TC CAPITAL
天財資本

29 September 2017

To the Independent Board Committee and the Independent Shareholders of China HKBridge Holdings Limited

Dear Sir or Madam,

(1) PROPOSED RIGHTS ISSUE ON THE BASIS OF ONE (1) RIGHTS SHARE FOR EVERY TWO (2) EXISTING SHARES HELD ON THE RECORD DATE AT HK$2.2 PER RIGHTS SHARE; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We have been appointed by the Independent Board Committee as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 29 September 2017 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement in relation to, among others, the proposed Rights Issue, the Underwriting Agreement and the application for the Whitewash Wavier. The Company proposes to raise gross proceeds of approximately HK$1,610.4 million by way of conducting the Rights Issue on the basis of one (1) Rights Share for every two (2) existing Shares held by the Qualifying Shareholders on the Record Date (assuming no further issue of new Share(s) and no repurchase of Share(s) by the Company on or before the Record Date). The Company will allot and issue 732,000,000 Rights Shares at the Subscription Price of HK$2.2 per Rights Share. The estimated net proceeds from the Rights Issue will be approximately HK$1,595.4 million.

TC Capital Group
天財資本集團

Suite 1903-4, 19/F, Tower 6, The Gateway, Harbour City,
9 Canton Road, Kowloon, Hong Kong
香港九龍廣東道9號海港城港威大廈第六座十九樓1903-4室

www.tccapital.com.hk

On 31 August 2017, the Company entered into the Underwriting Agreement with the Underwriter in respect of the Rights Issue. The Rights Issue (excluding the Rights Shares subject to the Irrevocable Undertakings) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement. Further details of the Underwriting Agreement are set out in the section headed "The Underwriting Agreement" in the Letter from the Board.

As at the Latest Practicable Date, the Underwriter alone holds 340,192,667 Shares, representing approximately 23.24% of the total number of Shares in issue in the Company. The Underwriter and parties acting in concert with it (including Zhisheng) holds an aggregate of 510,290,000 Shares, representing approximately 34.86% of the total number of Shares in issue in the Company. While China Tian Yuan holds 240,000,000 Shares (representing approximately 16.39% of the total number of Shares in issue in the Company). Each of the Underwriter and China Tian Yuan has provided Irrevocable Undertakings to the Company to subscribe for their respective provisional allotments of Rights Shares (being an aggregate of 290,096,333 Rights Shares), and each of Mr. Sun and Mr. Jia has irrevocably undertaken to procure the performance of the obligations of the Underwriter and China Tian Yuan as mentioned above, respectively.

Since the Rights Issue would increase neither the issued share capital nor the market capitalisation of the Company by more than 50%, the Rights Issue is not required to be conditional on approval by the Shareholders under Rule 7.19(6) of the Listing Rules.

As the Underwriter is a substantial shareholder of the Company and thus, a connected person of the Company, the entering into of the Underwriting Agreement by the Company constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.92(2) of the Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 7.21(1) of the Listing Rules, the issue of the Rights Shares to the Underwriter under the Rights Issue is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date, the underwriting commission payable by the Company to the Underwriter would be approximately HK$9.7 million, representing no more than 1% of the gross proceeds of 441,903,667 Rights Shares being underwritten by the Underwriter. As the highest percentage ratio in respect of the payment of the underwriting commission is more than 0.1% but less than 5%, such payment constitutes a connected transaction for the Company which is exempt from circular (including independent financial advice) and Independent Shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Underwritten Shares. Assuming no Qualifying Shareholders (other than the Underwriter and China Tian Yuan) applied for their provisional allotments of the Rights Shares and excess Right Shares, the Underwriter will be required to take up all the Underwritten Shares and the aggregate shareholding interest held by the Underwriter alone, and the Underwriter together with parties acting in concert with it would increase to approximately 43.36% and 51.11% of the issued share capital of the Company as enlarged by the issue of the Rights Shares immediately after Completion, respectively. In such circumstances, the Underwriter and parties acting in concert with it would be required to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Underwriter and parties acting in concert with it) under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Underwriter 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, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll in accordance with the Takeovers Code. The granting of the Whitewash Waiver is a condition precedent to the Underwriting Agreement which is not capable of being waived. If the Whitewash Waiver is not obtained from the Executive and/or approved by the Independent Shareholders, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed.

Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, as the Underwriter and parties acting in concert with it (including Zhisheng) are interested in the Whitewash Waiver, they are required to abstain from voting on the resolution to be proposed at the SGM in relation to (i) the Rights Issue, (ii) the Underwriting Agreement and the transactions contemplated thereunder, and (iii) the Whitewash Waiver.

Pursuant to the Listing Rules and the Takeovers Code, the Independent Board Committee comprising all the non-executive and independent non-executive Directors, namely Mr. Mao Yumin, Mr. Ng Man Kung, Dr. Ngai Wai Fung and Mr. Lau Fai Lawrence, has been formed to advise the Independent Shareholders on the Rights Issue, the Underwriting Agreement and the Whitewash Waiver. We have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders as to whether the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are fair and reasonable as far as the Independent Shareholders are concerned and make recommendation on voting.

We, TC Capital International Limited, are independent of and not connected with any members of the Group or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver and we did not act as independent financial adviser to the Company's other transactions nor provided other services to the Company in the last two years.

BASIS OF OUR OPINON

In formulating our opinion, we have considered, among other things, (i) the Circular; (ii) the Underwriting Agreement; (iii) the annual reports of the Company for the two years ended 31 December 2015 and 2016 (the "**2015 Annual Report**" and "**2016 Annual Report**") and the interim results announcement of the Company for the six months ended 30 June 2017 (the "**2017 Interim Results Announcement**"); and (iv) relevant market data and information available from public sources and the website of the Stock Exchange. We have also relied on all relevant information and representations supplied, and the opinions expressed, by the Directors and the management of the Company. We have assumed that all such information and representations contained or referred to in the Circular are true and accurate in all material respects as at the date thereof. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company, and they have confirmed that no material information have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading. The Company will notify the Shareholders of any material changes (as defined under the Takeovers Code) as soon as possible subsequent to the Latest Practicable Date and prior to the date of SGM in accordance with Rule 9.1 of the Takeovers Code. If we shall become aware of any such material change, we will notify the Independent Shareholders of the potential impact on our opinion and/or recommendation set out in this letter as soon as possible.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of each of the Company, the Underwriter, and any of their respective subsidiaries and associates and parties acting in concert with them.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

I. The Rights Issue

(a) Background information of the Group

The Group is principally engaged in the (a) manufacture and sale of a broad range of printed circuit boards; (b) carrying out of treasury investments, including investment in securities and other related activities; and (c) rendering of financial services including asset management, investment and other consultancy related services.

Set out below the financial highlights of the Group for the three years ended 31 December 2016 ("**FY2014**", "**FY2015**" and "**FY2016**", respectively) and the unaudited consolidated financial results of the Group for the six months ended 30 June 2016 and 2017 ("**HY2016**" and "**HY2017**", respectively), as extracted from the 2016 Annual Report and the 2017 Interim Results Announcement:

	FY2014	**FY2015**	**FY2016**	**HY2016**	**HY2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	610,340	566,630	803,194	246,849	372,589
— Manufacturing	610,340	566,630	526,165	246,849	282,991
— Treasury investments	—	—	277,029	—	(12,132)
— Financial services	—	—	—	—	101,730
Gross profit	10,023	29,250	333,939	29,604	98,886
Finance costs	(14,899)	(17,380)	(18,088)	(7,803)	(33,621)
Profit/(loss) for the year/period	(166,594)	13,455	175,172	7,409	35,670

	As at 31 December		As at 30 June	
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(Audited)	(Audited)	(Audited)	(Unaudited)
Total assets	932,068	807,117	2,791,497	3,459,498
Total liabilities	560,155	466,808	1,624,119	2,242,447
Interest-bearing borrowings	279,384	251,120	1,325,219	1,902,740
Net assets	371,913	340,309	1,167,378	1,217,051

Source: Extracts from the 2015 Annual Report, the 2016 Annual Report and the 2017 Interim Report

We note from the table above that the revenue of the Group decreased by approximately 7.2% from approximately HK$610.3 million during FY2014 to approximately HK$566.6 million during FY2015. This could be mainly ascribed to the global trend of decreasing demand for personal computers, which led to a corresponding decrease in the demand for the ancillary parts and equipment of personal computers, which affect the revenue of the Group since manufacturing and sale of printed circuit boards was the only operating segment of the Group. Revenue then increased by 41.8% from approximately HK$566.6 million during FY2015 to approximately HK$803.2 million during FY2016 mainly because of the unrealised and realised fair value gains in the treasury investments of the Group arising from those listed securities being invested, offset by the decrease in revenue generated from manufacturing business. Treasury investments is a new business segment separately disclosed by the Group and recorded a revenue of approximately HK$277.0 million during FY2016, while the existing manufacturing business decreased from approximately HK$566.6 million for FY2015 to approximately HK$526.2 million for FY2016. The Group also recorded an increase in revenue from approximately HK$246.8 million during HY2016 to approximately HK$372.6 million during HY2017, representing an increase of approximately 51.0%. Such increase could be mainly ascribed to the newly established financial services business segment after increasing the number of headcounts equipping with investment banking and corporate finance experience and exposures on rendering the asset management and investment and consultancy related services, which contributed to the growth of the Group's revenue. Prior to 30 June 2016, the manufacturing and sale of printed circuit boards was the only operating segment of the Group. Revenue generated from manufacturing segment increased from approximately HK$246.8 million for HY2016 to approximately HK$283.0 million for HY2017 mainly due to increase in sales volume after the change sales mix. More sales were conducted in the PRC when compared HY2016 of which the revenue generated from this geographical segment alone increased by approximately HK$39.4 million. The treasury segment of the Group recorded a negative revenue of approximately HK$12.1 million for HY2017 mainly due to a net unrealised fair value loss on equity investments at fair value through profit or loss was recognised. The financial services segment of the Group in HY2017 recorded a revenue of approximately HK$101.7 million for HY2017 which was mainly contributed from investment referral and consultancy fee income was recognised.

Gross profit of the Group increased from approximately HK$10.0 million during FY2014 to approximately HK$29.3 million during FY2015, representing approximately an increase of 193%, which was primarily attributable to the introduction of new products with higher gross profit margin. Gross profit amounted to approximately HK$333.9 million during FY2016, representing an increase of approximately 1,039.6% from approximately HK$29.3 million during FY2015, which was mainly due to the unrealised fair value gains contributed by the treasury investments segment amounting to approximately HK$251.3 million. The Group also experienced an increase of gross profit of approximately 234.1% from approximately HK$29.6 million during HY2016 to approximately HK$98.9 million during HY2017, primarily due to the less profitable products being replaced by the products with higher profit margin as well as the net service income generated from the financial services business segment.

Finance costs of the Group increased by approximately 16.8% from approximately HK$14.9 million for FY2014 to approximately HK$17.4 million for FY2015, and then further increased by approximately 4.0% to approximately HK$18.1 million for FY2016. Such increase from FY2014 to FY2015 was mainly due to the increase in interest expenses on bank loans as a result of the increase in outstanding interest-bearing borrowings during the year and as at 31 December 2015, while the increase from FY2015 to FY2016 was mainly attributable to the increase in interest expense on loan from a related company and other loans from independent third parties. Finance costs experienced an increase of approximately 330.8% from approximately HK$7.8 million during HY2016 to approximately HK$33.6 million during HY2017, was mainly due to the increase in outstanding interest-bearing borrowings during HY2017, particularly those other loans from independent third parties which bore interests at rates ranging from 3% to 7.5% per annum.

During FY2014, the Group recorded a loss of approximately HK$166.6 million, while during FY2015 the Group turned the loss into a profit of approximately HK$13.5 million. It was mainly due to the recognition of the special gain from the disposal of 30% equity interest in Topsearch Printed Circuits (Shenzhen) Ltd. (the "**Disposal**") in FY2015, which was previously an associate of the Group and the relatively low gross profit margin generated by the Group in FY2014 (FY2014: 1.6%; FY2015: 5.2%). For the year of FY2016, the Group recorded a profit of approximately HK$175.2 million, representing an increase of approximately 1,197.8% from approximately HK$13.5 million during FY2015. Such increase resulted from the net disposal gain arising from the disposal of certain subsidiaries during FY2016 and the unrealised and realised fair value gains arising from equity investments held through profit or loss held for trading and gains from bargain purchases arising from certain acquisitions completed during FY2016. The Group recorded a profit of approximately HK$7.4 million during the period of HY2016, and it further increased to approximately HK$35.7 million during HY2017, which is mainly a result of the service fees derived from the financial services business segment, as well as the increase in total interest income as well as the return on private equity funds from treasury investments segment.

The total assets of the Group decreased from approximately HK$932.1 million as at 31 December 2014 to approximately HK$807.1 million as at 31 December 2015, representing a decrease of approximately 15.5%. Such decrease is mainly contributed by the decrease in property, plant and equipment as a result of additional impairment provisions made in FY2015 as well as the decrease in interests in associates as a result of the Disposal. The Group's total assets increased by approximately 245.9% from approximately HK$807.1 million as at 31 December 2015 to approximately HK$2,791.5 million as at 31 December 2016 mainly due to the increase in bank balances and structured deposits as well as equity investments and interests in associates, which are all mainly financed by the net proceeds received from the two placements completed during FY2016 and those new interest-bearing borrowings obtained during FY2016. It further increased by approximately 23.9% to approximately HK$3,459.5 million as at 30 June 2017 because of additional interest-bearing borrowings obtained during the HY2017 which was used to finance the investments in the Group's available-for-sale financial assets.

As at 31 December 2015, the total liabilities of the Group amounted to approximately HK$466.8 million, representing a decrease of approximately 20.0% when compared with the total liabilities of approximately HK$560.2 million as at 31 December 2014. This was mainly caused by the repayment of interest-bearing bank loans and the reduction in trade payables, other payables and accruals during FY2015. The Group recorded an increase in total liabilities of approximately 247.9% from approximately HK$466.8 million as at 31 December 2015 to approximately HK$1,624.1 million as at 31 December 2016 mainly due to the increase in the amount of short-term and long-term interest-bearing borrowings, and further increased by approximately 38.1% to approximately HK$2,242.4 million as at 30 June 2017. Such increase in total liabilities can be ascribed to the increase in long-term interest-bearing borrowings.

The Group's interest-bearing borrowings decreased by approximately 10.1% from approximately HK$279.4 million as at 31 December 2014 to approximately HK$251.1 million as at 31 December 2015 as the Group utilised part of the net proceeds from the disposal of its associate to reduce interest-bearing borrowings. It then increased by approximately 427.5% to approximately HK$1,325.2 million as at 31 December 2016 which can be attributable to the increase in other loans from independent third parties of approximately HK$923.8 million as well as obtaining a loan from a related company of HK$200 million. The Group's interest-bearing borrowings further increased to approximately HK$1,902.7 million as at 30 June 2017, representing an increase of approximately 44.9%. Such increase was mainly caused by the increase in bank borrowings of HK$24.0 million and other loans from independent third parties of HK$890.0 million then offsetting by the repayment of borrowings of approximately HK$337.7 million.

Based on the historical financial performance as discussed above, we understand the new business segment of treasury investments and financial services introduced by the Group in FY2016 and HY2017, respectively, had made significant contribution to the financial performance of the Group. However, the Group increased the level of indebtedness mainly due to the development of the new business segment, which led to the substantial increase in finance costs of the Group. As a result, we are of the view the allocation of the net proceeds to further develop the new business segment and repayment of debts is fair and reasonable and in the interests of the Company and the Shareholders.

Reasons for the Rights Issue and use of proceeds

As stated in the Letter from the Board, as disclosed in the Company's circulars dated 5 July 2016 and 30 September 2016 respectively, the Company had its plans to manage funds, which were primarily relevant to high yield equity and debts products such as bonds, exchange traded funds, future options and warrants in Asia, with a focus on China-related listed stocks around the world. All these funds are also expected to be invested in growth stocks in other markets that stand to benefit from favourable demographic, technological and/or economic changes. The Company's targeted customers of asset management business are high net-worth individuals in the PRC, long-term investment entities including insurance companies in the PRC and investors investing through local banks and financial institutions in Hong Kong.

Initial capital requirement for the asset management business by that time was expected to be approximately HK$2 billion. The Company also plans to use its internally generated resources including the yearly generated profit from the asset management business to support this business segment in achieving its target for assets under management of not less than HK$10 billion in the initial stage, and to further broaden its source of funds to debt and equity financing, project finance and private equity funds. Owing to the change in the current market sentiment, the Company had only achieved assets under management with a size of HK$5 billion as at 30 June 2017.

In order to further strengthen and enlarge its assets under management size and develop the Group's existing asset management business, the Company intends to launch several private funds in the next 12 months so as to build another asset under management size of at least HK$5 billion. The Group expects to inject at least HK$700 million (representing approximately 14% of the expected assets under management size) as seed money into these three to five new funds, depending on the investors' responses towards these funds.

Furthermore, owing to the tightening of exchange control, investors in the PRC have difficulties in transmitting money outside the PRC for gaining better investment returns. In this connection, the Group established an investment platform in Shenzhen (the "**Shenzhen Platform**") in August 2017 for the development of equity investment fund, asset management fund and trust management business in the PRC. The Group has committed to contribute RMB20 million (equivalent to HK$23.2 million) as the initial paid-up capital in the Shenzhen Platform and the Group also intends to use approximately HK$350 million from the net proceeds of the Rights Issue to build assets under management size of at least approximately HK$3 billion and/or make investments in high yield equity and debt products through the Shenzhen Platform.

It is estimated that the net proceeds of the Rights Issue will be approximately HK$1,595.4 million (assuming no Shares are issued (other than the Rights Shares) or repurchased on or before the Completion), after deducting all estimated expenses for the Rights Issue, which include the relevant professional fees incurred by the Company. To strengthen the Group's financial position, the Company intends to apply the net proceeds from the Rights Issue as to (1) approximately 25% for the repayment of the existing indebtedness of the Group to a non-financial institution, which amounts to approximately HK$406.3 million as at 30 June 2017. Such indebtedness carries an interest rate of 5% per annum and will fall due in December 2017; (2) approximately 70% to support and develop the Group's existing asset management businesses and the newly set up investment platform in Shenzhen, which amounts to approximately HK$1,109.4 million. For the Group's existing asset management and financial service businesses in Hong Kong and in China, approximately two-thirds of such 70% of the net proceeds will be used as seed money for launching new funds in Hong Kong within the next 12 months and the remaining one-third will be used to finance the investment platform in Shenzhen; and (3) approximately 5% as general working capital of the Group (including operating expenses such as staff costs, professional fees, marketing expenses), for maintaining the minimum liquid capital to carry out regulated activities under the SFO, and/or or for future investment opportunities should suitable opportunities become available to the Group, which amounts to approximately HK$79.7 million. As at the Latest Practicable Date, the Group had not identified any potential investment target.

As set out in the Letter from the Board, based on the aforesaid and taking into account that the Rights Issue will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Group, the Board (excluding the Independent Board Committee whose opinion is formed and set forth in the Circular) considers that fund raising through the Rights Issue is in the interests of the Company and the Shareholders as a whole.

2016 Annual Report stated that "Surrounded by intensive competition and the slow-down of the HDDs industry segment and new orders from other industrial segment take time to build up, the manufacturing segment is likely to grow in slow momentum in 2017. Market conditions for the manufacturing segment are expected to be competitive and tough in the foreseeable future. The Group will actively explore opportunities from asset management business and by taking advantage of internationalisation of Renminbi, the stable international financial market in Hong Kong and the commitment to build Hong Kong into an international asset management centre.", which led to the Company plan to develop asset management business. Moreover, as stated in 2016 Annual Report, "on 23 March 2016, the Company further announced that it planned to expand its business to the carrying out of assets and funds management for client as well as conducting financial investments from available investment monies of the Company, including but not limited to securities, bonds and debentures on discretionary basis. On 21 December 2016, Hong Kong Bridge Investments Limited, an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong, successfully obtained the SFC approval. As a result of this latest development, advisory on securities and asset management has become one of the business segments of the Group". We understand the asset management business was newly set up in last year and the Company intends to put effort on the development of this business segment. We are of the view that using part of the net proceeds from the Rights Issue for the development of asset management business is fair and reasonable and in line with the Group's recent strategic plan.

As advised by the Directors, as at the Latest Practicable Date, the Company and its Directors did not have any intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) on any potential corporate action in the forthcoming 12 months.

As stated in the Letter from the Board, the Company will allocate approximately two-third of 70% of the net proceed (approximately HK$ 739.6 million) to support and develop the Group's existing asset management businesses and the remaining one-third of 70% of the net proceed (approximately HK$ 369.8 million) to support the newly set up investment platform in Shenzhen, As advised by the Directors, the Company is expected to support the Asset Management Business in achieving its target for assets under management of not less than HK$10 billion in the initial stage. As stated in 2016 Annual Report, the asset management business of the Group will be launched in the second half of 2017 by introducing two separate funds into the market. Other than this, an asset management company named 深圳港橋股權投資基金管理有限公司 has been established in Shenzhen by the Group on 3 August 2017. Based on the information above, we consider using approximately 70% of the net proceeds to support the asset management business and the investment platform in Shenzhen is in line with the Group's recent business plan which can enable the Group to achieve its targeted size of assets under management and the development of the investment platform in Shenzhen.

According to the Fund Management Activities Survey 2016 issued by Securities and Futures Commission in July 2017, Hong Kong's combined fund management business increased by 5.2% year-on-year to HK$18,293 billion as of 31 December 2016, with a 5 years cumulative growth of 45.3%. While the asset management business conducted by SFC-licensed corporations and banks grew by 4.6% to HK$12,824 billion in 2016. The asset management business is the core component of the combined fund management business in Hong Kong and it is a growth sector in Hong Kong. Moreover, according to the National Bureau of Statistics of China, the size of equity investment funds in the PRC increased from approximately RMB2,651.0 billion in 2011 to RMB7,667.4 billion in 2015 and the number of equity investment funds in the PRC increased from approximately 914 in 2011 to 2,723 in 2015. Based on the information above, we understand the asset management in Hong Kong and China is in a growing pace and will continue to expand in the future.

We noted from the historical financial data of the Group as stated in the table above, the interest-bearing borrowings of the Group have been increased from approximately HK$251.1 million in FY2015 to approximately HK$1,325.2 million in FY2016. The proceeds of the interest-bearing borrowings have been used to partially finance the acquisition of an associate, which engaged in a property development project in the PRC and to involve in making other financial investments including the provision of financial assistances and the subscription of funds being launched by independent third parties. Since one of the interest-bearing borrowings is expected to fall due before the end of FY2017 and the interest rates being charged is relatively higher than the cost of equity, the Company, therefore, plans to apply part of the net proceeds for the repayment of that existing indebtedness. We are of the view that the Company using part of the net proceed for the repayment of the existing indebtedness of the Group are fair and reasonable and also in the interests of the Company and the Shareholders.

On 26 February 2016, the Group entered into a placing agreement (the "**First Placement Agreement**"). According to the announcement dated 9 March 2016, the placement according to the First Placement Agreement (the "**First Placement**") was completed and the total net proceed of approximately HK$182.48 million from the First Placement was intended to use as general working capital of the Group. As stated in the Company's announcement dated 31 August 2017, the net proceeds from the First Placement was applied as to approximately 20% as the Group's general working capital (including operating expenses) and as to approximately 80% was utilised for the Group's financial investments or investments, which include both listed and unlisted equity and debt investments. Although the intention of using the net proceeds from the First Placement may differ from its actual usage, we are of the view that such actual usage is in line with the business strategies of the Group.

On 14 November 2016, the Group entered into another placing agreement (the "**Second Placement Agreement**"). According to the announcement dated 6 December 2016, the placement according to the Second Placement Agreement (the "**Second Placement**") was completed and the total net proceeds of approximately HK$477.6 million from the Second Placement was intended to use as general working capital of the Group, repayment of the Group's indebtedness and the Group's other potential investments in the future. As stated in the Company's announcement dated 31 August 2017, the net proceeds from the Second Placement was applied as to approximately 85% for the purchase of listed shares in Hong Kong; as to approximately 14% was used as the Group's general working capital (including staff costs, rental expenses, professional fees, promotional expenses, and other operating expenses); and the remaining 1% was used for the repayment of loan interests and purchases of fixed assets.

As stated in 2016 Annual Report and 2017 Interim Report, the Group has subscribed certain interests in funds and made contributions to newly setup offshore funds. Moreover, certain borrowings have been repaid during the period. As a result, we understand the utilisation of the net proceeds obtained from the First Placement and Second Placement are in line with the Group's business strategies as stated in the Company's announcements and annual reports.

Having taken into accounts that:

(i) the net proceed will be used for the development of asset management which is in line with the Group's recent strategic plan;

(ii) the asset management industry of Hong Kong and PRC is in growing pace and will continue to expand in the future;

(iii) the use of net proceed obtained from the historical placement was used in line with the Group's business strategies as stated in the respective announcement;

(iv) since the cash and bank balances of the Group decreased significantly from approximately HK$992.8 million as at 31 December 2016 to approximately HK$401.3 million as at 30 June 2017 mainly due to the cash outflows as a result of (a) the increase in loan receivables, which was mainly due to the fact that three new advances made during the six months period ended from 1 January 2017 to 30 June 2017. The first transaction was conducted on 22 March 2017, which was relevant to an advance of RMB200 million (equivalent to approximately HK$224 million) and was a discloseable transaction of the Company as defined under Chapter 14 of the Listing Rules. The second transaction was conducted on 24 May 2017, which was relevant to a provision of financial assistance of HK$50 million to an independent third party to the Group for an initial term of three months which can be further extendable for another three months at the Group's consent. For the third transaction, it was conducted on 15 June 2017, which was also relevant to the provision of financial assistance of RMB60 million (equivalent to approximately HK$69 million), which was secured with a term of one year from the date of drawdown; and (b) increase in available-for-sale financial assets, which was mainly due to the subscription of a private offshore fund of HK$200 million, which was a discloseable transaction of the Company as defined under Chapter 14 of the Listing Rules and further details of which were set out in the Company's announcement dated 25 January 2017, the Group can further strengthen its capital base through the fund raising activity;

(v) the Qualifying Shareholders are provided equal opportunity to subscribe for the Right Shares for the purpose of maintaining their respective existing shareholding interests;

(vi) the Qualifying Shareholders have the right to sell their entitled nil-paid Right Shares in the market, which still able to enjoy the benefit from the Right Issue; and

(vii) the net proceed will be used for the repayment of the existing indebtedness of the Group which will lower the burden on finance costs of the Group;

we concur with the Directors that, despite the potential dilution effect of the Rights Issue on the shareholding interests of the Shareholders in the Group (as discussed in the paragraph headed "(g) Possible dilution of the shareholding interests of the existing public Shareholders" below) if such Shareholders do not take up their provisional allotments under the Rights Issue, the reasons for the Right Issue are fair and reasonable and in the interests of the Company and the Shareholders.

Other financing alternatives available to the Group

As advised by the Directors, the Company has been proactively considering various fund raising alternatives such as debt financing and Share placement. Part of the net proceeds will be utilised to repayment of existing indebtedness of the Group since the Company intends to gradually lower the level of the interest-bearing borrowings. Besides, the Company expects that the interest rate is expected to continuously rise under the current regime. As a result, the Company considers that debt financing is not the best alternative because the financial burden will gradually increase and so the related interest payment which will affect the operating cashflows of the Group. Moreover, the Company considers that the Share placement will dilute in shareholding interest of all or some of the existing Shareholders without offering them opportunities to participate in the enlargement of the capital base of the Company, whereas the Rights Issue is advantageous in the sense that it provides all Qualifying Shareholders with opportunities to maintain their respective prorate shareholdings in the Company and participate in future development of the Group as well as the net assets of the Group can be enlarged. We noted that the Group's indebtedness had increased and the Group's intent to use part of the net proceeds for repayment of the existing debts, so debt financing is no longer a feasible option to the Group for fund raising. Moreover, Right Issue will provide a platform and opportunity to all Qualifying Shareholders to participate and enjoy the enlarged capital or potential return of the Group equally. As a result, we concur with the Directors that the Right Issue is the best option over the other alternatives since it is in line with the company's capital structure direction and also allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution.

(b) *Principal terms of the Rights Issue*

The following table summarizes the major terms of the Rights Issue:

Basis of the Rights Issue	:	One (1) Rights Share for every two (2) existing Shares held by the Qualifying Shareholders on the Record Date
Number of existing Shares in issue as at the Latest Practicable Date	:	1,464,000,000 Shares
Number of Rights Shares	:	732,000,000 Shares (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date)
Subscription Price	:	HK$2.20 per Rights Share with a nominal value of HK0.1 each The net Subscription Price for each Rights Share is approximately HK$2.18
Number of Shares in issue upon Completion	:	2,196,000,000 Shares (further assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date)
Underwriter:	:	Youfu Investment Co., Ltd, a company wholly-owned by Mr. Sun and which owns 340,192,667 Shares as at the Latest Practicable Date

As at the Latest Practicable Date, there are Outstanding Share Awards held by Mr. Liu Tingan, an executive Director pursuant to which up to 48,000,000 Shares may be issued upon certain vesting conditions being met. The relevant award Shares attached to such Outstanding Share Awards will be vested in tranches of 12,000,000 shares per year. The next vesting date of the second tranche of award Shares in respect of the Outstanding Share Awards is 31 March 2018. For such reasons and having regard to the current timetable of the proposed Rights Issue, the total number of Rights Shares will not be affected by the Outstanding Share Awards.

Upon Completion, it is expected that the number of award Shares attached to the Outstanding Share Awards would not be subject to any adjustment. Save for the Outstanding Share Awards, there were no derivatives, outstanding convertible securities, options or warrants of the Company in issue which confer any right to subscribe for, convert or exchange into the Shares as at the Latest Practicable Date.

According to the terms of the Underwriting Agreement, the obligations of the Underwriter under the Underwriting Agreement are conditional on, among other things, the Underwriter and China Tian Yuan providing their respective Irrevocable Undertakings and complying with and performing their respective obligations and undertakings thereunder.

Irrevocable Undertakings

As at the Latest Practicable Date, the Underwriter was the registered holder of 340,192,667 Shares (representing approximately 23.24% of the total number of Shares in issue in the Company) while China Tian Yuan was the registered holder of 240,000,000 Shares (representing approximately 16.39% of the total number of Shares in issue in the Company). Each of the Underwriter, China Tian Yuan, Mr. Sun and Mr. Jia have executed the Irrevocable Undertakings in favour of the Company, pursuant to which, among other things, (i) each of the Underwriter and China Tian Yuan has irrevocably undertaken to accept and lodge applications for their respective provisional allotments of Rights Shares (being an aggregate of 290,096,333 Rights Shares); (ii) each of the Underwriter and China Tian Yuan has irrevocably undertaken not to transfer, trade or otherwise deal in any of their Shares on or before the Record Date or when the Underwriting Agreement is otherwise terminated in accordance with the terms thereof, whichever is the earlier; and (iii) each of Mr. Sun and Mr. Jia has irrevocably undertaken to procure the performance of the obligations of the Underwriter and China Tian Yuan as mentioned above respectively.

The Irrevocable Undertakings shall terminate after the Record Date or the termination of the Underwriting Agreement (as the case may be).

The Subscription Price

The Subscription Price of HK$2.2 per Rights Share will be payable in full when a Qualifying Shareholder accepts the relevant provisional allotments of the Rights Shares and, where applicable, applies for excess Rights Shares or when a renouncee of any provisional allotment of Rights Shares or a transferee of nil-paid Rights Shares applies for the relevant Rights Shares. The Subscription Price represents:

(a) a discount of approximately 2.22% to the closing price of HK$2.25 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 21.43% to the closing price of HK$2.80 per Share as quoted on the Stock Exchange on the Last Trading Day (the "**Last Trading Date Price**");

(c) a discount of approximately 21.43% to the closing price of HK$2.80 per Share as quoted on the Stock Exchange on 30 August 2017 (being the last business day prior to the date of the Announcement);

(d) a discount of approximately 22.04% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK$2.82 per Share;

(e) a discount of approximately 22.73% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK$2.85 per Share;

(f) a discount of approximately 15.38% to the theoretical ex-rights price of approximately HK$2.60 per Share based on the closing price of HK$2.80 per Share as quoted on the Stock Exchange on the Last Trading Day;

(g) a premium of approximately 171.60% over the audited consolidated net asset value per Share as at 31 December 2016 of approximately HK$0.81 (which is calculated based on the audited consolidated net asset value of the Group attributable to the owners of the Company as at 31 December 2016 of approximately HK$1,167,378,000 and 1,440,000,000 Shares in issue as at 31 December 2016); and

(h) a premium of approximately 165.06% over the unaudited consolidated net asset value per Share as at 30 June 2017 of approximately HK$0.83 (which is calculated based on the unaudited consolidated net asset value of the Group attributable to the owners of the Company as at 30 June 2017 of approximately HK$1,217,051,000 and 1,464,000,000 Shares in issue as at 30 June 2017).

The theoretical ex-rights price of approximately HK$2.60 per Share (based on the Last Trading Date Price) represents a discount of approximately 7.14% to the Last Trading Day Price.

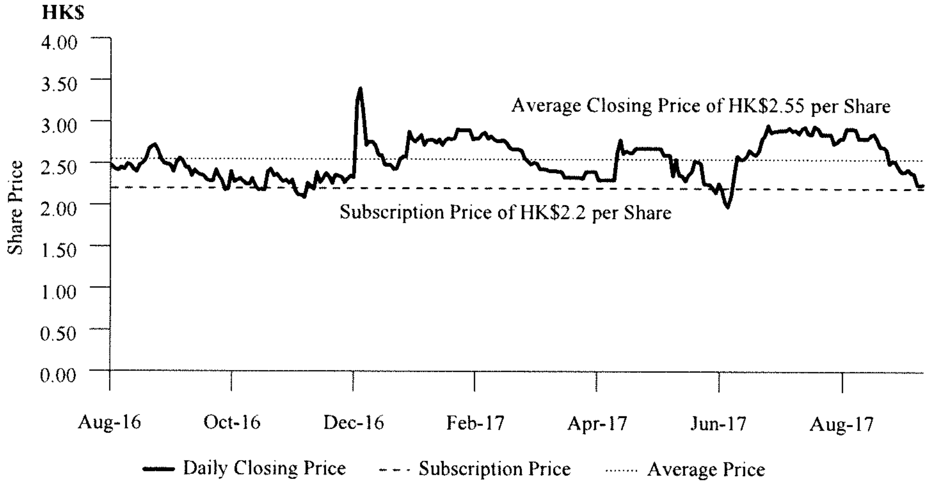
As stated in the Letter from the Board, the terms of the Rights Issue, including the Subscription Price, were determined after arm's length negotiations between the Company and the Underwriter, after having taken into account several factors and. the Directors (excluding members of the Independent Board Committee whose view are and set out in the section headed "Letter from the Independent Board Committee" in the Circular) consider that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Please refer to the section headed "THE PROPOSED RIGHTS ISSUE – The Subscription Price" in the Letter from the Board for further details.

(c) Analysis on the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose:

Historical Share price performance

Set out below is a chart showing the movement of the daily closing price of the Shares as quoted on Stock Exchange for the period from 31 August 2016 (being the first trading day of the 12-month period prior to the Last Trading Day) up to and including the Latest Practicable Date (the "**Review Period**"). We consider the Review Period which covers a full year prior to the Underwriting Agreement, represents a reasonable period to provide a general overview of the recent price performance of the Shares when conducting an analysis among the historical closing prices of the Shares and the Subscription Price.



Source: The Stock Exchange

As shown in the above chart, the daily closing price fluctuated in a range between HK$1.98 per Share to HK$3.40 per Share. The average daily closing price of the Shares is HK$2.55 per Share. The Subscription Price was close to lowest daily closing price at the price range of the Review Period. Among the 265 trading days during the Review Period, the daily closing price was lower than the Subscription Price of HK$2.20 per Share for only 15 trading days.

As advised by the Directors, it is the Company's intention to provide a reasonable discount to the Subscription Price offered to Qualifying Shareholders in order to encourage them to participate in the Rights Issue. After consider the Subscription Price is (i) the within the price range during the Review Period; (ii) lower than the average daily closing price of the Shares; and (iii) lower than most of the trading day's daily closing price during the Review Period, we concur with the Company that the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as compare to the historical market price of the Share.

Market comparable analysis

Based on the information available from the Stock Exchange's website, We had initially considered identifying comparable share subscription transactions based on the following criteria: (i) rights issues conducted by other companies listed on the Hong Kong listed company; and (ii) announced within the six-month period immediately before the date of the Last Trading Day, i.e. 28 February 2017 up to the Last Trading Day, an exhaustive list of 24 of the rights issues (the "**Comparables**") for comparison purpose as set out in the table below. To the best of our endeavour, we believe that the list of the Comparables is an exhaustive list of rights issues meeting the aforesaid search criteria and is a fair and representative sample to be taken as a general reference of the recent market practices in relation to rights issues. We are not able to identify any of the recent right issue which the related group have similar business activities of the Group. We are of the view that the period from 28 February 2017 to the Last Trading Day would provide us with the recent relevant information on the market sentiment, which plays an important role in the determination of the subscription price of a rights issue in general. We have reviewed the market capitalization and the financial position, such as net asset value, on each of the Comparables. However, there is no conclusive evidence that suggests any correlations between the right issue price and the aforesaid factors. Moreover, we consider it is more appropriate and meaningful to compare the right issues price of the Comparables to its respective recent market value of share to present the recent trend of the rights issue transactions in the prevailing market condition. As a result, we have not considered the aforesaid factors as our selection basis. We also noted that the business activities of the Comparables are not directly comparable to those carried out by the Group and the terms of the rights issue of the Comparables may vary from companies with different business activities with their size, financial positions, business performances and future prospects. However as the Comparables are the recent transactions announced to the public, we consider that the Comparables provide a fair indicator of what was generally accepted by investors in assessing the subscription price in rights issue transactions and the statistics of the Comparables which could present the recent trend of the rights issue transactions in the prevailing market condition. Our relevant findings are summarised in the table below for their further information to make decision with respect to the Rights Issue. We have not conducted any independent investigation with regard to the businesses and operations of the Comparables which shall not affect our analysis as we are comparing the general trend of rights issue exercises in the market with the Rights Issue. We consider that the Comparables could provide a general reference for the recent market practice of Hong Kong listed companies in right issue exercises under similar market conditions.

Date of announcement	Company name (Stock Code)	Basis of entitlement	Market Capitalisation (As at the date of the respective announcement) *(HK$ million)*	Premium/ (Discount) of the subscription price over/to the closing price on the last trading day %	Premium/ (Discount) of the subscription price over/to the theoretical ex-rights price, based on the last trading day %	Maximum dilution *(Note 1)* %	Underwriting commission %
28/2/2017	Food Idea Holdings Limited (8179)	1 for 1	155.27	(17.65)	(9.68)	50.00	0.25
3/3/2017	China Kingstone Mining Holdings Limited (1380)	5 for 1	75.05	(44.70)	(11.89)	83.33	2.00
14/3/2017	CC Land Holdings Limited (1224)	1 for 2	5,766.56	(12.28)	(8.68)	33.33	HK$4M
14/3/2017	Lerado Financial Group Company Limited (1225)	2 for 1	361.61	(36.31)	(15.97)	66.67	1.50
17/3/2017	Min Xin Holdings Limited (222)	3 for 10	3,185.22	(11.37)	(8.98)	23.08	0.00
28/3/2017	Hong Kong International Construction Investment Management Group Co., Limited (687)	2 for 1	4,582.03	0.99	0.32	66.67	2.50
29/3/2017	Global Energy Resources International Group Limited (8192)	1 for 2	245.97	(21.05)	(15.01)	33.33	3.00
12/4/2017	China Ground Source Energy Industry Group Limited (8128)	2 for 5	615.54	(58.33)	(50.00)	28.57	2.50
19/4/2017	Xinyi Solar Holdings Limited (968)	1 for 10	16,689.78	(10.04)	(9.31)	9.09	0.00

Date of announcement	Company name (Stock Code)	Basis of entitlement	Market Capitalisation (As at the date of the respective announcement) *(HK$ million)*	Premium/ (Discount) of the subscription price over/to the closing price on the last trading day %	Premium/ (Discount) of the subscription price over/to the theoretical ex-rights price, based on the last trading day %	Maximum dilution *(Note 1)* %	Underwriting commission %
27/4/2017	New Wisdom Holding Company Limited (8213)	1 for 2	283.30	(52.00)	(41.94)	33.33	0.00
28/4/2017	China Oceanwide Holdings Limited (952)	3 for 1	1,813.73	(7.56)	(1.79)	75.00	HK$4M
4/5/2017	Theme Int'l (990)	1 for 2	994.67	(29.91)	(22.28)	33.33	0.00
16/5/2017	Kirn Group (8109)	5 for 2	133.01	(34.58)	(13.15)	71.43	1.50
17/5/2017	ABC Multactive (8131)	1 for 4	94.43	(54.55)	(48.98)	20.00	0.83
29/6/2017	Focus Media Network Limited (8112)	4 for 1	61.03	(17.86)	(4.17)	80.00	2.25
19/7/2017	V.S. International AL Group Limited (1002)	1 for 4	489.38	(17.86)	(14.81)	20.00	0.00
20/7/2017	Beautiful China Holdings Company Limited (706)	3 for 4	357.07	(29.5)	(19.3)	69.28	HK$2.1M
23/7/2017	Digital China Holdings Limited (861)	1 for 4	7,263.22	(29.6)	(25.1)	20.00	0.00
27/7/2017	China Agri-products Exchange Limited (149)	7 for 1	205.70	(62.66)	(17.28)	13.41	2.50
28/7/2017	Mega Medical Techonology Limited (876)	1 for 3	1,205.26	21.25	15.94	35.76	0.00
14/8/2017	Roma Group Limited (8072)	3 for 2	284.99	(34.21)	(17.13)	60.00	7.00

Date of announcement	Company name (Stock Code)	Basis of entitlement	Market Capitalisation (As at the date of the respective announcement) *(HK$ million)*	Premium/ (Discount) of the subscription price over/to the closing price on the last trading day %	Premium/ (Discount) of the subscription price over/to the theoretical ex-rights price, based on the last trading day %	Maximum dilution *(Note 1)* %	Underwriting commission %
16/8/2017	Carnival Group International Holdings Limited (996)	1 for 4	9,671.06	(39.39)	(34.21)	20.00	3.50
18/8/2017	China Polymetallic Mining Limited (2133)	1 for 2	579.92	(50.8)	(40.8)	33.33	1.50
22/8/2017	China State Construction International Holdings Limited (3311)	1 for 8	52,062.42	(9.36)	(8.41)	11.11	2.00
	Minimum			(62.66)	(50.00)	9.09	0.00
	Maximum			21.25	15.94	83.33	7.00
	Average			(27.47)	(17.61)	41.25	1.56
	the Company	1 for 2	4,099.2	(21.43)	(15.38)	33.33	1.00

Source: The Stock Exchange

Notes:

1. Maximum dilution effect of each rights issue is calculated as: ((number of rights shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the rights shares under the basis of entitlement + number of rights shares to be issued under the basis of entitlement) x 100%), e.g. for an rights issue with basis of 1 rights share for every two (2) existing shares, the maximum dilution effect is calculated as ((1)/(1+2)*100%) = approximately 33.33%.

From the above table, comparing the subscription price to the closing price on the last trading day of the Comparables, we note a range from a premium of approximately 21.25% to a discount of approximately 62.66% , with the average at discount of approximately 27.47%. On the other hand, comparing the subscription price to the theoretical ex-entitlement prices per share based on the respective last trading day prior to the rights issue announcement of the Comparables ranged from a premium of approximately 15.94% to a discount of approximately 50.0%, with the average at a discount of approximately 17.61%.

Although we noted that the Subscription Price discount of approximately 21.43% and 15.38% to the closing price per Share on the Last Trading Day and to the theoretical ex-entitlement prices per share based on the Last Trading Day, respectively, are lower than the respective average of the Comparables, having considered that:

(i) the Subscription Price is the fair and reasonable and in the interest of the Company and the Shareholders as compare to the historical market price of the Share as discussed in the paragraph headed "Analysis on the Subscription Price" above; and

(ii) the reason and benefit of the right issue and its allocation plan of the net proceed from right issue, detail of which was set out in the section headed "Reasons for the Rights Issue and use of proceeds" above;

Based on the abovementioned principal factors and reasons, we concur with the Company that the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as compare to recent market comparable right issue transactions.

Taking into account on both the analysis of historical price performance of the Company and also the recent comparable right issue transactions as discussed above, we concur with the Company that the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole

(d) Underwriting Agreement and commission

As stated in the Letter from the Board, on 31 August 2017, the Company and the Underwriter, which owns 340,192,667 Shares as at the Latest Practicable Date, representing approximately 23.24% of the existing issue share capital of the Company, entered into the Underwriting Agreement in respect of the Right Issue. The Rights Issue (excluding the Rights Shares subject to the Irrevocable Undertakings) will be fully underwritten, by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement. The total number of Rights Shares agreed to be underwritten by the Underwriter is 441,903,667 Rights Shares (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Record Date), being the total number of 732,000,000 Rights Shares less a total of 290,096,333 Rights Shares to be taken up by the Underwriter and China Tian Yuan under the Irrevocable Undertakings. Detail of the Underwriting Agreement are set out in the section headed "THE UNDERWRITING AGREEMENT" in the Letter from the Board.

As stated in the Letter from the Board, the commission under the Underwriting Agreement is 1% of the aggregate Subscription Price in respect of the Rights Shares agreed to be underwritten by the Underwriter. The commission rate was determined after arm's length negotiations between the Company and the Underwriter. We noted that from the comparison table of the Comparable above, the underwriting commission of the Comparables ranged from nil to 7% with an average underwriting commission of 1.56%. After considered the commission under the Underwriting Agreement is within the range and below the average of underwriting commission of the Comparables. We concur with the Company that the commission rate under the Underwriting Agreement is justifiable as compare to the Comparables.

(e) Irrevocable Undertakings and other undertaking by the Underwriting

Irrevocable Undertakings

As stated in the Letter from the Board, as at the Latest Practicable Date, the Underwriter was the registered holder of 340,192,667 Shares (representing approximately 23.24% of the total number of Shares in issue in the Company) while China Tian Yuan was the registered holder of 240,000,000 Shares (representing approximately 16.39% of the total number of Shares in issue in the Company). Each of the Underwriter, China Tian Yuan, Mr. Sun and Mr. Jia have executed the Irrevocable Undertakings in favour of the Company, pursuant to which, among other things, (i) each of the Underwriter and China Tian Yuan has irrevocably undertaken to accept and lodge applications for their respective provisional allotments of Rights Shares (being an aggregate of 290,096,333 Rights Shares); (ii) each of the Underwriter and China Tian Yuan has irrevocably undertaken not to transfer, trade or otherwise deal in any of their Shares on or before the Record Date or when the Underwriting Agreement is otherwise terminated in accordance with the terms thereof, whichever is the earlier; and (iii) each of Mr. Sun and Mr. Jia has irrevocably undertaken to procure the performance of the obligations of the Underwriter and China Tian Yuan as mentioned above respectively.

The Irrevocable Undertakings shall terminate after the Record Date or the termination of the Underwriting Agreement (as the case may be).

Other undertaking

On 27 September 2017, China Aim has executed the China Aim Undertaking pursuant to which China Aim has undertaken not to subscribe for the 100,000,000 Rights Shares to which it is entitled nor apply for any excess Rights Shares.

The Underwriter further undertakes to the Company that it shall use its best endeavours and take appropriate steps to ensure that the public float requirements under Rule 8.08(1) of the Listing Rules be fulfilled by the Company at all times upon Completion, including but not limited to entering into sub-underwriting agreement(s) to place out its Shares to maintain the minimum public float for the Shares.

(f) ***Application for excess Rights Shares***

As stated in the Letter from the Board, Qualifying Shareholders are entitled to apply for (a) any unsold entitlements of the Excluded Shareholders, (b) any Rights Shares provisionally allotted but not taken up by other Qualifying Shareholders and (c) any unsold aggregate fractions of Rights Shares.

Application may be made by duly completing and signing the EAF (in accordance with the instructions printed thereon) and lodging the same with a separate remittance for the excess Rights Shares with the Registrar. The Board will allocate the excess Rights Shares (if any) at its discretion, but on a fair and equitable basis, to the Qualifying Shareholders under each application. No preference will be given to applications for topping up odd lot holdings to whole board lot holdings as the giving of such preference may potentially be abused by certain Shareholders by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result.

Any Rights Shares not taken up by the Qualifying Shareholders and not taken up by excess applications will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

We consider the above terms on the application for excess Right Shares are on normal commercial terms. Moreover, the Qualifying Shareholders are given the first right to subscribe for any Rights Shares not taken up before the Underwriters. As a result, we are of the view that the application for excess Right Shares are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(g) ***Possible dilution of the shareholding interests of the existing public Shareholders***

The following table shows the shareholding structures of the Company as at the Latest Practicable Date and immediately after the Completion:

	(i) As at the Latest Practicable Date		(ii) Immediately after Completion, assuming all the Rights Shares and excess Rights Shares not taken up by China Aim are subscribed by the Qualifying Shareholders (except China Aim)		(iii) Immediately after Completion, assuming no Qualifying Shareholders (other than the Underwriter and China Tian Yuan) applied for their provisional allotments of Rights Shares and excess Rights Issue	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*	*Number of Shares*	*Approx. %*
The Underwriter *(Note 1)*	340,192,667	23.24	510,289,000	23.24	952,192,667	43.36
Zhisheng *(Note 1)*	170,097,333	11.62	255,145,999	11.62	170,097,333	7.75
Sub-total of the Underwriter and parties acting in concert	510,290,000	34.86	765,434,999 *(Note 5)*	34.86	1,122,290,000	51.11
Connected persons:						
China Tian Yuan *(Note 2)*	240,000,000	16.39	360,000,000	16.39	360,000,000	16.39
China Aim Holdings Limited *(Note 3)*	200,000,000	13.66	200,000,000 *(Note 6)*	9.11 *(Note 6)*	200,000,000	9.11 *(Note 7)*
Liu Tingan *(Note 4)*	12,000,000	0.82	18,000,000	0.82	12,000,000	0.55
Public Shareholders	501,710,000	34.27	852,565,000 *(Note 5,6)*	38.82 *(Note 6)*	501,710,000	22.84 *(Note 7)*
Total	**1,464,000,000**	**100.00**	**2,196,000,000**	**100.00**	**2,196,000,000**	**100.00**

Notes:

1. The Underwriter is wholly-owned by Mr. Sun. He is the brother-in-law of Ms. He Yeqin (賀葉芹) ("Ms. He"), the sole shareholder of Zhisheng. Ms. He is the sister-in-law of Mr. Sun. Therefore, the Underwriter, Mr. Sun, Zhisheng and Ms. He are parties acting in concert under the Takeovers Code.

2. China Tian Yuan is wholly-owned by Ningxia Tian Yuan Manganese Industry Co., Ltd.* (寧夏天元錳業有限公司), which is in turn owned as to 99.62% by Mr. Jia, 0.19% by Ms. Dong Jufeng (東菊鳳) and Ms. Zhu Fenglian (朱鳳蓮), respectively.

3. China Aim Holdings Limited is wholly-owned by Ms. Liu Hui (劉慧).

4. Mr. Liu Tingan (劉廷安) is an executive Director.

5. Assuming the aggregate fractions of one Rights Share will be sold in the market or taken by other Qualifying Shareholders in the public.

6. Assuming other Qualifying Shareholders in the public apply for the 100,000,000 excess Rights Shares to which China Aim is entitled but are not taken up by China Aim pursuant to the China Aim Undertaking. Further, as the shareholding of China Aim in the Company will fall below 10% immediately after Completion, it will no longer be a substantial shareholder of the Company and hence, not a connected person of the Company. In such connection, the total shareholding of all public shareholders (including China Aim) in the Company will become 47.93%.

7. Immediately after Completion, assuming no Qualifying Shareholders (other than the Underwriter and China Tian Yuan) applied for their provisional allotments of Rights Shares and excess Rights Issue, the shareholding of China Aim in the Company will fall below 10% and it will no longer be a substantial shareholder of the Company and hence, no longer be a connected person of the Company. In such connection, the total shareholding of all public shareholders (including China Aim) in the Company will become 31.95%.

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

Each of the Underwriter, China Tian Yuan, Mr. Sun and Mr. Jia have executed the Irrevocable Undertakings in favour of the Company, detail of which set out in the paragraph headed "(e) Irrevocable Undertakings" above. In the case when those Qualifying Shareholders who do not take up in full their assured entitlements under the Right Issue, the Shareholdings of those Qualifying Shareholders will be diluted. China Tian Yuan will not affect by the dilution because it has entered the Irrevocable Undertakings. Assumed all Qualifying Shareholders other than the Underwriter and China Tian Yuan did not applied for their provisional allotments of Rights Shares. The shareholding of the Underwriter on the Group will increase from 23.24% to 43.36% and other Qualifying Shareholders will be diluted their shareholding of the Group accordingly. The Qualifying Shareholders should note that they are provided a right to applied or forfeit the participation of the Right Issue and they should consider pros and cons before making the decision.

(h) *Financial effects of the Rights Issue*

Effect on net tangible assets

Detail of the to the statement of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as set out in Appendix II to the Circular. As at 30 June 2017, the net tangible assets per Share was approximately HK$0.83 per Share, which is calculated based on the total unaudited consolidated net tangible assets of the Group attributable to the Shareholder approximately HK$1,215.5 million divided by the total number of 1,464 million issued Shares.

Upon the completion of the Rights Issue, the net tangible assets per Share become approximately HK$1.28 per Share, which is calculated based on the total unaudited consolidated net tangible assets of the Group attributable to the Shareholder approximately HK$2,810.9 million, which is divided by the total number of 2,196 million enlarged issued Shares.

Effect on working Capital

As at 30 June 2017, the cash and bank balance of the Group was approximately HK$401.3 million. As stated in the Letter from the Board, approximately 5% of the net proceed from the Right Issue, which amounting to approximately HK$79.7 million, will be allocated as general working capital of the Group and/or or for future investment opportunities should suitable opportunities become available to the Group. As a result, the cash and bank balance will be increased upon the Completion.

Having considering (i) approximately HK$79.7 million will be allocated as general working capital which will strengthen the capital base of the Group; and (ii) the Right Issue will increase the net tangible assets per Share and working Capital of the Group, we are of the view that the net proceed from the Right Issue will strengthen the capital and asset base of the Group which is in the interest of the Company and the Shareholders as a whole.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

II. THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter holds 340,192,667 Shares, representing approximately 23.24% of the total number of Shares in issue in the Company. The Underwriter and partis acting in concert with it (including Zhisheng) holds an aggregate of 510,290,000 Shares, representing approximately 34.86% of the total number of Shares in issue in the Company.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Underwritten Shares. Assuming no Qualifying Shareholders (other than the Underwriter and China Tian Yuan) applied for their provisional allotments of the Rights Shares and excess Right Shares, the Underwriter will be required to take up all the Underwritten Shares and the aggregate shareholding interest held by the Underwriter alone, and the Underwriter together with parties acting in concert with it would increase to approximately 43.36% and 51.11% of the issued share capital of the Company as enlarged by the issue of the Rights Shares immediately after Completion, respectively. In such circumstances, the Underwriter and parties acting in concert with it would be required to make a mandatory general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Underwriter and parties acting in concert with it) under Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

In this regard, the Underwriter 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 Executive has agreed to grant the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll in accordance with the Takeovers Code. The granting of the Whitewash Waiver is a condition precedent to the Underwriting Agreement which is not capable of being waived. If the Whitewash Waiver is not obtained from the Executive and/ or approved by the Independent Shareholders, the Underwriting Agreement will not become unconditional and the Rights Issue will not proceed.

Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, as Mr. Liu, China Tian Yuan, the Underwriter and parties acting in concert with it (including Zhisheng) are interested in the Whitewash Waiver, they are required to abstain from voting on the resolution to be proposed at the SGM in relation to (i) the Rights Issue, (ii) the Underwriting Agreement and the transactions contemplated thereunder, and (iii) the Whitewash Waiver.

After considered (i) the reason and benefit for the Rights Issue and use of proceeds set out in the section headed "Reasons for the Rights Issue and use of proceeds" above; and (ii) the terms of the Rights Issue and the Underwriting Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the approval for the Whitewash Waiver, which is a condition for completion of the Rights Issue, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Rights Issue.

RECOMMENDATION

Despite the fact that (i) the maximum potential dilution effect of approximately 33.33% of the Rights Issue on the shareholding interests of the Shareholders in the Group if such Shareholders do not take up their provisional allotments under the Rights Issue; and (ii) the Subscription Price discount of approximately 21.43% and 15.38% to the closing price per Share on the Last Trading Day and to the theoretical ex-entitlement prices per share based on the Last Trading Day, respectively, are lower than the respective average of the Comparables, having consider:

(i) The reason and benefit of the Right Issue as mentioned in the section headed "Reasons for the Rights Issue and use of proceeds" above;

(ii) the Right Issue is the best option over the other alternatives since it is in line with the company's capital structure direction, which can reduce the indebtedness level and avoidance of bringing further interest burden to the Group, and also allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution;

(iii) the Subscription Price as mentioned in the section headed "(c) Analysis on the Subscription Price" above is fair and reasonable and in the interest of the Company and the Shareholders as compare to the historical market price of the Share during the Review Period; and

(iv) the commission rate under the Underwriting Agreement is justifiable as compare to the Comparables, detail of which set out in section headed "(d) Underwriting Agreement and commission".

Having considered the abovementioned principal factors and reasons, we are of the view that the terms of the Rights Issue, the Underwriting Agreement and the Whitewash Waiver are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution in relation to the Whitewash Waiver at the SGM.

Yours faithfully,
For and on behalf of
TC Capital International Limited

Edward Wu
Chairman

Stanley Chung
Managing Director

Note: Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2005. Mr. Stanley Chung has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2006. Both Mr. Wu and Mr. Chung have participated in and completed various advisory transactions in respect of connected transactions and transactions under the Takeover Code; of listed companies in Hong Kong.