



12 May 2016

To the Independent Board Committee and
the Independent Shareholders of
Talent Property Group Limited

Dear Sirs,

**(1) CONNECTED TRANSACTION IN RELATION TO
THE PROPOSED FURTHER AMENDMENT OF THE TERMS AND
CONDITIONS OF THE 2010 CONVERTIBLE NOTES;
(2) CONVERSION OF THE 2010 CONVERTIBLE NOTES; AND
(3) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our engagement as the independent financial adviser to (i) make recommendations to the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (the “**Independent Shareholders**”) of Talent Property Group Limited (the “**Company**”) in relation to (i) the proposed amendment to the terms of the 2010 Convertible Notes which involves allowing a holder to convert the 2010 Convertible Notes into the Conversion Shares, resulting in it holding 30% or more in the issued share capital of the Company (the “**Proposed Amendment**”); and (ii) application for a waiver (the “**Whitewash Waiver**”) from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Codes on Takeovers and Mergers and Share Buy-backs (the “**Takeovers Code**”) in respect of the obligation of Talent Trend Holdings Limited (“**Talent Trend**”) to make a mandatory general offer for all the shares of the Company (the “**Shares**”) not already owned or agreed to be acquired by Talent Trend and parties acting in concert with it under Rule 26 of the Takeovers Code which would otherwise arise as a result of the conversion of the 2010 Convertible Notes into Shares. Details of the Proposed Amendment and the Whitewash Waiver were disclosed in the announcement of the Company dated 11 January 2016 (the “**Announcement**”) and in the letter from the board (the “**Letter from the Board**”) set out on pages 6 to 17 of the circular of the Company dated 12 May 2016 (the “**Circular**”) to its shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 11 January 2016, Talent Trend, being the holder of the 2010 Convertible Notes in the principal amount of HK\$2,139.85 million as at the Latest Practicable Date, and the Company entered into the Second Supplemental Deed of Amendment to further amend certain terms of the 2010 Convertible Notes. Pursuant to the terms of the Second Supplemental Deed of Amendment, Talent Trend has agreed to, within 5 Business Days subsequent to the satisfaction of: (a) obtaining the approval from the Stock Exchange; (b) obtaining the Whitewash Waiver from the Executive; and (c) obtaining the Independent Shareholders' approval at the SGM, issue the Conversion Notice to the Company for the conversion of, and to convert, the 2010 Convertible Notes in the aggregate principal amount of HK\$2,139.85 million in accordance with the terms of the 2010 Convertible Notes.

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. Accordingly, the Proposed Amendment under the Second Supplemental Deed of Amendment shall be subject to the approval of the Stock Exchange and the application for approval of the Proposed Amendment under the Second Supplemental Deed of Amendment has been submitted by the Company to the Stock Exchange.

Mr. Zhang Gao Bin is the president of certain subsidiaries of the Company, and as a result, is a "connected person" within the meaning of the Listing Rules. Therefore, Talent Trend, which is held as to 100% by Mr. Zhang Gao Bin, is an "associate" of Mr. Zhang Gao Bin within the meaning of the Listing Rules. Accordingly, the Proposed Amendment under the Second Supplemental Deed of Amendment constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Upon completion of the conversion of the 2010 Convertible Notes, the shareholding in the Company held by Talent Trend and parties acting in concert with it will in aggregate be increased from approximately 6.40% of the total issued share capital of the Company as at the Latest Practicable Date to approximately 65.37% of the total issued share capital of the Company as enlarged by the issuance of the Conversion Shares, and hence Talent Trend will become a controlling Shareholder as defined under the Listing Rules. Under Rule 26.1 of the Takeovers Code, Talent Trend would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other relevant securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. An application has been submitted by Talent Trend to the Executive for the granting of the Whitewash Waiver. The Executive has indicated that it is minded to, subject to approval by the Independent Shareholders at the SGM by way of poll, grant the Whitewash Waiver. If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, the shareholding in the Company held by Talent Trend and parties acting in concert with it will exceed 50%, Talent Trend and parties acting in concert with it may further increase their shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The SGM will be held to consider and pass the resolutions to approve, among other things, the Proposed Amendment under the Second Supplemental Deed of Amendment and the application for the Whitewash Waiver. Only Shareholders (other than Talent Trend and parties acting in concert with it) and those who do not have a material interest or who are not involved in or interested in the 2010 Convertible Notes, the Deed of Amendment and the Supplemental Deed of Amendment for the Proposed Extension, the Proposed Amendment under the Second Supplemental Deed of Amendment, the CN Amendment and Conversion or the Whitewash Waiver can vote on the aforesaid resolutions at the SGM. Talent Trend is held as to 100% by Mr. Zhang Gao Bin. As at the Latest Practicable Date, Talent Trend and parties acting in concert with it held in aggregate 243,705,000 Shares in the Company, representing approximately 6.40% of the issued share capital of the Company. Accordingly, Talent Trend and parties acting in concert with it will not vote on any of the resolutions to be proposed at the SGM.

Other than Mr. Luo Zhangguan, an executive Director and being a cousin of Mr. Zhang Gao Bin, no other Directors has a material interest or is involved in or interested in the 2010 Convertible Notes, the Deed of Amendment and the Supplemental Deed of Amendment for the Proposed Extension, the Proposed Amendment under the Second Supplemental Deed of Amendment, the CN Amendment and Conversion or the Whitewash Waiver. Mr. Luo Zhangguan has abstained from voting on the Board resolutions approving the same and will abstain from voting on the resolutions at the SGM. As at the Latest Practicable Date, Mr. Luo Zhangguan did not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

An Independent Board Committee, comprising all the non-executive Directors, namely Mr. Lo Wai Hung, Mr. Chan Chi Mong, Hopkins and Mr. Mak Yiu Tong, has been formed to advise the Independent Shareholders (i) as to whether the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Waiver are, or are not, fair and reasonable; and (ii) as to voting. The Independent Board Committee has approved our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the two years' period prior to the date of the Second Supplemental Deed of Amendment, we were appointed as the independent financial adviser of the Company in respect of the entering into of the Deed of Amendment and the Supplemental Deed of Amendment to provide our independent view to the independent board committee and the independent shareholders of the Company, details of which were set out in the circular of the Company dated 16 November 2015. Apart from normal professional fees for our services to the Company in connection with the previous appointment as mentioned above, as well as this engagement as the Independent Financial Adviser in respect of the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Wavier, no other arrangement exists whereby we will receive any fees and/or benefits from the Company, Talent Trend, Mr. Zhang Gao Bin, or any of their respective substantial shareholders, directors or chief executives (if applicable), or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence. We were not aware of any relationships or interests between us and the Company, Talent Trend, Mr. Zhang Gao Bin, or any of their respective substantial shareholders, directors or chief executives (if applicable), or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we consider that the aforementioned previous appointment would not affect our independence, and that we comply with Rule 2.6 of the Takeovers Code and Rule 13.84 of the Listing Rules and are eligible to give independent advice in respect of the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Wavier to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, *inter alia*, the Announcement, the Circular, the Deed of Amendment, the Supplemental Deed of Amendment, the Second Supplemental Deed of Amendment, the Agreement, the circular of the Company dated 29 October 2010 in relation to the Acquisition (the "**Acquisition Circular**"), the announcements of the Company dated 20 October 2015 and 4 November 2015 (the "**Extension Announcements**") and the circular of the Company dated 16 November 2015 (the "**Extension Circular**") in relation to the entering into of the Deed of Amendment and the Supplemental Deed of Amendment for the Proposed Extension, the annual report of the Company for the financial year ended 31 December 2014 (the "**2014 Annual Report**") and the annual report of the Company for the financial year ended 31 December 2015 (the "**2015 Annual Report**"). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations, financial condition and prospects of the Group. We have also (i) considered such other information, analysis and market data which we deemed relevant; and (ii) conducted verbal discussions with the Management regarding the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Waiver, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors jointly and severally accept full responsibility for the accuracy of information contained in the Circular (other than information relating to Talent Trend and parties acting in concert with it) and, having made all reasonable enquiries, confirm that to the best of their knowledge, opinions expressed in the Circular (other than opinions expressed by Talent Trend and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. The sole director of Talent Trend, namely Mr. Zhang Gao Bin (張高濱), accepts full responsibility for the accuracy of the information contained in the Circular relating to Talent Trend and parties acting in concert with it and, having made all reasonable enquiries, confirms that to the best of his knowledge, opinions expressed in the Circular relating to Talent Trend and parties acting in concert with it have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Waiver, and to justify our reliance on the information provided so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. Pursuant to Rule 9.1 of the Takeovers Code, the Company is required to notify the Shareholders of any material changes to information contained in the Circular as soon as possible subsequent to the Latest Practicable Date and prior to the SGM. If we become aware of any such material change, we will notify the Shareholders of the potential impact on our opinion and/or recommendation set out in this letter as soon as possible.

This letter is issued to provide information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Waiver. Except for the inclusion in the Circular, this letter should not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

Unless otherwise specified in this letter, amounts denominated in RMB have been converted to HK\$ at a rate of RMB1.000 to HK\$1.198.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice with regard to the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Waiver, we have taken into consideration the following factors and reasons:

1. Information on the Group

In the past few years, the Group has undergone certain reorganisation of its businesses and projects with an objective to streamline its operation into more property focus in first-tier cities in the PRC. The Group is now principally engaged in the businesses of (i) real estate development, (ii) property investment and (iii) property management in Guangzhou, the PRC.

The table below summarizes the audited consolidated financial results of the Group for the year ended 31 December 2013, 31 December 2014 and 31 December 2015 (“FY2013”, “FY2014” and “FY2015”, respectively) as extracted from the 2014 Annual Report and the 2015 Annual Report:

Table 1: Summary of the consolidated financial results of the Group

	FY2013 (audited) RMB'000	FY2014 (audited) RMB'000	FY2015 (audited) RMB'000
Revenue from continuing operations	397,413	185,710	365,990
— Sales of properties	376,472	175,403	334,448
— Gross rental income from investment properties (Note)	9,194	9,267	27,395
— Rental income from sub-letting of leased assets (Note)	10,259	—	—
— Properties management fees	1,488	1,040	4,147
Loss for the year from continuing operations	(267,265)	(258,687)	(115,126)
Profit for the year from discontinued operations	9,597	276,415	—
Profit/(loss) for the year	(257,668)	17,728	(115,126)
	As at 31 December 2013 (audited) RMB'000	As at 31 December 2014 (audited) RMB'000	As at 31 December 2015 (audited) RMB'000
Cash and cash equivalents	399,938	247,542	127,430
Current assets	4,158,191	2,432,955	1,973,655
Current (liabilities)	(3,276,972)	(3,278,537)	(2,829,354)
Net current assets/(liabilities)	881,219	(845,582)	(855,699)
Net assets	244,502	221,991	184,663

Note: As advised by the Company, the Group (as lessee) entered into two leasing agreements with 廣州市荔灣汽車製配廠有限公司 (Guangzhou City Liwan Qi Che Zhi Pei Factory Company Limited) (“Liwan Qi Pei”) (as lessor) for the lease of the commercial building located at No. 18 Zhan Xi Road of Liwan District in Guangzhou (the “Property”) for the six months period ended 4 March 2013 and 5 September 2013, respectively. The Group then sub-let the Property to other tenants and earned rental income of approximately RMB10.3 million in FY2013. Subsequently, the Group, through the acquisition of all equity interest in Liwan Qi Pei in November 2013, owned the Property. After completion of the aforementioned acquisition, the rental income derived from leasing the Property to other tenants was booked under “gross rental income from investment properties”. The rental income derived from leasing the Property was nil and approximately RMB22.7 million in FY2014 and FY2015, respectively.

(i) *For the year ended 31 December 2014 (i.e. FY2014)*

In December 2014, the Group completed the disposal of 100% equity interest of Guangzhou Junyu Hotel Investment Limited (the “Disposal”). In accordance with relevant terms as stipulated in the sales and purchase agreements and its supplements, the Group recorded a gain of RMB276.4 million from such discontinued operation in FY2014. Detail of the Disposal was stated in the circular of the Company dated 26 June 2013.

Since 2010, the PRC government has from time to time promulgated a series of rules and regulations (including but not limited to (i) 《國務院關於堅決遏制部分城市房價過快上漲的通知》 (the Notice of the State Council on Resolutely Curbing the Soaring of Housing Prices in Some Cities*); (ii) 《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》 (the Notice of the General Office of the State Council on Issues Regarding Further Improving Regulation and Control of the Real Estate Market*); and (iii) 《國務院辦公廳關於繼續做好房地產市場調控工作的通知》 (the Notice of the General Office of the State Council on Further Improving Regulation and Control of the Real Estate Market*)) in order to curb the continuously growing property prices. Such rules and regulations imposed various tightening measures against the residential property market in the PRC including, among other things, (i) imposing minimum down-payment requirements for the first and second homes; (ii) limiting the number of home purchase within a certain period of time; and (iii) levying tax for sale of houses. As a result of such various tightening measures, the residential property market in Guangzhou was sluggish in 2014. According to the figures published in the official website of the Statistics Bureau of Guangzhou, the number of sales of residential properties in Guangzhou decreased by approximately 34.3% from 198,127 in 2013 to 130,097 in 2014. The aggregate transaction amount for the sales of residential properties in Guangzhou decreased from approximately RMB231.2 billion in 2013 to approximately RMB179.5 billion in 2014, representing an annual decrease of approximately 22.4%. For FY2014, the Group recorded revenue from its continuing operations of approximately RMB185.7 million, representing a year-on-year decrease of approximately 53.3% as compared to approximately RMB397.4 million for FY2013. Such decrease was mainly attributable to (i) the decrease in sale of properties from approximately RMB376.5 million in FY2013 to approximately RMB175.4 million in FY2014, which was in line with the trend of the residential property market in

* *for illustration purpose only*

Guangzhou as mentioned above; and (ii) the absence of rental income derived from leasing the Property to other tenants in FY2014 (FY2013: approximately RMB10.3 million) which was, in turn, due to the temporary suspension of most of the area of the Property from September 2013 to March 2015 for the redevelopment of the Property into a 10-storey complex building, namely Talent Shoes Trading Center (天倫鞋業交易中心). Notwithstanding the decrease in revenue from the Group's continuing operations, the Group recorded profit of approximately RMB17.7 million in FY2014, as compared to loss of approximately RMB257.7 million in FY2013. Such turnaround was mainly due to the recognition of a one-off gain from the Disposal of approximately RMB258.7 million in FY2014.

As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB247.5 million, representing a decrease of approximately RMB152.4 million or approximately 38.1% as compared to approximately RMB399.9 million as at 31 December 2013. The decrease was principally due to (i) the net cash used in operating activities of approximately RMB216.6 million; and (ii) the repayment of bank loans of approximately RMB395.7 million, which was partially offset by the net cash generated from investing activities of approximately RMB411.1 million. As at 31 December 2014, the Group's current assets and current liabilities amounted to approximately RMB2,433.0 million and approximately RMB3,278.5 million, respectively, resulting in a net current liabilities position of approximately RMB845.6 million as compared to a net current assets position of approximately RMB881.2 million as at 31 December 2013. The change from a net current assets position to a net current liabilities position was mainly due to the reclassification of the 2010 Convertible Notes at fair value of approximately RMB1,721.9 million from non-current liabilities to current liabilities. As stated in the note 2.2 "Going Concern Basis" of the consolidated financial statements of the Group for FY2014 as contained in the 2014 Annual Report, such condition indicated the existence of a material uncertainty which might cast significant doubt on the Group's ability to continue as a going concern (the "Going Concern Issue"). The Group might be unable to realise its assets at its carrying amounts in the normal course of business and discharge its liabilities. In response to the Going Concern Issue, the Group had discussed with Talent Trend, the major holder of the 2010 Convertible Notes. At that moment, Talent Trend indicated that it would consider various arrangements (including using part of the properties of the Group to set off all or portion of the 2010 Convertible Notes, and/or exercising all or part of the conversion rights attaching to the 2010 Convertible Notes, and/or accepting extension of the maturity date of all or part of the 2010 Convertible Notes) and any other feasible and permissible way to resolve this outstanding issue instead of demanding cash repayment. The Directors considered that agreement with Talent Trend could likely be reached. In addition, the Directors would consider possible equity and/or debt fund raising exercise as and when appropriate to improve the Group's cash flow position. Eventually, on 20 October 2015, the Company and Talent Trend entered into the Deed of Amendment (as supplemented by the Supplemental Deed of Amendment dated 4 November 2015) for the Proposed Extension. On 11 January 2016, Talent Trend and the Company entered into the Second Supplemental Deed of Amendment for the Proposed Amendment. For further

details of the Proposed Extension and the Proposed Amendment, please refer to the paragraph headed “2. Background of the Proposed Amendment under the Second Supplemental Deed of Amendment” below.

(ii) For the year ended 31 December 2015 (i.e. FY2015)

According to the 2015 Annual Report, overall sentiment in the residential property market in the PRC recovered steadily after several rounds of reduction of the Renminbi (RMB) benchmark interest rates for deposits and loans as well as the reserve requirement ratio by the People’s Bank of China, and driven by the easing of strict home purchase restrictions in most cities in China and the introduction of relevant taxation policies. The Group’s revenue from the continuing operations increased significantly from approximately RMB185.7 million in FY2014 to approximately RMB366.0 million in FY2015, representing a year-on-year increase of approximately 97.1%. The improvement was principally due to the continual delivery of the newly completed luxury high-rise residential units of Xintian Banshan (新天半山) in Guangzhou since the fourth quarter of 2014. Notwithstanding the increase of revenue, the Group turned from a profit-making position of approximately RMB17.7 million in FY2014 to a loss-making position of approximately RMB115.1 million in FY2015. It was primarily attributable to (i) the absence of a one-off gain of approximately RMB258.7 million from the Disposal in FY2015; and (ii) the decrease of fair value on investment properties of approximately RMB152.7 million in FY2015, whereas the increase in fair value on investment properties of approximately RMB1.7 million in FY2014. The above unfavorable factors were partly offset by the record of a gain on extension of the 2010 Convertible Notes of approximately RMB103.8 million in FY2015.

As at 31 December 2015, the Group’s cash and cash equivalents further decreased to approximately RMB127.4 million, representing an annual decrease of approximately 48.5% as compared to approximately RMB247.5 million as at 31 December 2014. The decrease was principally due to (i) the net cash used in operating activities of approximately RMB290.5 million; (ii) the repayment of bank loans of approximately RMB187.5 million; and (iii) purchase of investment property of approximately RMB56.4 million, which was partially offset by the proceeds from bank loans of approximately RMB400.0 million. As at 31 December 2015, the Group’s net current liabilities amounted to approximately RMB855.7 million. As stated in the paragraph headed “*Emphasis of Matter*” in the independent auditors’ report and note 2.2 “*Going Concern Basis*” of the consolidated financial statements of the Group for FY2015 as contained in the 2015 Annual Report, the Going Concern Issue remained outstanding.

2. Background of the Proposed Amendment under the Second Supplemental Deed of Amendment

On 6 July 2010, Canton Million, a wholly-owned subsidiary of the Company, and Talent Trend entered into the Agreement pursuant to which Talent Trend had conditionally agreed to sell, and Canton Million had conditionally agreed to purchase, the entire issued share capital of Talent Central Limited. Pursuant to the Agreement and as part of the consideration for the Acquisition, the Company issued the 2010 Convertible Notes in the principal amount of HK\$3,100 million to Talent Trend on 10 December 2010. The 2010 Convertible Notes do not bear interest and are convertible into the Conversion Shares under the specific mandate granted by the then Shareholders on 19 November 2010 at a conversion price of HK\$0.33 per Conversion Share (the “**Initial Conversion Price**”) (subject to adjustments). Unless previously redeemed, repurchased, cancelled or converted, any outstanding 2010 Convertible Notes shall be redeemed on the date falling on the fifth anniversary of the date of issue of the 2010 Convertible Notes (i.e. 10 December 2015) (the “**Original Maturity Date**”). For further details of the Agreement, please refer to the Acquisition Circular.

As mentioned in the paragraph headed “1. Information on the Group”, in FY2014, the reclassification of the 2010 Convertible Notes from non-current liabilities to current liabilities triggered the significant increase in the current liabilities of the Group and led to the Going Concern Issue. Having considered the then financial position and performance of the Group, the Management envisaged that the Group would not be able to redeem the outstanding principal of the 2010 Convertible Notes before the Original Maturity Date. Therefore, the Management commenced a long negotiation with Talent Trend, who was the major holder of the 2010 Convertible Notes and held the 2010 Convertible Notes in the aggregate principal amount of HK\$2,139.85 million as at the Latest Practicable Date, on various measures and any other feasible and permissible way (including the Proposed Amendment) to deal with the maturity of the 2010 Convertible Notes instead of demanding cash repayment. Assuming that the 2010 Convertible Notes held by Talent Trend are converted in full, a total number of 6,484,393,939 Shares (representing approximately 170.25% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 63.0% of the issued share capital of the Company as enlarged by the issuance of the 6,484,393,939 Conversion Shares) will be issued. As such, the full conversion of the 2010 Convertible Notes held by Talent Trend would breach the term of the 2010 Convertible Notes that the holder and parties acting in concert with it, taken together, cannot be interested in 29.9% or more of the then issued share capital of the Company or such other percentage that will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code.

The Company had been in discussion with Talent Trend on the possibility and feasibility of the Proposed Amendment such that full conversion of the 2010 Convertible Notes held by Talent Trend would be allowed. However, given the then economic and market conditions as well as time pressure, the Company anticipated that the Proposed Amendment (which involves application for the Whitewash Waiver and obtaining approval from the Stock Exchange and the Independent Shareholders) is unlikely to be completed on or before the Original Maturity Date. In the interest of time, on 20 October 2015, the Company and Talent Trend entered into the Deed of Amendment (as supplemented by the Supplemental Deed of Amendment dated 4 November 2015) pursuant to which the Company and Talent Trend mutually agreed to extend the conversion period and the maturity date of the 2010 Convertible Notes held by Talent Trend for a year to 10 December 2016 (the “**Extended Maturity Date**”). Please refer to the Extension Circular dated 16 November 2015 for further details of the entering into of the Deed of Amendment and the Supplemental Deed of Amendment. The Proposed Extension under the Deed of Amendment and the Supplemental Deed of Amendment was subsequently approved by the then independent shareholders of the Company at the special general meeting of the Company held on 1 December 2015.

The Company and Talent Trend continued their discussion on the possibility and feasibility of the Proposed Amendment and subsequently, on 11 January 2016, Talent Trend and the Company entered into the Second Supplemental Deed of Amendment. Pursuant to the Second Supplemental Deed of Amendment, the parties have agreed to remove the restriction under clause 5.5 of the terms and conditions of the 2010 Convertible Notes, which states that a holder of the 2010 Convertible Notes may not convert the 2010 Convertible Notes if, as a result of such conversion, would render such holder and parties acting in concert with it being interested in 29.9% or more of the issued share capital of the Company at the time, thereby triggering a mandatory offer obligation under Rule 26 of the Takeovers Code. In addition, Talent Trend has agreed to, within 5 Business Days subsequent to the satisfaction of: (a) obtaining the approval from the Stock Exchange; (b) obtaining the Whitewash Waiver from the Executive; and (c) obtaining the Independent Shareholders’ approval at the SGM, issue the Conversion Notice to the Company for the conversion of, and to convert, the 2010 Convertible Notes in the aggregate principal amount of HK\$2,139.85 million in accordance with the terms of the 2010 Convertible Notes (the “**Full Conversion**”).

3. Reasons for and benefits of the Proposed Amendment under the Second Supplemental Deed of Amendment

A. Financial performance and position of the Group

As at the Latest Practicable Date, the outstanding principal amount of the 2010 Convertible Notes amounted to HK\$2,139.85 million and such notes were wholly held by Talent Trend. The 2010 Convertible Notes are convertible into Conversion Shares at the Initial Conversion Price of HK\$0.33 per Conversion Share. Pursuant to the terms of the 2010 Convertible Notes (as supplemented by the Deed of Amendment and the Supplemental Deed of Amendment), unless previously redeemed, repurchased, cancelled or converted, any outstanding 2010 Convertible Notes shall be redeemed on the Extended Maturity Date (i.e. 10 December 2016).

In order to assess the capability of the Group for redeeming the 2010 Convertible Notes on or before the Extended Maturity Date, we have reviewed, and discussed with the Management, the recent financial performance and position of the Group. We were advised by the Management that due to the various tightening measures against the residential property market in the PRC, the Group experienced difficult operating environment over the past few years. The Group recorded loss of approximately RMB257.7 million, profit of approximately RMB17.7 million and loss of approximately RMB115.1 million in FY2013, FY2014 and FY2015, respectively. Among which, profit recorded in FY2014 of approximately RMB17.7 million was mainly due to the recognition of a one-off gain from the Disposal of approximately RMB258.7 million in FY2014. Without taking into account the effect of the Disposal, the Group would have recorded a loss of approximately RMB241.0 million in FY2014.

According to the 2015 Annual Report, the Group's cash and cash equivalents, current assets and total assets as at 31 December 2015 amounted to approximately RMB127.4 million, approximately RMB1,973.7 million and RMB3,511.3 million, respectively. The outstanding principal amount of the 2010 Convertible Notes of HK\$2,139.85 million (equivalent to approximately RMB1,786.2 million) represents approximately 1,402.0% of the cash and cash equivalents of the Group, approximately 90.5% of the current assets of the Group and approximately 50.9% of the total assets of the Group as at 31 December 2015, respectively, implying that the Group has no sufficient liquid capital to satisfy the obligation of redeeming the 2010 Convertible Notes.

In this regard, we have discussed with the Management regarding the possibility of financing the redemption of all or majority portion of the 2010 Convertible Notes through the cashflow from the Group's operating activities. We were advised by the Management that the Group has three major investment properties (namely, Shangyu Garden (上譽花園), Tianlun Garden (天倫花園) and Talent Shoes Trading Center (天倫鞋業交易中心)). Certain portions of these properties are currently subject to various tenancies for a term ranging from 1 to 15 years with an aggregate monthly rent of approximately RMB2.7 million, while the remaining portions are currently

vacant. In addition, the Group has another property, namely Xintian Banshan (新天半山), which is currently under construction. The construction of Xintian Banshan (新天半山) is expected to be completed in around mid-2017. Furthermore, certain properties right of Tianlun Garden (天倫花園), Talent Shoes Trading Center (天倫鞋業交易中心) and Xintian Banshan (新天半山) are charged as security for bank loans of RMB400 million. According to the property valuation report of the Group (the “**Property Valuation Report**”) as set out in Appendix II to the Circular, the aggregate market value of these four properties, together with other properties held for sale by the Group in the PRC, amounted to approximately RMB2,816.1 million (equivalent to approximately HK\$3,373.7 million) as at 29 February 2016, which is higher than the outstanding principal amount of the 2010 Convertible Notes of HK\$2,139.85 million. Notwithstanding that, having considered the facts that (i) the 2010 Convertible Notes will be mature within 1 year; (ii) the construction of Xintian Banshan (新天半山) is expected to be completed in around mid-2017; (iii) it is difficult for the Group to sell all or majority part of the Group’s properties (including Xintian Banshan (新天半山)) within such a short period of time, so as to secure sufficient fund for the repayment of bank loans of RMB400 million and then the redemption of the 2010 Convertible Notes; and (iv) certain portions of the investment properties are currently leased out and the rental income is minimal as compared to the outstanding principal amount of the 2010 Convertible Notes, we concur with the Management’s view that the Group is unlikely able to generate sufficient fund from its operating activities to redeem all or majority portion of the 2010 Convertible Notes on or before the Extended Maturity Date.

In view of the above, the Management anticipated, and we agreed with them, that the Group is facing great difficulties to redeem all or majority portion of the 2010 Convertible Notes on or before the Extended Maturity Date. Taking into consideration that (a) the Group would not have sufficient cash and liquidity to redeem all or majority portion of the 2010 Convertible Notes; and (b) the Full Conversion will (i) alleviate the redemption pressure of the 2010 Convertible Notes on the Group without cash outlay; (ii) enlarge the capital base of the Company; and (iii) moderate the Group’s gearing ratio level thereby strengthening the Group’s financial position, we are of the view that the Full Conversion is in the interests of the Company and the Independent Shareholders.

Furthermore, as mentioned in the paragraph headed “1. Information on the Group” above, due to the reclassification of the 2010 Convertible Notes from non-current liabilities to current liabilities, the Group recorded a net current liabilities of approximately RMB845.6 million as at 31 December 2014, which triggered the Group’s Going Concern Issue where the Group might be unable to realise its assets at its carrying amounts in the normal course of business and discharge its liabilities. As at the Latest Practicable Date, the Going Concern Issue remained outstanding. We are of the view that the Full Conversion will moderate the Going Concern Issue by substantially lowering the Group’s current liabilities and thus improve the Group’s financial position, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary.

B. Prospect of the Group

As disclosed in the Letter from the Board, it is the intention of Talent Trend that the Group will continue its current business and its employment of the employees of the Group upon completion of the Full Conversion. Talent Trend has no intention to introduce any major changes in the business of the Group and to make any major changes to employment of employees of the Group or to redeploy the fixed assets of the Group other than those carried out in the ordinary course of business of the Company upon completion of the Full Conversion. The Group is actively focused on the construction, sales and marketing of Xintian Banshan (新天半山), as well as identifying business opportunities in areas other than properties in order to reduce the market risk and to bring fruitful results to the Shareholders.

As advised by the Management, the construction of Xintian Banshan (新天半山) is expected to be completed in around mid-2017. As at the Latest Practicable Date, the outstanding construction cost payable by the Group in respect of Xintian Banshan (新天半山) amounted to approximately RMB371 million. In relation to identifying new business opportunities, the Management advised us that as at the Latest Practicable Date, no target has been identified by the Group and Talent Trend currently does not have any intention to inject new assets or introduce new business to the Company upon completion of the Full Conversion. Although the Group had no concrete plan for developing new business as at the Latest Practicable Date, we consider that it is essential for the Group to maintain sufficient liquid capital, so that the Group can seize the opportunity once potential target is identified in future.

As such, we are of the opinion that the Full Conversion is beneficial to the Group on the grounds that the Full Conversion will allow the Group to dispense with the requirement to redeem the 2010 Convertible Notes in the aggregate outstanding principal amount of HK\$2,139.85 million without cash outlay and allow the Group to retain its working capital for its business operation and development plan as mentioned above.

C. Other possible fund raising methods

Upon enquiry, the Management advised us that they had considered alternative means of satisfying the cash redemption of the outstanding 2010 Convertible Notes (such as bank borrowings and equity financing) other than the Full Conversion. In relation to bank borrowings, we were advised by the Management that the Group has been from time to time approaching various commercial banks to obtain bank loan to finance its business, and the commercial banks would usually request for assets pledge and guarantee. Given that most of the Group's properties have been pledged to financial institutions for the existing loans, the Management believes that it is unable for the Group to secure sufficient bank borrowing to satisfy the cash redemption of the 2010 Convertible Notes even with the Company agreeing to a high interest rate and stringent borrowing terms with the lending bank. In respect of equity financing (such as placing of Shares, open offer and rights issue), the Company has approached several brokers about the possibility and feasibility of acting as placing agent or underwriter of the Company. However, in view of the considerable fund raising size, the Company could not receive positive feedback from any brokers. Furthermore, the Management is of the view that (i) the success of equity financing is highly dependent on the then market condition and sentiment; and (ii) cost for documentation works, administrative and professional fees for equity financing is relatively high as compared to the Full Conversion. On the contrary, during the course of the discussion with the Group, Talent Trend expressed its willingness to exercise all the conversion rights attaching to the 2010 Convertible Notes.

As advised by the Management, the Company has also considered disposing of certain assets so as to secure sufficient cash for the redemption of the 2010 Convertible Notes or to set off all or portion of the 2010 Convertible Notes. As at 31 December 2015, the Group's current assets amounted to approximately RMB1,973.7 million, the majority of which comprised properties under development of approximately RMB1,466.0 million. The Management is of the view that the properties and projects of the Group are operational in nature and it would be detrimental to the Company and the Shareholders if the Company is required to dispose of these assets under time pressure at a discounted price in order to redeem the 2010 Convertible Notes. Having considered that disposal of the Group's properties and projects would affect the normal operation and development plan of each of the properties and projects and, in turn, affect the future source of revenue and profit of the Group, we concur with the Management's view that securing cash for the redemption of the 2010 Convertible Notes by way of disposing Group's properties and projects is not in the interests of the Company and the Independent Shareholders.

In view of the above, together with the advantages of the Full Conversion, we agree with the Management's view that the Full Conversion is a more desirable and feasible means for the Group to alleviate the cash redemption pressure of the 2010 Convertible Notes.

D. Initial Conversion Price

The 2010 Convertible Notes are convertible into Conversion Shares at the Initial Conversion Price of HK\$0.33 per Conversion Share. The Initial Conversion Price represents (i) a premium of approximately 41.6% over the closing price of HK\$0.233 per Share as quoted on the Stock Exchange on the date of the Second Supplemental Deed of Amendment; (ii) a premium of approximately 52.1% over the average closing price of HK\$0.217 per Share as quoted on the Stock Exchange for the five consecutive trading days prior to and including the date of the Second Supplemental Deed of Amendment; (iii) a premium of approximately 45.4% over the average closing price of approximately HK\$0.227 per Share as quoted on the Stock Exchange for the ten consecutive trading days prior to and including the date of the Second Supplemental Deed of Amendment; (iv) a premium of approximately 124.5% over the closing price of HK\$0.147 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; (v) a premium of approximately 469.0% over the audited net asset value per Share of approximately RMB0.048 (equivalent to approximately HK\$0.058) as at 31 December 2015, which is calculated based on the audited net assets of the Group of approximately RMB184.7 million as at 31 December 2015 and the total number of ordinary Shares in issue of 3,808,742,615 as at 31 December 2015; and (vi) a premium of approximately 189.5% over the Hypothetical NAV (as defined below) per Share of approximately RMB0.095 (equivalent to approximately HK\$0.114) as at 29 February 2016 (please refer to the sub-paragraph headed “(ii) *Effect on net assets*” under the paragraph headed “7. *Financial effects on the Group*” below for the calculation of the Hypothetical NAV per Share as at 29 February 2016).

Having considered that (i) the Initial Conversion Price represents a premium of approximately 41.6% over the closing price of HK\$0.233 per Share on the date of the Second Supplemental Deed of Amendment, while if the Company conducts equity fundraising exercise (such as open offer, rights issue and/or placing) in the market, the Company would usually offer deep discount to the issue price so as to attract the subscription of the existing Shareholders or investors in light of the Group’s current unfavorable financial performance and position; and (ii) the Initial Conversion Price is substantially higher than the audited net asset value per Share of approximately RMB0.048 (equivalent to approximately HK\$0.058) as at 31 December 2015 and the Hypothetical NAV per Share of approximately RMB0.095 (equivalent to approximately HK\$0.114) as at 29 February 2016, and it is expected that the net asset value per Share will be increased after completion of the Full Conversion, we are of the view that the Initial Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned and the Full Conversion is in the interests of the Company and the Independent Shareholders.

E. Conclusion

Notwithstanding that the Full Conversion will inevitably incur dilution effect on the shareholding of the existing Shareholders as discussed in the paragraph headed “6. Dilution effect on the shareholding in the Company” below, we are of the opinion that the Full Conversion is in the interests of the Company and the Independent Shareholders after taking into account the facts that:

- (i) the 2010 Convertible Notes will be due within one year;
- (ii) the Group is facing great difficulties to redeem the 2010 Convertible Notes on or before the Extended Maturity Date;
- (iii) the Full Conversion will (a) alleviate the redemption pressure of the 2010 Convertible Notes on the Group without cash outlay and allow the Group to retain working capital for its daily operation and future business development; (b) enlarge the capital base of the Company; and (c) moderate the Group’s gearing ratio level;
- (iv) the Full Conversion is a more desirable and feasible means for the Group to alleviate the cash redemption pressure of the 2010 Convertible Notes as compared with other possible financing methods; and
- (v) the Initial Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

Given the Full Conversion would breach the term of the 2010 Convertible Notes that the holder and parties acting in concert with it, taken together, cannot be interested in 29.9% or more of the then issued share capital of the Company or such other percentage that will trigger a mandatory offer obligation under Rule 26 of the Takeovers Code, we concur with the Management’s view that the Proposed Amendment under the Second Supplemental Deed of Amendment will facilitate the execution of the Full Conversion and is, therefore, in the interests of the Company and the Independent Shareholders.

4. Principal terms of the Second Supplemental Deed of Amendment

Pursuant to the Second Supplemental Deed of Amendment, Talent Trend and the Company have agreed to remove the restriction under clause 5.5 of the terms and conditions of the 2010 Convertible Notes, which states that a holder of the 2010 Convertible Notes may not convert the 2010 Convertible Notes if, as a result of such conversion, would render such holder and parties acting in concert with it being interested in 29.9% or more of the issued share capital of the Company at the time, thereby triggering a mandatory offer obligation under Rule 26 of the Takeovers Code. In addition, Talent Trend has agreed to, within 5 Business Days subsequent to the satisfaction of: (a) obtaining the approval from the Stock Exchange; (b) obtaining the Whitewash Waiver from the Executive; and (c) obtaining the Independent Shareholders' approval at the SGM, issue the Conversion Notice to the Company for the conversion of, and to convert, the 2010 Convertible Notes in the aggregate principal amount of HK\$2,139.85 million in accordance with the terms of the 2010 Convertible Notes.

As advised by the Management, the terms of the Second Supplemental Deed of Amendment were arrived at after arm's length negotiations between the Company and Talent Trend. Save for the aforementioned amendments, all other terms and conditions of the 2010 Convertible Notes remain intact and unchanged.

Having considered that (i) the principal reason for the Proposed Amendment is to facilitate the execution of the Full Conversion; and (ii) the merits of the Full Conversion as discussed in the paragraph headed "*3. Reasons for and benefits of the Proposed Amendment under the Second Supplemental Deed of Amendment*" above, we are of the view that the terms of the Second Supplemental Deed of Amendment are fair and reasonable and are in the interests of the Company and the Independent Shareholders.

5. Information on Talent Trend

According to the Letter from the Board, Talent Trend is an investment holding company with limited liability incorporated in the British Virgin Islands. As at the Latest Practicable Date, Talent Trend was wholly-owned by Mr. Zhang Gao Bin. Talent Trend and parties acting in concert with it held in aggregate 243,705,000 Shares, representing approximately 6.40% of the issued share capital of the Company as at the Latest Practicable Date. Other than disclosed above, there were no other voting rights, rights over shares or any convertible securities, warrants and options of the Company, which Talent Trend and/or parties acting in concert with it held, owned or over which they had control or direction as at the Latest Practicable Date.

Upon completion of the Full Conversion and assuming that there will be no other change in the share capital of the Company, Talent Trend and parties acting in concert with it will hold in aggregate 6,728,098,939 Shares, representing approximately 65.37% of the issued share capital of the Company as enlarged by the Conversion Shares, and will become the controlling Shareholder.

6. Dilution effect on the shareholding in the Company

According to the Letter from the Board, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon conversion of the 2010 Convertible Notes under the conversion restriction; and (iii) immediately upon the Full Conversion, in each case assuming there being no other change in the share capital of the Company, save for the issuance of the Conversion Shares upon the relevant conversion of the 2010 Convertible Notes:

Table 2: Shareholding structure of the Company

	As at the Latest Practicable Date		Immediately upon conversion of the 2010 Convertible Notes under the conversion restriction		Immediately upon the Full Conversion (Note 6)	
	Shares	%	Shares	%	Shares	%
Talent Trend (Note 1)	—	—	1,276,903,055	25.11	6,484,393,939	63.00
Mr. Zhang Gao Bin (Note 2)	104,465,000	2.74	104,465,000	2.05	104,465,000	1.02
Mr. Zhang Guo Ming (Note 3)	<u>139,240,000</u>	<u>3.66</u>	<u>139,240,000</u>	<u>2.74</u>	<u>139,240,000</u>	<u>1.35</u>
<i>Subtotal of Talent Trend and parties acting in concert with it:</i>	<i>243,705,000</i>	<i>6.40</i>	<i>1,520,608,055</i>	<i>29.90</i>	<i>6,728,098,939</i>	<i>65.37</i>
Winspace Venture Limited* (Note 4)	829,509,340	21.78	829,509,340	16.31	829,509,340	8.06
Top Rich Limited* (Note 5)	494,766,515	12.99	494,766,515	9.73	494,766,515	4.81
Public Shareholders*	<u>2,240,761,760</u>	<u>58.83</u>	<u>2,240,761,760</u>	<u>44.06</u>	<u>2,240,761,760</u>	<u>21.76</u>
Total:	<u>3,808,742,615</u>	<u>100.00</u>	<u>5,085,645,670</u>	<u>100.00</u>	<u>10,293,136,554</u>	<u>100.00</u>

Notes:

- The entire issued share capital of Talent Trend is directly, beneficially and wholly owned by Mr. Zhang Gao Bin.
- Mr. Zhang Gao Bin personally holds 104,465,000 Shares, representing approximately 2.74% of the issued share capital of the Company. This calculation excludes the Shares held by Talent Trend.
- Mr. Zhang Guo Ming is the father of Mr. Zhang Gao Bin.
- The entire issued share capital of Winspace Venture Limited is directly, beneficially and wholly owned by Ms. Chan Man Ling. Ms. Chan Man Ling is an Independent Shareholder.
- The entire issued share capital of Top Rich Limited is held by Ace Class Global Limited, which is directly, beneficially and wholly owned by Mr. Lee Hon Nam. Mr. Lee Hon Nam is an Independent Shareholder.
- This is for illustration purpose only as the current terms of the 2010 Convertible Notes has certain restrictions on the conversion of the 2010 Convertible Notes.
- * indicates Shareholders whose shareholding will be counted towards the public float of the Company upon the Full Conversion.

As illustrated in the table above, the shareholding of the public Shareholders will be diluted from approximately 58.83% of the issued share capital of the Company as at the Latest Practicable Date to approximately 34.63% of the issued share capital of the Company immediately after the Full Conversion (where each of Winspark Venture Limited and Top Rich Limited, being a substantial Shareholder as at the Latest Practicable Date, will be classified as a public Shareholder after the Full Conversion). Having considered the merits of the Full Conversion as detailed in the paragraph headed “3. *Reasons for and benefits of the Proposed Amendment under the Second Supplemental Deed of Amendment*” above, including but not limited to the Full Conversion will (i) alleviate the redemption pressure of the 2010 Convertible Notes on the Group without cash outlay and allow the Group to retain working capital for its daily operation and future business development; (ii) enlarge the capital base of the Company; and (iii) moderate the Group’s gearing ratio level, which will, in turn, place the Group at a better position to negotiate and obtain fund raising arrangements or debt financing for its business development and expansion in future when necessary, we are of the view that such dilution is acceptable and commercially justifiable.

7. Financial effects on the Group

(i) Effect on gearing ratio

As at 31 December 2015, the gearing ratio of the Group (which was calculated based on the Group’s total liabilities of approximately RMB3,326.6 million and the Group’s total assets of approximately RMB3,511.3 million) was approximately 94.7%. Immediately upon completion of the Full Conversion, the Group’s total liabilities will be substantially reduced by the settlement of the 2010 Convertible Notes while the Group’s total assets will remain unchanged, resulting in the decrease in the gearing ratio. As such, it is expected that the Full Conversion would have a favorable impact on the gearing ratio of the Group.

(ii) Effect on net assets

According to the 2015 Annual Report, the audited net assets of the Group as at 31 December 2015 amounted to approximately RMB184.7 million and the number of ordinary Shares in issue as at 31 December 2015 was 3,808,742,615. The audited net asset value per Share as at 31 December 2015 was approximately RMB0.048 (equivalent to approximately HK\$0.058).

According to the Property Valuation Report as set out in Appendix II to the Circular, the aggregate market value of the Group’s properties amounted to approximately RMB2,816.1 million (equivalent to approximately HK\$3,373.7 million) as at 29 February 2016. After taking into account the difference between the aforementioned revaluation amount of the Group’s properties as at 29 February 2016 and the book values as at 31 December 2015 of approximately RMB178.3 million, and assuming that all other balance sheet items remain unchanged for the two months ended 29 February 2016, the hypothetical unaudited net assets of the Group (the “**Hypothetical NAV**”) as at 29 February 2016 would amount to

approximately RMB363.0 million and accordingly, the Hypothetical NAV per Share as at 29 February 2016 would be approximately RMB0.095 (equivalent to approximately HK\$0.114).

As if the Full Conversion has been completed on 29 February 2016, the unaudited pro forma Hypothetical NAV as at 29 February 2016 would increase to approximately RMB2,026.8 million and accordingly, the unaudited pro forma Hypothetical NAV per Share as at 29 February 2016 would increase to approximately RMB0.197 (equivalent to approximately HK\$0.236). The increase in the Hypothetical NAV per Share is attributable to the substantial premium of the Initial Conversion Price of HK\$0.33 per Conversion Share over the Hypothetical NAV per Share of approximately HK\$0.114 as at 29 February 2016.

On the above basis, it is expected that the Full Conversion would have a considerable favorable impact on the net asset value per Share.

(iii) Effect on working capital

As at 31 December 2015, the Group had cash and cash equivalents of approximately RMB127.4 million. The Full Conversion will allow the Group to dispense with the obligation to redeem the 2010 Convertible Notes in the outstanding principal amount of HK\$2,139.85 million without cash layout and thus allow the Group to retain working capital for its daily operation and future business development. By eliminating the possibility of redeeming the outstanding principal amount of the 2010 Convertible Notes, we consider that the Full Conversion would have a positive impact on the working capital of the Group.

8. Whitewash Waiver

Upon completion of the Full Conversion, the shareholding in the Company held by Talent Trend and parties acting in concert with it will, in aggregate, be increased from approximately 6.40% of the total issued share capital of the Company as at the Latest Practicable Date to approximately 65.37% of the total issued share capital of the Company as enlarged by the issuance of the Conversion Shares, and hence Talent Trend will become a controlling Shareholder as defined under the Listing Rules. Under Rule 26.1 of the Takeovers Code, Talent Trend would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other relevant securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. An application has been submitted by Talent Trend to the Executive for the granting of the Whitewash Waiver, which if granted, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll.

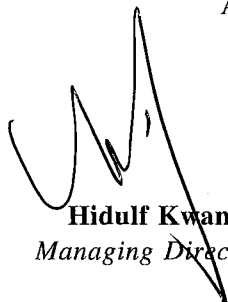
Pursuant to the Second Supplemental Deed of Amendment, the Full Conversion is subject to, among other things, having obtained the Whitewash Waiver from the Executive. As such, if the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Second Supplemental Deed of Amendment will not become unconditional and the Full Conversion will not proceed. Accordingly, the Company will lose all the benefits that are expected to be brought by the Full Conversion as discussed in the paragraph headed “3. *Reasons for and benefits of the Proposed Amendment under the Second Supplemental Deed of Amendment*” above.

In view of the above, we are of the opinion that for the purpose of facilitating the execution of the Full Conversion, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM is in the interests of the Company and the Independent Shareholders.


OPINION

Having taken into account the above principal factors and reasons, we consider that although the entering into of the Second Supplemental Deed of Amendment is not in the ordinary and usual course of business of the Group, the terms of the Second Supplemental Deed of Amendment are on normal commercial terms, and the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders. Accordingly, we recommend the Independent Board Committee to advise, and we ourselves recommend, the Independent Shareholders to vote in favor of the resolutions at the SGM to approve the Proposed Amendment under the Second Supplemental Deed of Amendment and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Astrum Capital Management Limited



Hidulf Kwan
Managing Director



Rebecca Mak
Director

Note: Mr. Hidulf Kwan has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under SFO since 2006 and has over 18 years of experience in corporate finance industry.

Ms. Rebecca Mak has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under SFO since 2012 and has over 12 years of experience in corporate finance industry.