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23 November 2021

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION INVOLVING PROPOSED ISSUE OF NEW SHARES TO SUBSTANTIAL SHAREHOLDER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Share Subscription Agreement entered into between the Company and Great Shine (the "**Great Shine Subscription Agreement**") (and the Share Subscriptions to Great Shine contemplated thereunder) (the "**Great Shine Subscription**"). Details of the Great Shine Subscription are set out in the letter from the Board contained in the circular of the Company (the "**Circular**") to its Shareholders dated 23 November 2021, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 4 October 2021, the Company entered into the Share Subscription Agreements with each of the Subscribers and each of the Guarantors, under which the Company has conditionally agreed to allot and issue, and the Subscribers have conditionally agreed to subscribe for, the Subscription Shares at the Subscription Price of HK$0.28 per Subscription Share. Among the Subscribers, Great Shine is interested in 2,316,155,500 Shares, representing approximately 21.44% of the entire issued share capital of the Company as at the Latest Practicable Date. Since Mr. Chen, a substantial Shareholder, the chairman of the Board and an executive Director of the Company, indirectly wholly-owns Great Shine, Great Shine is a connected person of the Company. Accordingly, the Great Shine Subscription Agreement entered into between the Company and Great Shine constituted a connected transaction for the Company, and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Chen and his associates (including Great Shine), which holding a total of 2,316,155,500 Shares, representing approximately 21.44% of the total issued share capital of the Company as at the Latest

Practicable Date, will abstain from voting on the proposed resolution(s) to approve the relevant ordinary resolution(s) at the EGM approving the Great Shine Subscription. On the same date, the Company has also entered into the Warrant Subscription Agreement with SAI (being one of the Subscribers), under which the Company has conditionally agreed to issue, and SAI has conditionally agreed to subscribe for the Warrants conferring the rights to subscribe for a maximum number of 800,000,000 Warrant Shares based on the Warrant Exercise Price.

The Independent Board Committee comprising all four independent non-executive Directors, namely Dr. Huang Dazhan, Mr. Xie Weixin, Mr. Chan King Chung and Mr. Guo Jinghui, has been established to advise the Independent Shareholders in respect of the Great Shine Subscription. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and Great Shine, or their respective substantial shareholder(s) or connected person(s) that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Great Shine Subscription as detailed in the Circular.

In formulating our advice, we have reviewed, among other things, the Share Subscription Agreements, the Warrant Subscription Agreement, the annual report of the Company for the financial year ended 31 December 2020 ("**FY2020**") (the "**2020 Annual Report**"), the interim report of the Company for the six months ended 30 June 2021 ("**1H2021**") (the "**2021 Interim Report**"), and the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company (the "**Management**") and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and will remain so up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and the Subscribers, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of the Group and Great Shine

The Group is principally engaged in the production and sale of mobile phones and accessories, and the provision of wireless application services.

Great Shine is an investment holding company incorporated in the BVI and formerly known as Kingkey Financial Holdings (Asia) Limited. It is indirectly wholly-owned by Mr. Chen, an executive Director and the chairman of the Board, and thus is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. As at the Latest Practicable Date, Great Shine was interested in 2,316,155,500 Shares, representing approximately 21.44% of the entire issued share capital of the Company.

Details on the background of the other Subscribers are set out in the section headed "Information on the Subscribers and the Guarantors" in the letter from the Board contained in the Circular.

2. Financial information of the Group

Financial results

Set out below are the consolidated financial highlights of the Group for each of the year ended 31 December 2019 (**"FY2019"**) and 2020 (as extracted from the 2020 Annual Report), and for the six months ended 30 June 2020 (**"1H2020"**) and 2021 (as extracted from the 2021 Interim Report) (collectively, the **"Period"**).

	For the six months ended 30 June		For the year ended 31 December	
	2021	**2020**	**2020**	**2019**
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
By business segment				
Sales of mobile phones and related accessories	318,596	385,413	795,147	1,854,148
Wireless application service income	1,523	507	16,610	3,942
	320,119	385,920	811,757	1,858,090

	For the six months ended 30 June		For the year ended 31 December	
	2021	**2020**	**2020**	**2019**
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By geographical segment				
Mainland China	45,321	30,246	109,490	128,372
Overseas	274,798	355,674	702,267	1,729,718
	320,119	385,920	811,757	1,858,090
Gross (loss)/profit	(14,471)	84,079	122,054	431,885
(Loss)/profit for the period/year attributable to owners of the Company	(238,134)	(65,927)	(393,986)	112,321
(Loss)/earnings per share attributable to ordinary equity holders of the parent (HK$)	(3.11)	(1.04)	(6.56)	2.22

As shown in the table above, revenue from sales of mobile phones and related accessories has been the main source of revenue of the Group, contributing over 95% of the Group's total revenue during the Period.

In view of the substantial impact of the COVID-19 pandemic in 2020, the Group postponed the launch of some new models of mobile phones, resulting in a significant decrease in sales volume. At the same time, the Group increased sales rebates to boost sales in the United States market, the Group's main sales market for its products where the sales were dampened, resulting in a significant decrease in revenue. Accordingly, the Group reported revenue of approximately HK$811.76 million for FY2020, representing a decrease of approximately 56.31% from approximately HK$1,858.09 million for FY2019. The Group's sales to overseas market dropped by approximately 59.40% in FY2020 as compared to that in FY2019, while the domestic sales decreased by around 14.71% in FY2020 when compared with that in FY2019.

The Group reported revenue of approximately HK$320.12 million for 1H2021, representing a decrease of approximately 17.05% from approximately HK$385.92 million for 1H2020. The Group's revenue from overseas market decreased by around 22.74% from approximately HK$355.67 million for 1H2020 to approximately HK$274.80 million for 1H2021, while domestic sales increased by around 49.82% from approximately HK$30.25 million for 1H2020 to approximately HK$45.32 million for 1H2021. As stated in the 2020 Annual Report, the Group restarted domestic phone business and rebuilt operation team in 2020 to gradually restore the production layout and sales channel in Chinese market. However, the Group was mainly in the time-consuming stages of resource integration, design and R&D and production of new products the first half of 2021. Despite Coolpad COOL 20, the first product of the Group in 2021, was officially launched in May 2021, the overall sales volume improvement was not substantial in the first half 2021 due to a relatively weak brand strength and an insufficient front-end retail delivery capacity. Therefore, the launch of a new product has yet to make a significant contribution to the Group's overall financial performance in 1H2021.

Gross profit of the Group decreased from approximately HK$431.89 million for FY2019 to approximately HK$122.05 million for FY2020. Gross profit margin of the Group decreased from 23.24% for FY2019 to 15.04% for FY2020. As mentioned in the 2020 Annual report, the decrease of gross profit was primarily attributable to the price promotions on mobile phones and further discounts to major customers following the COVID-19 pandemic. The Group recorded gross loss of around HK$14.47 million in 1H2021, compared to gross profit of around HK$84.08 million in 1H2020. The decrease in gross profit was mainly due to tight upstream supply, resulting in overall increase in cost of sales, while the sales price of mobile phone orders in the major markets was fixed.

In view of the above, profit for the year attributable to owners of the Company decreased from profit of approximately HK$112.32 million for FY2019 to loss of approximately HK$393.98 million for FY2020. For 1H2021, the Group reported loss for the period attributable to owners of the Company of approximately HK$238.13 million, representing an increase of approximately 261.19% from loss of approximately HK$65.93 million for 1H2020. The basic earnings per Share attributable to ordinary equity holders of the Company were approximately HK$2.22 for FY2019; and losses of HK$6.56, HK$1.04 and HK$3.11 for FY2020, 1H2020 and 1H2021 respectively.

Financial position

The following is a summary of the consolidated financial position of the Group as at 31 December 2020 and 30 June 2021 respectively as extracted from the 2021 Interim Report.

	As at 30 June 2021 *(unaudited)* *HK$'000*	**As at 31 December 2020** *(audited)* *HK$'000*
Total assets		
Property, plant and equipment	354,163	305,048
Investment properties	2,327,774	2,287,583
Prepayments, deposits and other receivables	374,465	299,889
Cash and cash equivalents	1,174,687	208,773
Other assets	897,250	1,220,223
	5,128,339	4,321,516

	As at 30 June 2021 (unaudited) HK$'000	As at 31 December 2020 (audited) HK$'000
Total liabilities		
Interest-bearing bank and other borrowings	540,813	543,670
Other payables and accruals	1,190,372	1,500,899
Other liabilities	1,121,539	958,094
	2,852,724	3,002,663
Net assets	2,275,615	1,318,853
Net asset value ("NAV") attributable to owners of the Company	2,275,212	1,318,454
NAV per Share (HK$)(Note)	0.21	0.20

Note: NAV per Share of the Company is calculated based on NAV attributable to owners of the Company divided by the number of issued Share as at the respective year/period end.

Total assets of the Group as at 30 June 2021 and 31 December 2020 mainly comprised property, plant and equipment, investment properties, prepayments, deposits and receivables, and cash and cash equivalent. On 4 May 2021, the Company proposed to raise additional capital by way of rights issue on the basis of one rights share for every two existing Shares held on the record date at a subscription price of HK$0.28 per rights share (the "**Rights Issue**"). Following completion of the Rights Issue on 28 June 2021, the Company had issued 3,600,799,740 new Shares and raised net proceeds of approximately HK$981 million. The net proceeds raised from the Rights Issue largely contributed to the increase in the Group's total assets of the Group by approximately 18.67% from approximately HK$4,321.52 million as at 31 December 2020 to approximately HK$5,128.34 million as at 30 June 2021.

As at 30 June 2021, the total liabilities of the Group were approximately HK$2,852.72 million, representing an decrease of approximately 4.99% from approximately HK$3,002.66 million as at 31 December 2020. The fluctuation was primarily due to the decrease in other payables and accruals of the Group. The gearing ratio of the Group, which was measured by net debt divided by the sum of capital and net debt, decreased from approximately 64% as at 31 December 2020 to approximately 34% as at 30 June 2021. Such improvement in the Group's gearing ratio was mainly attributable to the increase in cash and cash equivalent and the increase in equity, which resulting from the net proceeds raised and the issue of new Shares upon completion of the Rights Issue.

The issue of rights shares under the Rights Issue also contributed to the increase in NAV attributable to owners of the Company from approximately HK$1,318.45 million as at 31 December 2020 to approximately HK$2,275.21 million as at 30 June 2021. NAV per Share based on the total Shares in issue as at the respective year/period end date, was approximately HK$0.21 as at 30 June 2021 and approximately HK$0.20 as at 31 December 2020.

3. Reasons for and benefits of the issue of Subscription Shares

During the FY2020 and 1H2021, the Group's business operation has been deteriorating as demonstrated from the net losses recorded by the Group for FY2020 and 1H2021, which was primarily attributable to the impact on the weak overseas consumption affected by the COVID-19 pandemic, the delay of new product launch and a rise in the cost of certain core raw materials. Against this backdrop, the Group has restarted its domestic phone business and rebuilt operation team in 2020 to gradually restore the production layout and sales channel in market in China. Based on statistics released by the National Bureau of Statistics of the PRC, despite the impacts of the COVID-19 pandemic in 2020, the nominal GDP in the PRC has shown recovery in the first half of year 2021, with a growth rate of approximately 17.0% as compared to the first half of year 2020. As advised by the Management, the Group considers a hybrid approach of developing both the China market and the overseas market would reduce the operational risks owing to the adverse impact on the overseas market under the COVID-19 pandemic. While the business of the Group has been focusing on the United States market in the past, the Group would shift its business development direction to the China market.

The Group has been committed to the long-term business strategy in developing the mobile operation in China to turn around their business under such a challenging business environment. On 28 June 2021, the Group has completed the Rights Issue, from which 50% of the net proceeds or around HK$490.5 million has been allocated for the expansion of the Group's business, in particular the mobile business in China. As discussed under the sub-section headed "2. Financial information of the Group – Financial results" above, due to a relatively weak brand strength and an insufficient front-end retail delivery capacity in China, there has been no obvious improvement in the sales volume of mobile phone in the first half of 2021 even with a new product launched in May 2021. Notwithstanding the above, the pace of improvement in terms of domestic sales volume has been accelerated in the third quarter which, in the Management's view, was mainly attributable to the Group's investments in the sales and marketing of the new mobile phone business and the expansion of new business channels in the PRC. As such, the Company considers that the strategies to increase its retail market penetration and presence in China proved to be a right business direction. Accordingly, we concur with the Company that it is crucial for the Group to raise the investments within a short time for the purposes of accelerating the expansion of online and offline sales channels, deepening the cooperation among numerous e-commerce platforms, and further enhancing the brand reputation and product awareness through various sales and marketing activities.

Set out below is the expected use of proceeds for the PRC mobile business of the Group in accordance with its business plan up to 30 June 2023, which extracted from the letter from the Board contained in the Circular.

Nature of funding needs	Total estimated investment	Remaining net proceeds from the Rights Issue	Net proceeds from the Share Subscriptions and Warrant Subscription	Other internal resources of the Group and proceeds from exercise of share options
Product manufacturing and development of operating system	250.0 million	241.3 million	–	8.7 million
Brand promotion and marketing distribution	250.0 million	60.0 million	175.3 million	14.7 million
Establishment of sales channel	700.0 million	–	613.6 million	86.4 million
Total	1,200 million	301.3 million	788.9 million	109.8 million

As exhibited in the table above, the total investment required for the Group's PRC mobile business is estimated to be around HK$1,200 million, of which HK$250 million and HK$700 million are required for (i) the brand promotion and marketing distribution, and (ii) the establishment of sales channel, respectively. After taking into the unutilised proceeds from the Rights Issue and other internal resources of the Group that are earmarked for the sales and marketing of the mobile phone business and the expansion of business channels in the PRC, there is still a significant shortfall in funding for the Group to implement its market penetration plans in the PRC. As disclosed in the letter from the Board, although the net proceeds from the Share Subscriptions and Warrants Subscription will be used for the expansion of the Company's mobile business up to 30 June 2023, funding requirements are usually at its greatest during the beginning phase of business development. Based on the current information available to the Board, it is expected that approximately 80% of the net proceeds for the expansion of the Group's mobile business in the PRC will be utilised by 31 December 2022. Therefore, the Company considers that it is appropriate at this point of time to proceed with the Share Subscriptions and Warrants Subscription in order to secure funds for such purpose. Having considered the above and the challenging business environment facing by the Group as discussed above, we concur with the Company that there exists a genuine and timely funding need to meet the funding requirement in accelerating the expansion of the Group's mobile phone business through deeper market penetration.

As disclosed in the letter from the Board, the estimated net proceeds from the Share Subscriptions and the Warrant Subscription will be approximately HK$876.6 million after deduction of all estimated expenses. The Company intends to use 90% of the net proceeds for the expansion of the Group's mobile business in the PRC during the two years ending 31 December 2022, with approximately 70% (i.e. around HK$613.6 million) for the establishment of new business channels and expansion of both online and offline business channels in the PRC, and 20% (i.e. around HK$175.3 million) for sales and marketing of the mobile phone business, which would be beneficial to the Group to achieve a wider coverage of the PRC sales market and to boost sales in a more efficient way through enhancing the brand reputation and product awareness. The remaining 10% of the net proceeds will be applied for the general working capital of the Group. In view of the above, the Great Shine Subscription, together with the other Independent Share Subscriptions (as defined below) and the Warrant Subscription, are expected to generate net proceeds to alleviate the Group's timely funding need to implement the market penetration plans for the PRC mobile business. Details of the Company's expansion plan in relation to the establishment and expansion of business channels and sales and marketing of the mobile phone business are set out in the section headed "Reasons for and benefits of the issue of the Subscription Share and the Warrants and use of proceeds" in the letter from the Board.

As at the Latest Practicable Date, Great Shine was interested in 2,316,155,500 Shares, representing approximately 21.44% of the entire issued share capital of the Company. In terms of the number of issued Shares as enlarged by the allotment and issue of the Subscription Shares and the Warrant Shares (assuming that there will be no further changes in the issued share capital of the Company prior to the allotment and issue of the Subscription Shares or exercising of Warrants and no adjustment to the Warrant Exercise Price), it is noted that Great Shine (i) will increase its shareholding interests in the Company to approximately 22.58% immediately upon issue and allotment of the Subscription Shares; and (ii) will maintain its shareholding interests in the Company at approximately 21% immediately upon exercise of the subscription rights attaching to the Warrants in full. The increase or maintaining in shareholding interests by Great Shine through the Great Shine Subscription when the Company is in need of funding, serves as a vote of confidence in the Company by Great Shine and reflect its support and commitment towards the long-term and sustainable development of the Company notwithstanding the current challenging business environment facing by the Group.

As discussed in the letter from the Board, the Directors consider equity financing would provide an efficient means of raising sufficient capital for the Group's long-term needs under the challenging business environment without incurring additional interest burden to the Group, which may in turn adversely affect the profitability of the Company, and will increase the Group's gearing ratio. The estimated net proceeds from the Share Subscriptions and the Warrant Subscription will be approximately HK$876.6 million after deduction of all estimated expenses. As set out in the letter from the Board, if the Group finances the same amount with debt, assuming at an annualised interest rate of 7% (being the lowest effective interest rate of the Group as disclosed in the 2020 Annual Report), then the interest burden for one year would be HK$61.36 million, and the gearing ratio would be around 47% (assuming that all other unrelated financial accounts in the 2021 interim financial statements remain unchanged and the amount from the debt financing has been fully used as intended), which would be an increase of around 13%, compared with the gearing ratio of around 34% as at 30 June 2021.

Based on the aggregate gross proceeds from the Share Subscriptions and Warrant Subscription of approximately HK$885.1 million (being the sum of HK$840.0 million and HK$45.1 million) and the estimated net proceeds of approximately HK$876.6 million, the total expenses for the Share Subscriptions and Warrant Subscription accounted for approximately 0.96% of the total gross proceeds. As discussed with the Management, in view of the recent experience from the Rights Issue which the costs (being the difference between the gross and net proceeds as disclosed in the relevant announcements) to gross proceeds rate was approximately 2.70% and that the Company has undergone a lengthy process (i) identify the suitable underwriter. (ii) negotiate of the terms of underwriting, and (iii) prepare the requisite compliance and legal documentations, which we have reviewed the relevant correspondence documents to ascertain the time spent by the Company, it is expected that if the current fund raising exercise was conducted by way of rights issue or open offer, the estimated total costs would be higher, and will require a minimum of additional one month as compared to the Share Subscriptions and Warrant Subscription. Having considered that (i) the fund-raising size of the Share Subscriptions and Warrant Subscription is similar to that of the Rights Issue; and (ii) the Rights Issue was conducted within six months before the Share Subscriptions and Warrant Subscription, we are of the view that the costs to gross proceeds rate of the Rights Issue of approximately 2.70% serves as a reasonable and representative benchmark on estimating the total costs of a rights issue or an open offer. Since the Company had completed the Rights Issue on the basis of one rights share for two existing Shares on 28 June 2021 and the dealing in the fully-paid rights shares commenced on 29 June 2021, any subsequent rights issue proposed in the period of 12 months from 29 June 2021 must be made conditional on minority shareholders' approval pursuant to Rule 7.19A(1) of the Listing Rules. Pursuant to Rule 7.24A(1) of the Listing Rules, a proposed open offer must also be made conditional on minority shareholders' approval given that the general mandate granted to the Board at the Company's last annual general meeting is insufficient to raise the same amount of fund as the Share Subscriptions and the Warrant Subscription. Despite any proposed rights issue or open offer will take a similar amount of time for convening a shareholders' meeting as the Share Subscriptions and the Warrant Subscription, the offer period of rights issue or open offer can commence only after the relevant resolution has been approved at a shareholders' meeting. Based on the Rights Issue, it took around one month to complete the Rights Issue from the commencement date of the offer period. An open offer will take a similar amount of time as a rights issue to complete following the offer commencement. Thus, we consider that it is a reasonable estimation by the Company that a minimum of additional one month is required for a rights issue or an open offer as compared to the Share Subscriptions and the Warrant Subscription.

As for placing of new Shares, the Management anticipated that the rate of placing commission to be incurred would be in the range of 0.5% to 5.0% of the placing price based on the understanding on the market practice. As the Company is able to raise a definite amount of capital and avoid placing commission by conducting the subscriptions directly with the Subscribers, it is considered less efficient to engage a placing agent(s) who will normally procure placees on a best effort basis with no guarantee that sufficient funds can be raised. As part of our analysis, we have reviewed the recent precedents of placing of new shares announced by companies listed on the Main Board of the Stock Exchange on a best effort basis during the period commencing from 1 July 2021 until the Last Trading Day. We have identified 18 precedents (the "**Comparable Placings**") during the selected period which is considered to be a sufficient and representative sample size. The costs to gross proceeds rate for the Comparable Placings ranged from approximately 0.75% to 12.55%, with an average and median of 3.22% and 2.03% respectively, which are higher than the estimated costs to gross proceeds rate of around 0.96% for the Share Subscriptions and Warrant Subscription. Given that (i) the estimated total costs rate for placing new shares is expected to be higher than that for the Share Subscriptions and Warrant Subscription; (ii) there would be no guarantee that sufficient funds can be raised as needed by way of placing; and (iii) the Company has identified a group of Subscribers, we concur with the Company that placing of new shares is a less cost-effective and efficient financing method when compared to the Share Subscriptions and Warrant Subscription.

Having considered the above, we concur with the Directors that a rights issue or an open offer would incur additional costs and time, and placing of new shares would be a less cost-effective and efficient financing method when compared to the Share Subscriptions and the Warrant Subscription. Therefore, the Share Subscriptions and the Warrant Subscription are the most favourable financial method among the other financing methods and in the interests of the Company and the Shareholders as a whole.

Apart from contributing a notable portion to the Share Subscriptions, the Directors are of the view that the Great Shine Subscription will reinforce the Group's strategic alliance with the substantial Shareholder who is familiar with the business operation of the Group which is crucial to the business stability and long-term development of the Group. Through the Share Subscriptions, the Company has also attracted several new strategic investors with financial background and track record in investing in technology enabled companies, which can further broaden the capital base of the Company and bring business synergies to the Group, that cannot readily be achieved through debt financing. Having considered the other fund-raising alternatives, the Directors consider that the Share Subscriptions by a combination of an existing substantial Shareholder (i.e. Great Shine) and other strategic investors to be the most appropriate fund-raising option available to the Group to raise further capital for its long-term development.

Taking into account (i) that the Share Subscriptions by a combination of an existing substantial Shareholder and other strategic investors allow the Company to reinforce the strategic alliance with the substantial Shareholders and broaden the capital base of the Company in one go; (ii) that there exists a genuine and timely funding need to meet the funding requirement in accelerating the expansion of the Group's mobile phone business through deeper market penetration as discussed above; and (iii) the Share Subscriptions are the appropriate means for the Group to raise funds among other alternatives as discussed above, we concur with the Directors that the Share Subscriptions are in line with the Group's development strategy and beneficial to the Group in the long-term.

4. **Principal terms of the Share Subscription Agreements**

The principal terms of the Share Subscription Agreements are set out below:

Parties

Issuer:	The Company as the issuer of the Subscription Shares; and
Subscribers and/or Guarantors:	(a) SAI (as one of the Subscribers) (b) Great Fortune (as one of the Subscribers) and Mr. Lee (as one of the Guarantors) (c) Great Shine (as one of the Subscribers) and Mr. Chen (as one of the Guarantors) (d) Allove Group (as one of the Subscribers) and Mr. Qin (as one of the Guarantors) (e) Sharp Ally (as one of the Subscribers) and Mr. Yao (as one of the Guarantors) (f) YH Fund (as one of the Subscribers) and Mr. Liu (as one of the Guarantors) As disclosed in the letter from the Board, save for Great Shine and Mr. Chen, none of the Subscribers or its respective ultimate beneficial owner(s) was a connected person of the Company as at the Latest Practicable Date. SAI, Great Fortune, Allove Group, Sharp Ally, and YH Fund, being the "**Independent Subscriber(s)**". The Share Subscription Agreements entered into between the Company and each Independent Subscriber, and the transactions contemplated thereunder, being the "**Independent Share Subscription(s)**".

Subscription Shares

The Company has conditionally agreed to issue, and each of the Subscribers has conditionally agreed to subscribe for, the number of Subscription Shares as set out in the table below at the Subscription Price of HK$0.28 per Subscription Share. Such number of Subscription Shares shall be allotted and issued by the Company at the Subscriptions Completion.

Subscribers	Number of the Subscription Shares *million*	Nominal value of the Subscription Shares *HK$ million*
(a) SAI	800	8.0
(b) Great Fortune	600	6.0
(c) Great Shine	800	8.0
(d) Allove Group	150	1.5
(e) Sharp Ally	300	3.0
(f) YH Fund	350	3.5
Total	3,000	30.0

Assuming there will be no change in the issued share capital of the Company from the date of the Share Subscription Agreements to the date of Subscriptions Completion save for the allotment and issue of the Subscription Shares, the Subscription Shares represent:

(a) approximately 27.77% of the issued share capital of the Company as at the date of the Announcement; and

(b) approximately 21.73% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Subscription Shares.

Subscription Price

The Subscription Price of HK$0.28 per Subscription Share. As disclosed in the letter from the Board, the Subscription Price was arrived at after arm's length negotiation between the Company and the Subscribers after taking into account the prevailing market price of the Shares and the trading volume of the Shares. The Board noticed that the average closing price of the Shares had been in a downward trend since February 2021. The average daily closing price of the Shares over the period between the trading day after completion of the Rights Issue (i.e. 28 June 2021) and the date of the Share Subscription Agreements was approximately HK$0.303 per Share, with the highest daily closing price of HK$0.365 on 21 September 2021 and the lowest daily closing price of HK$0.250 on 28 July 2021. The Subscription Price is within the range of the daily closing prices per Share over that period and represents an approximately 7.59% discount to the average daily closing price of the Shares over that period. It is also noted that the daily trading volume over that period was relatively low as the average daily trading volume was only approximately 0.21% of the total number of issued Shares as at the end of the period.

Conditions Precedent under the Share Subscription Agreements

Completion of each of the Share Subscription Agreements is conditional upon the satisfaction (or, if applicable, waiver) of the following conditions precedent:

(a) the Company having obtained approval by way of ordinary resolution(s) at the EGM by the relevant Shareholders (other than those who are required to abstain from voting) in respect of the issue and allotment of the relevant Subscription Shares and the granting of authority to the Board to deal with all related matters and such approval remaining valid and effective;

(b) the Listing Committee of the Stock Exchange having granted the approval for the listing of and the permission to deal in all the relevant Subscription Shares, and such approval remains valid and effective;

(c) the Company having complied with all of its obligations under the Share Subscription Agreement;

(d) no order or judgment of any court or governmental, statutory or regulatory body having been issued or made prior to completion of the Share Subscription Agreement and no legal or regulatory requirements remaining to be satisfied which has the effect of making unlawful or otherwise prohibiting the relevant Share Subscription or any transactions contemplated by the Share Subscription Agreement;

(e) no litigation, action, suit, investigation, claim or proceeding challenging the legality of, or seeking to restrain, prohibit or materially modify, the relevant Share Subscription or any transactions provided for by the Share Subscription Agreement having been instituted and not settled or otherwise terminated;

(f) there has been no occurrence of a material adverse change on or prior to completion of the Share Subscription Agreement; and

(g) the warranties included in the Share Subscription Agreement remaining true and accurate in all respects and not misleading in any respect on the date of completion of the Share Subscription Agreement, and no event has occurred and no matter has arisen which would render any of the warranties untrue, inaccurate or misleading.

The Subscribers may waive (in whole or in part, whether conditionally or unconditionally) any of the Conditions Precedent (except for those set out in paragraphs (a) to (b)). The Company may not waive any of the Conditions Precedent. As at the Latest Practicable Date, none of the Conditions Precedent under the Share Subscription Agreements had been fulfilled.

If the Conditions Precedent under any of the Share Subscription Agreements have not been fulfilled (or, as the case may be, waived) by the Long Stop Date, the relevant Subscriber may terminate the relevant Share Subscription Agreement to which it is a party whereupon such agreement (save and except the customary surviving provisions, which shall survive termination of the relevant Share Subscription Agreement) shall lapse immediately thereafter and be of no further effect, but (for the avoidance of doubt) all rights and liabilities of the parties which have accrued before termination shall continue to exist.

Subscriptions Completion

Subject to the Conditions Precedent under the Share Subscription Agreements being fulfilled (or, as the case may be, waived by the relevant party(ies)), Subscriptions Completion shall take place on the 10th business day after the last Condition Precedent is satisfied or waived in accordance with the Share Subscription Agreements (or on such other date as the parties may agree). As disclosed in letter from the Board, completion of the Share Subscriptions are not inter-conditional on each other.

Lock-up Undertaking

Each Subscriber undertakes not to, within three months from the date of Subscriptions Completion, transfer its Subscription Shares to any person without the prior written consent of the Company, provided that the foregoing shall not restrict any transfer to any affiliate(s) of the Subscriber or any transfer made pursuant to or in connection with any security interest granted in favour of one or more banks or other institutions (including any nominee, agent or trustee of or on behalf of such banks or other institutions) to whom such Subscription Shares have been charged or pledged by way of security (the "**Lock-up Undertaking**").

Most Favourable Terms

Under the Share Subscription Agreement entered into between the Company and SAI, in the event that during the period from the date of the relevant Share Subscription Agreement and up to the first anniversary of the date of completion thereof, the Company grants any investor any rights, powers, privileges and preferences favourable than those granted to SAI under the Share Subscription Agreement entered into between the Company and SAI and the Warrant Documents, SAI shall be entitled to and the Company shall as soon as reasonably practicable notify SAI of such more favourable terms and take all necessary actions to ensure that SAI is entitled to such more favourable terms. As disclosed in the letter from the Board, the Company has no intention to conduct further equity fundraising activities at terms that are more favourable than those agreed with SAI during such one-year period.

On 4 October 2021, the Company has also entered into the Warrant Subscription Agreement with SAI, under which the Company has conditionally agreed to issue, and SAI has conditionally agreed to subscribe for the Warrants conferring the rights to subscribe for a maximum number of 800,000,000 Warrant Shares based on the Warrant Exercise Price. Details of the Warrant Subscription Agreement are set out in the section headed "(II) Proposed issue of unlisted Warrants under Warrant Specific Mandate" in the letter from the Board contained in the Circular.

5. Evaluation of the Subscription Price

Comparison of the Subscription Price to recent Share prices

The Subscription Price of HK$0.28 per Subscription Share represents:

(a) a discount of approximately 27.27% to the closing price of the Shares of HK$0.385 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 17.65% to the closing price of HK$0.340 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 18.60% to the average closing price of approximately HK$0.344 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;

(d) a discount of approximately 18.60% to the average closing price of approximately HK$0.344 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

(e) a discount of approximately 10.92% to the average closing price of approximately HK$0.314 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day;

(f) a discount of approximately 6.82% to the average closing price of approximately HK$0.301 per Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Day;

(g) a discount of approximately 9.42% to the average closing price of approximately HK$0.309 per Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Day;

(h) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 4.04% represented by the theoretical diluted price of HK$0.3301 to the benchmarked price (as defined under Rule 7.27B of the Listing Rules) of HK$0.344 per Share, taking into account the closing price on the date of the Share Subscription Agreements of HK$0.340 per Share and the average closing price of approximately HK$0.344 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the date of the Share Subscription Agreements, the date on which the Subscription Price of HK$0.28 per Share was fixed); and

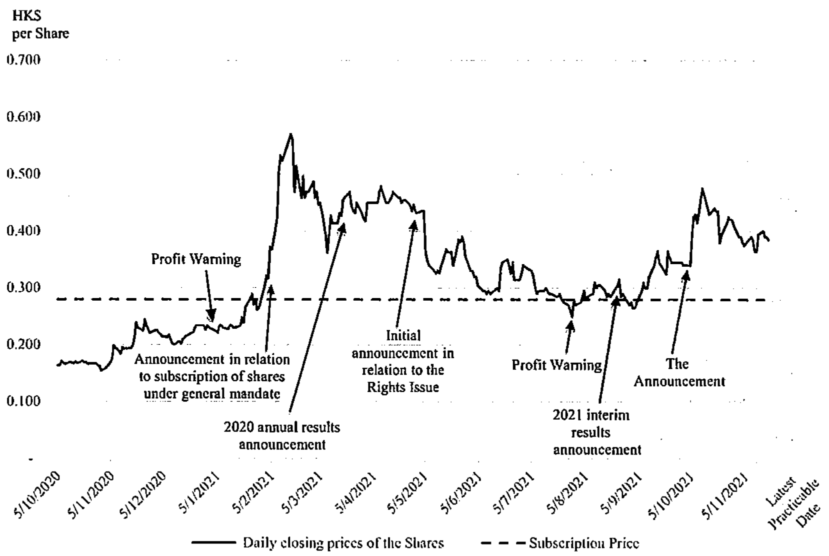
(i) a premium of approximately 33.33% over the unaudited consolidated net asset value per Share attributable to the Shareholders as at 30 June 2021 of approximately HK$0.21 per Share calculated based on the unaudited consolidated net assets of the Group attributable to the Shareholders of approximately HK$2,275,615,000 as at 30 June 2021 as set out in the 2021 Interim Report and 10,804,315,955 Shares in issue on the Latest Practicable Date.

The Subscription Price of HK$0.28 per Subscription Share is the same for the Great Shine Subscription and the Independent Share Subscriptions. As stated in the letter from the Board, the Subscription Price was negotiated on an arm's length basis between the Company and the Subscribers. On this basis, we consider that (i) the Subscription Price represents an arm's length subscription price that Independent Subscribers are willing to accept and pay under the prevailing market conditions; and (ii) the Subscription Price under the Great Shine Subscription Agreement is not more favourable to Great Shine than that to the Independent Subscribers.

Historical Share price performance

The following chart sets out the daily closing prices of the Shares on the Stock Exchange for the period from 5 October 2020 (being the first trading day in October 2020) up to and including the Latest Practicable Date (the "**Review Period**"), being a period of around 13 months up to and including the Latest Practicable Date. We consider that the Review Period which covers more than a full year prior to the Latest Practicable Date is sufficient and representative as it represents a reasonable timeframe that covers the recent trend of the Share price that reflects the Company's fundamental financial and business performance in response to the then prevailing market and operation conditions.

Share price chart



As illustrated in the chart above, the Share price closed in a range between HK$0.154 and HK$0.570 per Share during the Review Period with an average of approximately HK$0.323 per Share. The Subscription Price of HK$0.28 per Shares falls within the range of the closing price per Share during the Review Period and represents a discount of around 13.31% to the average closing price per Share during the Review Period.

From 5 October 2020 to 16 February 2021, the Share price closed between HK$0.154 and HK$0.570. During such period, the closing price of the Shares showed a general uptrend. On 19 January 2021 (after trading hour), the Company published the profit warning announcement and the price of the Shares dropped approximately 3.63% on the following trading day and closed at HK$0.239 on 20 January 2020. On 3 February 2021 (after trading hour), the Company published the announcement in relation to the subscription of new shares under general mandate and the price of the Shares gained approximately 17.35% to close at HK$0.372 on 4 February 2021. Since then and until 16 February 2021, the Share price continued to show an uptrend and closed at HK$0.570 on 16 February 2021.

From 17 February 2021 to 30 July 2021, the closing price of the Shares demonstrated a decreasing trend in general, with a high on 17 February 2021 of HK$0.561 and a low on 28 July 2021 of HK$0.250. On 28 March 2021 (after trading hour), the Company published the 2020 annual results and the price of the Shares dropped approximately 4.00% on the following trading day and closed at HK$0.432 on 29 March 2021. On 4 May 2021 (after trading hour), the Company published announcement in relation to the Rights Issue. The Shares price fell by approximately 15.60% from HK$0.436 on 4 May 2021 to HK$0.368 on 5 May 2021. The closing prices of the Shares continued to show a decreasing trend in general until July.

From 1 August 2021 to 3 October 2021, the Share price regained an upward momentum and closed in a range of HK$0.265 per Share to HK$0.365 per Share. Following the publication of 2021 interim results on 24 August 2021, the closing prices of the Shares fell by 9.52% on the following trading day and closed at HK$0.285 on 25 August 2021. Since then the Share price resumed an upward trend in September 2021. On 4 October 2021, the Company published the Announcement and the closing price of the Shares gained approximately 16.18% on the following trading day and closed at HK$0.395 on 5 October 2021, suggesting a positive market reaction to the Share Subscriptions. Since then the Share price has fluctuated in a range between HK$0.365 and HK$0.475, and the closing price of the Shares as at the Latest Practicable Date was HK$0.385.

Historical trading liquidity of the Shares

Set out in the table below is the average daily trading volume of the Shares for the period from 5 October 2020 (being the first trading day in October 2020) up to and including the Last Trading Day (the "**Pre-Announcement Period**"):

	Total trading volume of the Shares for the month *(Number of Shares)*	Number of trading days for the month	Average daily trading volume of the Shares for the month *(Number of Shares)*	Percentage of the average daily trading volume to total number of issued Shares as at the end of the month *(Note 1)*
2020				
October	164,268,400	18	9,126,022	0.15%
November	658,725,000	21	31,367,857	0.48%
December	255,070,900	22	11,594,132	0.18%
2021				
January	566,610,700	20	28,330,535	0.43%
February	1,341,372,400	18	74,520,689	1.14%
March	409,488,500	23	17,803,848	0.25%
April	258,634,900	19	13,612,363	0.19%
May	470,451,800	20	23,522,590	0.33%
June	612,194,800	21	29,152,133	0.27%
July	338,771,200	21	16,131,962	0.15%
August	383,993,500	22	17,454,250	0.16%
September (up to and including the Last Trading Day, i.e. 30 September 2021)	708,163,500	21	33,722,071	0.31%
Average *(Note 2)*			**25,072,137**	**0.23%**

Source: Website of the Stock Exchange

Note 1: The percentage of average daily trading volume to number of Shares in issue as at the end of relevant month is calculated based on (i) total trading volume divided by the corresponding number of trading days for the relevant month; divided by (ii) total number of Shares in issue as at the corresponding month end.

Note 2: The average daily trading volume for the Pre-Announcement Period is calculated based on (i) total trading volume for the Shares in the Pre-Announcement Period divided by the total number of trading days during the Pre-Announcement Period; divided by (ii) total number of issued Shares as at the end of the Pre-Announcement Period, i.e. 30 September 2021.

For the table above, in general, we note that the average daily trading volume of the Shares has been thin during the Pre-Announcement Period with an average daily trading volume of around 0.23%. Given the low liquidity of the Shares as illustrated above may hinder the attractiveness of any equity fund-raising activities to be conducted by the Company to investors (irrespective of whether such investors are connected person of the Company). In light of the above, we concur with the Company that it is reasonable to set the Subscription Price at a discount to the then prevailing Share price with a view to provide more incentive for the Subscribers to participate in the Share Subscriptions after taking into account the low liquidity of the Shares.

Comparable Issues and peer comparison

As part of our analysis, we have reviewed the recent issues of news shares for cash by companies listed on the Main Board of the Stock Exchange on a best effort basis for all share issues announced since 1 October 2020 and up to the Last Trading Day, which involve placing/subscription/issue of new shares to connected person(s), without involving acquisitions, restructuring, loan capitalization, share award scheme, public offering, mandatory cash offer, whitewash waiver, and issuance of convertible securities or A shares. Share issues which have been terminated or lapsed subsequently are excluded in this analysis. We consider that a review period from 1 October 2020 to the Last Trading Day, being an one-year period, is appropriate and adequate since the comparable issues are considered as a general reference for market practice of determining subscription price under recent market conditions. Based on the above criteria, a total of 8 comparable issues (the "**Comparable Issues**") have been identified, which, so far as we are aware of, are exhaustive and are fair and representative samples.

It should be noted that the subject companies involved in the Comparable Issues may have different principal activities, market capitalisations, profitability or financial positions as compared to those of the Company. However, as the Comparable Issues can provide a general understanding of this type of transaction in the Stock Exchange in the recent market environment, we consider them an appropriate reference for assessing the Subscription Price.

For each of the Comparable Issues identified, we compared the premium or discount of its placing/issue/subscription price over/to (a) the closing share price on the last trading day or date of announcement; (b) the average of the closing share price as quoted on the Stock Exchange for the last 5 consecutive trading days prior to and including the last trading day; and (c) the average of the closing share price as quoted on the Stock Exchange for the last 10 consecutive trading days prior to and including the last trading day, as summarised in the following table. The comparisons with net asset per share are presented in the table for illustrative purpose only.

			Premium/(discount) of placing/subscription/issue price over/(to)			
Date of announcement	Company name	Stock code	closing share price on the last trading day [Note 1] or date of announcement *(approximate)*	average closing share price as quoted on the Stock Exchange for the last 5 consecutive trading days prior to and including the last trading day *(approximate)*	average closing share price as quoted on the Stock Exchange for the last 10 consecutive trading days prior to and including the last trading day *(approximate)*	net asset value per share as disclosed in the announcement/ circular [Note 3] *(approximate)*
15 December 2020	Kinergy Corporation Ltd.	3302	(17.81)%	(20.00)%	(18.92)%	0.00%
20 January 2021	China Finance Investment Holdings Limited	875	(18.37)%	(20.00)%	(19.19)%	(20.79)%
20 January 2021	Pak Tak International Limited	2668	(1.96)%	(9.09)%	(4.76)%	19.76%
20 April 2021	Meituan	3690	(5.30)%	(4.00)%	(8.80)%	1,286.86% *(Note 4)*
31 May 2021	Hong Kong Resources Holdings Company Limited	2882	(15.25)%	(15.25)%	(16.39%)	N/A *(Note 5)*
19 July 2021	Elife Holdings Limited	223	5.77%	3.00%	(1.08)%	149.39%
17 August 2021	Man Sang International Limited	938	5.26%	1.91%	(2.44)%	272.09%
27 September 2021	China Aoyuan Group Limited	3883	(4.43)%	0.00%	(7.14%)	(54.67)% *(Note 4)*
	Mean (simple average)		(6.51)%	(7.93)%	(9.84)%	
	Median		(4.87)%	(6.55)%	(7.97)%	
	Maximum		5.77%	3.00%	(1.08)%	
	Minimum		(18.37)%	(20.00)%	(19.19)%	
	Great Shine Subscription		(17.65)%	(18.60)%	(18.60)%	

Source: the website of the Stock Exchange

Note 1: It refers to the last trading day as disclosed in the respective announcement.

Note 2: We have excluded the share subscriptions of Persta Resources Inc. (3395.hk) ("Persta") conducted on 8 June 2021 when arriving to these figures as we are of the view that it is outlier. The subscription prices of shares of Persta in the subscriptions represent an exceptional high premium over the closing price per share on last trading day and over the average closing price for the last five and ten consecutive trading days prior to the last trading day as compared with those of the Comparable Issues (i.e. premium of 120% over the closing price per share on the corresponding last trading day, premium of 90% over the average closing price for the last 5 consecutive trading days prior to the corresponding last trading day and a premium of 109% over the closing price for the last 10 consecutive trading days prior to the corresponding last trading day). The subscription price was determined based on the positive correlation between the prevailing trading volume and the share price which is an uncommon market practice of determining subscription price which we consider inapplicable to our analysis to provide a general reference for market practice of determining subscription price and therefore we exclude Persta from the list of Comparable Issues.

Note 3: The placing/subscription/issue price to net asset value comparison of the Comparable Issues is solely for illustrative purpose only. Since the subject companies involved in the Comparable Issues are in different industries and their net asset value as compared with their valuation may differ significantly due to, amongst others, differences in business model and market speculation/expectation, we are of the view that it is not meaningful to compare the premium/discount represented by the Subscription Price with that of the Comparable Issues in terms of net asset value per share.

Note 4: Calculated based on the then latest published equity attributable to owners of the company as disclosed the interim report or annual report when the announcement was published.

Note 5: It is not applicable as Hong Kong Resources Holdings Company Limited recorded net liabilities as at 31 December 2020.

Among the Comparable Issues, we noted from the above table that the subscription prices of the Comparable Issues:

(i) ranged from a discount of approximately 18.37% to a premium of approximately 5.77% to/over the respective closing share prices on the corresponding last trading day or the date of the corresponding announcement the Comparable Issues (the "**Discount/Premium Market Range**"), with an average of a discount of approximately 6.51% (the "**Market Average**") and a median of a discount of approximately 4.87% (the "**Market Median**");

(ii) ranged from a discount of approximately 20.00% to a premium of approximately 3.00% to/over the respective closing prices of their shares for the last 5 consecutive trading days prior to and including the corresponding last trading day of the Comparable Issues (the "**5 Days Discount/Premium Market Range**"), with an average of a discount of approximately 7.93% (the "**5 Days Market Average**") and a median of a discount of approximately 6.55% (the "**5 Days Market Median**"); and

(iii) ranged from a discount of approximately 19.19% to a discount of approximately 1.08% to the respective closing prices of their shares on the date for the last 10 consecutive trading days prior to and including the corresponding last trading day of the Comparable Issues (the "**10 Days**

Discount Market Range"), with an average of a discount of approximately 9.84% (the "**10 Days Market Average**") and a median of a discount of approximately 7.97% (the "**10 Days Market Median**").

The Subscription Price represents (a) a discount of approximately 17.65% to the closing Share price on the Last Trading Day; (b) a discount of approximately 18.60% to the average closing price for the last 5 trading days up to and including the Last Trading Day; and (c) a discount of approximately 18.60% to the average closing price for the last 10 trading days up to and including the Last Trading Day, which are below the Market Average, 5 Days Market Average, 5 Days Market Median, 10 Days Market Average and 10 Days Market Median, but still within the Discount/Premium Market Range, 5 Days Discount/Premium Market Range and 10 Days Discount Market Range.

We note that the Discount/Premium Market Range, the 5 Days Discount/Premium Market Range and the 10 Days Discount Market Range are wide. This might be due to specific circumstances facing each of the Comparable Issues. Despite such wide ranges, having considered that the Subscription Price is within the Discount/Premium Market Range, the 5 Days Discount/Premium Market Range and the 10 Days Discount Market Range, we are of the view that the Subscription Price is in line with the prevailing market sentiment.

Although the above analysis relating to Comparable Issues may not be useful as a direct reference to the fairness and reasonableness of the terms of the Great Shine Subscription Agreement due to the wide ranges of discount/premium of the Comparable Issues, given that (i) the Comparable Issues are considered for the purpose of taking a general reference for the recent market practice in relation to subscriptions of new shares exercises under the recent market conditions and sentiment, and (ii) the Comparable Issues were objectively selected with new shares subscriptions issued to connected person(s) during the period under review, which in our opinion, represent a comprehensive assessment of the recent market trends for similar transactions conducted by other issuers listed on the Stock Exchange, we consider it is fair and reasonable to compare the respective discount/premium between each of the Comparable Issues and that of the Great Shine Subscription as part of our assessment of the principal terms of the Great Shine Subscription Agreement. It should be noted that, in forming our opinion, we have considered the results of the above analysis together with all other factors stated in this letter as a whole.

Notwithstanding that the Subscription Price of HK$0.28 per Subscription Share represents a discount to the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day and the discount of the Great Shine Subscription is below the average of discount/premium of the Comparable Issues as illustrated above, having considered that (i) the Subscription Price of the Great Shine Subscription is equal to that of the Independent Share Subscriptions, the other terms of the Great Shine Subscription are not more favourable to those of the Independent Share Subscriptions; (ii) the reasons for and benefits of the Share Subscriptions as described under the section 3 above, in particular, the genuine and timely funding need to meet the funding requirement in accelerating the expansion of the Group's mobile phone business through deeper market penetration; (iii) the Subscription Price represents a premium of approximately 33.33% over the NAV per Share as at 30 June 2021; (iv) the Subscription Price falls within the range of the closing prices per Share during the Review Period as well as the ranges of the Discount/Premium Market Range, the 5 Days Discount/Premium Market Range and the 10 Days Discount Market Range of the Comparable Issues; (v) the Lock-up Undertaking would restrain the Subscribers from realising an immediate financial gain through the discount represented by the Subscription Price; and (vi) the Group recorded generally deteriorated financial performance in the recent financial year/period, overall speaking, we consider the Subscription Price is fair and reasonable.

6. Financial effects of the Share Subscriptions

The net proceeds from the Share Subscriptions, after the deduction of the estimated related expenses to be incurred in the Share Subscriptions, are estimated to be approximately HK$833.0 million.

As at 30 June 2021, the cash and cash equivalents and net assets of the Group amounted to approximately HK$1,174.69 million and HK$2,275.62 million respectively. Immediately upon the Subscriptions Completion, the amount of cash and cash equivalents and net asset value are expected to increase by an approximate amount of the net proceeds to be received by the Company. On the basis that the Subscription Price of HK$0.28 represents a premium of approximately 33.33% over the NAV per Share of approximately HK$0.21 as at 30 June 2021, it is expected that the NAV per Share will increase upon the Subscriptions Completion. As such, it is expected that the working capital and financial position of the Group is expected to be enhanced after the Subscriptions Completion.

It should be noted that the aforementioned possible financial effects are for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon Subscriptions Completion.

7. Dilution effects of the Share Subscriptions

The following table illustrates the shareholding structure of the Company: (i) as at the Latest Practicable Date; and (ii) immediately upon allotment and issue of the Subscription Shares to the Independent Subscribers; and (iii) immediately upon allotment and issue of all Subscription Shares (assuming that there is no change in the total number of issued Shares other than the issue of the Subscription Shares between the date of the Share Subscription Agreements and the date of the Subscriptions Completion).

Shareholder	(i) As at the Latest Practicable Date		(ii) Immediately upon allotment and issue of the Subscription Shares to the Independent Subscribers		(iii) Immediately upon allotment and issue of all Subscription Shares	
	No. of Shares	*Approx. per cent.*	*No. of Shares*	*Approx. per cent.*	*No. of Shares*	*Approx. per cent.*
Great Shine (*Note 1*)	2,316,155,500	21.44	2,316,155,500	17.81	3,116,155,500	22.58
Directors (*Note 2*)	5,834,400	0.05	5,834,400	0.05	5,834,400	0.04
Sub-total of non-public Shareholders	**2,321,989,900**	**21.49**	**2,321,989,900**	**17.86**	**3,121,989,900**	**22.62**
Public Shareholders						
SAI	–	–	800,000,000	6.15	800,000,000	5.80
Great Fortune	–	–	600,000,000	4.61	600,000,000	4.35
Mr. Qin (*Note 3 & 4*)	827,952,000	7.66	977,952,000	7.52	977,952,000	7.08
Sharp Ally	–	–	300,000,000	2.31	300,000,000	2.17
YH Fund (*Note 3*)	520,000,000	4.81	870,000,000	6.69	870,000,000	6.30
Other public Shareholders	7,134,374,055	66.04	7,134,374,055	54.86	7,134,374,055	51.68
Sub-total of public Shareholders	**8,482,326,055**	**78.51**	**10,682,326,055**	**82.14**	**10,682,326,055**	**77.38**
Total	**10,804,315,955**	**100.00**	**13,004,315,955**	**100.00**	**13,804,315,955**	**100.00**

Notes:

1. The 2,316,155,500 shares were directly held by Great Shine, which is 100% directly held by Great Splendid Holdings Limited. Mr. Chen is the director of Great Splendid Holdings Limited and hold 100% shares thereof. Therefore, Mr. Chen is indirectly interested in the 2,316,155,500 Shares.

2. To the best knowledge of the Company, the Directors (save for Mr. Chen) held approximately 0.05% of the total issued share capital of the Company in aggregate as at the Latest Practicable Date.

3. Each of the Existing Shareholders (save for Great Shine) is regarded as public shareholder of the Company as at the Latest Practicable Date.

4. The 772,500,000 Shares were directly held by Allove Group which was ultimately wholly-owned by Mr. Qin. The 55,452,000 Shares were directly held by Mr. Qin. In addition to the 772,500,000 Shares indirectly held via Allove Group and the 55,452,000 Shares directly held by Mr. Qin (which together amount to 827,952,000 Shares), as at the Latest Practicable Date, Mr. Qin also held 76,176,472 share options under the Share Option Scheme. Accordingly, as at the Latest Practicable Date, Mr. Qin was indirectly interested in an aggregate of 904,128,472 Shares (which included the aforesaid share options held by him).

5. Certain figures included in the table above have been rounded to the nearest integer or to two decimal places. Any discrepancies between the total shown and the sum of the amounts listed are due to rounding.

As demonstrated in the table above, the other existing public Shareholders' shareholdings will be diluted from approximately 54.86% immediately after the completion of Independent Share Subscriptions to approximately 51.68% immediately after the completion of all Share Subscriptions.

Although the shareholding interest of the other existing public Shareholders will be diluted immediately upon the Subscriptions Completion as illustrated above, considering (i) the benefits of the Share Subscriptions to the Group as discussed under section under "3. Reasons for and benefits of the issue of Subscription Shares" above; (ii) the Subscription Price is considered to be fair and reasonable as discussed under sections "5. Evaluation of the Subscription Price" above; and (iii) the enhancement in the working capital and financial position of the Group immediately after the Subscriptions Completion as set out in the section headed "6. Financial effects of the Share Subscriptions" of this letter above, we are of the view that the dilution effect of the Great Shine Subscription on the shareholding interests of the other existing public Shareholders is not excessive.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that the terms of the Great Shine Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Great Shine Subscription, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Felix

Felix Chau
Director

Mr. Felix Chau is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. He has over ten years of experience in the corporate finance industry.