Opus Capital Limited
創富融資有限公司

30 August 2019

To: The Independent Board Committee of KEE Holdings Company Limited

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFER BY LEGO SECURITIES LIMITED FOR AND ON BEHALF OF CHINA SUN CORPORATION, CENTRAL EAGLE LIMITED AND GOLDEN DIAMOND INC. TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF KEE HOLDINGS COMPANY LIMITED (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY CHINA SUN CORPORATION, CENTRAL EAGLE LIMITED AND GOLDEN DIAMOND INC. AND PARTIES ACTING IN CONCERT WITH EACH OF THEM)

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee in connection with the Offer. Details of the Offer are set out in the Composite Document dated 30 August 2019, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

As stated in the "Letter from Lego Securities", the Company was informed by Glory Emperor that on 2 July 2019, Glory Emperor agreed to sell and the Joint Offerors agreed to purchase the Sale Shares, being 326,089,600 Shares representing approximately 70.16% of the total issued share capital of the Company as at the Latest Practicable Date at the aggregate consideration of HK$546,852,259.20 (equivalent to HK$1.677 per Sale Share) which was arrived at between the Joint Offerors and Glory Emperor after arm's length negotiations. The Sale Shares were acquired by each of China Sun, Central Eagle and Golden Diamond as to 134,072,019 Shares, 124,304,440 Shares, 67,713,141 Shares representing approximately 28.84%, 26.74% and 14.57% of the total issued share capital of the Company as at the Latest Practicable Date. The consideration payable by each of China Sun, Central Eagle and Golden Diamond in respect of the Sale Shares acquired by them was HK$224,838,775.86, HK$208,458,545.88 and HK$113,554,937.46 respectively. The SPA was not subject to any conditions and Completion took place immediately upon the signing of the SPA on 2 July 2019.

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As at the Latest Practicable Date, the Company had 464,804,000 Shares in issue. The Company does not have any outstanding options, warrants, derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

Immediately prior to Completion, the Joint Offerors and the parties acting in concert with each of them did not hold, own, control or have the right of direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately upon Completion and as at the Latest Practicable Date, the Joint Offerors and parties acting in concert with each of them are in aggregate interested in a total of 326,089,600 Shares, representing approximately 70.16% of the total issued share capital of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, the Joint Offerors are required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Joint Offerors and the parties acting in concert with each of them).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all independent non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Yau Pak Yue, Mr. Lu Nim Joel and Mr. Leung Ka Tin, has been established in accordance with Rules 2.1 and 2.8 of the Takeovers Code to advise and give a recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. Our appointment as the Independent Financial Adviser to advise the Independent Board Committee has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any significant connection, financial or otherwise, with the Company, Glory Emperor, the Joint Offerors or any of their respective connected persons, or any party acting, or presumed to be acting, in concert with any of them, which would create or likely to create the perception of a conflict of interest or reasonably likely to affect the objectivity of our advice. During the past two years, apart from normal independent financial advisory fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, Glory Emperor, the Joint Offerors or any of their respective connected persons, or any party acting, or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence. We therefore consider ourselves suitable to give independent advice to the Independent Board Committee in respect of the Offer pursuant to Rule 2.6 of the Takeovers Code and Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee, we have reviewed, amongst other things:

(i) the Joint Announcement;

(ii) the Company's annual reports for the years ended 31 December ("**FY**") 2016 (the "**2016 Annual Report**"), 2017 (the "**2017 Annual Report**") and 2018 (the "**2018 Annual Report**"); and

(iii) the Company's interim results announcement for six months ended 30 June 2019 (the "**2019 Interim Results**")

(iv) other information as set out in the Composite Document.

We have also discussed with and reviewed the information provided to us by the Company, the Directors and the management of the Group (collectively, the "**Management**") regarding the business and outlook of the Group.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations made to us by the Management. We have assumed that all information and representations contained or referred to in the Composite Document and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date pursuant to Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Composite Document were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any such statement contained in the Composite Document misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee solely in connection with the Offer, and except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL TERMS OF THE OFFER

Lego Securities is, on behalf of the Joint Offerors, making the Offer in compliance with the Takeovers Code on the following terms as set out in the Composite Document.

1. The Offer

For each Offer Share .... HK$1.677 in cash

The Offer Price of HK$1.677 per Offer Share is equal to the per Sale Share consideration under the SPA which was arrived at after arm's length negotiation between the parties to the SPA.

The Offer Shares tendered for acceptance under the Offer shall be allocated between the Joint Offerors in accordance with the proportion of the Sale Shares acquired by each of China Sun, Central Eagle and Golden Diamond under the SPA being 28.84%, 26.74% and 14.57% respectively. Such allocation shall take place immediately upon the Registrar receiving the relevant acceptances for the Offer and each of the Joint Offerors shall be liable for the cash consideration payable in respect of the number of Offer Shares allocated to it only.

The Offer is unconditional in all aspects when it is made and will not be conditional upon acceptances being received in respect of a minimum number of Shares or other conditions.

Acceptance of the Offer would be irrevocable and would not be capable of being withdrawn, except as permitted under the Takeovers Code.

2. Value of the Offer

Based on the Offer Price of HK$1.677 per Offer Share and the 464,804,000 Shares in issue as at the Latest Practicable Date, of which 326,089,600 Shares are already owned by the Joint Offerors and parties acting in concert with each of them as at the Latest Practicable Date, 138,714,400 Shares will be subject to the Offer (assuming there is no change to the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer). On the basis of full acceptance of the Offer, the value of the Offer is HK$232,624,048.80.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Offer, we have considered the following principal factors and reasons:

1. Business, financial performance and prospects of the Group

A. Business of the Group

The Company was incorporated in the Cayman Islands with limited liability and the Shares have been listed on the Main Board since 12 January 2011. The Group is principally engaged in the design, manufacture and sale of finished zippers and other garment accessories in China. The Company operates its business through two segments: (i) the PRC segment is engaged in the manufacture and sale of zippers for customers in the PRC; and (ii) the overseas segment is engaged in the purchase of zipper products from the PRC segment and sale to overseas customers.

The customers in zippers business are primarily original equipment manufacturers who manufacture apparel products for: (i) apparel brands in China; and (ii) some well-known international apparel labels. The Group also maintains a close working relationship with apparel brand owners on the design of zippers to be applied on the apparel products.

B. Financial information of the Group

Set forth below is a summary of: (i) the audited consolidated financial information of the Group for FY2017 and FY2018; (ii) the unaudited consolidated financial information of the Group for six months ended 30 June 2019 ("**1H2019**") and 30 June 2018 ("**1H2018**"); and (iii) the restated unaudited consolidated financial information of the Group for FY2016, as extracted from the 2019 Interim Results, the 2018 Annual Report and the 2017 Annual Report:

Table 1: Financial information of the Group

	Unaudited		Audited		Unaudited
	1H2019 *(HK$'000)*	**1H2018** *(HK$'000)*	**FY2018** *(HK$'000)*	**FY2017** *(HK$'000)*	**FY2016** *(HK$'000)* *(Restated)* *(Note)*
Total revenue	117,469	111,556	197,532	184,732	145,568
Gross profit	38,957	41,207	63,919	57,704	42,071
Profit/(loss) before tax	8,812	19,908	(28,872)	(8,333)	39,549
Profit/(loss) from continuing operations	6,346	15,819	(29,946)	(13,762)	31,125
(Loss) from discontinued operation	—	—	—	(31,808)	(7,888)
Profit/(loss) attributable to the Shareholders	4,913	13,137	(33,177)	(45,127)	21,940
Gross profit margin	*33.2%*	*36.9%*	*32.4%*	*31.2%*	*24.0%*
Net profit/(loss) margin	*4.2%*	*11.8%*	*(16.8%)*	*(24.4%)*	*15.1%*

	As at 30 June	As at 31 December		
	Unaudited	Audited		Unaudited
	2019	2018	2017	2016
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Non-current assets	148,998	83,397	168,051	63,448
Current assets	262,281	247,057	212,129	342,312
Current liabilities	67,530	41,396	42,153	86,347
Net current assets	194,751	205,661	169,976	255,965
Non-current liabilities	47,363	1,124	1,124	1,124
Net asset value (the "**NAV**") attributable to the Shareholders	271,385	264,730	314,083	298,523

Sources: 2019 Interim Results, 2018 Annual Report and 2017 Annual Report

Note:

The Group has decided to cease the real estate agency services and completed the disposal of this business on 24 August 2017. The financial information of this operating segment in FY2017 was presented as discontinued operation. The comparative amounts of the financial information of this operating segment in respect of FY2016 were also restated to be presented as discontinued operation accordingly.

The Company disposed the entire equity interest of Neo Ocean Ventures Limited (the "**Neo Ocean Disposal**"), a wholly owned subsidiary of the Group and the parent company of all subsidiaries in the real estate agency service business segment within the Group (the "**Neo Ocean Group**"), as well as the shareholder's loan from the Company, at an aggregate consideration of HK$100 million during FY2017. Following completion of the Neo Ocean Disposal, the real estate agency service business was re-classified as discontinued operation. In comparison, the Group's zipper business was classified as continuing operations.

(i) FY2016

In FY2016, the Group recorded total revenue of approximately HK$145.6 million, representing a decrease of approximately HK$13.4 million or 8.4% compared to total revenue of approximately HK$159.0 million recorded in FY2015, mainly due to the decreased sale in finished zippers and flat knit ribs.

In FY2016, the Group recorded profit attributable to the Shareholders of approximately HK$21.9 million, representing an increase of approximately HK$17.7 million or 321.4% compared to that of approximately HK$4.2 million recorded in FY2015. The increment was mainly attributable to: (i) a gain on disposal of 80% equity interest of KEE (Jingmen) Garment Accessories Limited ("**Kee Jingmen**"), totalling approximately HK$17.8 million; and (ii) a gain on disposal of leasehold land and properties, plants and equipment located in the PRC and Hong Kong to related parties of approximately HK$17.6 million (together the "**2016 Disposals**").

If the extraordinary gain, which was one-off in nature, of approximately HK$35.4 million from the 2016 Disposals is disregarded, the Management advised that the Group would have recorded a net loss from continuing operations for FY2016 of approximately HK$4.3 million, representing a decrease of approximately HK$7.5 million or 134.4% compared to the net profit for FY2015, which was derived solely from zipper business. The decrease was mainly attributable to an increase in administrative expenses during FY2016 of approximately HK$8.4 million or 24.6% due to one-off non-recurring legal and professional expenses incurred in relation to a series of corporate actions undertaken in FY2016 by the Company as well as an impairment loss on idle equipment totalling HK$4.5 million.

The total assets of the Group increased by approximately HK$36.9 million or 10.0% from approximately HK$368.9 million as at 31 December 2015 to approximately HK$405.8 million as at 31 December 2016. The increase was mainly attributable to:

(i) the increase in cash and cash equivalent of approximately HK$100.6 million, mainly attributable to approximately HK$90.3 million received from the disposal of KEE Jingmen and approximately HK$71.8 million received from disposal of property, plant and equipment and leasehold land to related parties in 2016;

(ii) the increase of approximately HK$103.7 million in trade and other receivables. During FY2016, the Group, through Tianjin Jinhui Tianjin Company Limited ("**Tianjin Jinhui**"), a subsidiary of the Company, signed advertisement agency agreements on behalf of a client, namely Hainan Xinjia Tourism Development Company Limited (the "**Property Developer**"). Certain of these expenses amounting to approximately HK$48.0 million were paid to the relevant advertisement agents on behalf of the Property Developer by Tianjin Jinhui. This amount was recorded as other receivables in the Group's consolidated financial statements for FY2016. The remaining outstanding advertisement expenses payable on behalf of the Property Developer and receivable from the Property Developer amounted to approximately HK$44.6 million for FY2016. Collectively, the receivable amount by Tianjin Jinhui was approximately HK$92.6 million; and

(iii) the decrease in property, plant and equipment by approximately HK$138.5 million and the decrease in interest in leasehold land held for own use under operating leases by approximately HK$30.5 million due to the 2016 Disposals.

Total liabilities increased by approximately HK$31.6 million or 56.5% from approximately HK$55.9 million as at 31 December 2015 to approximately HK$87.5 million as at 31 December 2016. The increase was mainly due to the outstanding advertising expenses of approximately HK$44.6 million remained payable to the advertising agents on behalf of the Property Developer as mentioned above. In view of the above, the NAV attributable to the Shareholders increased by approximately HK$7.7 million or 2.6% as compared to the NAV attributable to the Shareholders as at 31 December 2015.

(ii) FY2017

In FY2017, the Group recorded total revenue of approximately HK$184.7 million, representing an increase of approximately HK$39.1 million or 26.9% compared to total revenue of approximately HK$145.6 million recorded in FY2016. The increase was mainly attributable to the increase in the sale of finished zippers and sliders. The rise was primarily due to: (i) the stable growth in the development of the garment industry in the PRC as a result of the rising international demands as well as growth in the domestic economy in FY2017; and (ii) the effective incentive measures, enhanced efforts in market development and improvement of customer services by the marketing team of the Company.

In FY2017, the financial performance of the Group made a turn for the worse where it recorded a loss attributable to the Shareholders of approximately HK$45.1 million as compared to a profit attributable to Shareholders of approximately HK$21.9 million in FY2016. The significant decline was mainly attributable to the increase in distribution costs, administrative expenses and a deteriorating loss position from the discontinued operation.

The total assets of the Group decreased by approximately HK$25.6 million or 6.3% from approximately HK$405.8 million as at 31 December 2016 to approximately HK$380.2 million as at 31 December 2017. The decrease was mainly attributable to the significant drop in other receivables by approximately HK$48.1 million, representing a decrease of approximately 48.3% from approximately HK$99.3 million as at 31 December 2016, comprised of the net effect of:

(a) the balance of the sale consideration totalling HK$50.0 million receivable from the Neo Ocean Disposal as at 31 December 2017;

(b) the decrease in salary expenses paid by Tianjin Jinhui, a subsidiary of the Company, on behalf of its related party, namely Beijing Zhonghong Network Marketing Consultant Co., Ltd., which was recorded as nil as at 31 December 2017 as compared to approximately HK$2.9 million as at 31 December 2016; and

(c) the decrease in advertisement expenses paid on behalf of the Property Developer by Tianjin Jinhui, which was recorded as nil as at 31 December 2017 as compared to approximately HK$92.6 million as at 31 December 2016.

As the Neo Ocean Group was disposed on 24 August 2017, and Tianjin Jinhui was a company within the Neo Ocean Group, Tianjin Jinhui also ceased to be a subsidiary of the Company as at 31 December 2017.

Pursuant to the sale and purchase agreement of the Neo Ocean Disposal, the balance of the consideration of the Neo Ocean Disposal totalling HK$50.0 million (the "**Balance Consideration**") was repayable by the purchaser (the "**Neo Ocean Purchaser**") within one year from the completion date of the Neo Ocean Disposal on 24 August 2017. In addition, upon completion of the Neo Ocean Disposal, the shares of Neo Ocean together with the shareholders' loan advanced by the Group to Neo Ocean, being the subject matter of the Neo Ocean Disposal, were pledged to the Company by the Neo Ocean Purchaser as security for the Neo Ocean Purchaser's obligation to pay the balance of the purchase consideration.

The total liabilities of the Group also decreased by approximately HK$44.2 million or 50.5% from approximately HK$87.5 million as at 31 December 2016 to approximately HK$43.3 million as at 31 December 2017. The drop in liabilities was mainly attributable to the decrease in the balance of other payables by approximately HK$42.8 million or 59.4%, from approximately HK$72.0 million as at 31 December 2016 to approximately HK$29.2 million as at 31 December 2017. The decline was the result of the reduction in advertising expenses payable in the book of the Neo Ocean Group on behalf of the Property Developer when the Neo Ocean Group was subsequently disposed of in FY2017.

In view of the above, the NAV attributable to the Shareholders increased by approximately HK$15.6 million or 5.2% from approximately HK$298.5 million as at 31 December 2016 to approximately HK$314.1 million as at 31 December 2017.

(iii) FY2018

In FY2018, the Group recorded total revenue of approximately HK$197.5 million, representing an increase of approximately HK$12.8 million or 6.9% compared to total revenue of approximately HK$184.7 million recorded in FY2017. Such increase was mainly attributable to the continued increase in sale of finished zippers and sliders, which further improved by approximately HK$12.9 million or 7.2% to approximately HK$193.0 million in FY2018. The revenue increase was the result of the active promotion efforts of the Group, strengthened marketing and product innovation, the escalation of responsiveness to customer needs and the enhancement of customer service level.

The Group recorded a smaller loss attributable to the Shareholders of approximately HK$33.2 million in FY2018, as compared to approximately HK$45.1 million in loss attributable to the Shareholders in FY2017, representing an improvement of approximately HK$11.9 million or 26.4%. The slight improvement was primarily due to the Neo Ocean Disposal, a significant loss-making real estate agency business in FY2017.

The total assets of the Group registered a decline by approximately HK$49.7 million or 13.1%, from approximately HK$380.2 million as at 31 December 2017 to approximately HK$330.5 million as at 31 December 2018. This was mainly due to the significant decrease in balance of other receivables by approximately HK$49.9 million, representing a decrease in 97.3% from approximately HK$51.3 million as at 31 December 2017. The reduction in the balance of other receivables was mainly attributable to the impairment loss recognised on HK$45.0 million of the Balance Consideration as the Neo Ocean Purchaser failed to settle the balance sum on the due date pursuant to the sale and purchase agreement. Accordingly, the NAV attributable to the Shareholders reduced by approximately HK$49.4 million or 15.7% from approximately HK$314.1 million as at 31 December 2017 to approximately HK$264.7 million as at 31 December 2018.

The Directors have begun verbal and written negotiations on the settlement of the Balance Consideration with the Neo Ocean Purchaser since the payment due date of the Balance Consideration that resulted in the payment of HK$5.0 million of the Balance Consideration to the Company in December 2018. In view of: (i) the Neo Ocean Purchaser was in financial difficulty and was unable to settle the remaining HK$45.0 million of the Balance Consideration; and (ii) it failed to comply with the ultimatum under the second demand letter issued by the Company's lawyers in March 2019, the Company made an announcement on 21 June 2019 stating that it has commenced legal proceedings in the Court of First Instance of the High Court of Hong Kong against the Neo Ocean Purchaser for the sum of HK$45.0 million together with interest and costs (the "**Legal Proceeding**"), after taking into account of various factors.

(iv) 1H2019

In 1H2019, the Group recorded total revenue of approximately HK$117.5 million, representing an increase of approximately HK$5.9 million or 5.3% compared to total revenue of approximately HK$111.6 million recorded in 1H2018. This was mainly due to the favourable results achieved from exploration of business opportunity among existing customers based on new product development of the Group.

In 1H2019, the Group recorded profit attributable to the Shareholders of approximately HK$4.9 million, representing a decrease of approximately HK$8.2 million or 62.6% compared to that of approximately HK$13.1 million in 1H2018. The decrease was mainly attributable to: (i) an increase in cost of sales of approximately HK$8.2 million or 11.6% in 1H2019 as compared to 1H2018 that resulted in the gross profit margin to decline from 36.9% to 33.2%; and (ii) an increase in administrative expenses of approximately HK$5.0 million or 23.6% in 1H2019 as compared to 1H2018 due to the establishment of a new production plant in Jingmen, the PRC in September 2018, with its operation commenced in April 2019.

The total assets of the Group increased by approximately HK$80.8 million or 24.4% from approximately HK$330.5 million as at 31 December 2018 to approximately HK$411.3 million as at 30 June 2019. The increase was mainly attributable to:

(i) the increase in net position of the trade debtors and bills receivables (net of allowance for doubtful debts) to approximately HK$75.5 million as at 30 June 2019 from approximately HK$39.6 million as at 31 December 2018. This was the result of an increase in sales of finished zippers that occurred at the end of the second quarter of 2019 as compared to the last quarter of 2018, since the demand for finished zippers in the PRC market was generally at its peak due to seasonality that normally occurred in the second quarter of the year; and

(ii) the increase of non-current assets to approximately HK$149.0 million as at 30 June 2019 from approximately HK$83.4 million as at 31 December 2018. The increment was mainly attributable to the recognition of the Company's right-of-use assets recorded in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**") 16, a new accounting standard relating to recognition of lease assets, which was effective for reporting periods beginning on or after 1 January 2019.

Total liabilities increased by approximately HK$72.4 million or 170.4% from approximately HK$42.5 million as at 31 December 2018 to approximately HK$114.9 million as at 30 June 2019. The increase was mainly due to the rise in non-current liabilities to approximately HK$47.4 million as at 30 June 2019 from approximately HK$1.1 million as at 31 December 2018. Such surge in non-current liabilities in 1H2019 was mainly attributable to the lease liabilities recorded in accordance with the similar HKFRS 16 as mentioned above, a new accounting standard that relates to recognition of lease liabilities, which was effective for reporting periods beginning on or after 1 January 2019.

In view of the above, the NAV attributable to the Shareholders as at 30 June 2019 increased by approximately HK$6.7 million or 2.5% as compared to 31 December 2018.

Analysis

We note that the Group has been consistently loss-making since FY2016 (without taking into account of the extraordinary disposal gains, which was one-off in nature, in FY2016) and decreasing net profits in 1H2019 compared to 1H2018. There is also uncertainty surrounding the Legal Proceeding which the Group is expected to incur legal costs to pursue the action.

Those Independent Shareholders who wish to retain some or all of the Shares should consider the past financial performance of the Group and the business prospects of the Group as detailed in the paragraph headed "C. Business prospects of the Group" below, or otherwise are reminded to closely monitor the development of the Group and the publications of the Company (including the Composite Document) in this regard.

*C. **Business prospects of the Group***

As stated in the "Letter from Lego Securities", following the close of the Offer, it is the intention of the Joint Offerors that the Company will continue to focus on the development of its existing businesses, namely design, manufacture and sale of finished zippers and other garment accessories etc., in the PRC. The Joint Offerors do not intend to introduce any major changes to the existing operations and business of the Group upon and after the close of the Offer.

As discussed in the FY2018 Annual Report, demand in textile and apparel industry of the PRC experienced slow growth in the recent years with weak rebound, while retail market continued to be stable. The Management advised that the manufacturing industry continued to face significant challenges in 2018 while the continuing China-United States of America (the "US") trade dispute added pressure and casted uncertainty to the already difficult environment in China. Industry demand is expected to continue to grow at a low rate for the rest of 2019. From the 2019年第一季度我國拉鍊進出口情況概述 (the 2019 Q1 PRC Export Zipper Report*) published by 中國拉鍊行業協會 (China Zipper Association*), a PRC sub-organisation of 中國五金製品協會(China National Hardware Association*), given the gross domestic product growth of the PRC is expected to slow down in 2019, domestic demand for garment products might potentially be affected, subsequently affecting the demand for zipper products in the PRC. As disclosed by 中華人民共和國國家統計局 (National Bureau of Statistics of China*), an agency under the PRC State Council in charge of statistics and economic accounting in the PRC, garment production from major suppliers in the PRC decreased its production by 0.38% from January to May 2019 compared to the same corresponding period last year. The data indicated that the production and export of the garment industry in the PRC remained at a stable level.

The US administration under President Donald Trump has recently announced significant changes in the trade policies of the US starting from 10 May 2019, including increasing tariffs on US$200 billion worth of certain goods imported from the PRC into the US from the previous rate of 10% to 25%. According to the data released by 中華人民共和國海關總署 (the PRC General Administration of Customs*), the aggregate export of finished clothing and clothing accessories decreased by 5.5% in January to May 2019 compared to the performance from the same period in 2018. As confirmed by the Management, finished zippers for their US customers will be subject to the said tariffs. Nevertheless, the Management advised that the tariff hike will not affect the Company materially due to the fact that approximately 92.0% and approximately 86.9% of the Company's revenue in FY2018 and FY2017 respectively was generated from the PRC market. In comparison, less than 1% of the Company's revenue in FY2018 and FY2017 was generated from the US market. However, given the impact of the tariff hike could potentially be translucent to the global economy and the deterioration of trade relationship between the PRC and the US, there may be a potential adverse impact on the Group's business in general.

As stated in the FY2018 Annual Report, due to the increasing maturity and individualisation of customers as well as the flat spread of information, the textile and garment industry of the PRC has been constantly enhancing its brand and quality awareness, and gradually returning from the commodity era to the product era. This represents a valuable opportunity for development of high-quality finished zipper market. According to the 2018年中國服裝行業經濟運行分析 (the "**CNGA Report**") published by the Chinese National Garment Association ("**CNGA**"), a nationwide organisation of the PRC's garment industry founded in 1991, the internet has become a primary shopping channel for the PRC consumers, which created new opportunities for retail shops. According to 中華人民共和國國家統計局 (National Bureau of Statistics of China*), the aggregate sale of wear goods in 2018 increased by 22% compared to 2017. During FY2018, the Group commenced cooperation with 10 new brands, of which 4 brands were domestic brands and 6 brands were overseas brands.

In summary, although there are opportunities in the industry due to the change of consumer behaviour, given the slowdown of economic growth and potential negative impact from the tariff hike imposed by the US administration, we are of the opinion that the future performance of the Group remains uncertain.

2. Principal terms of the Offer

The Offer Price of HK$1.677 represents:

(a) a premium of approximately 24.2% over the closing price of HK$1.35 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 33.9% over the average closing price of approximately HK$1.252 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 5 consecutive trading days immediately prior to and including the Last Trading Day;

(c) a premium of approximately 35.4% over the average closing price of approximately HK$1.239 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;

(d) a premium of approximately 39.4% over the average closing price of approximately HK$1.203 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;

(e) a premium of approximately 0.4% over the closing price of HK$1.670 per Share quoted on the Stock Exchange on the Latest Practicable Date;

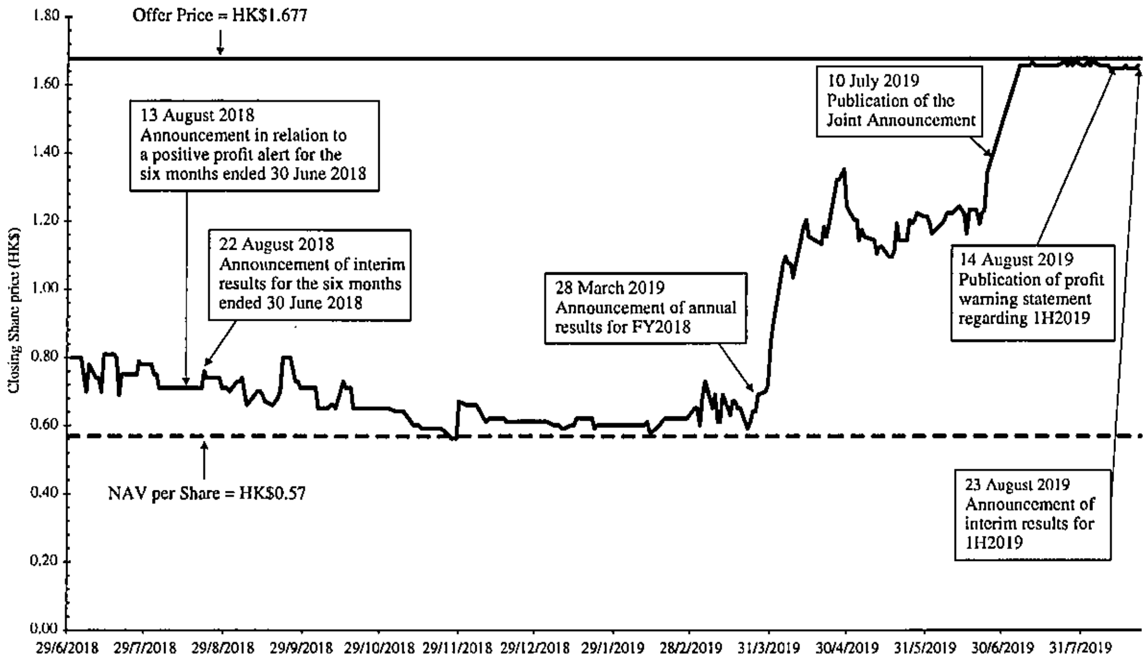
(f) a premium of approximately 194.2% over the audited consolidated NAV attributable to the owners of the Company of approximately HK$0.570 per Share as at 31 December 2018, being the date to which the latest audited consolidated financial results of the Company were made up; and

(g) a premium of approximately 187.2% over the unaudited consolidated NAV attributable to the owners of the Company of approximately HK$0.584 per Share as at 30 June 2019, being the date to which the latest unaudited consolidated financial results of the Company were made up.

A. Historical price performance of the Shares

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 29 June 2018, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the "**Review Period**"):

Chart 1: Share price performance during the Review Period



Source: the Stock Exchange

Notes:

1. Trading in the Shares was suspended on 2 July 2019 and resumed on 11 July 2019 due to the publication of the Joint Announcement.

2. NAV per Share refers to the NAV attributable to the Shareholders per Share of approximately HK$0.57 as at 31 December 2018.

As illustrated in the chart above, during the Review Period, the closing price of the Shares ranged from the lowest closing price of HK$0.56 per Share as recorded on 27, 28 and 29 November 2018 to the highest closing price of HK$1.68 per Share as recorded on 16 July 2019, with an average price of approximately HK$0.80 per Share. The Offer Price is higher than the closing price as at the Last Trading Day, and represents premiums of approximately 24.2%, 0.4% and 194.4% over the closing Share price on the Last Trading Day, the closing Share price as at the Latest Practicable Date and the NAV per Share as at 31 December 2018, respectively.

During the period commencing from 29 June 2018 to 28 February 2019 (the "**First Review Period**"), the closing price of the Shares demonstrated a gradual downward trend by falling from HK$0.80 per Share on 29 June 2018 and reached a bottom of HK$0.56 per Share on 27, 28, and 29 November 2018. We have reviewed the Share price movement during this First Review Period and noted the following notable events: (i) the release of an inside information announcement on 13 August 2018 in relation to a positive profit alert for the six months ended 30 June 2018; and (ii) the release of the interim results for the six months ended 30 June 2018 on 22 August 2018, which reported a profit for the reporting period. Despite the positive results from the announcements, the Management is not aware of any particular reason for the gradual downward trend of the Share price during the First Review Period. We also noted that the Hang Seng Index ("**HSI**") declined by approximately 1.1% from 28,955 to 28,633 during the First Review Period.

During the period commencing from 1 March 2019 onwards and up to and including 2 May 2019 (the "**Second Review Period**"), the closing price of the Shares demonstrated a significant upward trend and attained the high point in the period of HK$1.36 per Share on 2 May 2019. We enquired with the Management on the surge in Share price but the Management is not aware of any particular reason for the sharp increase in Share price during the period. We note that the Share price might have been affected by the increase of the HSI during this period, in which the HSI surged by 3.9% from 28,812 to 29,944.

During 3 May 2019 to the Last Trading Day (the "**Pre-announcement Period**"), the closing price of the Shares first experienced a downward trend between 2 May 2019 to 20 May 2019, but subsequently the closing price surged to a high point of HK$1.35 on the Last Trading Day. The Management is also not aware of any particular reason for the sharp increase in Share price during the period. Furthermore, we also note that the HSI declined by approximately 7.6% from 30,082 to 27,788 between 3 May 2019 to 20 May 2019, and subsequently surged by approximately 3.2% from 27,657 to 28,542 between 21 May 2019 to the Last Trading Day.

At the request of the Company, trading in the Shares was suspended on 2 July 2019 and the Joint Announcement was published on 10 July 2019. Upon the resumption of trading in the Shares, the Share price had been trading at or around the Offer Price since the publication of the Joint Announcement until the Latest Practicable Date. The closing price of the Shares surged by approximately 23.7% to HK$1.67 per Share on 11 July 2019 (being the first trading day after the publication of the Joint Announcement, the "**First Trading Day**") as compared to HK$1.35 per Share on the Last Trading Day. The closing price of the Shares reached the highest point to HK$1.68 per Share on 16, 29, 31 July 2019 and 2, 7 and 9 August 2019 respectively. As at the Latest Practicable Date, the closing price of the Shares was HK$1.670, which is at a premium of approximately 0.4% over the Offer Price.

The average Share price during First Review Period, Second Review Period and the Pre-announcement Period is approximately HK$0.67, HK$0.87 and HK$1.24 respectively. The Offer Price of HK$1.677 represents a premium of approximately 150.3%, 92.8% and 35.2% over the average Share price during the First Review Period, Second Review Period and Pre-announcement Period respectively. Based on the above, the Offer Price represents a premium over the Share price throughout the Review Period.

Independent Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the Share prices may increase or decrease from its closing price after the Latest Practicable Date.

B. Historical trading volume of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

Table 2: Trading volume of the Shares during the Review Period

	Total trading volume *(No. of Shares)*	No. of trading days	Average daily trading volume	Average daily trading volume to the total number of Shares in issue *(Approximate %)* *(Note 1)*	Average daily trading volume to the number of Shares held by public Shareholders *(Approximate %)* *(Note 2)*
2018					
June (from 29 June 2018)	0	1	0	—	—
July	1,306,000	21	62,190	0.013%	0.045%
August	948,000	23	41,217	0.009%	0.030%
September	3,122,000	19	164,316	0.035%	0.118%
October	728,000	21	34,667	0.007%	0.025%
November	706,000	22	32,091	0.007%	0.023%
December	122,000	19	6,421	0.001%	0.005%
2019					
January	240,000	22	10,909	0.002%	0.008%
February	3,678,000	17	216,353	0.047%	0.156%
March	17,184,000	21	818,286	0.176%	0.590%
April	17,362,000	19	913,789	0.197%	0.659%
May	3,822,000	21	182,000	0.039%	0.131%
June	4,254,000	19	223,895	0.048%	0.161%
July	44,096,000	15	2,939,733	0.632%	2.119%
August (up to the Latest Practicable Date)	9,022,000	19	474,842	0.102%	0.342%

Source: the Stock Exchange

Notes:

1. The calculation is based on the average daily trading volume of the Shares divided by the total Shares in issue in the relevant period.

2. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by public Shareholders in the relevant period.

3. Trading in the Shares was suspended on 2 July 2019 and resumed on 11 July 2019 due to the publication of the Joint Announcement.

As illustrated in the table above, the average daily trading volume for the respective month/period during the Review Period ranged from approximately nil Shares to 2,939,733 Shares, representing: (i) nil to approximately 0.632% of the total number of issued Shares; and (ii) nil to approximately 2.119% of the number of Shares held by public Shareholders.

The average daily trading volume for the First Review Period, Second Review Period and Pre-announcement Period of the Review Period was approximately 64,240 Shares, 886,038 Shares and 202,948 Shares respectively, which was approximately 0.014%, 0.191% and 0.044% of the total number of Shares in issue. The average daily trading volume from the First Trading Day to the Latest Practicable Date was approximately 1,562,294 Shares, which was approximately 0.330% of the total number of Shares in issue. Overall, the trading volume was relatively thin in general throughout the Review Period.

We note that on the First Trading Day, the trading volume of the Shares increased to approximately 12,824,000 Shares. We believe such increase in trading volume of the Shares was likely to be the result of the market reaction to the Joint Announcement. Although the trading volume of the Shares was active on the First Trading Day, the average daily trading volume reduced to approximately 2,939,733 Shares in July 2019 and 474,842 Shares in August 2019 (up to the Latest Practicable Date), representing: approximately 0.632% and 0.102% respectively of the total number of issued Shares.

Given the generally thin trading liquidity of the Shares during the Review Period, it is uncertain whether there would be sufficient liquidity in the trading of the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Shares price. We therefore consider that the Offer provides the Independent Shareholders, particularly those who hold a large number of Shares, with an assured exit to dispose of part or all of their Shares at the Offer Price if they wish to.

C. Comparison with other comparable companies

In assessing the fairness and reasonableness of the Offer Price, we attempted to compare the Offer Price against the market valuation of other comparable companies using commonly use valuation multiples including price-to-earnings ratio ("**P/E ratio**") and price-to-book ratio ("**P/B ratio**"). As the Group was loss making in FY2018, the P/E ratio analysis would not be feasible. We consider that P/B Ratio which compares the market capitalisation of a company against its NAV is a commonly used benchmark in comparing the valuations of different companies engaged in the same industry, and it is also appropriate for assessing a company engaged in the garment industry since the business mainly involves zipper in the inventory, trade receivables and payables, meaning that NAV would reflect the underlying value of the Company. We have shortlisted comparable companies (the "**Industry Comparables**") with the following selection criteria as at the Latest Practicable Date:

(i) listed on the Main Board;

(ii) engaged in the manufacturing or trading of garment or clothing accessories;

(iii) with over 50% of its latest reported annual revenue generated from the manufacturing or trading of garment or clothing accessories;

(iv) is profit making; and

(v) market capitalisation between HK$500 million to HK$1,500 million in view that the implied market capitalisation (calculated based on the Offer Price) as at the Latest Practicable Date of the Company is approximately HK$779 million.

Based on the above selection criteria, set out below are 14 Industry Comparables together with the relevant P/B ratios, the information of which we consider, to the best our knowledge and ability, to be an exhaustive, appropriate and representative sample for the purpose of arriving at a meaningful comparison to the Offer Price.

Table 3: Details of the Industry Comparables

No	Company (stock code)	Company description	Market capitalisation *(HK$'million)* *(Note 1)*	NAV attributable to shareholders *(HK$'million)* *(Note 2)*	P/B ratio (x)
1	Glorious Sun Enterprises Ltd (393)	The company is engaged in the retailing of apparel.	1,329.65	2,501.65	0.53
2	Eagle Nice (Intl) Holdings Ltd (2368)	The company is engaged in the manufacture and trading of sportswear and garments.	1,223.60	1,304.08	0.94
3	YGM Trading Ltd (375)	The company is engaged in garment, trademark, printing and property businesses.	1,144.46	682.31	1.68
4	Cabbeen Fashion Ltd (2030)	The company is engaged in the wholesaling, consignment and retailing of branded menswear and related accessories in the PRC.	1,089.81	1,319.41 *(Note 4)*	0.83
5	Luen Thai Holdings Ltd (311)	The company is engaged in apparel businesses.	723.88	1,587.02 *(Note 5)*	0.46
6	Embry Holdings Ltd (1388)	The company is engaged in the manufacture and sale of lingerie for women.	709.66	2,369.67	0.30
7	China Ting Group Holdings Ltd (3398)	The company is engaged in the manufacture and sale of garments.	661.44	2,584.90	0.26
8	Bonny International Holding Ltd (1906)	The company is engaged in the manufacturing and sale of brassieres, functional sportswear, panties and thermal underwear.	672.00	187.12 *(Note 4)*	3.59
9	Yangtzekiang Garment Ltd (294)	The company is engaged in garment and property businesses.	620.24	1,216.65	0.51

No	Company (stock code)	Company description	Market capitalisation *(HK$'million)* *(Note 1)*	NAV attributable to shareholders *(HK$'million)* *(Note 2)*	P/B ratio (x)
10	Win Hanverky Holdings Ltd (3322)	The company is engaged in the manufacture and sale of garment products, including sportswear, golf and high-end fashion apparel and related accessories.	610.09	2,151.76	0.28
11	China Outfitters Holdngs Ltd (1146)	The company is engaged in the design, manufacture, marketing and sale of apparel products and accessories.	558.16	2,000.63 *(Note 4)*	0.28
12	Crocodile Garments Ltd (122)	The company is engaged in garment businesses.	587.48	1,833.96	0.32
13	Season Pacific Holdings Ltd (1709)	The company is engaged in the trading of garment and accessories for private labels and international brands.	528.55	170.82	3.09
14	High Fashion International Ltd (608)	The company is engaged in the manufacture of garments.	519.55	2,524.36	0.21
	Maximum				3.59
	Minimum				0.21
	Average				0.95
	Median				0.49
	The Company (2011)		779.5 *(Note 3)*	264.73	2.94

Sources: Bloomberg and the Stock Exchange

Notes:

1. The market capitalisations as at the Latest Practicable Date.

2. The NAV attributable to shareholders were extracted from the respective latest published interim reports or annual reports of the Industry Comparables.

3. The implied market capitalisation of the Company under the Offer is calculated by multiplying the Offer Price with the number of issued Shares of 464,804,000 Shares as at the Latest Practicable Date.

4. The figure is translated from RMB to HK$ using an exchange rate of HK$1.00/RMB0.91.

5. The figure is translated from US$ to HK$ using an exchange rate of HK$7.78/US$1.00.

As shown in the table above, the P/B ratios of the Industry Comparables range from approximately 0.21 times to approximately 3.59 times, with the average and median P/B ratios of approximately 0.95 times and 0.49 times respectively.

The implied P/B ratio of the Company under the Offer of approximately 2.94 times is within the range of the P/B ratios of Industry Comparable. In addition, the implied P/B ratio of the Company under the Offer is also significantly above the average and the median of P/B ratios of the Industry Comparables. As such, we consider that the Offer Price to be fair and reasonable so far as the Independent Shareholders are concerned.

3. Information of the Joint Offerors and the intention of the Joint Offerors in relation to the Group

A. Information on the Joint Offerors

As stated in the "Letter from Lego Securities" contained in the Composite Document:

Information on China Sun

China Sun was incorporated in the British Virgin Islands with limited liability as an investment holding company. As at the Latest Practicable Date, China Sun is wholly-owned by Mr. Qiu.

Mr. Qiu is the president of 深圳市合泰地產集團有限公司 (Shenzhen City Hetai Real Estate Group Company Limited*) ("**Hetai**"), a company incorporated in the PRC with limited liability which is principally engaged in property development in Shenzhen and has been at his current position since 2009. His brother owns approximately 95% of the registered capital of Hetai. The most recent projects developed by Hetai include 同泰時代中心 (Tongtai Times Center*) which is located in the commercial center of Bao'an District and is a mixed-use development comprising of a hotel, shopping mall, office buildings and serviced apartments with a total gross floor area of more than 210,000 sq.m..

Information on Central Eagle

Central Eagle was incorporated in the British Virgin Islands with limited liability as an investment holding company. As at the Latest Practicable Date, Central Eagle is owned as to 90.0% and 10.0% by Mr. Zhuang and Mr. Wu, respectively.

Mr. Zhuang is a director of 深圳楓葉房地產有限公司 (Shenzhen Maple Real Estate Development Company Limited*) ("**Shenzhen Maple**"), a company incorporated in the PRC with limited liability and has been at his current position since 2013. Prior to Mr. Zhuang's current role with Shenzhen Maple, he was also a general manager of 深圳市威士達供應鏈服務有限公司 (Shenzhen Weishida Supply Chain Services Company Limited*), a company incorporated in the PRC with limited liability and is principally engaged in the provision of supply chain services to its customers.

Mr. Wu is an executive director and the legal representative of Shenzhen Maple and has been at his current positions since 2013. Mr. Wu owns 100.0% of the share capital of 楓葉國際集團有限公司 (Maple International Group Company Limited*) ("**Maple International**"), a company incorporated in the British Virgin Islands with limited liability. Maple International indirectly wholly-owns 100.0% of the registered capital of Shenzhen Maple. Maple International is a holding company and its subsidiaries also engage in, amongst others, property development and investment.

Information on Golden Diamond

Golden Diamond was incorporated in the British Virgin Islands with limited liability and is an investment holding company. As at the Latest Practicable Date, Golden Diamond is owned as to 60.0%, 25.0% and 15.0% by Ms. Lin, Mr. Mak and Ms. Pan, respectively.

Ms. Lin joined 深圳市卓永實業發展有限公司 (Shenzhen Zhuoyong Industrial Development Company Limited*) ("**Shenzhen Zhuoyong**") as its director and general manager in 1995, a company incorporated in the PRC with limited liability, which is principally engaged in real estate development and investment. As at the Latest Practicable Date, the registered capital of Shenzhen Zhuoyong is RMB10,000,000.

Mr. Mak is the chief marketing officer of Rockpool Capital Limited ("**Rockpool**") which he joined in 2017. Rockpool is an integrated asset management company holding licenses to engage in SFC types 1 (dealing in securities), 4 (advising on securities) and 9 (asset management) regulated activities. Before joining Rockpool, Mr. Mak had spent approximately 5 years at J.P. Morgan and was previously with Standard Chartered Bank (HK) Ltd. for approximately 1 year. He is also currently employed as a director of Apex Insurance (Holdings) Limited and has been at his current position since 2016, being primarily responsible for overall management and investment strategy.

Ms. Pan is a shareholder of Qiannanzhou, a company incorporated in the PRC which is principally engaged in the mining industry, owning as to 30.0% of its registered capital. As at the Latest Practicable Date, the registered capital of Qiannanzhou is RMB5,000,000. Qiannanzhou is a guarantor for the NW Facility pursuant to the NW Facility Agreement.

B. Intentions of the Joint Offerors in relation to the Group

As stated in the section headed "Intentions of the Joint Offerors in relation to the Group" in the "Letter from Lego Securities" contained in the Composite Document, the Board is currently made up of five Directors, comprising two executive Directors and three independent non-executive Directors. As at the Latest Practicable Date, it is intended that all existing Directors are to remain at their current positions. Further, the Joint Offerors do not have any intention as at the Latest Practicable Date to nominate new Directors to the Board but may do so in the future. No significant discussions as to potential candidates for nomination to the Board as Directors or changes to the Board composition have occurred amongst the Joint Offerors as at the Last Practicable Date.

If the Joint Offerors in the future wish to nominate new Directors to the Board, it shall be with the effect from the earliest time permitted under the Takeovers Code. Further announcement(s) will also be made by the Company in compliance with the requirements of the Listing Rules as and when there are changes in the composition of the Board.

Following the close of the Offer, it is the intention of the Joint Offerors that the Company will continue to focus on the development of its existing businesses, namely design, manufacture and sale of finished zippers and other garment accessories etc., in the PRC. The Joint Offerors do not intend to introduce any major changes to the existing operations and business of the Group upon and after the close of the Offer.

Nevertheless, the Joint Offerors will conduct a detailed review on the existing principal businesses and operations, and the financial position of the Group for the purpose of formulating business plans and strategies for the Group's long-term business development and will explore other business opportunities for the Group. Subject to the results of the review, and should suitable investment or business opportunities arise, the Joint Offerors may consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth.

As at the Latest Practicable Date, no investment or business opportunity has been identified nor has any significant discussions taken place amongst the Joint Offerors as to potential investments or business opportunities relating to the Group. Further, none of the Joint Offerors have entered into any agreement, arrangement, understanding or negotiation in relations to the injection of any assets or business into the Group. Accordingly, as at the Latest Practicable Date, the Joint Offerors have no intention to acquire any business or assets, further they do not have any intention to dispose of the existing business of the Group.

The Joint Offerors have no intention to discontinue the employment of any employees of the Group (save for change in the composition of the Board) or dispose of or re-deploy the fixed assets of the Group other than in the ordinary course of business.

We note that majority of the shareholders of the Joint Offerors hold directorships in companies and are well experienced in corporate and business management. We further note that one of the shareholders of the Joint Offerors, being Mr. Zhuang, possesses relevant working experience in a supply chain company in the apparel industry. Given that all existing Directors are to remain at their current positions, we are of the view that the Joint Offerors will be able to continue to rely on the experiences of the existing Directors for its business going forward after the Completion.

C. Maintaining the listing status of the Company

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

(a) a false market exists or may exist in the trading of the Shares; or

(b) that there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares.

The Joint Offerors intend for the Company to remain listed on the Stock Exchange. The directors of each of the Joint Offerors have undertaken and the new directors to be appointed to the Board (if any) will undertake jointly and severally to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. The Company and the Joint Offerors will issue a separate announcement as and when necessary in this regard.

RECOMMENDATION

In view of the above and having considered in particular that:

(i) the Group's loss-making performance due to one-off impairment losses in FY2018, loss from continuing operations in FY2017 and FY2018 and the decrease in net profits in 1H2019 compared to 1H2018 as discussed in the paragraph headed "B. Financial information of the Group" under the section headed "1. Business, financial performance and prospects of the Group" above;

(ii) there are likely uncertainties in the future performance of the Group as discussed in the paragraph headed "C. Business prospects of the Group" under the section headed "1. Business, financial performance and prospects of the Group" above;

(iii) the Offer Price is higher than the closing price of the Shares as at the Last Trading Day, and represents premiums of approximately 24.2%, 0.4% and 194.4% over the closing Share price on the Last Trading Day, the closing Share price as at the Latest Practicable Date and the NAV per Share as at 31 December 2018, respectively;

(iv) the Offer Price represents a significant premium throughout the Review Period and the Shares had only been trading at or around the Offer Price after the publication of the Joint Announcement until the Latest Practicable Date;

(v) the implied P/B ratio of the Company under the Offer of approximately 2.94 times falls within range of the P/B ratios of the Industry Comparables; and

(vi) the trading volume of Shares was low during the Review Period. It is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price,

we consider that the terms of the Offer to be fair and reasonable so far as the Independent Shareholders are concerned. On such basis, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer. In view of the volatility of the general market conditions, those Independent Shareholders who intend to accept the Offer are strongly reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offer after having regard to the market price and the liquidity of the Shares.

For those Independent Shareholders who maintain an optimistic view and are confident in the future prospects and Share price performance of the Group, given the background and future intention of the Joint Offerors as detailed in the "Letter from Lego Securities" contained in the Composite Document, they may consider to retain their Shares in full or in part. We would like to remind the Independent Shareholders that if they consider retaining their Shares or tendering less than all their Shares under the Offer, they should carefully consider the potential difficulties they may encounter in disposing of their investments in the Shares after the close of the Offer in view of the historical low liquidity of the Shares and there is no guarantee that the prevailing level of the Share price will sustain during and after the Offer Period.

We have not considered the tax and regulatory implications of the Independent Shareholders of their acceptances or non-acceptances of the Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offer and, if in doubt, should consult their own professional advisers.

Lastly, as different Independent Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Koh Kwai Yim
Executive Director

Ms. Koh Kwai Yim is the Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Ms. Koh has over 17 years of corporate finance experience in Asia and has participated in and completed various financial advisory and independent financial advisory transactions.

* *For illustrative purpose only.*