

30 September 2016

*To the Independent Board Committee and the Independent Shareholders
of Sino Golf Holdings Limited*

Dear Sirs,

**(1) PROPOSED SUBSCRIPTION OF SUBSCRIPTION SHARES AND
CONVERTIBLE BONDS;
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscriptions and the Whitewash Waiver, details of which are set out in the Letter from the Board (the **"Board's Letter"**) in the circular issued by the Company to the Shareholders dated 30 September 2016 (the **"Circular"**), of which this letter forms part. Unless otherwise stated, terms used in this letter have the same meanings as those defined in the Circular.

On 8 July 2016, the Company, the Subscriber and the Warrantors entered into the Subscription Agreement pursuant to which, the Company has conditionally agreed to allot and issue to the Subscriber and the Subscriber has conditionally agreed to subscribe for (i) an aggregate of 2,861,000,000 Subscription Shares (representing approximately 122.25% of the issued share capital of the Company as at the Latest Practicable Date and approximately 55.01% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares) at the Subscription Price of HK\$0.114 per Subscription Share; and (ii) Convertible Bonds in the aggregate principal amount of HK\$74,100,000, which entitles the Subscriber to subscribe for 650,000,000 Conversion Shares at the Conversion Price of

HK\$0.114 per Conversion Share. The aggregate amount of the consideration for the Subscription Shares and the Convertible Bonds are HK\$326,154,000 and HK\$74,100,000 respectively, which shall be payable by the Subscriber in cash upon Subscription Completion.

As at the Latest Practicable Date, the Subscriber, its ultimate beneficial owner and the parties acting in concert with any of them did not hold, control or has directions over any Shares, convertible securities, options, warrants or derivatives in the Company. Upon the Subscription Completion and assuming that: (i) none of the Convertible Bonds are converted; and (ii) there is no other change in the issued share capital of the Company from the date of the Subscription Agreement and up to Subscription Completion, the Subscriber, its ultimate beneficial owner and the parties acting in concert with them will be interested in an aggregate of 2,861,000,000 Subscription Shares, representing approximately 55.01% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares.

Assuming the Convertible Bonds are converted in full at the initial Conversion Price of HK\$0.114 per Conversion Share and there is no other change in the issued share capital of the Company from the date of the Subscription Agreement and up to Subscription Completion, the Subscriber, its ultimate beneficial owner and the parties acting in concert with them will be interested in 3,511,000,000 Shares, comprising 2,861,000,000 Subscription Shares and 650,000,000 Conversion Shares, which in aggregate shall represent approximately 60.00% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares and the Conversion Shares.

Under Rule 26 of the Takeovers Code, the acquisition of voting rights from less than 30% to 30% or more will trigger an obligation on the Subscriber to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by the Concert Group, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the SGM by way of poll.

The Subscriber has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the SGM by way of poll.

As at the Latest Practicable Date, the Concert Group does not hold any Shares or other securities in the Company and accordingly is not entitled to vote on any of the resolutions to be proposed at the SGM. Only Shareholders who do not have a material interest or who are not involved in or interested in the Subscriptions or the Whitewash Waiver can vote on the relevant resolution.

Mr. Jiang and Surplus Excel, being the Warrantors, are involved in the Subscriptions and, therefore, Mr. Jiang, who is interested in 984,754,355 Shares (representing approximately 42.08% of the existing issued share capital of the Company as at the Latest Practicable Date), and Surplus Excel, each of them and their respective associates and concert parties, will abstain from voting on the relevant resolutions to be proposed at the SGM to approve the Subscriptions and the Whitewash Waiver.

As at the Latest Practicable Date, the Company does not believe that the Subscriptions give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Subscriptions do not comply with other applicable rules and regulations.

If the Whitewash Waiver is approved by the Independent Shareholders, the shareholding of the Subscriber and its parties in concert in the Company upon the issue of the Subscription Shares to the Subscriber will exceed 50%. The Subscriber may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Chu Yin Yin, Georgiana, Mr. Yip Tai Him and Mr. Chan Kai Wing, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscriptions Agreement and the Whitewash Waiver and as to voting at the SGM. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

We are independent from, and not connected with, the Company or any of its substantial Shareholders, Directors, chief executive, or any of their respective associates and concert parties, and have sufficient expertise and resources to give an opinion on the transactions. As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion in respect of the Subscription Agreement and the Whitewash Waiver, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors and/or the Subscriber. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company and the Directors and/or the Subscriber, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the SGM. The Company will notify the Shareholders of any material changes during the period after the despatch of the Circular to the SGM as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided in the Circular and our opinion as soon as possible after the Latest Practicable Date and throughout the period between the date after the despatch of the Circular and the SGM.

We have not made any independent evaluation or appraisal of the Group's Saipan Acquisition which comprises twelve land parcels and with a total site area of approximately 79,529 square metres (the "**Properties**") and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report of the Properties (the "**Valuation Report**") as set out in Appendix IIA to the Circular. The Valuation Report was prepared by Mr. David W. I. Cheung ("**Mr. Cheung**") and Mr. Franky C. H. Wong ("**Mr. Wong**"), the executive director and director of Vigers Appraisal and Consulting Limited (the "**Valuer**") respectively. The Valuer was the founder of the Association of Surveyors, which became the Royal Institution of Chartered Surveyors in 1868. Both Mr. Cheung and Mr. Wong are "Registered Professional Surveyor in General Practice Division" ("**RPS(GP)**") under the "Surveyors Registration Ordinance" (Cap. 417) in Hong Kong, and is a "RICS Registered Valuer" under the "Valuer Registration Scheme" regulated by the RICS. Both Mr. Cheung and Mr. Wong possess 33 and 15 years' valuation experience on properties in various regions including Hong Kong, Macao, the PRC, Taiwan, Japan, the United Kingdom ("**UK**"), Canada and the USA respectively. Both Mr. Cheung and Mr. Wong have been vetted on the "List of Property Valuers for Undertaking Valuations for Incorporation of Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers" published by the HKIS, and is suitably qualified for undertaking valuations relating to listing exercises. Mr. Wong has also been vetted on the "List of Property Valuers for Undertaking Valuations for Incorporation of Reference in Listing Particulars and Circulars and Valuations in connection with Takeovers and Mergers" published by RICS Hong Kong. Mr. Cheung has been employed by "Vigers Appraisal and Consulting Limited" as a qualified surveyor since 2006 whereas Mr. Wong has been employed by "Vigers Appraisal and Consulting Limited" as a valuer since 2006 and as a qualified surveyor since 2009. Since we are not experts in the valuation of land and properties, we have relied solely upon the Valuation Report for the market value of the Properties as at 30 September 2016.

The Directors collectively and severally accept full responsibility for the accuracy of the information contained in the Circular. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Subscription Agreement and the Whitewash Waiver. We have not, however, conducted any independent verification of the information and representations provided to and reviewed by us, nor have we carried out any form of independent in-depth investigation into the businesses and affairs, financial position or the future prospects of the businesses of the Group and/or the Subscribers or the markets in which it operates.

We have not studied, investigated nor verified the validity of all legal aspects of, and procedural aspects for, the Subscription Agreement and the Whitewash Waiver.

Our opinion is necessarily based upon the financial, economic (including exchange rates and interest rates), market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as of the Latest Practicable Date. Our opinion does not in any manner address the Company's own decision to proceed with the Subscription Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in giving our advice to the Independent Board Committee and the Independent Shareholders in relation to the Subscriptions and the Whitewash Waiver are set out below:

A. Business and financial information of the Group

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacturing and trading of golf equipment, golf bags and other accessories.

I. For year ended 31 December 2013, 2014 and 2015

Set out below are the audited consolidated financial result for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 as extracted from the Company's annual reports published in 2014 and 2015 (the "**Annual Report 2014**" and the "**Annual Report 2015**" respectively).

a. *Operating results of the Group*

	For the year ended 31 December		
	2015	2014	2013
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Turnover	261,766	400,962	434,087
Cost of sales	<u>(240,102)</u>	<u>(328,546)</u>	<u>(358,453)</u>
Gross profit	21,664	72,416	75,634
Other operating income	1,857	2,099	1,553
Selling and distribution expenses	(3,736)	(4,790)	(3,131)
Administrative expenses	(59,053)	(53,415)	(48,727)
Gain on disposal of a subsidiary	93	—	—
Write-off inventories	(31,671)	—	—
Impairment loss on goodwill	(14,820)	—	—
Finance costs	<u>(5,402)</u>	<u>(7,591)</u>	<u>(9,328)</u>
Profit (loss) before tax	(91,068)	8,719	16,001
Income tax expenses	<u>—</u>	<u>(424)</u>	<u>(2,348)</u>
Profit (loss) for the year	<u>(91,068)</u>	<u>8,295</u>	<u>13,653</u>
Profit (loss) for the year attributable to Owners of the Company	(91,068)	8,295	13,661
Non-controlling interests	<u>—</u>	<u>—</u>	<u>(8)</u>
	<u>(91,068)</u>	<u>8,295</u>	<u>13,653</u>

b. *Financial position of the Group*

	As at 31 December		
	2015	2014	2013
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)
Non-current assets	149,451	234,451	236,301
Current assets	194,256	229,198	259,703
Current liabilities	168,008	147,924	188,474
Net current assets	26,248	81,274	71,229
Total assets less current liabilities	175,699	315,725	307,530
Non-current liability	343	2,440	2,677
Net assets	175,336	313,285	304,853

c. *Comparison for the year ended 31 December 2014 versus the year ended 31 December 2013*

Driven by the business rebound in 2013, the Group continued to operate with strong sales during the first half of 2014. The sales momentum was however undermined by a slow-down in golf equipment sales in the second half year irrespective of a surge in the golf bags sales during the year which partly offset the impact of the sales drop of the golf equipment segment. Overall, the Group's revenue declined moderately in 2014.

The Group's turnover declined 7.6% in 2014 to approximately HK\$400,962,000 (2013: approximately HK\$434,087,000). Profit for the year attributable to owners of the Company amounted to approximately HK\$8,295,000 (2013: approximately HK\$13,661,000). During the year, the turnover of the golf equipment segment dropped approximately 13.2% to approximately HK\$354,701,000 (2013: approximately HK\$408,459,000) whereas the turnover of the golf bags segment, defined as comprising the sales of golf bags and accessories to external customers, escalated 80.5% to approximately HK\$46,261,000 (2013: approximately HK\$25,628,000). Total sales of the golf bags segment, before elimination of inter-segmental sales of approximately HK\$7,155,000 (2013: approximately HK\$12,128,000), rose approximately 41.5% in 2014 to approximately HK\$53,416,000 (2013: HK\$37,756,000).

The current assets of the Group decreased approximately 11.8% from approximately HK\$259,703,000 for the year ended 31 December 2013 compared to approximately HK\$229,198,000 for the year ended 31 December 2014. As set out in the Annual Report 2014, such decrease is mainly due to decrease in inventories, trade and other receivables and bank balances and cash. The Group recorded net current asset of approximately HK\$81,274,000 for the year ended 31 December 2014, representing an increase of approximately 14.1% compared to HK\$71,229,000 for the year ended 31 December 2013.

d. Comparison for the year ended 31 December 2015 versus the year ended 31 December 2014

The Group's revenue for the year ended 31 December 2015 decreased by approximately 34.7% to approximately HK\$261,766,000 (2014: approximately HK\$400,962,000). Loss for the year attributable to owners of the Company was approximately HK\$91,068,000 in contrast to a profit of approximately HK\$8,295,000 in 2014. The turnaround was mainly due to the depressed sales and the incurrence of exceptional expenditures.

As disclosed in the Annual Report 2015, during the financial year ended 31 December 2015, the Group had been operating under a depressed golf market resulting in a significant downturn in business revenue. The golf equipment sales plummeted as the largest customer of the Group for the preceding year radically changed its procurement practice to place orders mainly to suppliers of its parent company upon a reorganisation of operations. Besides, shipments to other key customers of the golf equipment segment generally decreased in a volatile market with intense competition. In contrast, the golf bags business showed less fluctuation and recorded a moderate decline in the segment revenue.

The current assets of the Group decreased approximately 15.3% from approximately HK\$229,198,000 for the year ended 31 December 2014 compared to approximately HK\$194,256,000 for the year ended 31 December 2015. As set out in the Annual Report 2015, such decrease was mainly due to the decrease in inventories. The Group recorded net current asset of approximately HK\$26,248,000 for the year ended 31 December 2015, representing a significant decrease of approximately 67.7% compared to HK\$81,274,000 for the year ended 31 December 2014. As set out in the Annual Report 2015, such a significant decrease was due to the written-off of inventories and increase of the amounts due to related companies. Also, as a result of the relocation of the PRC factory, the Group had conducted a review on the inventories and incurred a written-off of inventories of approximately HK\$31,671,000 (2014: nil) during the year ended 31 December 2015. The amounts due to related companies of approximately HK\$58,394,000 and approximately HK\$1,290,000, which a Director and the substantial Shareholder of the Company has beneficial interest in, respectively, are unsecured, non-interest bearing and repayable on demand.

II. For the six months period ended 30 June 2016

Set out below is the unaudited consolidated financial result for the six months ended 30 June 2016 and 30 June 2015 as extracted from the Company's interim report for the six months ended 30 June 2016 (the "Interim Report 2016").

a. Operating results of the Group

	Six months ended 30 June 2016 HK\$'000 (unaudited)	Six months ended 30 June 2015 HK\$'000 (unaudited)
Turnover	122,973	138,088
Cost of sales	(116,934)	(120,144)
Gross profit	6,039	17,944
Other operating income	833	877
Selling and distribution expenses	(1,255)	(2,229)
Administrative expenses	(31,795)	(26,895)
Finance costs	(6,452)	(3,249)
Profit (loss) before tax	(54,290)	(13,552)
Income tax expenses	—	—
Profit (loss) for the year	(54,290)	(13,552)
Profit (loss) for the period attributable to Owners of the Company	(54,290)	(13,552)
Non-controlling interests	—	—
	<u>(54,290)</u>	<u>(13,552)</u>

b. Financial position of the Group

	Six months ended 30 June 2016 HK\$'000 (unaudited)	Six months ended 30 June 2015 HK\$'000 (unaudited)
Non-current assets	352,300	149,451
Current assets	142,902	194,256
Current liabilities	157,638	168,008
Net current (liabilities) assets	(14,736)	26,248
Total assets less current liabilities	337,564	175,699
Non-current liability	218,830	343
Net assets	118,734	175,356

The Group's revenue for the six months ended 30 June 2016 decreased by approximately 11.0% to approximately HK\$122,973,000 (2015: approximately HK\$138,088,000). Loss for the six months ended 30 June 2016 attributable to owners was approximately HK\$54,290,000 comparing to approximately HK\$13,552,000 for the corresponding period in 2015, representing a significant increase of approximately 300.6%. According to the Interim Report 2016, such a significant increase in loss attributable to owners was impacted by the continued depression in the golf market. During the period, the golf bags sales plummeted by approximately 67.8% whilst the golf equipment sales managed to slightly rebound approximately 2.6% from the depressed level of the corresponding period in 2015.

The current assets of the Group decreased approximately 26.4% from approximately HK\$194,256,000 for the six months ended 30 June 2015 to approximately HK\$142,902,000 for the six months ended 30 June 2016. Besides, the Group recorded net current liabilities of approximately HK\$14,736,000 for the six months ended 30 June 2016, in contrast to a net current asset of approximately HK\$26,248,000 in 2015 representing approximately 156.1% decreased of net asset. Such a significant decrease was attributed to the written-off of inventories due to the relocation of the PRC factory as mentioned in the above section headed "Comparison for the year ended 31 December 2015 versus the year ended 31 December 2014" above.

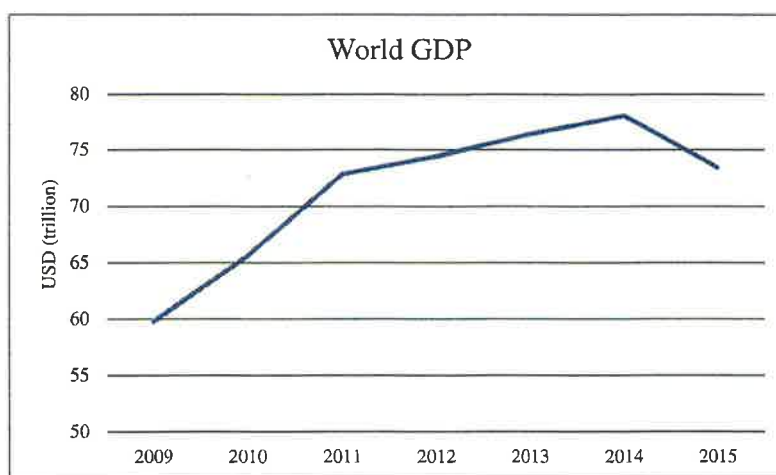
B. Recent Development

As set out in the Interim Report 2016, the Company published a voluntary announcement on 11 August 2016 stating that one of the four major customers of the Company ("Customer A"), who contributed an annual revenue of approximately USD8 million (as quoted from the website of Hong Kong Bank Association, the selling rate of USD:HK\$ as of 11 August 2016 was 1:7.787, therefore which is approximately HK\$62,296,000) to the Company's golf business segment which representing approximately 23.8% of the Group's revenue for the year ended 31 December 2015, has recently decided to egress the golf gear manufacturing industry

(the “**Customer A’s Exit**”). In respect of the Customer A’s Exit, as Customer A has substantially placed its orders for the current year, the Board anticipates that the Customer A’s Exit may have a negative impact to the sales volume of the Company’s golf business for the financial year ending 31 December 2017.

C. Industry Outlook

According to the Annual Report 2015, the Group had been operating under a depressed golf market resulting in a significant downturn in revenue. Since we cannot find any official statistic for the worldwide golf market, taking into account that golf is seen as a luxury sport, the spending on golf will be affected by the economic condition. As set out in the Annual Report 2015, the Group’s customer are from worldwide including North America, Japan, Europe, Asia (excluding Japan) and others. We examine the global economic performance by the world GDP. According to the most recent data released on 22 July 2016 by the World Bank, the world’s gross domestic product (the “**GDP**”) showed an upward trend from approximately US\$59.8 trillion in 2009 to approximately US\$78.1 trillion in 2014 and decreased to approximately US\$73.4 trillion in 2015, representing a decrease of approximately 6.0%. The worldwide GDP decline can be used as a reference for the worldwide economic uncertainty, which may whittle away the consumer’ purchasing power, especially for luxury goods.



Source: World Bank (<http://data.worldbank.org>)

According to International Golf Federation, the international federation founded in 1958 which is recognised by the International Olympic Committee (IOC) as the world governing body for golf, golf is played by more than 60 million people worldwide in more than 130 countries on six continents. Golf was last an Olympic sport at the 1904 Games in St. Louis, Missouri, United States of America. An indication of golf’s globalisation since 1904 is that, golf was included in the 2016 Olympics in Rio de Janeiro, Brazil and it would increase its appeal because of the high regard and interest for the Olympics despite the worldwide economic uncertainty.

Golf tourists represent the top end of the tourist market which is following the development of increasing golf participation in Asia. The golf tourism industry does not only generate revenue for golf equipment, facilities, green fees and cart rental, but also leads to a boost to travel, airlines, car retail, hotels, restaurants and retailers. According to the International Association of Golfing Tour Operators (IAGTO) established in 1997, (IAGTO'S membership comprises 2463 accredited golf tour operators, golf resorts, hotels, golf courses, receptive operators, airlines, tourist boards, approved media and business partners in 96 countries including, at its core, 641 specialist golf tour operators in 61 countries), the emerging golf destinations such as, Egypt, Mexico and China are offering increasing competition to the traditional golf markets by offering quality golfing experience at a fair price. Golf travelers are exploring more destinations for their golf holidays and are now keener to travel beyond traditional golfing destinations.

The Group has been exploring appropriate business diversification opportunities and expanding the revenue sources. Based on the above factors, with the synergy effect provided by the Group's existing principal business of golf-products and the prospects of golf tourism industry, we consider that entering into golf tourism industry is in the interest of the Group and the Independent Shareholders as a whole.

D. Reasons for the Subscriptions and use of proceeds

1. Background

On 8 July 2016, the Company, the Subscriber and the Warrantors entered into the Subscription Agreement pursuant to which, the Company has conditionally agreed to allot and issue to the Subscriber and the Subscriber has conditionally agreed to subscribe for (i) an aggregate of 2,861,000,000 Subscription Shares (representing approximately 122.25% of the issued share capital of the Company as at the Latest Practicable Date and approximately 55.01% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares) at the Subscription Price of HK\$0.114 per Subscription Share; and (ii) Convertible Bonds in the aggregate principal amount of HK\$74,100,000, which entitles the Subscriber to subscribe for 650,000,000 Conversion Shares at the Conversion Price of HK\$0.114 per Conversion Share. The aggregate amount of the consideration for the Subscription Shares and the Convertible Bonds are HK\$326,154,000 and HK\$74,100,000 respectively, which shall be payable by the Subscriber in cash upon Subscription Completion.

2. Intention of the Subscriptions and use of proceeds

As stated in the Board's Letter, the gross proceeds from the Subscriptions would amount to approximately HK\$400,254,000. The net proceeds, after taking into account the estimated expenses in relation to the Subscriptions, are estimated to be approximately HK\$397,254,000, representing a net issue price of approximately HK\$0.113 per Subscription Share and Conversion Share. The Company intends to apply the net proceeds of (i) approximately HK\$235,700,000 for the settlement of the 12% interest bearing

Promissory Notes issued by the Group in May 2016 with the principal amount of HK\$235,700,000 for the Saipan Acquisition; (ii) approximately HK\$136,400,000 for the costs of the development of the hotel resorts and condominiums on the Properties will be constructed in four phases (the “**Development Plan**”), details of the breakdown of the intended use of proceeds on the 1st phase of the Development Plan is set out under the section of “Reasons for the Subscriptions and use of proceeds” in the Board’s Letter; and (iii) the remaining net proceeds of approximately HK\$25,154,000 as the general working capital of the Group.

As set out in the Annual Report 2015 and Interim Report 2016, the bank balances and cash were only approximately HK\$17,063,000 and HK\$11,783,000 respectively. Therefore, the Group had to settle the Saipan Acquisition with Promissory Note which bears 12% interest annually. Besides, the Group’s current financial position is not sufficient for the Development Plan. In light of Mr. Huang, the ultimate controlling shareholder of the Subscriber, being an experienced and reputable investor with resourceful network, the Directors consider that the Subscriptions offer a good opportunity to raise additional funds to strengthen the financial position of the Group and to introduce an investor with solid background and connection to the Group which is beneficial to the Shareholders and the Group in the long term perspective. Furthermore, the Company plans to further strengthen property development to become one of the main businesses of the Group. In light of the Group’s ongoing plan to continue to leverage its resources in the Development Plan, the Subscriptions will provide additional funds for the Group to develop its property Development Plan. As stated in the Annual Report 2014 and 2015, the golf equipment business has been slowing down and the Group has been exploring appropriate business diversification opportunities or investment to expand the revenue sources and enhance the long-term growth potential of the Group. We are of the view that the first phase of the Development Plan is in line with the Group’s intention to expand its existing business for better growth potential and representing good investment opportunities for the Group. Therefore, given that the existing cash and bank balance is insufficient for the first phase of the Development Plan, we consider that the Subscriptions and the application of part of the proceeds of approximately HK\$136,400,000 for the development costs of the 1st phase of the Development Plan is in the interests of the Shareholders and the Company as a whole.

3. Existing Business of Golf Equipment

As disclosed in the Interim Report 2016, the Group’s golf segment performance for the first half of 2016 was adversely impacted by the continued depression in the golf market. Notwithstanding the depression in the golf market, the Group is actively sourcing new customers who were previously served by other manufacturers which have closed down due to the golf market depression in order to maintain/expand the Group’s market share within the golf manufacturing market. At the same time, the Group is in the progress of tooling and moulding for new golf products which allows the Group to pick up sales from existing customers and is possibly able to source new customers by introducing more variety of golf products to the market. The Group will continue to adopt prudent and

cost saving approach in implementing the Group's strategies within the Group's golf equipment and bags manufacturing segment to mitigate the sales depression for the first half of 2016. We consider that the Subscriptions and the application of part of the proceeds of approximately HK\$25,154,000 for the general working capital of the Group is in the interests of the Shareholders and the Company as a whole since there will be additional financial resources for introducing more variety of golf products and acquiring new customers.

4. Recent Saipan Development

The Commonwealth of Northern Mariana Islands ("CNMI") is a United States of America Territory with "commonwealth" status, comprising fifteen islands in the Pacific Ocean. Saipan is the largest island in the CNMI and is a popular tourism destination. The economies of Saipan are vitally driven by tourism and are well-known as a perfect getaway for tourists around the world featuring the rich cultural history and tropical marine weather that offer year-round outdoor activities including but not limited to, world class diving and golfing. Saipan is an attractive market for golf related tourism and is home to a host of golf courses, including but not limited to (i) The Lao Lao Bay Golf Resort; (ii) Kingfisher Golf Links; (iii) The Coral Ocean Point Resort Club; (iv) The Marianas Country Club; and (v) The Saipan Country Club. The Properties are located in close proximities to these golf courses.

HVS Consulting and Valuation Services which was originally known as Hospitality Valuation Services (the "HVS") is the world's leading hotel consulting and valuation firm founded since 1980 and performs more than 4,500 assignments each year for hotel and real estate owners, operators and developers worldwide. The information of Saipan hotel performance in the report of "Market Snapshot, Saipan" issued by the HVS issued in November 2015 was sourced from Hotel Association of Northern Mariana Islands (the "HANMI"). As stated in the website of the HANMI, it was founded since 1985 and is a voluntary association representing 12 hotels and numerous support industries in the U.S. Commonwealth of the Northern Mariana Islands of Saipan, Tinian, and Rota and its hotel members have over 2,500 guest rooms. The HANMI serves as the principal advocate of the hotel industry in the Northern Mariana Islands, promoting its interests through civic representation, education efforts, and community partnerships and increasing the marketing presence. The HANMI works hand in hand with the Marianas Visitors Authority (the "MVA") and the local and federal governments to promote the Northern Mariana Islands as a premier destination for tourists. According to the figures from the HANMI in the report of "Market Snapshot, Saipan" issued by HVS in November 2015, there were just total 2,327 hotel rooms in Saipan as in 2013. Hotels in Saipan achieved a hotel occupancy of 97.4% and average room rate of US\$150.10 per night in 2015, a respective 14.2% and 18.7% year-on-year growth in 2015 as compared to the same period in fiscal year 2014. Due to the frequent late arrival of flights, Saipan hotels are also able to manage back-to-back selling of the rooms, which further increases the occupancy.

The MVA promotes and develops the Northern Mariana Islands as a premier destination of choice for worldwide visitors. It advertises and publicizes the Northern Marianas and also organises and conducts programs to promote the tourism industry. It is governed by a 9-member board of directors, five of these members are appointed by the Governor of Northern Mariana Islands. According to the statistics from the '2016 Key Market Update' of the MVA, the total number of arrivals in CNMI increased at an average compound annual growth rate of 8.85% from 340,957 in 2011 to 478,592 in 2015 (statistics for the complete year of 2016 are not yet available). It is assumed that the total arrivals in CNMI is virtually the same as that in Saipan, on the basis of reference to statistics specific to Saipan (only available for the year 2015) revealing that 99.59% of the arrivals in CNMI had been to Saipan in 2015. MVA expects the growing trend to continue in the coming years, with an average compound annual growth rate of at least 7.20% from 478,592 arrivals in 2015 to more than 550,000 arrivals in 2017.

In addition, CNMI has recently awarded Imperial Pacific International Holdings Limited (the "**Imperial Pacific**"), a company listed on the Stock Exchange (stock code: 1076) an exclusive casino license in Saipan to construct and operate a casino and an integrated resort in Saipan to energise its tourism and hotel industries. Imperial Pacific has launched its temporary casino in July 2015 and it is expected that it will attract more tourists to Saipan in the future.

The Lucky Fountain Group's target customers are the travelers of the Saipan Island. Based on the above figures from the HVS's report of "Market Snapshot, Saipan" and the statistics from the '2016 Key Market Update' of the MVA, the Board is of the view that the potential for hospitality industry in the Saipan Island is positive as the market has just started to grow. In addition, given the launch of the casino in the Saipan Island from early 2017 onwards and the introduction of direct flights between Hong Kong and Saipan Island since July 2016, the Board believes that these features will further stimulate the tourism industry of the Saipan Island.

In view of the situation of the expected increase in the number of tourists to the Saipan over the next few years based on the above analysis on the development in Saipan, we anticipate that the existing hotel room supply in Saipan cannot accommodate the future demand from tourists. As such, we believe that the first phase of the Development Plan will be benefited from the above situation. Accordingly, we agree with the Board's view that the potential of the hospitality industry in Saipan Island is positive, therefore we consider that the Subscriptions and the use of proceeds is in the interest of the Group and the Shareholders as a whole.

5. The Development Plan

References are made to (i) the announcements of the Company dated 2 February 2016, 5 April 2016 and 16 May 2016; and (ii) (the April Circular in relation to the Properties. As stated in the April Circular, for the 1st phase of the Development Plan, the Company will construct, on land parcel nine with a site area of approximately 9,352

square metres, a 3-star 8-storey condominium resort comprising 80 room units with a gross floor area of 8,000 square metres. In addition, the condominium resort will feature a pitch and putt practice golfing facilities, an electronic indoor golf simulator, a golf-pro shop, a health and wellness spa, bars and restaurants, conference facility and a swimming pool and also situates in close proximities to the golf courses on the island. For the 1st phase of the Development Plan, it is expected that the opening time will be around the 4th quarter of 2018 and its development cost is preliminary estimated to be approximately US\$17.6 million (equivalent to approximately HK\$136.4 million). For the 1st phase of the Development Plan, it is projected that the Group will hire approximately 80 staffs. There will be 1 general manager who is responsible for the overall daily operations of the whole resort (including the front office, housekeeping department, all the shared services and the food & beverage section) and 1 assistant, 1 executive manager for rooms operation and 1 executive manager for food & beverage department. For the resort's operation staffs, there will be (i) approximately 20 front office employees, with roles including but not limited to front desk agent, concierge attendant, call center supervisor and operator; (ii) approximately 23 housekeeping staffs (with the majority of them being attendants); (iii) approximately 14 staffs for the operation of the shared services of the resort including the finance department, human resources and administration department and security department; and (iv) approximately 19 staffs for the food & beverage department, including chefs, bartenders and servers. It is expected that majority of the staffs will be hired through recruitment agents in Saipan or through referrals and the remuneration for the employees will be determined based on their performance, experience and the prevailing market salaries. For the remaining phases of the Development Plan, as the plan, scope, sources of funding remain uncertain, the opening times of the remaining phases of the Development Plan cannot be anticipated and will subject to future negotiations with all parties involved. It is advised that the required time for the construction each phases of the Development Plan is estimated to be around 26 months. The Company will, depend on the trend of the tourism development of the Saipan Island in the future, draw out the forthcoming construction proposal of the second, third and fourth phases of the Development Plan and therefore, as at the Latest Practicable Date, the Company has no concrete planning on the second, third and fourth phases of the Development Plan.

As disclosed in the Board's Letter, on 27 September 2016, the Company has entered into a letter of intent with Imperial Pacific, the developer of the casino in Saipan Island, that upon the completion of the 1st phase of the Development Plan, Imperial Pacific intends to lease 40 rooms of the resort under the 1st phase of the Development Plan on a contractual basis with a term of 5 years upon completion of the resort ("**Imperial Pacific Leasing**") for the purpose of accommodating the Imperial Pacific casino's visitors and senior management. Pursuant to the letter of intent (i) the room rate for Imperial Pacific Leasing shall not exceed 70% of the room rate offers to public; (ii) Imperial Pacific shall settle the annual leasing amount of the Imperial Pacific Leasing at the beginning of each year; (iii) the room rate under the Imperial Pacific Leasing shall be reviewed annually; and (iv) Imperial Pacific shall be responsible for the settlement of the tax rate under the Imperial Pacific Leasing. However, as at the Latest Practicable Date,

no formal agreements have been entered into in respect of the Imperial Pacific Leasing. The Company will make further announcements in respect of the Imperial Pacific Leasing as and when appropriate in compliance with the Listing Rules. As at the Latest Practicable Date, Imperial Pacific is not interested in any Shares or other convertible securities in the Company.

For the 1st phase of the Development Plan, the Board has entered into a letter of intent with Imperial Pacific in respect of the Imperial Pacific Leasing and the Board is of the view that the success of the Imperial Pacific Leasing allows the Company to secure a considerable amount of revenue for a term of 5 years and significantly negates the uncertainty of the hospitality seasonal impact in general. Imperial Pacific intends to lease for 40 rooms, representing approximately 50% of the total rooms of the condominium resort with a term of 5 years upon completion of resort, with such an intention to cooperate, it is a positive sign that the Imperial Pacific Leasing will provide a secure and stable source of visitors to the Group. Besides, the Imperial Pacific Leasing allows the Group to enjoy synergy effect with the Group's newly established casino in 2017. Given the purpose of that the Imperial Pacific Leasing is accommodating the Imperial Pacific casino's visitors and senior management and their visitors staying in the Group's resort will be the target customers of the Group's newly established casino too. The Board anticipates that if the Imperial Pacific Leasing proceed, the remaining 40 rooms of the resort will be operated under typical hotel operations which being leased to public. The Board is of the view that the world class water activities, unique golfing experience and the new established casino on the island can secure regular visitors to the Saipan Island. Therefore, we consider that the Imperial Pacific Leasing is in the interest of the Group and the Shareholders as a whole.

The condominium resort under the first phase of the Development Plan will feature a pitch and putt practice golfing facilities, an electronic indoor golf simulator, a golf-pro shop, a health and wellness spa, bars and restaurants, conference facility and a swimming pool which situate close proximities to the golf courses on the island. As stated in the Board's Letter, the 1st phase of the Development Plan allows the Group to enjoy synergy effect with the existing business of the Group. Given the fact that the Group's principal business activity is golf-products related and has gained certain reputation within the golf industry, the Board is of the view that being benefited from the completion of the Saipan Acquisition, the Group has been equipped with the negotiation ability to approach the golf courses in Saipan for collaboration including but not limited to (i) sponsor of international golf competition alongside with the Group's existing customers (who are first tier golf name brands) to promote their own brands; and (ii) the promotion of golf experience and tourism industry of Saipan on an international basis as the Group's existing customers span across the globe, which represents a means for the Group to source guests to the resorts of the Group in future. As at the Latest Practicable Date, the Board has yet approached the golf courses in Saipan for collaboration purposes. Further details of the Imperial Pacific Leasing are set out in the announcement of the Company date 27 September 2016.

As set out in the Annual Report 2015 and the Interim Report 2016, the golf equipment business of the Company has been slowing down, the Board has been exploring appropriate business opportunities to expand the revenue sources and enhancing the long-term growth potential of the Group. We believe that the Saipan Acquisition and the Development Plan are fulfilling the purpose of both expanding the revenue sources and facilitating the Group's principal business of golf equipment with synergy effect. Besides, since the Group has entered into a letter of intent with Imperial Pacific, the Imperial Pacific Leasing will provide a secure and stable consideration amount of visitors for the Group. Therefore, we consider that the Subscriptions and the use of the proceeds for the first phase of the Development Plan are in the interest of the Group and the Shareholders as a whole.

6. *Settlement of the Promissory Notes*

As set out in the Board's Letter, the principal amount of HK\$235,700,000 of the Promissory Notes were issued by the Group in May 2016 as the consideration paid by the Group for the Saipan Acquisition are unsecured and at an interest rate of 12% per annum and the maturity date is the 2nd anniversary of the issuance date (i.e. May 2018). It is estimated by the Board that the aggregate interests of the Promissory Notes until the maturity date will be approximately HK\$56.6 million. The majority proceeds raised from Mr. Huang from the Subscriptions can help the Group to reduce such interest and to improve the financial position of the Group. In addition, the Board is of the view that the early settlement of the Promissory Notes will enable the Company to enter into other debt financing arrangements with more favourable terms. As disclosed in the April Circular, there are four phases of the Development Plan and as at the Latest Practicable Date, the actual design and plan for the second to fourth phases of the Development Plan are uncertain. In order to make sure the Group has the financial capability to drive the remaining phases of the Development Plan forward in the future.

The settlement in full of such Promissory Notes with part of the net proceeds from the Subscriptions will help the Group to save the payment of the 12% annual interest on HK\$235,700,000, which equivalents to HK\$28,284,000 annually. This will relieve the financial burden of the Group particularly when the Group has reported a net loss of approximately HK\$91.0 million, a net operating cash flow used in operating activities of approximately HK\$51.8 million, and bank balances and cash of approximately HK\$17.1 million as at 31 December 2015. Moreover, the reduction in the indebtedness as a result of such settlement will enhance the financial position via improving the cash position, net assets value and gearing ratio of the Group. As such, we consider that the application of part of the proceeds from the Subscriptions for the full settlement of the Promissory Notes is in the interest of the Group and the Shareholders as a whole.

7. *Valuation of the Properties*

We have reviewed the Valuation Report as contained in Appendix IIA to the Circular and interviewed with the Valuer regarding the methodology adopted and the basis and assumptions used in arriving at the Saipan Properties Valuation. According to the Valuer, they are following the “HKIS Valuation Standards (2012 Edition)” published by “The Hong Kong Institute of Surveyors” (“HKIS”) and “RICS Valuation – Professional Standards (January 2014)” published by the “Royal Institution of Chartered Surveyors” (“RICS”) for the valuation on the Properties as market practice. The valuation is based on market approach to provide an indication of value by comparing the subject asset with identical or similar assets for which price information is available. Valuer chose market approach for valuation because the Properties are lands, only market approach is applicable for land valuation. Valuer have assessed the Properties by comparison method of valuation whereby comparisons based on actual sales transactions of comparable properties in the locality on a unit selling price basis have been made. As advised by the Valuer, the actual sales transactions of comparable properties information from Saipan government can only be obtained through local licensed real estate appraiser in Saipan. LBT Appraisal (the “LBT”) is one of the two licensed real estate appraiser in Saipan. Therefore, the Valuer obtained the transaction information by the assistant of LBT and got eight in total for the transactions comparables for the valuation of the Properties. The Valuer went to the Properties and all of the eight comparables to do the on-site inspection with LBT. After on-site inspection, valuer adjusted the price of each of the comparables by comparing them to the Properties subject to various factors, e.g. location, view, slope and accessibility by their own judgement. After that, Valuer used the average of the adjusted price of the comparables to be the valuation market price of the Properties. According to the Asset Valuation Report, the appraised value of the Properties is approximately US\$31.0 million as at 31 July 2016, representing no change to the market values of the Properties as at 31 December 2015 and 31 January 2016 which were both approximately US\$31.0 million as included in the April Circular. According to the exchange rate of US\$:HK\$ 1:7.76 as at the Latest Practicable Date (*Note*), the market value of the Properties is approximately HK\$240.6 million, representing a slight premium of approximately 2.08% over the Properties consideration of HK\$235.7 million.

(Note: exchange rate was quoted from Bloomberg at www.bloomberg.com)

We have reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer’s qualification and experience in relation to the performance of the Valuation; and (iii) the steps taken by the Valuer when conducting the Valuation. From the mandate letter and other relevant information provided by the Valuer and based on our enquiry with the Valuer, the Valuer was established in London, England in 1842 and was the founder of the Association of Surveyors, which became the Royal Institution of Chartered Surveyors in 1868. The valuer has more than 30 years’ experience in Asia Pacific. The valuation of the Properties is the first time for the Valuer to conduct valuation in Saipan. We noted that the Valuer possess sufficient qualifications and experience in transactions for listed companies in Hong Kong. We have reviewed the terms of the engagement of the Valuation and noted that the scope of work is appropriate to the

opinion required to be given. We are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuer. Therefore, on such basis, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for performing the Valuation, and we are of the view that the scope of work of the Valuer is appropriate.

After reviewing the Valuation Report and discussion with the Valuer, we are not aware of any major factors which would cause us to doubt the fairness and reasonableness of the principal basis and assumptions for the valuation adopted by the Valuer in the Valuation Report of the Group's Saipan Properties. Since the valuation of the Properties are in line with the consideration of the Saipan Acquisition, therefore we consider the consideration of the Saipan Acquisition is fair and reasonable.

8. Management Expertise

The Board believes that the Company has sufficient management expertise and qualified personnel at operational level to operate and develop the 1st phase of the Development Plan. Upon Subscription Completion, Mr. Huang will become the controlling Shareholder and an executive Director. It is understood that Mr. Huang is an experienced business entrepreneur and a professional investor, the Board strongly believed that Mr. Huang can contribute his prevailing business network to the Company. It is also believed that Mr. Huang's experience can contribute to the Development Plan. Details please refer to section headed "Information of the Subscriber" in below. Mr. Huang is a well-respected investor/entrepreneur who has precedent experience relating to hospitality projects. The Board strongly believed that Mr. Huang can contribute his prevailing business network to the Company and utilize his reputation to improve the status of the Company. In addition, Mr. Wong Hin Shek, who also possesses experience in hotel-related operations, will be re-designed as the non-executive Director upon Subscription Completion. In this case, we believe the solid experience of resort management from both Mr. Wong Hin Shek and Mr. Huang will benefit the Company.

9. Conclusion

Given that (i) the intention of the Subscription and the use of proceeds is for the Group to expand the Group's revenue sources and to enhance long-term growth of the Group; (ii) the Group's insufficient financial resources; (iii) the positive tourism prospects of Saipan; (iv) the Development Plan will enjoy synergy effect with the Group's existing business; (v) the Group's financial position will be strengthened by settlement of the Promissory Note with 12% interest annually; and (vi) Mr. Huang's solid experience contribution, we are in the view that the first phase of the Development Plan represents an opportunity for the Group to expand its business portfolio into an unique market, comprising the hospitality sector and golf theme, therefore it is in the interest of the Group and the Shareholders as the whole.

Independent Shareholders should pay attention to the risk related to the Development Plan which are set out in the section headed "Risk Factors Associated with The Saipan Acquisition" in the Board's Letter.

E. Information of the Subscriber

The Subscriber is an investment holding company incorporated in the British Virgin Islands. Mr. Huang is the sole ultimate beneficial shareholder and sole director of the Subscriber, indirectly holding 100% of the issued share capital of the Subscriber through his wholly-owned company, Prominent Victory Limited. The Subscriber, Prominent Victory Limited and Mr. Huang are Independent Third Parties. Immediately preceding Subscription Completion, none of the Subscriber, Prominent Victory Limited or Mr. Huang owns any Shares.

Mr. Huang is an experienced business entrepreneur and a professional investor who has invested in other Hong Kong listed companies. As at the Latest Practicable Date, Mr. Huang is interested in (i) through his wholly-owned company, Gold Ocean Media Inc., approximately 6.63% of the issued share capital of Alibaba Pictures Group Limited (Stock Code: 1060); (ii) through his wholly-owned company, Gold Ocean Investments Group Inc., 26.79% of the issued share capital of Jade Passion Limited, which in turn is interested in approximately 55.97% of the issued share capital of Reorient Group Limited (Stock Code: 376); and (iii) 20.59% of the issued share capital of Jin Bao Bao Holdings Limited (Stock Code: 1239). Alibaba Pictures Group Limited, Reorient Group Limited and Jin Bao Bao Holdings Limited are companies listed on the Main Board of the Stock Exchange. Mr. Huang is the chairman of Damo Gold Ocean Group Limited (大漠金海集團有限公司), the chairman of Mongolian Desert Resources LLC. (蒙古大漠資源有限責任公司) and the chairman of Grand Asia Pacific Investment Holding Pte. Ltd. (新亞太投資控股公司). The business segments for these listed companies include film and television drama series production and distribution, securities brokerage business and design, manufacture and sale of packaging products and structural components.

Mr. Huang noticed from the public disclosure of the Company that the Company may need funding for the Saipan Acquisition. Hence, Mr. Huang approached the Company and communicated his interest in subscribing for new shares in the Company. Mr. Huang has extensive experience in developing and operating hotel resorts. In 2005, Mr. Huang founded Pattra Resort Guangzhou (廣州增城金葉子溫泉度假酒店), which commenced business in 2007. Mr. Huang was engaged in the construction and operation of Pattra Resort Guangzhou from 2005 until his disposal of the hotel in 2010. The Board believes that Mr. Huang is able to contribute his extensive commercial network to promote and support the Group's Saipan resort and share his expertise in respect of hospitality construction and management to the Group.

Mr. Huang, being the ultimate shareholder of the Subscriber, and the Company started the preliminary discussion in relation to the Subscriptions in early June 2016, which is after the completion of the Saipan Acquisition. In addition, Mr. Huang is independent of and not party acting in concert with Top Force and its ultimate beneficial owner.

F. Future intentions of the Subscriber regarding the Group

Upon Subscription Completion, the Subscriber will become the controlling Shareholder (as defined under the Listing Rules) and the largest Shareholder of the Company. The Subscriber intends to continue the principal businesses of the Group and maintain the listing status of the Company on the Stock Exchange following Subscription Completion. Meanwhile, the Subscriber will conduct a review on the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business developments of the Group, and consider whether any asset disposal, asset acquisition, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Company. Subject to the results of the review and should suitable investments or business opportunities arise, the Subscriber may consider expanding the business of the Group with the objectives to broaden its income sources and to achieve accretion in the return to the Shareholders. However, the Subscriber has not entered into any agreements or fixed any terms with the Group as at the Latest Practicable Date in relation to any possible expansion or restructuring of the Group's businesses.

As at the Latest Practicable Date, the Company has not identified any investment opportunities and the Company intends to carry on and has no plan to downsize the Group's existing businesses.

The Subscriber has no intention to make major changes to the continued employment of the employees of the Group. The Subscriber does not intend to introduce any major changes to the business of the Group or re-deploy or dispose of the assets or business of the Group after Subscription Completion other than in its ordinary and usual course of business. The Subscriber and the Company will comply with the relevant requirements under the Listing Rules and the Takeovers Code in the event any possible expansion or restructuring of the Group's business operations materialises after Subscription Completion.

G. The Subscription Agreement

1. Principal terms of the Shares Subscription

The Subscription Price and the Conversion Price, each being HK\$0.114, represent:

- a. a discount/premium of approximately 44.12% to the closing price of HK\$0.204 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- b. a discount of approximately 63.23% to the closing price of HK\$0.310 per Share as quoted on the Stock Exchange on 8 July 2016, being the Last Trading Day;
- c. a discount of approximately 59.86% to the average of the closing price per Share of approximately HK\$0.284 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

- d. a discount of approximately 54.03% to the average of the closing price per Share of approximately HK\$0.248 for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- e. a premium of approximately 54.05% over the audited consolidated net asset value attributable to owners of the Company of approximately HK\$0.074 per Share as at 31 December 2015 (based on the number of issued Shares as at the Latest Practicable Date);
- f. a premium of approximately 52.00% over the adjusted net asset value of the Company of approximately HK\$0.075 per Share as at 31 December 2015 (assuming the Saipan Acquisition has been completed on 31 December 2015 and based on the number of issued Shares as at the Latest Practicable Date); and
- g. a premium of approximately 128% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK\$0.05 per Share as at 30 June 2016 (based on the number of issued Shares as at the Latest Practicable Date).

II. Principal terms of the Convertible Bonds

Aggregate principal amount: HK\$74,100,000

Maturity Date: The fifth anniversary of the date of issue of the Convertible Bonds

Interest: The Convertible Bonds will not bear any interest

Conversion right: The bondholders will have the right, during the period commencing from the date of issue of the Convertible Bonds up to the close of business in Hong Kong on the Maturity Date to convert all or part of the Convertible Bonds held by it (if in part, the principal amount of Convertible Bonds to be converted shall be in the minimum amount of HK\$100,000 and integral multiples of HK\$100,000 or the whole outstanding principal amount of the Convertible Bonds) into Conversion Shares at the Conversion Price (subject to adjustments).

No exercise of conversion rights attaching to the Convertible Bonds shall be allowed if the conversion would result in the Company breaching the minimum public float requirement under Rule 8.08 of the Listing Rules and such breach is not curable at the time of the conversion.

The Conversion Shares will in all respects rank pari passu with the Shares in issue on the relevant registration date.

Conversion price:

The Conversion Price shall be HK\$0.114 per Conversion Share subject to adjustment provisions as summarised below.

Anti-dilution adjustments:

The Conversion Price will from time to time be adjusted upon the occurrence of certain events, including the following:

- (a) consolidation, sub-division or reclassification of the Shares;
- (b) capitalisation of profits or reserves;
- (c) capital distribution to the Shareholders;
- (d) issue of Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price per Share which is less than the higher of (i) 80% of the market price on the date of the announcement of the terms of the issue or grant and (ii) the Conversion Price then in effect on the date of the announcement of the terms of the issue or grant;
- (e) issue of any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares);

- (f) issue (other than as mentioned in paragraph (d) above) of any Shares (other than Shares issued on the exercise of conversion rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant of (other than as mentioned in paragraph (d) above) options, warrants or other rights to subscribe for, or purchase or otherwise acquire any Shares, in each case at a price per Share which is less than the higher of (i) 80% of the market price on the date of the announcement of the terms of the issue and (ii) the Conversion Price then in effect on the date of the announcement of the terms of the issue;
- (g) save in the case of an issue of securities arising from a conversion of exchange of other securities in accordance with the terms applicable to such securities themselves falling within this paragraph (g), the issue wholly for cash in paragraphs (d), (e) and (f) of any securities (other than the Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription at a consideration per Share which is less than the higher of (i) 80% of the market price on the date of the announcement of the terms of the issue of such securities and (ii) the Conversion Price in effect on the date of the announcement of the terms of the issue of such securities;
- (h) when the rights of conversion, exchange or subscription attached to any such securities as are mentioned in paragraph (g) above (other than in accordance with the terms of such securities) are modified so that the consideration per Share is less than the higher of (i) 80% of the market price on the date of the announcement of the proposals for such modification and (ii) the Conversion Price then in effect on the date of the announcement of the proposals for such modification;

- (i) if the Company or any bondholder determines that a downward adjustment should be made to the Conversion Price as a result of one (1) or more events or circumstances not referred to in paragraphs (a) to (h), the Company or such bondholder shall, at the costs and expenses of the Company, consult an independent bank of international repute (acting as an expert) to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, and the date on which such adjustment should take effect.

Save as disclosed above, there are no other events which may lead to adjustments to the Conversion Price.

Transferability:

A Convertible Bond may be transferred to another person provided, however, that (a) where not all of the Convertible Bonds then held by the bondholder are being transferred, the aggregate principal amount of the Convertible Bonds so transferred shall be at least HK\$100,000 and integral multiples of HK\$100,000, and (b) if the transfer is not to a bank, financial institution or other financiers for financing purpose of the bondholder, the prior consent of the Company shall have been obtained (such consent not to be unreasonably withheld or delayed and shall be deemed to have been given unless the Company has expressly refused such consent within five (5) Business Days of the bondholder's request).

Events of default:

If any of the following events occurs, the Convertible Bonds shall on the giving of notice in writing by the bondholder to the Company become due and payable at the Early Redemption Amount (as defined hereinafter):

- (a) a default is made by the Company in the payment of any principal, premium or any other amount due in respect of the Convertible Bonds on its due date of payment (except where failure to pay is caused solely by administrative or technical error and payment is made within three (3) Business Days of its due date);
- (b) failure by the Company to deliver any Shares as and when such Shares are required to be delivered following conversion of a Convertible Bond and such failure continues for a period of seven (7) Business Days;
- (c) the occurrence of any event or circumstance which could reasonably likely to result in a material adverse effect to the business, operations, business results or financial condition or prospects of the Group taken as a whole;
- (d) the Company fails to perform or comply with one or more of its other obligations in the Convertible Bonds (other than those referred to in paragraphs (a) to (c) above), which default is incapable of remedy or, if capable of remedy, is not remedied within 7 days after written notice of such default shall have been given to the Company by a bondholder;

- (e) the Company is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend, payment of all or a substantial part of (or of a particular type of) its debts as they fall due, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of a substantial part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of such debts or a moratorium is agreed or declared in respect of or affecting all or a substantial part of (or of a particular type of) the debts of the Company; an administrator or liquidator of the Company, or the whole or any part of the assets and revenue of the Company is appointed and such appointment is not discharged or stayed within 60 days;

- (f) any Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend, payment of all or a substantial part of (or of a particular type of) its debts as they fall due, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of a substantial part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of such debts or a moratorium is agreed or declared in respect of or affecting all or a substantial part of (or of a particular type of) the debts of any Subsidiary; an administrator or liquidator of any Subsidiary or the whole or any part of the assets and revenue of any Subsidiary is appointed and such appointment is not discharged or stayed within 60 days (other than in respect of a solvent liquidation);
- (g) any judgment or order for the payment of money in excess of HK\$1,000,000 or the equivalent thereof (for each judgment or order) or HK\$10,000,000 or the equivalent thereof in the aggregate (for all such judgments or orders) shall be rendered against the Company and/or any Subsidiary and is not discharged for a period of 30 days following such judgment (or such longer period as the Company and the bondholders may agree) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

- (h) any judgment or order for the payment of money in excess of HK\$10,000,000 or the equivalent thereof (for each judgment or order) or HK\$20,000,000 or the equivalent thereof in the aggregate (for all such judgments or orders) shall be rendered against the Company and/or any Subsidiary;
- (i) (i) any other present or future indebtedness of the Company or any of its Subsidiaries for or in respect of monies borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period; or (iii) the Company or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this condition have occurred equals or exceeds HK\$100,000,000 or its equivalent (as determined on the basis of the middle spot rate for the relevant currency against the Hong Kong dollar as quoted by any leading bank on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity);
- (j) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Company or any of its Subsidiaries, and is not discharged or stayed within 60 days;

- (k) an order is made or an effective resolution passed for the liquidation, winding up, dissolution, judicial management or administration of the Company or any of its Subsidiaries or the Company or any of its Subsidiaries ceases or threatens to cease to carry on all or a material part of its business;
- (l) an encumbrancer takes possession or an administrative or other receiver or an administrator or other similar officer is appointed of the whole or any material part of the property, assets or revenues of the Company or any of its Subsidiaries (as the case may be), and is not discharged within 60 days;
- (m) it is or will become unlawful for the Company to perform or comply with anyone or more of its obligations under the Convertible Bonds;
- (n) any step is taken by any person that could reasonably be expected to result in the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its Subsidiaries;
- (o) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order: (i) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Convertible Bonds; (ii) to ensure that these obligations are legally binding and enforceable; and (iii) to make the Convertible Bonds admissible in evidence in the courts of Bermuda or Hong Kong is not taken, fulfilled or done; or

- (p) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing conditions.

Early Redemption Amount = outstanding principal amount of such Convertible Bond $\times (1.10)^N$ where:

N = a fraction the numerator of which is the number of calendar days between the date of issue of the Convertible Bonds and the date of redemption of such amount and the denominator of which is 365.

III. Board's view on the Subscription Price and Conversion Price

The Subscription Price and the Conversion Price were arrived at after arm's length negotiation between the Company and the Subscriber with reference to:

- (i) the recent closing prices of the Shares on the Stock Exchange. The closing price of the Shares closed within a wide range from HK\$0.133 to HK\$ 0.37 and with an average closing price of approximately HK\$0.21 for the 12 months before entering into the Subscription Agreement and had particularly demonstrated huge fluctuations prior to the Last Trading Day. Despite that the Subscription Price represents a discount of approximately 46.72% to the 12 months average closing price of the Shares, given the fact that there is a huge instability of the closing price of the Shares and the recent volatility of the stock market, the Company and the Subscriber has taken into account of these factors and has arrived the Subscription Price;
- (ii) the audited consolidated net asset value of the Company as at 31 December 2015. As noted from the Annual Report 2015, the consolidated net asset value of the Company as at 31 December 2015 has decreased to approximately HK\$175,356,000 as compared to approximately HK\$313,285,000 as at 31 December 2014. The Subscription Price and the Conversion Price represent a significant premium of approximately 54.05% over the audited consolidated net asset value attributable to owners of the Company as at 31 December 2015;
- (iii) the adjusted net asset value of the Company as at 31 December 2015 (assuming the Saipan Acquisition has been completed on 31 December 2015). As reference to the April Circular in relation to the Saipan Acquisition and assuming the Saipan Acquisition was completed on 31 December 2015, the adjusted net asset value of the Company as at 31 December 2015 would be HK\$0.075, where the Subscription Price and the Conversion Price represent a significant premium over it; and

- (iv) given the business background and experience of Mr. Huang, the Board strongly believes that upon Mr. Huang becoming a controlling shareholder, Mr. Huang can contribute his prevailing business network to the Company and utilize his reputation to improve the status of the Company. Therefore, despite the Subscription Price and Conversion Price represent a discount to the current market price of the Shares, the Company is able to attract a promising investor who can enhance the long term business perspective of the Company, which is favourable to the Company and Shareholders as a whole.

Upon considering the above factors, in particular the fact that the Subscription Price and Conversion Price represent premium to the audited and adjusted net asset value of the Company as at 31 December 2015 and the potential benefits that could be brought by the Subscriber, the Board considers that the discount level of the Subscription Price and Conversion Price to the market price of the Shares is acceptable and are fair and reasonable to the Shareholders and Company as a whole.

G. Review on Share price performance

In assessing the reasonableness of the Subscription Price and the Conversion Price, we have reviewed the closing price level of the Shares traded on the Stock Exchange for the period from 2 July 2015 up to and including the Latest Practicable Date (the “**Review Period**”). The chart below illustrates the daily closing price per Share during the Review Period:



Data source: Website of the Stock Exchange (www.hkex.com.hk)

Note: Trading of the Shares was suspended from the periods of 2 July 2015 to 10 July 2015 and 11 July 2016 to 13 July 2016.

As shown in the above chart, the Share price is experiencing a downward trend over the Review Period. The lowest closing price was HK\$0.133 per share on 21 January 2016 and the highest closing price was HK\$0.37 per Share on 22 July 2015. The Subscription Price and the Conversion Price are lower than the highest closing price of the Shares and the lowest closing price of the Shares during the Review Period, representing a discount of approximately 69.19% and 14.29% respectively.

We note that there was a dramatic increase in the closing price from HK\$0.255 on 4 July 2016 to HK\$0.31 on 8 July 2016, followed by a trading halt on 11 July 2016 pending the release of an announcement of the Company. The closing price on the Last Trading Date immediately prior to the announcement reached the highest level since 27 July 2015, leading to the deep discount of approximately 63.23%. The Subscription Price and the Conversion Price represent a discount of approximately 46.34% to the average closing price of HK\$0.212 during the Review Period.

H. Trading volume of the Shares

The table set out below is the historical trading volume of the Shares during the Review Period.

Month	Number of trading days	Total monthly trading volume (in number of shares)	Approximate average daily trading volume (in number of shares) (Note 1)	Total number of issued Shares at month end (in number of shares)	Average daily trading volume to total number of issued Shares at month end (Approximate %)
2015					
July (Note 2)	15	223,343,702	14,889,580	468,050,000	3.18%
August	21	83,308,002	3,967,048	468,050,000	0.85%
September	20	94,812,000	4,740,600	468,050,000	1.01%
October	20	21,660,000	1,083,000	468,050,000	0.23%
November	21	208,491,000	9,928,143	468,050,000	2.12%
December	22	89,301,380	4,059,154	468,050,000	0.87%
2016					
January	20	151,743,000	7,587,150	2,340,250,000	0.32%
February	18	95,530,000	5,307,222	2,340,250,000	0.23%
March	21	85,360,520	4,064,787	2,340,250,000	0.17%
April	20	36,850,000	1,842,500	2,340,250,000	0.08%
May	21	19,890,000	947,143	2,340,250,000	0.04%
June	21	234,670,000	11,174,762	2,340,250,000	0.48%
July (Note 3)	17	856,896,000	50,405,647	2,340,250,000	2.15%
August	22	234,982,000	10,681,000	2,340,250,000	0.46%
September (up to the Latest Practicable Date)	19	92,332,600	4,859,611	2,340,250,000	0.21%

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month by the number of trading days during the month/period, excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
2. Trading in the Shares was suspended from 2 July 2015 to 10 July 2015 (both days inclusive) pending the release of the announcement in relation to the Surplus Excel and the Company entering into the Subscription Agreement.
3. Trading in the Shares was suspended from 11 July 2016 to 13 July 2016 (both days inclusive) pending the release of the Announcement.

During the Review Period, the average daily trading volume of the Shares were in the range of approximately 0.04% to approximately 3.18% as to the total number of issued Shares at the end of each respective month throughout the Review Period. Apart from July, September, November 2015 and July 2016, a daily average of less than 1.0% of the total number of issued Shares was traded. The above statistics revealed the liquidity of the Shares was relatively low during the Review Period.

I. Comparison of the Subscription Price

In considering whether the discounts of the Subscription Price is acceptable, we have considered whitewash waiver applications as a result of issuing of consideration shares or subscription of new shares (to be listed on the Stock Exchange) announced during the period from 1 July 2015 to the date immediately prior to the Latest Practicable Date (the “**Comparable Issues**”) by companies listed on the Stock Exchange. The criteria for selecting the Comparable Issues involve (a) subscription of new shares of listed companies by subscribers with cash (where the shares were to be listed on the Stock Exchange) and the application of whitewash waivers by the subscribers; (b) issue of new shares involving a change in control of the ultimate beneficial owners of the listed companies; and (c) listed companies that incurred net loss in their respective latest annual reports. The reason for the above criteria is to ensure the Comparable Issues are similar transactions as that of the Share Subscription and the companies involved in the Comparable Issues have similar financial performance as that of the Company, which was loss making. To adjust for the dissimilarities among the Comparable Issues or anomalous items, we have excluded subscriptions (a) announced by listed companies which, as at the date of announcement and/or currently, were/are under prolonged suspension i.e. listed companies being suspended for three months or more as shown in the monthly prolonged suspension status report issued by the Stock Exchange; and (b) transactions involving open offers or rights issues, where different pricing considerations apply. Therefore, we consider the Comparable Issues (i) a fair and representative sample and (ii) an exhaustive list of relevant Comparable Issues based on the said criteria above.

It should be noted that the subject companies involved the Comparable Issues may have different nature of business operations, market capitalisations, fund raising sizes, financial performance and financial position as compared with those of the Company. The circumstances leading to the subject companies to proceed with the subscriptions may also be different from

those relating to the Company. However, as the Comparable Issues fulfilling the above criteria can provide a general reference as to the fairness and reasonableness of the Subscription Price of this type of transaction in the market.

For each of the Comparable Issues identified, we compared the premium or discount of its issue/subscription price to (a) the closing price on the last trading day; (b) the five trading days average closing price; and (c) the ten trading days average closing price prior to and including the last trading day before the release of the respective announcement, as summarised in the following table.

Date of announcement	Company name	Premium/(discount) of Subscription/issue price over/(to)		
		Closing share price as at the last day of trading immediately prior to the announcement %	Average closing share price for the 5 trading days immediately prior to the announcement %	Average closing share price for the 10 trading days immediately prior to the announcement %
		(approximate)	(approximate)	(approximate)
28 July 2015	Yueshou Environmental Holdings Limited (stock code: 1191)	(80.4)	(79.2)	(79.7)
31 July 2015	HengTen Networks Group Limited (formerly known as "Mascotte Holdings Limited") (stock code: 136)	(97.9)	(97.6)	(97.5)
27 August 2015	China Minsheng Financial Holding Corporation Limited (formerly known as "China Seven Star Holdings Limited") (stock code: 245)	(89.9)	(87.7)	(86.6)
30 August 2015	Global Bio-Chem Technology Group Company Limited (stock code: 809)	(31.3)	(25.1)	(29.9)
12 October 2015	SRE Group Limited (stock code: 1207)	(74.4)	(73.3)	(73.5)

Date of announcement	Company name	Premium/(discount) of Subscription/issue price over/(to)		
		Closing share price as at the last day of trading immediately prior to the announcement %	Average closing share price for the 5 trading days immediately prior to the announcement %	Average closing share price for the 10 trading days immediately prior to the announcement %
		(approximate)	(approximate)	(approximate)
10 December 2015	China Jiuhaio Health Industry Corporation Limited (stock code: 419)	(90.9)	(91.6)	(91.6)
15 December 2015	Huscoke Resources Holdings Limited (stock code: 704)	(63.0)	(63.4)	(64.0)
16 December 2015	FDG Electric Vehicles Limited (stock code: 729)	0.0	(3.9)	(5.0)
29 February 2016	Hang Fat Ginseng Holdings Company Limited (stock code: 911)	(85.1)	(84.3)	(92.3)
4 March 2016	AGTech Holdings Limited (stock code: 8279)	(82.5)	(82.1)	(81.9)
17 May 2016	New Times Energy Corporation Limited (stock code: 166)	(3.1)	(0.9)	(3.4)
	Mean	(63.5)	(62.6)	(64.1)
	Median	(80.4)	(79.2)	(79.7)
	Minimum discount	0	(0.9)	(3.4)
	Maximum discount	(97.9)	(97.6)	(97.5)
13 July 2016	The Company	(63.2)	(59.9)	(54.0)

Source: relevant announcements or circular of the companies for the Comparable Issues

Notes:

1. China Agri-products Exchange Limited (stock code: 149) published an announcement in relation to, among other things, termination of the subscription agreement and the placing agreement on 5 October 2015. Therefore, this transaction was excluded in our analysis of the Comparable Issues.

2. Theme International Holdings Limited (stock code: 990) published an announcement in relation to, among other things, termination of the subscription agreement and application of whitewash waiver on 3 November 2015. Therefore, this transaction was excluded in our analysis of the Comparable Issues.
3. Yuhua Energy Holdings Ltd (stock code: 2728) published an announcement on 3 February 2016 in relation to, among other things, lapse of the subscription agreement. As such, this transaction was excluded in our analysis of the Comparable Issues.
4. Talent Property Group Limited ("**Talent Property**") (stock code: 760) published an announcement on 11 January 2016 in relation to, among other things, amendment of the terms of the convertible notes issued in 2010 and the application for the whitewash waiver in respect of the potential conversion of the convertible notes that would trigger a mandatory offer obligation under the Takeovers Code. Since the transaction and the terms of the convertible notes were determined in 2010 without revision in 2016 (which falls outside the period under the criteria of our analysis as set out above), this transaction has been excluded in our analysis.
5. Addchance Holdings Limited (stock code: 3344) published an announcement on 30 June 2016 in relation to, among other things, lapse of the subscription agreement and the whitewash waiver. As such, this transaction was excluded in our analysis of the Comparable Issues.

It is noted that, among the 11 Comparables Issues above, the discount rates of the respective subscription as compared to the closing prices on the last trading days prior to the respective announcements vary widely and range from a minimum discount of approximately 0% to maximum discount of approximately 97.9%. While 8 of them are at the discount rate over 50%. As such, in order not to distort the picture for the recent market practice in relation to the discount rate of the subscription prices, none of the Comparable Issues is excluded for assessing the fairness and reasonableness of the Subscription Price.

The Subscription Price represents (i) a discount of approximately 63.2% to the closing Share price on the Last Trading Day; (ii) a discount of approximately 59.9% to the closing Share price for the last five trading days prior to the release of the Announcement; and (iii) a discount of approximately 54.0% to the closing Share price on the last ten trading days prior to the release of the Announcement. As set out in the table above, these discounts are all within the range and lower than the mean and the median of the discounts of the Comparable Issues.

While assessing whether the Subscription Price and Conversion Price are fair and reasonable or not, the approach of Price-to-earnings ratio ("**P/E Ratio**") and net asset value ("**NAV**") per share are common and normal practice to assess the fairness and reasonableness. Given that the Company is incurring a net loss, the approach of P/E Ratio cannot be applied to our case. As for NAV per share, it is a critical financial information reflecting financial status of the Company. As the majority of the proceeds from the Subscription of Shares and Convertible Bonds are used for the Development Plan, we take the effect of Saipan Acquisition into account of the NAV. The NAV is thus adjusted so as to reflect the effect of Saipan Acquisition on the Company's financial status. Referring to "Unaudited pro forma financial information of the enlarged Group" as set out in appendix III of the April Circular, the adjusted NAV (after taking into account the Saipan Acquisition) is the same as the NAV of HK\$175,356,000 as of 31 December 2015. The number of Shares is 2,340,250,000 as of Latest Practicable Date. Therefore, dividing the adjusted NAV by the number of issued Shares, the adjusted NAV per Share is HK\$0.075. While the Subscription Price is HK\$0.114, indicating a premium of approximately 52.00% over the adjusted NAV of the Company.

Taking into account that (i) the price of the Shares showed a downward trend and the trading volume of the Shares was low during the Review Period; (ii) the discounts of the Subscription Price are all within the range and lower than the mean and the median of the relevant discounts of the Comparable Issues; and (iii) a premium of approximately 52.00% over the adjusted NAV of the Company of approximately HK\$0.075 per Share as at 31 December 2015 (assuming the Saipan Acquisition has been completed on 31 December 2015 and based on the number of issued Shares as at the Latest Practicable Date), we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

J. Comparison of the terms of the Convertible Bonds

In assessing the terms of the Convertible Bonds, we have reviewed a number of comparable transactions which involved the issue of convertible notes/bonds (the “**CB Comparable Transactions**”). The CB Comparable Transactions are selected based on the following criteria: (i) the issuers are listed on the Stock Exchange; (ii) such transactions involve the issue of convertible bonds/notes from March 2016 and up to the Latest Practicable Date; and (iii) the issuer companies incurred net loss in their respective latest annual reports. The reasons for the above criteria are to ensure the CB Comparable Transactions are similar transactions as that of the CB Subscription, i.e. the issue of convertible bonds/notes, and the issuer of the CB Comparable Transactions have similar financial position as that of the Company, which was loss making. Based on such criteria, we have identified the following CB Comparable Transactions. The Comparables Transactions represent an exhaustive list of companies meeting the selection criteria listed above. No special adjustment is needed in the avoidance of distorting the picture for the recent market practice in relation to the discount/premium rate of the subscription/placing prices, none of the CB Comparable Transactions is excluded for assessing the fairness and reasonableness of the Conversion Price. Therefore, we consider the CB Comparable Transactions (i) a fair and representative sample and (ii) an exhaustive list of relevant convertible notes/bonds comparable transactions based on the said criteria above:

Announcement Date	Company name and stock code	Principal amount (approximately HK\$'million)	Term to maturity (years)	Interest per annum (%) (Note 1)	Redemption price more than or equal to 100%	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day
2-Mar-16	Chinese Strategic Holdings Limited (8089) (Note 3)	500.0 (Note 2)	4.1	3.0	Y	(26.5)	(39.6)
4-Mar-16	AGTech Holdings Limited (8279)	712.6	3.0	0.0	Y	(82.5)	(82.1)

Announcement Date	Company name and stock code	Principal amount (approximately HK\$'million)	Term to maturity (years)	Interest per annum (%) (Note 1)	Redemption price more than or equal to 100%	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day (%)	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day (%)
16-Mar-16	SDM Group Holdings Limited (8363)	3.0	7.0	0.0	Y	10.3	27.6
16-Mar-16	Prosperity International Holdings (H.K.) Limited (803)	155.4	2.0	5.0	Y	16.9	18.6
18-Mar-16	China Fortune Financial Group Limited (290)	40.4	1.0	12.0	Y	(9.1)	(8.1)
18-Mar-16	Wealth Glory Holdings Limited (8269)	42.1	5.0	0.0	Y	12.3	8.0
28-Mar-16	Innovative Pharmaceutical Biotech Limited (399)	280.0	3.0	8.5	Not Disclose	(9.1)	(7.8)
4-Apr-16	China Finance Investment Holdings Limited (875)	2400.0	5.0	0.0	Y	0.0	1.2
4-Apr-16	Green International Holdings Limited (2700)	12.0	3.0	8.0	Y	28.2	28.2
13-Apr-16	Huscoke Resources Holdings Limited (704)	43.3	1.0	2.5	Not disclose	0.0	7.1
14-Apr-16	FDG Electric Vehicles Limited (729)	275.0	5.0	0.0	Not disclose	8.7	10.1
20-Apr-16	China Agroforestry Low-Carbon Holdings Limited (1069)	5.0	2.0	8.0	Not disclose	(19.1)	(15.3)

Announcement Date	Company name and stock code	Principal amount (approximately HK\$'million)	Term to maturity (years)	Interest per annum (%) (Note 1)	Redemption price more than or equal to 100%	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day (%)	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day (%)
21-Apr-16	China Oil Gangran Energy Group Holdings Limited (8132)	36.0 (Note 2)	1.5	7.0	Y	57.9	51.5 (Note 3)
22-Apr-16	Code Agriculture (Holdings) Limited (8153)	120.0	3.0	6.0	Y	(94.6)	(94.6) (Note 3)
3-May-16	E-Rental Car Company Limited (1822)	100.0 100.0	2.0 3.0	5.0 5.0	Y Y	16.7 16.7	14.0 14.0
5-May-16	China Fortune Investments (Holding) Limited (8116)	10.0	2.0	0.0	Y	1.6	2.2 (Note 3)
16-May-16	Evershine Group Holdings Limited (8022)	30.0	2.0	0.0	Y	6.4	5.3
19-May-16	Sino Oil and Gas Holdings Limited (702)	100.0 30.0 30.0	2.0 2.0 2.0	8.0 8.0 8.0	Y Y Y	18.3 18.3 18.3	17.6 17.6 17.6
26-May-16	China Ruifeng Renewable Energy Holdings Limited (527)	171.6 (Note 2)	1.5	8.0	Y	(5.8)	(5.8) (Note 3)
30-May-16	Hna International Investment Holdings Limited (521)	404.6	2.0	8.0	Y	(14.0)	(12.3)
31-May-16	Prosten Technology Holdings Limited (8026)	35.0	1.0	6.0	Y	(18.4)	(19.5)
31-May-16	Sino Oil and Gas Holdings Limited (702)	1010.1	3.0	8.0	Y	17.0	15.0

Announcement Date	Company name and stock code	Principal amount (approximately HK\$'million)	Term to maturity (years)	Interest per annum (%) (Note 1)	Redemption price more than or equal to 100%	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day (%)	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day (%)
1-Jun-16	Success Dragon International Holdings Limited (1182)	220.0 (Note 2)	3.0	9.8	Y	16.9	14.6 (Note 3)
20-Jun-16	China Fortune Investment (Holding) Limited (8116)	90.0	2.0	0.0	Y	2.9	6.4 (Note 3)
23-Jun-16	Sino Energy International Holdings Group Limited (1096)	92.0	2.0	7.5	Y	4.2	8.1 (Note 3)
24-Jun-16	Green International Holdings Limited (2700)	30.0	3.0	8.0	Y	37.0	33.9
26-Jun-16	Sandmartin Holdings International Limited (482)	60.0	1.0	9.0	Y	24.3	25.3
30-Jun-16	China Zenith Chemical Group Limited (362)	400.0	3.0	0.0	Y	53.8	57.5 (Note 3)
13-Jul-16	Eminence Enterprise Limited (616)	50.0	3.0	2.0	Y	1.4	0.5
21-Jul-16	Value Convergence Holdings Limited (821)	850 (Note 2)	2.0	2.0	Y	(49.6)	(49.8) (Note 3)
3-Aug-16	China Fortune Investments (Holding) Limited (8116)	25.0	1.0	0.0	Y	0.0	0.1 (Note 3)
5-Aug-16	China Household Holdings Limited (692)	90.0	3.0	3.0	Y	(9.1)	1.0 (Note 3)

Announcement Date	Company name and stock code	Principal amount (approximately HK\$ million)	Term to maturity (years)	Interest per annum (%) (Note 1)	Redemption price more than or equal to 100%	Approximate premium/ (discount) of conversion price over/to the closing price of the shares as at the respective last trading day (%)	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day (%)
8-Aug-16	Ground Properties Company Limited (989)	160.0	2.0	8.0	Y	(18.0)	(17.1)
		40.0	2.0	8.0	Y	(18.0)	(Note 4) (17.1)
8-Aug-16	Walker Group Holdings Limited (1386)	150.0	3.0	10.5	Y	(10.0)	(Note 3) (6.0)
23-Aug-16	China Agri-Products Exchange Limited (149)	360 (Note 2)	5.0	7.5	Note Disclose	9.6	9.3
24-Aug-16	China Fortune Investments (Holding) Limited (8116)	35	1.0	0.0	Y	(1.3)	0.2 (Note 3)

Announcement Date	Company name and stock code	Principal amount (approximately HK\$'million)	Term to maturity (years)	Interest per annum (%) (Note 1)	Redemption price more than or equal to 100%	Approximate premium/ (discount) of conversion price over/to the average closing price for the last five trading days prior to and including the respective last trading day	Approximate premium/ (discount) of conversion price over/to the average closing price of the shares as at the respective last trading day
						(%)	(%)
	Maximum		7	12		57.9	57.5
	Minimum		1	0		(94.6)	(94.6)
	Mean		2.6	5.0		(0.3)	1.0
	Median		2	6.0		2.3	5.9
13-Jul-16	The Company	74.1	5.0	0.0	Y	(63.23)	(59.86)

Notes:

1. The interest rate was extracted from respective announcements of the convertible bonds/notes and excluded any form of fee, commissions or reward tangible or contingent to convertible bonds/notes other than the interest rate.
2. Pursuant to the announcements, these were the best effort placing issues, the principal amounts were subject to the actual amount placed.
3. Pursuant to the announcements, the discounts were calculated based on the last five consecutive trading days immediately prior to the respective last trading day.

As set out in the table above, there are 36 CB Comparable Transactions. The Conversion Price represents (i) a discount of approximately 63.23% to the closing Share price on the Last Trading Day; and (ii) a discount of approximately 59.86% to the average closing price for the 5 trading days immediately prior to and including the Last Trading Day. These discounts are:

- (1) within the range of the relevant discounts, although close to the high end of discount range, of the CB Comparable Transactions for the closing share price as at the last trading day immediately prior to the respective announcements of the CB Comparable Transactions, as well as the average closing share price for the 5 trading days for the respective CB Comparable Transactions; and
- (2) less favourable than the mean and median of the range of discounts of the CB Comparable Transactions for the closing share price as at the last trading day immediately prior to the respective announcements of the CB Comparable Transactions, as well as the average closing share price for the 5 trading days for the respective CB Comparable Transactions.

(i) Interest rate

The interest free Convertible Bond would save the Group from any potential interest expenses payable. We noted the interest rate of the CB Comparable Transactions range between zero to 12% per annum. We, therefore, are of the view that the zero interest rate of the Convertible Bonds is within the range of the CB Comparable Transactions and fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Term to maturity

The term to maturity of the Convertible Bonds is five years which falls within the CB Comparable Transactions range between one to seven years. Since no interest has to be paid by the Company in respect of the Convertible Bonds, we, therefore are of the view that the five years tenor of the Convertible Bonds is within the range of the CB Comparable Transactions and fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Transferability

We note that the Convertible Bonds may be transferred to another person provided that the holders of the Convertible Bond should transfer with fixed denomination of HK\$100,000 of each bond and if the holder does not transfer the Convertible Bonds for financing purpose, consent must be obtained by the Company. As such, we are of the view that the term of the transferability of the Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Anti-dilution price adjustment clause

It is not uncommon for a similar mechanism being imposed on Convertible Bonds subscription to protect the Subscriber from conversion shares being diluted. The Conversion Price shall be adjusted from time to time upon the occurrence of certain events, including (i) consolidation, sub-division or reclassification of the Shares; (ii) capitalisation of profits or reserves; (iii) capital distribution to the Shareholders; (iv) issuance of Shares or securities or grants options to subscribe or purchase for any Shares (the **Anti-dilution adjustments**). We are in the view that such clause of Anti-dilution adjustments of the Convertible Bonds is fair and reasonable so far as the Independent Shareholders are concerned.

Based on all of the above and the section headed "Discussion on the Subscription Price and Conversion Price" as below, we are of the view that the terms of the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and its Independent Shareholders as a whole.

K. Discussion on the Subscription Price and Conversion Price

During the course of our analysis, we could not identify any companies listed on the Stock Exchange with principal activities similar to the businesses of the Group as described above. Accordingly, we have not carried out the approach of comparing the Company and other similar Hong Kong listed companies. Instead, our analysis in this respect includes comparing the Subscription Price and Conversion Price against historical price performance of the Shares as set out in the section headed "Review on the Share Price Performance" and our view on the Subscription Price and Conversion Price is formed after taking into consideration of number of factors as summarised below:

- (1) the Company incurred a net loss of approximately HK\$91.07 million for the year ended 31 December 2015, which was mainly due to: (i) the depressed sales; and (ii) the incurrence of exceptional expenditures;
- (2) besides the Subscriptions, there is no other financing alternative currently available to the Group with comparable fund raising size. The Subscriptions allow the Group to bring in a strategic investor as Shareholder to revive its existing deteriorating financial performance;
- (3) without an introduction of the Subscriber with sound reputation, the Group would have less bargaining power in securing future financing and refinancing which in turn would have negative impact on the business operation and development of the Group;
- (4) the substantial amount to be raised from the Subscriptions could allow the Company to strengthen its financial position for the expansion of existing business and diversify its business model into new business areas of Development Plan in Saipan;
- (5) without the proceeds from the Subscriptions to settle the principal and interest of the Promissory Note, the Group would have further interest burden;
- (6) the discounts of the Subscription Price and Conversion Price to the closing prices of the Shares on the Last Trading Day and the average closing prices of the Shares for the last 5 trading days being within the range of the Comparable Issues and the CB Comparable Transactions; and
- (7) the Subscription Price and the Conversion Price each represents a substantial premium of approximately 52.00% over the adjusted net asset value of the Company of approximately HK\$0.075 per Share as at 31 December 2015,

we consider that the Subscription Price and the Conversion Price, although being at a deep discount of approximately 63.23% to the closing price of the Shares on the Last Trading Day, is fair and reasonable so far as the Independent Shareholders are concerned.