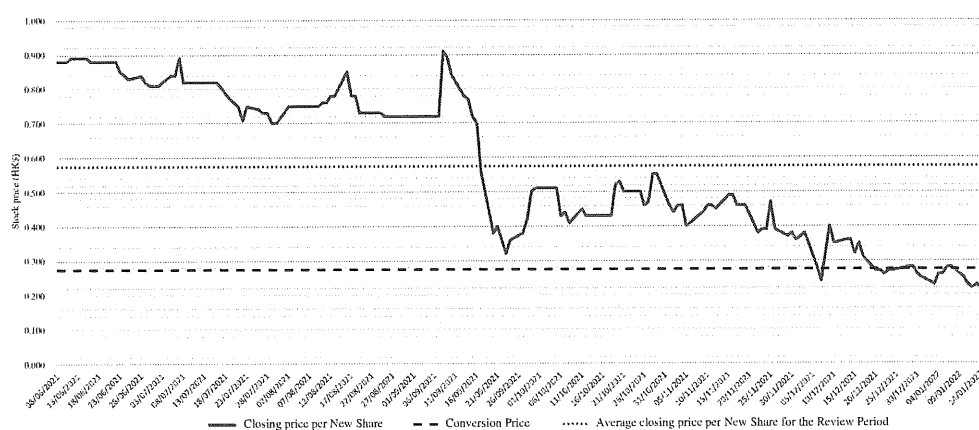
The net Conversion Price, after deduction of relevant expenses, is approximately HK\$0.257 per Conversion Share.

The Conversion Price was arrived at after arm’s length negotiations between the Company and the Subscriber, taking into account of, among others, the recent trading performance of the Shares and the financial position of the Group. The Directors (including the members of the Independent Board Committee whose views are included in the Letter from the Independent Board Committee which is included in the Circular after being advised by the Independent Financial Adviser) consider that the Conversion Price and the terms and conditions of the Subscription and Settlement Agreement and the Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5.1.1 Comparison of the Conversion Price with historical closing prices of the Shares

In assessing the fairness and reasonableness of the Conversion Price, we have performed a review on the daily closing prices of the Shares as quoted on the Stock Exchange from 8 June 2021 (i.e. six months prior to the Last Trading Day) to the Latest Practicable Date (the “**Review Period**”) and compared them with the Conversion Price. We consider the Review Period is adequate to reflect the prevailing market sentiment and illustrates a more recent general trend and level of movement of the daily closing prices of the Shares.

Share price movement during the Review Period



Source: website of the Stock Exchange

During the Review Period, the average of the closing prices was approximately HK\$0.574 per New Share (the “**Average Closing Price**”). The closing prices of the New Shares during the Review Period ranged from HK\$0.220 per New Share (the “**Lowest Closing Price**”) recorded on 12 January 2022 and 14 January 2022 to HK\$0.910 per New Share (the “**Highest Closing Price**”) recorded on 8 September 2021.

The New Share price had been in a generally downward trend from HK\$0.880 per New Share on 8 June 2021 to HK\$0.820 per New Share on 29 June 2021, after trading hours on which the annual results announcement for Year 2021 was published. The New Share price closed at HK\$0.840 per New Share on 6 July 2021, after trading hours on which a grant of share option announcement was published, and it gradually declined to HK\$0.720 per New Share on 7 September 2021. The New Share price then surged to HK\$0.910 per New Share on 8 September 2021, the highest point during the Review Period. Afterwards, the closing prices of the New Shares fell to HK\$0.320 per New Share on 23 September 2021, and closed at HK\$0.380 per New Share on 27 September 2021, after trading hours on which an announcement in relation to placing of new Shares under general mandate was published. The New Share price slightly rebounded and closed at HK\$0.420 per New Share on 28 September 2021, and gradually increased to around HK\$0.450 per

New Share on 12 November 2021, after trading hours on which the Company published the interim results announcement for the First Half of 2022. Subsequently, the New Share price gradually declined and further reached HK\$0.240 per New Share on 7 December 2021, being the date of the Subscription and Settlement Agreement. The New Share price then peaked at HK\$0.40 per New Share on 9 December 2021 before exhibited a gentle downward trend. Upon enquiry with the Management, we are advised that save for the announcements already published in public domain, they are not aware of any other major event which took place during the Review Period that might affect the New Share price. The New Share price closed at HK\$0.220 per New Share on the Latest Practicable Date.

The Conversion Price of HK\$0.275 per New Share represents (i) a premium of 25.00% over the Lowest Closing Price of HK\$0.220 per New Share; (ii) a discount of approximately 69.78% to the Highest Closing Price of HK\$0.910 per New Share; and (iii) a discount of approximately 52.09% to the Average Closing Price of approximately HK\$0.574 per New Share for the Review Period. The New Shares closed at or below the Conversion Price on 16 (or approximately 10.53%) out of a total of 152 trading days during the Review Period. As the New Share price movement demonstrated a generally downward trend throughout the Review Period, we consider that it is reasonable to set the Conversion Price at a lower level than the Highest Closing Price and Average Closing Price, but at a premium to the Lowest Closing Price and the closing price on the Last Trading Day to provide incentive to the Subscriber to convert the Convertible Bonds with reference to the prevailing condition as at the date of the Subscription and Settlement Agreement.

We have also noted the Conversion Price's substantial discount of approximately 52.09% to the Average Closing Price as discussed above. But given the Conversion Price was determined on the date of the Subscription and Settlement Agreement, we consider that it is appropriate for the relevant parties to determine the Conversion Price with reference to the prevailing closing price of the New Shares on such date of determination (with a premium of approximately 14.58% added on top) which would have fully reflected the "fair market value" of the New Shares having taken into account the then current market conditions and the latest financial performance and position of the Group. Given the Conversion Price of HK\$0.275 is 25.00% above the closing price per New Share of HK\$0.220 on the Latest Practicable Date, there may be more incentive for conversion of the Convertible Bonds by the Subscriber (or as the case maybe, holder(s) of the Convertible Bonds) as compared to the out-of-money conversion price of the Existing CBs. Should the conversion rights attached to the Convertible Bonds be exercised in full by the Subscriber (or as the case maybe, holder(s) of the Convertible Bonds), the Group would discharge the repayment obligations arising out of the Convertible Bonds without requiring any cash outflow. As such, the financial position of the Group would be improved without redeeming the Convertible Bonds at maturity.

5.1.2 Average daily trading volume of the Shares

Apart from historical daily closing prices of the Shares, we have reviewed the average daily trading volume of the Shares for each month during the Review Period, details of which are set out below:

	Number of trading days	Approximate average daily trading volume of the Shares (Number of Shares)	Approximate percentage of average daily trading volume to total number of issued Shares (Note 1)	Approximate percentage of average daily trading volume to total number of issued Shares held by public Shareholders (Note 2)
Year 2021				
8 June – 30 June	16	110,938	0.01%	0.03%
July	21	198,357	0.02%	0.05%
August	22	43,023	0.01%	0.01%
September	21	1,315,143	0.15%	0.31%
October	18	2,379,722	0.23%	0.40%
November	22	5,298,432	0.52%	0.89%
December	22	9,927,614	0.97%	1.66%
Year 2022				
January up to the Latest Practicable Date	10	2,617,500	0.31%	0.61%

Source: website of the Stock Exchange

Notes:

1. Based on the total number of issued Shares as at each month end as disclosed in the monthly returns of the Company.
2. Based on the number of Shares held by public Shareholders calculated by deducting the Shares held by the Subscriber, Beglobal Investments Limited and Golden Treasure Global Investment Limited from the number of total issued Shares as at each month or period end.

As shown in the table above, the average daily trading volume of the Shares in each month ranged from approximately 43,023 Shares in August 2021 to approximately 9,927,614 Shares in December 2021, representing approximately 0.01% and 0.97% of the total number of issued Shares as at the end of the relevant months and approximately 0.01% and 1.66% of the total number of issued Shares held by public Shareholders as at the end of the relevant months, respectively, indicating a relatively thin trading liquidity in general throughout the Review Period.

We have enquired the Management regarding the relatively high trading volumes of the Shares in November 2021 and December 2021 and the Management has advised that they are not aware of any reasons causing the increase in trading volumes.

Upon our enquiry with the Management, we understand that the Company will (i) continue to promote its brand image and enhance customer loyalty through difference channels in order to alleviate the adverse impacts to its cinema business due to the pandemic; and (ii) cooperate with its strategic partner in relation to brand and intellectual property management, licensing, co-branding/crossover marketing and provision of interactive contents.

Given the relatively thin trading liquidity of the Shares in general as illustrated above, coupled with the loss-making and future business developments of the Group, the Directors consider that conducting equity fund raising exercises such as a share placement or a rights issue or open offer with issue price set at premium to prevailing market price of the Shares on the date of relevant agreement as in the case of the Conversion Price may not be feasible given (i) it is difficult to find Independent Third Party securities brokerages who are willing to act as placing agents or underwriters without any favourable terms; and/or (ii) considerable discount to the market prices of the Shares will be required to attract potential investors or existing Shareholders to participate in the fund raising exercise. As such, we consider the settlement of the Existing Bonds by way of the Subscription, with the Conversion Price set at a healthy premium over the closing price of the New Shares on the Last Trading Day, is more appropriate as compared to other alternative means of financing. The setting of the Conversion Price at a slight premium over the prevailing closing price of the New Shares on the Last Trading Day as compared to the completely out-of-money conversion price of the Existing CBs will provide a relatively higher incentive for the Subscriber to exercise the conversion rights attaching to the Convertible Bonds so that the financial position of the Group would be improved and the Company is not required to redeem the Convertible Bonds at maturity.

5.2 Comparative analysis with other issues of convertible bonds or notes

To further evaluate the fairness and reasonableness of the terms of the Convertible Bonds, we have also identified 15 issues of convertible bonds or notes conducted by companies listed on the Stock Exchange (the “**Comparables**”) as announced during the period from 8 September 2021 (being three months prior to the Last Trading Day) to the Last Trading Day (the “**Comparable Period**”). In our selection of the Comparables, we have excluded the issues of convertible bonds or notes conducted by China Ludao Technology Company Limited (2023.hk) (“**China Ludao**”), Winshine Science Company Limited (209.hk) (“**Winshine**”) and China Creative Global Holdings Limited (1678.hk) (“**China Creative**”, and together with China Ludao and Winshine, the “**Outliers and Suspended Listco**”) announced on 15 September 2021, 24 September 2021 and 15 October 2021 respectively. The Outliers and Suspended Listco have been excluded in our analysis for the reason that (i) the conversion prices of China Ludao and Winshine have premiums of approximately 60.00% and 58.70% (i.e. roughly double that of the next highest premium of approximately 28.00% amongst the Comparables) respectively over their respective closing prices of the shares on the last trading day prior to the date of the agreement; and (ii) China Creative has been suspended for trading since 1 September 2020. Based on the aforesaid criteria, the Comparables represent an exhaustive list of suitable comparables based on our best information, knowledge and belief.

We consider that the Comparables represent fair and representative samples given (i) the Comparable Period adequately covers the recent market conditions and sentiments of the capital market in Hong Kong; (ii) the Comparables represent recent transaction terms of the convertible bond or note issues in Hong Kong; (iii) the Comparables demonstrate the market practice and trend during the Comparable Period and allow the Independent Shareholders to have an understanding of recent issues of convertible bonds or notes being conducted in the capital market of Hong Kong; and (iv) a sufficient sample size of 15 Comparables being identified.

Independent Shareholders should note that the businesses, market capitalisation and prospects of the Company and the terms of the Convertible Bonds are not the same as, or can vary from, those of the Comparables and their respective issuers. We consider the Comparables, whether issued to connected persons or independent third parties, are relevant to our analysis given they are reflecting recent market practice or normal commercial terms of transactions of similar nature as that of the Subscription undertaken by other listed issuers on the Stock Exchange.

Set out below are the details of the Comparables:

Date of initial announcement (dd/mm/yy)	Company name (stock code)	Size of issuance	The subscriber(s) is/are connected person(s)	Term to maturity	Coupon rate per annum	Premium/ (discount) of the conversion price over/(to) the average of the closing prices for the last five trading day prior to/up to and including the date of agreement	Premium/ (discount) of the conversion price over/(to) the closing price per share on/prior to the date of agreement
03/12/21	China Public Procurement Limited (1094)	up to HK\$75.0 million	No	7 years	5.00%	-1.96%	-6.13%
29/11/21	Pan Asia Data Holdings Inc. (1561.hk)	up to HK\$270.0 million	No	18 months	6.00%	22.45%	21.21%
16/11/21	CIMC Enric Holdings Limited (3899.hk)	HK\$1,680.0 million	No	30 November 2026 (Approx. 5 years)	0.00%	28.00%	24.00%
14/11/21	Jimu Group Limited (8187.hk)	HK\$77.0 million	No	1 year	6.00%	-16.67%	0.00%
26/10/21	China Rongzhong Financial Holdings Company Limited (3963.hk)	HK\$3.8 million	Yes	3 years	0.00%	19.38%	10.79%
25/10/21	Towngas China Company Limited (1083.hk)	Approx. RMB1,835.6 million	No	5 years	1.00%	22.91%	40.79%
22/10/21	Wai Chun Bio-Technology Limited (660.hk)	HK\$21.0 million	Yes	3 years	2.00%	0.00%	-12.30%
21/10/21	Wai Chun Group Holdings Limited (1013.hk)	HK\$42.7 million	Yes	3 years	2.00%	-11.10%	-11.10%
21/10/21	Apex Ace Holding Limited (6036.hk)	HK\$30.0 million	Yes	Perpetual	0.50%	18.64%	16.67%
19/10/21	Shimao Services Holdings Limited (873.hk)	HK\$3,110.0 million	No	31 October 2022 (Approx. 1 year)	2.25%	8.32%	9.89%
19/10/21	Jinxin Fertility Group Limited (1951.hk)	RMB1,500.0 million	No	31 March 2023 (Approx. 1 year and 3 months)	0.75%	20.19%	21.63%
23/09/21	Investech Holdings Limited (1087.hk)	HK\$30.0 million	Yes	3 years	1.50%	6.38%	4.31%
23/09/21	Frontier Services Group Limited (500.hk)	HK\$210.0 million	No	2 years	2.50%	16.30%	15.70%
13/09/21	Apollo Future Mobility Group Limited (860.hk)	HK\$85.8 million	No	3 years	9.00%	1.85%	0.00%
08/09/21	Apollo Future Mobility Group Limited (860.hk)	HK\$78.0 million	No	3 years	9.00%	-9.10%	-4.60%
07/12/21	The Company	HK\$19.0 million	Yes	31 December 2025 (Approx. 4 years)	0.00%	14.58%	-22.32%
			Max.	Perpetual	9.00%	28.00%	40.79%
			Min.	1 years	0.00%	-16.67%	-12.30%
			Average	3.0 years	3.17%	8.37%	8.72%
			Median	3.0 years	2.00%	8.32%	9.89%

Source: the announcements of relevant companies published on the website of the Stock Exchange

5.2.1 The Conversion Price

As shown in the table above, the variances of the conversion prices to/over the respective closing price per share on the last trading day on/prior to the date of the relevant agreement of the Comparables ranged from a discount of approximately 16.67% to a premium of approximately 28.00%, with the average and median being premium of approximately 8.37% and 8.32%, respectively. The premium of approximately 14.58%, as represented by the Conversion Price over the closing price of HK\$0.240 per New Share on the Last Trading Day, is within the aforesaid range and above the average and median figures of the Comparables.

In addition, the variances of the conversion prices to/over the average of the closing prices per share for the last five trading days prior to or up and including the date of the relevant agreement of the Comparables ranged from a discount of approximately 12.30% to a premium of approximately 40.79%, with the average and median being premium of approximately 8.72% and 9.89%, respectively. The discount of approximately 22.32%, as represented by the Conversion Price over the average of the closing prices of approximately HK\$0.354 per New Share for the five consecutive trading days immediately prior to the Last Trading Day, is below the low end of the aforesaid range of the Comparables and the average and median figures of the Comparables. Although the abovementioned discount of approximately 22.32% is not in line with the Comparables and not in favour of the Company, we consider such discount is acceptable as (i) the New Share price movement demonstrated a generally downward trend throughout the Review Period; (ii) the Conversion Price is at a premium over the closing prices of New Share on 16 out of 28 trading days between the Last Trading Day and the Latest Practicable Date; (iii) the Conversion Price is at a premium of 25.00% over the closing price of HK\$0.220 per New Share on the Latest Practicable Date; and (iv) the Conversion Price is at a premium of approximately 19.57% over the average of the closing prices of approximately HK\$0.230 per New Share for the five consecutive trading days immediately prior to the Latest Practicable Date.

5.2.2 Term to maturity and interest rate

As per the analysis above, the terms to maturity of the Comparables range from one year to perpetual whereas the coupon rates of the Comparables range from nil to 9.00% per annum. Taking into account the approximately four years term of the Convertible Bonds is within the range as represented by the Comparables and slightly above the average by one year, and the zero coupon rate of the Convertible Bonds is at the low end of the range as represented by the Comparables, we consider the aforementioned terms to be fair and reasonable given that the longer than average term of the Convertible Bonds allows more flexibility in terms of repayment by Company or conversion by the Subscriber while the zero coupon rate results in lower finance cost to the Company. Accordingly, we consider the term to maturity and coupon rate of the Convertible Bonds are in favour of the Company.

5.3 Our conclusion with regards to the terms of the Convertible Bonds

We consider the terms of the Convertible Bonds are fair and reasonable to the Company and the Shareholders as a whole, after considering the following principal factors as a whole:

- (i) the premium of the Conversion Price to the closing price on the Last Trading Day is within the range and above the average and median figures of the Comparables as illustrated above and is therefore favourable to the Company;
- (ii) although the discount of the Conversion Price to the average of the closing prices per New Share for the last five trading days immediately prior to the Last Trading Day is below the low end of the range and average and median figures of the Comparables as illustrated above, we consider the closing price on the Last Trading Day (i.e. the date of the Subscription and Settlement Agreement) to be a more important benchmark as it represents the “fair market value” of the Shares as of the date of determination of the relevant terms of the Convertible Bonds and such discount is acceptable as (i) the New Share price movement demonstrated a generally downward trend throughout the Review Period; (ii) the Conversion Price is at a premium over the closing prices of New Share on 16 out of 28 trading days between the Last Trading Day and the Latest Practicable Date; (iii) the Conversion Price is at a premium of 25.00% over the closing price of HK\$0.220 per New Share on the Latest Practicable Date; and (iv) the Conversion Price is at a premium of approximately 19.57% over the average of the closing prices of approximately HK\$0.230 per New Share for the five consecutive trading days immediately prior to the Latest Practicable Date;
- (iii) the Conversion Price represents a premium of approximately 816.67% to the net assets value of approximately HK\$0.030 per New Share;
- (iv) there is a HK\$1,000,000 difference in the aggregate principal of the Existing Bonds of HK\$20,000,000 which is to be replaced by the Convertible Bonds with a principal amount of HK\$19,000,000 implying the Convertible Bonds are to be issued at a 5% discount to the Existing Bonds with lower repayment burden on the part of the Company and as the case may be, lower number of Conversion Shares as compared to a replacement convertible bonds issued at 100% of the principal amount of the Existing Bonds; and
- (v) the Convertible Bonds have zero coupon rate which compares favourably with the Comparables.

6. Financial effects of the Subscription

6.1 Effect on asset value and gearing

It is expected that the Subscription will have an immediate improvement on the net assets value and the gearing of the Group arising out of the HK\$1,000,000 difference in the aggregate principal of the Existing Bonds of HK\$20,000,000 which is to be replaced by the Convertible Bonds with a principal amount of HK\$19,000,000. The net assets value and gearing of the Group are expected to further improve significantly in case there is conversion of all or parts of the Convertible Bonds, given the reduction in the Group's overall indebtedness.

6.2 Effect on earnings and working capital

On initial recognition, the Convertible Bonds shall be recognised as a compound financial instrument with a conversion option, which comprise an equity component and a liability component, on the consolidated financial statements of the Company. The carrying amount of the liability component is first determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the Convertible Bonds as a whole. The liability component of the Convertible Bonds is subsequent measured at amortised cost, using the effective interest method. Depending on future price movement of the New Shares and other pertinent factors, the Convertible Bonds may have a material impact on the profit and loss of the Group.

Given (i) the aforementioned difference in the principal amounts of the Existing Bonds which is to be replaced by the Convertible Bonds; (ii) the Convertible Bonds will replace the Existing Bonds and not exert immediate cash outflow on the Group and allows the Group to allocate the cash for its expected business development and future operation plan of the Company for the coming few years instead of repayment of the Existing Bonds (comprising the Straight Bonds with no conversion element and the Existing CBs with a conversion price that is out-of-money) which in the absence of the Convertible Bonds will become due in phases by 1 June 2024; and (iii) the repayment obligation of the Company arising out of the Convertible Bonds will be relieved in case there is conversion of the Convertible Bonds with a relatively higher incentive for the Subscriber to do so due to the readjusted Conversion Price, the Subscription is expected to improve the liquidity of the Group.

It should be noted that the above-mentioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the issue of the Convertible Bonds.

7. Potential dilution effect on the shareholding interests of the existing public Shareholders

As shown in the Board Letter under the section headed “Effect on the shareholding structure of the Company”, assuming there is no other change in the issued share capital and shareholding structure of the Company other than the conversion of the Convertible Bonds, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 58.14% as at the Latest Practicable Date to approximately 34.75% immediately after full conversion of the Convertible Bonds (for illustration purpose only and the conversion of the Convertible Bonds is subject to the conversion restrictions as set out in section 4.2 of this letter.

Taking into account (i) the reasons for the Subscription as discussed in section 3.2 of this letter; and (ii) the terms of the Convertible Bonds are fair and reasonable as discussed in section 5.3 of this letter, we consider that the potential dilution effect on the shareholding of existing public Shareholders in the Company is acceptable so far as they are concerned.

CONCLUSION

Having considered the above principal factors, we are of the opinion that (i) the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) are, although not in the ordinary and usual course of business of the Group, on normal commercial terms; and (ii) the terms of the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution(s) to approve the Subscription and Settlement Agreement and the transactions contemplated thereunder (including the issue of the Convertible Bonds and the grant of the Specific Mandate) at the EGM.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited



Kevin So
Director — Investment Banking Department

Note: Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore’s type 6 regulated activity (advising on corporate finance). Mr. So has over 16 years of experience in the corporate finance industry in Hong Kong.