

14 November 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
THE ENTIRE ISSUED SHARE CAPITAL OF
WHOLLY-OWNED SUBSIDIARIES**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 14 November 2024 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 24 October 2024, the Vendor entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital in the Target Companies (i.e. the Sale Shares), at the Consideration of HK\$185,000,000 in accordance with and subject to the terms and conditions of the Sale and Purchase Agreement.

The Disposal constitutes a major and connected transaction for the Company and is therefore subject to reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14 and 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Kam Yiu Shing Tony, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Wong Chun Tat, J.P., all being independent non-executive Directors, has been formed to consider the terms of the Disposal. We, Elstone Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

Apart from this engagement in respect of the Disposal, we did not have any business relationships with the Group within the past two years from the Latest Practicable Date that could reasonably be regarded as hindrance to our independence. Accordingly, we are considered to be eligible to give independent advice in this respect.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Directors and the management of the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date hereof and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the management of the Group. The Directors have confirmed that no material facts have been withheld or omitted from the information provided, opinion expressed, representations made to us or referred to in the Circular and that all information provided, opinion expressed or representations made, to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continued to be so until the date of the Circular.

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, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of any member of the Group or any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1. Information of the Group

The Group is principally engaged in trading and manufacturing of toys and shoes, property investment and development, agriculture as well as forestry businesses.

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2023 as extracted from the Company's annual report for the year ended 31 December 2023 and for the six months ended 30 June 2024 as extracted from the Company's interim report for the six months ended 30 June 2024 (the "2024IR").

	For the year ended 31 December 2022 (HK\$'000) (audited)	For the year ended 31 December 2023 (HK\$'000) (audited)	For the six months ended 30 June 2023 (HK\$'000) (unaudited)	For the six months ended 30 June 2024 (HK\$'000) (unaudited)
Revenue	3,813,722	2,887,385	1,137,892	1,168,503
— Trading and manufacturing	3,539,515	2,644,312	1,040,784	1,061,505
— Property investment and development	273,504	240,851	96,410	106,936
— Agriculture and forestry	703	2,222	698	62
Gross profit	571,265	479,357	124,861	152,076
(Loss)/profit for the year/period	65,644	(42,439)	(84,315)	(80,876)

As set out in the above table, the Group recorded total revenue of approximately HK\$2,887.4 million for the year ended 31 December 2023 ("FY2023"), decreased by approximately HK\$926.3 million or 24.3% as compared to that for the year ended 31 December 2022 ("FY2022"). Such decrease was primarily attributable to the decrease in revenue from the trading and manufacturing segment of approximately HK\$895.2 million mainly due to the significant decrease in purchase orders of toys products received from the major customers. These customers stringently placed orders given the overall demand for toys products was adversely affected by the persistently high inflation environment. The Group recorded loss for the year of approximately HK\$42.4 million for FY2023 as compared with profit for the year of approximately HK\$65.6 million for FY2022. Such loss was primarily attributable to (i) the decrease in revenue as discussed above; (ii) increase in finance cost of approximately HK\$61.5 million or 30% mainly due to increase in the Hong Kong Interbank Offered Rate; and (iii) decrease in gain on disposal of debentures of HK\$34.9 million; and such loss for FY2023 was partly offset by the increase in gain on disposals of subsidiaries of HK\$48.4 million recognised during FY2023.

The revenue of the Group of approximately HK\$1,168.5 million for the six months ended 30 June 2024 (“1H2024”) increased slightly by approximately HK\$30.6 million or 2.7% when compared to that for the six months ended 30 June 2023 (“1H2023”). Key customers of the Group continued adopting prudent strategies which kept tempering the overall demands for toys products during 1H2024. Nevertheless, overall gross profits improved by approximately 21.8% as the Group has improved the production efficiency and effective control measures in the trading and manufacturing segment during 1H2024. Loss for the period for 1H2024 decreased by approximately HK\$3.4 million or 4.1% to approximately HK\$80.9 million when compared to 1H2023. Such loss was mainly due to (i) increase in revenue from the trading and manufacturing segment of approximately HK\$20.7 million; and (ii) there was a gain on disposal of subsidiaries of approximately HK\$78.2 million recognised in 1H2023 where there was no gain on disposal of subsidiaries recorded in 1H2024.

Set out below is a summary of the consolidated statement of financial position of the Group as at 31 December 2023 and 30 June 2024 as extracted from the 2024IR.

	As at 31 December 2023 (HK\$'000) (audited)	As at 30 June 2024 (HK\$'000) (unaudited)
Total assets	13,255,285	13,253,295
Total liabilities	6,965,470	7,179,115
Net assets	6,289,815	6,074,180

The total assets of the Group were approximately HK\$13,255.3 million and HK\$13,253.3 million as at 31 December 2023 and 30 June 2024, respectively. The total assets remained steady with the major assets of the Group comprised of investment properties of approximately HK\$9,427.9 million and HK\$9,322.7 million as at 31 December 2023 and 30 June 2024 respectively, in relation to the Group’s property investment portfolio in Nanjing, Shenyang and Tianjin in Mainland China and in Hong Kong. Other current assets of the Group mainly comprised inventories and prepayments, deposits and other receivables which remained relatively stable as at 31 December 2023 and 30 June 2024.

The total liabilities of the Group were approximately HK\$6,965.5 million and HK\$7,179.1 million respectively as at 31 December 2023 and 30 June 2024 with the major liabilities of the Group comprised total interest-bearing bank borrowings which amounted to approximately HK\$3,773.2 million and HK\$3,903.9 million as at 31 December 2023 and 30 June 2024 respectively. The total liabilities of the Group remained stable as at 31 December 2023 and as at 30 June 2024 while the gearing ratio of the Group as at 31 December 2023 and 30 June 2024 remained stable at 26.8% and 28.2% respectively. The gearing ratio is computed by comparing the Group’s long term bank borrowings to the Group’s equity. The financial position of the Group remained healthy amid the impact of the COVID-19 pandemic with consolidated net assets of the Group decreased slightly by approximately 3.4% from approximately HK\$6,289.8 million as at 31 December 2023 to approximately HK\$6,074.2 million as at 30 June 2024.

2. Information of the Target Companies

The Target Companies comprise Target Company A, Target Company B and Target Company C, all being wholly-owned subsidiaries of the Group.

The Target Company A beneficially owns seventeen (17) Class A Debentures (two (2) are for corporate members and fifteen (15) are for individual members) of which (i) ten (10) Class A Debentures under which the holders may use Class A Berths for vessels having not more than 45 feet in length; (ii) three (3) Class A Debentures under which the holders may use Class A Berths for vessels having not more than 50 feet in length; (iii) two (2) Class A Debentures under which the holders may use Class A Berths for vessels having not more than 60 feet in length; and (iv) two (2) Class A Debentures under which the holders may use Class A Berths for vessels having not more than 70 feet in length.

The Target Company B beneficially owns twenty-three (23) Class B Debentures (fifteen (15) are for corporate members and eight (8) are for individual members).

The Target Company C beneficially owns five (5) Dry Stack Debentures and all such five (5) Dry Stack Debentures are for individual members.

The Class A Debentures, Class B Debentures and Dry Stack Debentures refer to the debentures issued by the Club to its members from time to time upon approval of applications submitted by individuals or companies, and each debenture is a prerequisite for its marina member's entitlements including the right to use Class A Berth, Class B Berth and Dry Stack (as the case may be) as well as other facilities in the Club. Details of the descriptions on the Debentures are set out in the Letter from the Board and the section headed "Definition" in the Circular.

Other than the Debentures as mentioned above, the Target Companies do not hold any assets as at the Latest Practicable Date.

With reference to the Letter from the Board, set out below is the summary of the unaudited financial information of the Target Companies for the two years ended 31 December 2023 and nine months ended 30 September 2024:

	For the year ended 31 December 2022 <i>(approx. HK\$'000)</i> (unaudited)	For the year ended 31 December 2023 <i>(approx. HK\$'000)</i> (unaudited)	For the nine months ended 30 September 2024 <i>(approx. HK\$'000)</i> (unaudited)
Target Company A			
Profit/(loss) before and after taxation and extraordinary items	31,448	(9)	5,280
Target Company B			
Profit/(loss) before and after taxation and extraordinary items	2,449	1,709	(10)
Target Company C			
Profit/(loss) before and after taxation and extraordinary items	547	(9)	412

As discussed with the management of the Group, for the two years ended 31 December 2023 and nine months ended 30 September 2024, the Target Companies did not generate any revenue. The profit before and after taxation and extraordinary items of the Target Companies mainly derived from the gain on disposals of Debentures which were classified as “other income” in the respective management accounts. The unaudited total net asset value of the Target Companies as at 30 September 2024 was approximately HK\$63,207,000. The unaudited total assets and net assets of each of the Target Company A, Target Company B and Target Company C as at 30 September 2024 were both approximately HK\$28,037,000, HK\$29,720,000 and HK\$5,450,000, respectively.

3. Reasons for and benefits of the Disposal

The Group is principally engaged in trading and manufacturing of toys and shoes, property investment and development, agriculture as well as forestry businesses.

The Target Companies are having the beneficial ownership of the Debentures since 1993. The Target Companies have been selling the Debentures with the view to realise the value at reasonable price and to utilize the proceeds to improve the financial position and increase the general working capital of the Group. We understood from the management of the Group that the sales of the Debentures are not the ordinary course of businesses of the Group. The Disposal will not affect the Group’s core business operation/segment.

With reference to the Letter from the Board, the Group expects that the global economy remains uncertain for a relatively long period resulting from the tense relationships between the United States of America and China as well as the Russia-Ukraine war and wars in Middle East. Moreover, the people's consumption mode in Hong Kong has changed substantially from domestic consumption to consumption in neighborhood cities in Mainland China, which has deepened the impact on the economy of Hong Kong. In addition, the interest payable under the shareholder's loan owing to Mr. Ng or his associates is a financial burden of the Group, which continues to affect the profitability of the Group. Furthermore, the sales of the Debentures are not the core businesses of the Group and the holding of the Debentures is not essential for the Group's long-term development. The Disposal would allow the Group to deploy and allocate its resources (both time and manpower) to its profitable core segments.

As analysed in the paragraph headed "Information on the Group" above, the Group recorded losses for FY2023 and 1H2024, mainly due to the decrease in revenue from toy manufacturing segment given the decrease in purchase orders from the major customers of toys products. Key customers of the Group adopted prudent ordering strategies which kept tampering the overall demands for the Group's toys products. With reference to the 2024IR, the Group expects that in the second half of 2024, the Group will continue to face significant economic headwinds that are likely to impact its performance. As advised by the management of the Group, to strengthen the Group's financial foundation, it has been consolidating its resources and optimizing the existing facilities to maintain efficiency and cost-effectiveness and exploring new opportunities and business.

As advised by the management of the Group, as at 30 September 2024, the amount of shareholder's loan (including the principal amount and accrued interests thereon) owing to Mr. Ng or his associates by the Group was approximately HK\$409.2 million. The shareholder's loan is unsecured, interest bearing at Hong Kong dollar prime rate per annum and repayable on demand. On 15 December 2023, the Group has obtained a letter from Mr. Ng's associate agreeing not to exercise the right of demand of repayment on the outstanding principal together with all interest accrued thereon until 31 December 2024. For illustration purposes only, assuming that Completion took place on 30 September 2024, the shareholder's loan (including the principal amount and accrued interests thereon) owing to Mr. Ng or his associates would decrease to approximately HK\$224.2 million.

Having considered that (i) the Group's core businesses have been affected by, among other things, economics uncertainties and geopolitical tensions in recent years; (ii) the net proceeds from the Disposal will be used to set-off against the shareholder's loan owing to Mr. Ng or his associates, which in turn will reduce the financial burden of the Group; (iii) the sales of the Debentures are not the core businesses of the Group and the holding of the Debentures is not essential for the Group's long-term development, we are of the view that the Disposal is in line with the overall strategy of the Group. The Disposal allows the Group to better reallocate its financial resources and is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are set out in the Letter of the Board.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration is HK\$185,000,000, which shall be satisfied by way of set-off against the shareholder's loan owing to Mr. Ng or his associates by the Group on a dollar-for-dollar basis upon Completion.

With reference to the Letter from the Board, the Consideration was determined after arm's length negotiation between the Vendor and the Purchaser, on normal commercial terms having taken into account, among other things,

- (a) the unaudited total net asset of the Target Companies as at 30 September 2024 being approximately HK\$63,207,000;
- (b) the historical selling prices of the Debentures sold by the Group to independent third parties since 2020 (the average selling prices since 2020 of Class A Debentures for corporate members and individual members were HK\$9.3 million and HK\$4.8 million respectively, Class B Debentures for corporate members and individual members were HK\$2.3 million and HK\$1.4 million respectively, and Dry Stack Debentures for individual members was HK\$1.4 million), which gives a benchmark of the value of the Debentures based on the real market data;
- (c) the recent asking prices in 2024 of Class A Debentures are ranging from HK\$5 million to HK\$20 million; Class B Debentures are ranging from HK\$2 million to HK\$3 million; and Dry Stack Debentures are ranging from HK\$1.5 million to HK\$2 million, which are based on the Group's internal estimation by reference to the previous sales and the stock of the Debentures of the Group available in the market as well as the indicative asking prices from independent sales agents; and
- (d) current economic conditions in Hong Kong.

In addition, for the Board's reference and cross-checking purposes, the Board has also considered the valuation of the Debentures as at 30 September 2024 by using the market approach, being approximately HK\$185,000,000 appraised by Ravia Global Appraisal Advisory Limited, an independent valuer.

For our due diligence purpose, we are given to understand that the Club has about 300 Debentures in total (excluding the Dry Stack Debentures) and the Group owned 78 Debentures (excluding the Dry Stack Debentures) at the time of the acquisition thereof in 1993, representing about 26% of the total number of the Debentures in the Club and a total number of 29 Debentures (excluding the Dry Stack Debentures) were sold since 2020 out of the total number of 38 Debentures (excluding Dry Stack Debentures) sold since 1993 and 6 Dry Stack Debentures were sold since 2020. The Group has been one of the major suppliers/sellers of the Debentures. The transacted price made by the Group for the Debentures since 2020 was representative and can provide a meaningful reference to the then market on the sales price of the Debentures.

We have reviewed the list of sales transactions of the Debentures by the Group to independent third parties since 2020 and the relevant announcements made by the Group. We noted there were a total of 35 sales transactions with independent third parties which were completed during the period from 2020 up to the Latest Practicable Date. We noted that the Consideration for each class and type of Debentures, being Class A Debentures for corporate members, Class A Debentures for individual members, Class B Debentures for corporate members, Class B Debentures for individual members and Dry Stack Debentures for individual members, are determined based on the latest transacted price and the estimated price (where appropriate) of the relevant class/type, which should fairly reflect the market price and imply that the Consideration shall be fair and reasonable, and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

Based on our discussion with the Company, we are given to understand that there is no official open market for sale and purchase of the Debentures and the Debentures are unique due to its locations (where it is exactly located in the area), its type (whether it is a long lease or short lease) and its nature (whether it is individual or corporate). In this regard, we have independently performed, on a best effort basis, an internet search to check if there is any transacted price of the Debentures but such information is not found in public domain.

In respect of the recent asking prices, we noted the Board has also considered the asking prices of the Debentures in 2024 which were scattered in a wide range.

For the asking price of Class A Debentures, it ranges from HK\$5 million to HK\$20 million, owing to the fact that each of the Class A Debentures has its own right to use designated Class A Berths for vessels having not more than 45 feet, 50 feet, 60 feet and 70 feet in length, as the case may be, as well as the fact that location of the berth is different in the area. As noted from the fact sheet on marina club dated July 2022 on the website of the Club (being the most recent available information provided by the Club in its website), the prices for class A debenture for corporate member and individual member were HK\$1.95 million and HK\$1.3 million respectively. We understood such prices have not included the price for using the berths and required an applicant to wait until such debenture to be offered by Club from time to time which may take months or years. Therefore, the asking prices quoted by various sources discussed above could only serve as a general reference to assess the prices of the Group's Class A Debentures.

For the asking price of Class B Debentures and Dry Stack Debentures, as stated in the fact sheet, the prices for class B debenture and dry stack debenture for corporate member and individual member were both HK\$1.95 million and HK\$1.3 million respectively. The Group's historical average selling prices and recent asking prices range are above the prices as stated in the fact sheet of the Club.

Further, the asking prices vary according to the uniqueness of each of the Debentures and these prices quoted by the independent agents only serve a reference for the potential buyer to note the general prices of the Debentures for bargaining purposes. A transaction price of each of the Debentures would be negotiated between the seller and the buyer on an individual basis. In this regard, we are of the view that the asking price available in the public domain is for reference only whilst a transacted price of the relevant Debentures would provide a more solid basis to assess the reasonableness of the Consideration. The Group generally sold the Debentures through independent agents or through the Group's own sources, and the consideration for the historical sales transactions were based on arm's length discussion with the purchasers, on a case by case basis, with reference to the then relevant market sentiment, market information and transacted prices of club membership debentures. Accordingly, the transacted prices made by the Group to the independent third parties provided a reasonable reference to determine the Consideration.

Given that (i) the Group owned a large portion of the Debentures and has been an active market player and representative in the sales of the same in recent years, (ii) the Debentures have no open market and are unique, (iii) the Group's historical transaction prices were negotiated on arm's length basis and agreed between willing sellers and willing buyers who were independent third parties, (iv) the Consideration for each class/type of Debentures are determined based on the latest transacted price and the estimated price (where appropriate) of the relevant class/type, we concur with the Board that historical sales records of the Debentures since 2020 could reasonably serve as a reference for determining the Consideration.

We noted that Board has also considered the valuation of the Debentures as at 30 September 2024 for cross checking purpose in determining the Consideration. The valuation, being approximately HK\$185,000,000 (the "**Valuation**"), was appraised by Ravia Global Appraisal Advisory Limited, an independent valuer (the "**Valuer**"). In this respect, we reviewed and enquired into (i) the terms of engagement of the Valuer; (ii) the Valuer's qualification in relation to preparation of the Valuation; (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation. Based on our review and interview with the Valuer, we are satisfied with the terms of engagement as well as their qualification for preparation of the Valuation. The Valuer also confirmed that they are independent to the Group, the Purchaser and their respective associates.

The Valuation was prepared by the Valuer by adopting market approach. We understand that the common valuation approaches are market approach, income approach and cost approach. As confirmed with the Valuer, the adoption of income approach, which heavily relies on projection on expected discounted future revenue and/or cash inflows, may not be appropriate because no recurring income has been generated from the Debentures. On the other hand, the adoption of the cost approach was also not appropriate because it could not reflect reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence. The Valuer has applied market approach to estimate the market value of the Debentures, under which the direct comparison approach has been adopted after considering the average price of each class/type of the Debentures of all 35 transactions of the Debentures conducted by the Group since 2020 to the Latest Practicable Date (which the Valuer considered the number of transactions is representative for valuation purpose) and the estimated price of the Debentures (where appropriate), adjusted by relevant time factor by adopting the change in consumer price index for each year since 2020.

We understood from the Valuer that the Debentures do not have an open market and are unique as the Debentures are high-end products of which the transaction information (except the indicative asking prices from independent sales agents) is not publicly available, and the Valuer was unable to refer to or compare with debentures offered by other clubs due to different locations, members' benefits/entitlements and facilities. In this respect, in addition to our independent internet search performed as mentioned above where no information on transaction prices of the Debentures could be found in public domain, we also made independent enquiries with agents which provide services in buying and selling of club memberships and are given to understand that the debentures of various clubs are different due to different locations, types/nature of the debentures, members' benefits and facilities and no transacted price of the Debentures was disclosed to us. To this end, we consider that the Valuer, making reference to all 35 transactions as an adequate sample size, is reasonable to prepare the Valuation. As to the adjustments made by the Valuer with regard to the time factor, we are given to understand from the Valuer that it is a common practice for the valuer to adjust a historical transacted price to a current valuation of an asset in the valuation process according to the relevant consumer price index during the relevant period concerned. Therefore, we consider the Valuation is fair and reasonable for the Company to make reference to determine the Consideration.

Overall, given that (i) the Target Companies' principal assets are the holding of beneficially ownership of the Debentures; (ii) the Group has owned a large portion of the Debentures and has been an active market player in the sales of Debentures with a proven track record of 35 completed sales transactions with independent third parties in the recent four years, which are fair and representative sample size from the Independent Financial Adviser's perspective and the historical transaction prices (which were the sales prices agreed between the then willing sellers and willing buyers) could fairly reflect the market prices as explained above; and (iii) it is reasonable for the Company to use the Valuation for reference and cross checking purposes in determining the Consideration, we are of the view that the Consideration is fair and reasonable as a whole.

5. Financial impact of the Disposal and intended application of proceeds

With reference to the Letter of the Board, upon Completion, the Target Companies will cease to be subsidiaries of the Company, and the profit or loss as well as the assets and liabilities of each of the Target Companies will no longer be consolidated into the consolidated financial statements of the Group.

Earnings

It is estimated that the Group will record an one-off gain on the Disposal in the amount of approximately HK\$121,793,000, which is calculated based on the Consideration and the unaudited total net asset of the Target Companies as at 30 September 2024 before all taxes and related expenses in relation to the Disposal. The actual amount of gain as a result of the Disposal will be calculated based on the net book value of the Target Companies at Completion, net of any incidental expenses, and subject to be reviewed by the auditors of the Company.

Assets and liabilities

Having considered the Consideration and the unaudited total net asset value of the Target Companies as at 30 September 2024, it is estimated that upon Completion, the total assets of the Group will decrease by approximately HK\$63,207,000. The total liabilities of the Group will decrease by approximately HK\$185,000,000. It is estimated that the net assets of the Group will have an increase of approximately HK\$121,793,000, being the net effect of the changes of the total assets and total liabilities of the Group.

Liquidity and working capital

The Group intends to use the net proceeds from the Disposal to settle its liabilities by having the Consideration settled directly by set-off against the shareholder's loan owing to Mr. Ng or his associates by the Group. Notwithstanding the Group will not receive any cash from the Disposal, its overall financial position will be improved after the Disposal as the Group will be alleviated from the shareholder's loan owing to Mr. Ng or his associates and that it will reduce the financial burden on interest payable on the shareholder's loan.

It should be noted that the aforementioned analyses are for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon Closing of the Disposal.

OPINION AND RECOMMENDATION

Having considered the above, in particular, (i) the Disposal is in line with the Group's overall strategy to focus on its main businesses and to better utilize the financial resources, (ii) the Consideration is fair and reasonable, and (iii) there would be positive financial impact on the Group as a result from the Disposal, hence, we are of the view that although the Disposal is not conducted in the ordinary and usual course of business of the Group, the Disposal is on normal commercial terms, and the terms of the Sale and Purchase Agreement and the Disposal are fair and reasonable so 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 Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the Disposal, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
ELSTONE CAPITAL LIMITED



Fanny Lee
Managing Director

Ms. Fanny Lee is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Elstone Capital Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and has over 25 years of experience in corporate finance industry.