The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Bonus Issue and the Whitewash Waiver prepared for the purpose of inclusion in this circular.

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FORTUNE FINANCIAL CAPITAL

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23 September 2014

To: *The Independent Board Committee and the Independent Shareholders of Enviro Energy International Holdings Limited*

Dear Sirs,

(1) PROPOSED OPEN OFFER OF NOT LESS THAN 1,746,773,000 OFFER SHARES AND NOT MORE THAN 1,872,463,000 OFFER SHARES AT HK$0.02 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE WITH THE BONUS ISSUE ON THE BASIS OF THREE WARRANTS FOR EVERY FIVE OFFER SHARES TAKEN UP UNDER THE OPEN OFFER; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Bonus Issue and the Whitewash Waiver, details of which are set out in the Letter from the Board (the "**Letter from the Board**") in the Company's circular dated 23 September 2014 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 2 September 2014, the Company proposed, among other things, to raise not less than approximately HK$34.9 million (or not more than approximately HK$37.4 million, as the case may be), before expenses, by issuing not less than 1,746,773,000 Offer Shares (assuming none of the Exercisable Options having been exercised on or before the Record Date) and not more than 1,872,463,000 Offer Shares (assuming the Exercisable Options having been exercised in full on or before the Record Date) at the Subscription Price of HK$0.020 per Offer Share on the basis of one Offer Share for every two Shares held by the Qualifying Shareholders on the Record Date and payable in full on application, with the Bonus Issue on the basis of three Warrants for every five Offer Shares taken up under the Open Offer.

The Open Offer is fully underwritten by Colpo as the Underwriter, subject to the terms and conditions set out in the Underwriting Agreement.

IMPLICATIONS UNDER THE LISTING RULES

As no excess application for the Offer Shares is available under the Open Offer and the Open Offer is underwritten by Colpo, who is a substantial Shareholder, pursuant to Rule 7.26A(2) of the Listing Rules, specific approval must be obtained from the Independent Shareholders in respect of the absence of such excess application arrangement. Due to the above, Colpo, together with its beneficial owner and parties acting in concert with any one of them, is beneficially interested in 1,213,361,200 Shares representing approximately 34.73% of the issued share capital of the Company as at the Latest Practicable Date, shall abstain from voting at the EGM to approve the absence of such excess application arrangement.

The entering into of the Underwriting Agreement with Colpo, who is a substantial Shareholder, and the payment of the underwriting commission to Colpo as the Underwriter constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the underwriting commission to be received by Colpo of approximately HK$380,000 (based on 1,265,782,400 Shares, being the maximum number of Offer Shares underwritten by Colpo under the Open Offer) is on normal commercial terms and all applicable percentage ratios (as defined in the Listing Rules) are less than 5%, the payment of the underwriting commission by the Company to Colpo is therefore exempt from reporting, announcement and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules. Save for Mr. Chan, who holds the entire interest in the share capital of Colpo, had abstained from voting on the relevant board resolutions, none of the Directors has a material interest in the Open Offer, the Underwriting Agreement, the Undertaking, the Bonus Issue and the Whitewash Waiver and all matters contemplated thereunder and were not required to abstain from voting on the relevant board resolutions approving, among other things, the Open Offer, the Underwriting Agreement and all matters contemplated thereunder.

Pursuant to Rule 14A.92(2)(b) of the Listing Rules, provided that Rule 7.26A of the Listing Rules has been complied with, the allotment and issue of the Underwritten Shares to Colpo as the Underwriter pursuant to the Underwriting Agreement will be exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Open Offer will be conducted in compliance with Rule 7.26A of the Listing Rules as mentioned above.

Pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer is conditional on, among other things, the approval by the Independent Shareholders at the EGM by way of poll, at which any controlling Shareholders (as defined in the Listing Rules) and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour. As at the Latest Practicable Date, Colpo and Mr. Chan are together interested in approximately 34.73 % of the issued share capital of the Company and hence are the controlling Shareholders. As such, Colpo and its associates (including Mr. Chan) shall abstain from voting in favour of the resolution in relation to the Open Offer at the EGM.

IMPLICATIONS UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, Colpo, together with its beneficial owner and parties acting in concert with any one of them, were beneficially interested in 1,213,361,200 Shares, representing approximately 34.73% of the issued share capital of the Company and Mr. Chan held 26,000,000 Share Options, all of which are Exercisable Options. As advised by the Company, to the best knowledge of the Company and having made all reasonable enquiries, Mr. Chan has no intention to exercise the 26,000,000 Exercisable Options held by him at any time on or before the Record Date.

In the event that, upon completion of the Open Offer (assuming no new Share being issued and no Share being repurchased by the Company on or before the Record Date), no Qualifying Shareholders will take up any Offer Shares (other than the Committed Shares), the Underwriter will be required to subscribe for and take up all Underwritten Shares, which will result in the aggregate shareholding of Colpo and its ultimate beneficial owner and parties acting in concert with any of them in the Company increasing from 1,213,361,200 Shares, representing approximately 34.73 % of the issued share capital of the Company (not taking into account of the 26,000,000 Exercisable Options held by Mr. Chan, a concert party of Colpo, as such Exercisable Options have not been exercised as at the Latest Practicable Date), to:

(i) assuming that none of the Exercisable Options having been exercised on or before the Record Date, 2,960,134,200 Shares representing approximately 56.49% of the issued share capital of the Company as enlarged by the Offer Shares, or 4,008,198,000 Shares representing approximately 63.74% of the issued share capital of the Company as enlarged by the Offer Shares and assuming the full exercise of the Warrants by Colpo and parties acting in concert with it immediately upon the issue of the Warrants; or

(ii) assuming that the 26,000,000 Exercisable Options having been exercised in full by Mr. Chan only on or before the Record Date, 2,999,134,200 Shares representing approximately 56.81% of the issued share capital of the Company as enlarged by the Offer Shares, or 4,054,998,000 Shares representing approximately 64.01% of the issued share capital of the Company as enlarged by the Offer Shares and assuming the full exercise of the Warrants by Colpo and parties acting in concert with it immediately upon the issue of the Warrants.

Accordingly, the underwriting of the Underwritten Shares by Colpo pursuant to the Underwriting Agreement, the subscription for the Committed Shares pursuant to the Undertaking and the exercise of the Warrants under the Bonus Issue will trigger an obligation on Colpo, together with parties acting in concert with it, to make a mandatory offer under Rule 26 of the Takeovers Code for all the issued securities of the Company (including the Exercisable Options) not already owned or agreed to be acquired by Colpo and parties acting in concert with it, unless the Whitewash Waiver is obtained.

An application has been made by Colpo to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll, which Colpo and parties acting in concert with it and (if applicable) Shareholders who are not Independent Shareholders will abstain from voting at the EGM on the relevant resolutions. If the Whitewash Waiver is not granted by the Executive, the Open Offer and the Bonus Issue will not become unconditional and will not proceed.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. David Tsoi, Mr. Lo Chi Kit and Mr. Tam Hang Chuen was established by the Company to advise the Independent Shareholders on the terms of the Open Offer, the Bonus Issue and the Whitewash Wavier, and to make recommendations (i) as to whether the terms of the Open Offer, the Bonus Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole; and (ii) as to voting of the resolutions to approve the Open Offer, the Bonus Issue and the Whitewash Waiver. We, Fortune Financial Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. Other than being appointed as the Independent Financial Adviser, we have no relationship or interest with the Company and any other parties that could reasonably be regarded as relevant to our independence. We are independent from the Company according to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and/or the management of the Company. We have assumed that all information and representations provided by the Directors and/or the management of the Company, for which they are solely and wholly responsible for are true, accurate and complete in all material 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. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquires and careful consideration by the Directors and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and/or the management of the Company nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares, the rights under the Bonus Issue or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares, the rights under the Bonus Issue or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt, should consult their own professional advisers.

The Directors have collectively and individually accepted full responsibility for all information given with regard to the Company including particulars given in compliance with the Listing Rules. The Directors have confirmed, after having made all reasonable enquires, which to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter was issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration in respect of the Open Offer, the Bonus Issue and the Whitewash Waiver.

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 of the following principal factors and reasons. Our conclusions are based on the results of our analyses taken as a whole.

1. Background information of the Company

1.1 The Group's business activities

The Group is principally engaged in investment holding and development of a full range of natural resource-related projects involving hydrocarbons and other natural resources.

1.2 Financial performance

(a) With reference to the unaudited interim report of the Company for the six months ended 30 June 2014 (the "**IR 2014**"):

The Group recorded revenue of approximately HK$0.57 million and HK$0.29 million for the six months ended 30 June 2014 and 2013, respectively. The Group suffered a net loss amounted to approximately HK$20.09 million for the six months ended 30 June 2014. The Group's unconventional natural gas business was still in exploration and evaluation phases and therefore it did not generate any revenue for the six months ended 30 June 2014. The net loss was mainly contributed from the administrative and operating expenses incurred for the six months ended 30 June 2014.

As at 30 June 2014, the Group had bank balances and cash of approximately HK$10.02 million, representing a decrease of approximately 73.28% as compared with approximately HK$37.49 million as at 31 December 2013.

The Group had net current liabilities amounted to approximately HK$7.54 million as at 30 June 2014 whilst, as at 31 December 2013, the Group recorded net current assets of approximately HK$13.52 million.

Approximately HK$27.44 million had been used by the Group in its operating activities for the six months ended 30 June 2014. As at 30 June 2014, the Group had no interest bearing bank borrowings.

(b) According to the audited annual report of the Company for the year ended 31 December 2013 (the "**AR 2013**"):

The Group recorded revenue from continuing operations of approximately HK$1.15 million, representing an increase of approximately 1,572.86% as compared with the revenue for the year ended 31 December 2012 of approximately HK$0.07 million. The Group did not generate any revenue from its unconventional natural gas business for the year ended 31 December 2013. During the year ended 31 December 2013, the Group's marble business was still in the beginning stage and accordingly revenue generated from this segment had been minimal. As advised by the Company, the increase in the revenue of the Group was due to increase in sales under the marble segment.

For the year ended 31 December 2013 and 2012, the Group recorded profit attributable to the equity shareholders of the Company of approximately HK$20.72 million and a loss attributable to the equity shareholders of the Company of approximately HK$73.42 million, respectively. As advised by the Company, such change from net loss in 2012 to net profit in 2013 was mainly due to the gain on disposal of subsidiaries which took place during the year ended 31 December 2013. We noted that without the gain on disposal of subsidiaries, the Group would have recorded a loss attributable to the equity shareholders of the Company for the year ended 31 December 2013.

As at 31 December 2013, the Group had bank balances and cash of approximately HK$37.49 million, representing an increase of approximately 44.86% as compared with approximately HK$25.88 million recorded as at 31 December 2012.

As at 31 December 2013 and 2012, the Group had net current assets amounted to approximately HK$275.64 million and HK$249.70 million, respectively, representing an increase of 10.39%.

Approximately HK$65.51 million had been used by the Group in its operating activities for the year ended 31 December 2013. As at 31 December 2013, the Group had no interest bearing bank borrowings.

(c) Reference is made to the audited annual report of the Company for the year ended 31 December 2012 (the "**AR 2012**"):

The Group recorded revenue from continuing operations of approximately HK$0.07 million, representing a decrease of approximately 56.25% as compared with the revenue for the year ended 31 December 2011 of approximately HK$0.16 million. The revenue of approximately HK$0.07 million was attributable to the provision of information technology related services in Hong Kong. During the year ended 31 December 2012, the unconventional natural gas business of the Group was still in exploration and evaluation phases and the Group was not able to generate any revenue from the marble rock mining business in Indonesia. As such, revenue of the Group was minimal for the year ended 31 December 2012.

For the year ended 31 December 2012, the Group recorded loss attributable to equity shareholders of the Company of approximately HK$73.42 million, representing a reduction in loss of approximately HK$3.28 million as compared to the loss attributable to equity shareholders of the Company of approximately HK$76.70 million for the year ended 31 December 2011.

As at 31 December 2012, the Group had bank balances and cash of approximately HK$25.88 million, representing a decrease of approximately 47.09% as compared with approximately HK$48.91 million recorded as at 31 December 2011.

As at 31 December 2012, the Group had net current liabilities amounted to approximately HK$19.64 million. Meanwhile, as at 31 December 2011, the Group had net current assets amounted to approximately HK$25.12 million

Approximately HK$44.19 million had been used by the Group in its operating activities for the year ended 31 December 2012. As at 31 December 2012, the Group had no interest bearing bank borrowings.

1.3 Fund raising activities in the past twelve months

As confirmed by the Company, the Company did not conduct any fund raising activities in the past twelve months immediately prior to the Latest Practicable Date.

2. Reasons for the Open Offer and the use of proceeds

As previously disclosed in the announcements of the Company dated 28 April 2014 and 7 July 2014 (the "**Previous Announcements**"), TerraWest Energy Corp. (the "**TWE**"), a non-wholly owned subsidiary of the Company in which the Company held approximately 71.61% of the issued common shares and preferred shares in the capital of TWE, or approximately 82.92% of the issued common shares, preferred shares and warrants outstanding in the capital of TWE on a fully diluted basis, respectively, has declared a dispute (the "**Dispute**") with China National Petroleum Corporation (the "**CNPC**") and/or its affiliates, including, among others, PetroChina Company Limited and PetroChina Coalbed Methane Company Limited in relation to the Liuhuanggou coalbed methane (the "**CBM**") production sharing contract (the "**PSC**") in the Junggar Basin of Xinjiang, China. On 3 July 2014, the Company had issued to CNPC a notice to terminate the PSC (the "**Termination**"). On 4 July 2014, the Company formally served a notice of arbitration on CNPC relating to the Dispute, seeking an award of damages as compensation for the losses caused by CNPC's breaches of the PSC, together with declaratory relief, costs and interest (the "**Damages**").

As advised by the management of the Company and as noted in the AR 2013, TWE has spent several million United States dollars in completing several coring exploration drillholes for sampling and analysis purposes as well as several pilot production wells for exploration and gas testing for the CMB under the PSC. The PSC forms part of its gas exploration business segment, however, has not generated any revenue since the entering into of the PSC with CNPC in 2005 as it has not reached the production stage. As further advised by the management of the Company, having taken into account the merits of the Dispute, despite the Termination, no impairment losses are required for the PSC as the estimated recoverable amount of the oil and gas properties from the Damages far exceeds its carrying value as at 30 June 2014.

Please refer to the Previous Announcements, the AR 2013 and the IR 2014 for details in relation to the Dispute and the Termination.

As noted from the IR 2014, the Group had bank balances and cash of approximately HK$10.02 million as at 30 June 2014. We also noticed from the AR 2013 that, the Group incurred a net operating cash outflow of approximately HK$44.19 million and HK$65.51 million for the year ended 31 December 2012 and 2013, respectively. The Group had net cash used in operating activities approximately HK$27.44 million for the six months ended 30 June 2014. According to the AR 2013, the Group had net current assets amounted to approximately HK$249.70 million and HK$275.64 million as at 31 December 2012 and 2013, respectively. However, according to the IR 2014, the Group had net current liabilities of approximately HK$7.54 million as at 30 June 2014.

As set out in the Letter from the Board, the Board acknowledged that the Group would encounter difficulties in raising funds through financial institutions by way of equity and/or debt financing in light of its recent financial performance and positions. The Board has also considered the possibility of conducting a rights issue instead of the Open Offer. However, if the Company raises funds through a rights issue instead of the Open Offer, the Company would incur higher administrative costs for the preparation, printing, posting and processing of excess applications forms as well as making arrangements with the share registrar on the trading of nil paid rights. The Company will also involve additional time and resources to administer the trading of the nil-paid rights including communication between the Company and other parties such as the registrar or financial printer, and these additional costs and time are difficult to quantify. The objective of the Open Offer and the Bonus Issue is to enable the Shareholders to maintain their proportionate interests in the Company should they wish to do so, ensuring stability in the Company's Shareholders' base, and to participate in the Company's future growth and development. The Board therefore considers, since the Open Offer and the Bonus Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro-rata shareholding interests in the Company, even without the right to trade their nil-paid rights as in a rights issue, on balance, to conduct the Open Offer instead of a rights issue will be more beneficial to the Company and the Shareholders in the current circumstances.

The terms and structure of the Open Offer, including the combination of the Subscription Price and the offer ratio, were arrived at after arm's length negotiations between the Company and Colpo having taken into account the Group's financial position and its working capital requirements. While the Company has explored and proposed other combinations during the negotiations that may result in other dilution effects on the shareholdings of those Shareholders who do not take up the Offer Shares, Colpo was only willing to act as the Underwriter with the current structure of the Open Offer. The Company has attempted but was unable to identify other underwriters for the Open Offer. In view of the financial position of the Group and its need for funding, the Board considers the Subscription Price of HK$0.02 per Offer Share, an offer ratio of one Offer Share for two Shares and the overall dilution effect to be acceptable and as a whole, in the interests of the Company and the Shareholders. In particular, the Company has exhausted all other fund raising options and the Open Offer with the current structure is the only one available for the time being which allows all Shareholders to participate in an equal and fair basis.

The Board is of the view that the Open Offer with the Bonus Issue will enable the Group to strengthen its capital base, to ease the Group's short-term financial stress and to enhance its financial position.

As set out in the Letter from the Board, the estimated gross proceeds (before expenses) and the estimated net proceeds (after deduction of expenses, including the commission to be paid to the Underwriter) from the Open Offer will be not less than approximately HK$34.9 million and HK$33.4 million, respectively, and will not be more than approximately HK$37.4 million and HK$35.9 million, respectively. The Company intends to apply the net proceeds from the Open Offer for general working capital of the Group. Furthermore, the estimated maximum net proceeds from the full exercise of the Warrants will be approximately HK$235.9 million. The net price per Warrant Share is approximately HK$0.21. The Company intends to apply the net proceeds from the exercise of the Warrants for general working capital of the Group and/or other appropriate investments as may be identified by the Group from time to time.

Assuming all Exercisable Options have been exercised on or before the Record Date and a full exercise of the Warrants, the estimated aggregate maximum net proceeds from the Open Offer and Warrants will be approximately HK$271.8 million.

In view of (i) the effects caused by, and the unpredictable timing of, the arbitration process relating to the Dispute; (ii) the financial position of the Group, including the latest bank balances and cash of the Group as at 30 June 2014, the net cash outflow from operating activities of the Company in recent years and the net current liability position of the Group recorded as at 30 June 2014; (iii) the fact that the Company has exhausted other fund raising options and encountered difficulties in sourcing other financing alternatives partly related to its unfavourable financial performance and position as further elaborated in the paragraph headed "Alternatives to the Open Offer" of this letter below; (iv) in the event that Shareholders decide not to participate in the Open Offer, the dilution effect is acceptable and as a whole, in the interests of the Company and the Independent Shareholders as discussed in the section headed "Risk associated with the Open Offer — Potential dilution effect on the shareholding interests of Independent Shareholders" of this letter below; and (v) the total amount of fund to be raised in the Open Offer with Bonus Issue which would enhance the financial position of the Company, we are of the opinion that the Open offer with the Bonus Issue are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

3. Principal terms of the Open Offer

3.1 Basis of the Open Offer

Qualifying Shareholders will be offered one Offer Share for every two Shares held on the Record Date and payable in full on acceptance, together with the Bonus Issue on the basis of three Warrants for every five Offer Shares taken up.

Each of the Offer Shares (when allotted, issued and fully paid) and the Warrant Shares (when allotted, issued and fully paid upon exercise of the Warrants) will rank equally in all respects with the Shares in issue on the date of their respective allotment and issue and upon entering into the register of members of the Company. Holders of the Offer Shares and Warrant Shares (when allotted, issued and fully paid upon exercise of the Warrants) will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the close of business on the date of allotment and issue of the Offer Shares and Warrant Shares.

3.2 Subscription Price

(a) The Subscription Price

The Subscription Price is HK$0.020 per Offer Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Open Offer. The Subscription Price represents:

(i) a discount of approximately 84.96% to the closing price of HK$0.133 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 79.02% to the theoretical ex-entitlement price of approximately HK$0.095 per Share after the Open Offer, based on the closing price of HK$0.133 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 85.27% to the average closing price of HK$0.136 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 85.80% to the average closing price of HK$0.141 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 92.87% to the unaudited consolidated net asset value per Share of approximately HK$0.281 (calculated by dividing the unaudited consolidated net asset value of the Group as at 30 June 2014 as shown in the interim results announcement of the Company for the six months ended 30 June 2014 by the number of Shares in issue as at 30 June 2014); and

(vi) a discount of approximately 85.92% to the closing price of HK$0.142 per Share as at the Latest Practicable Date.

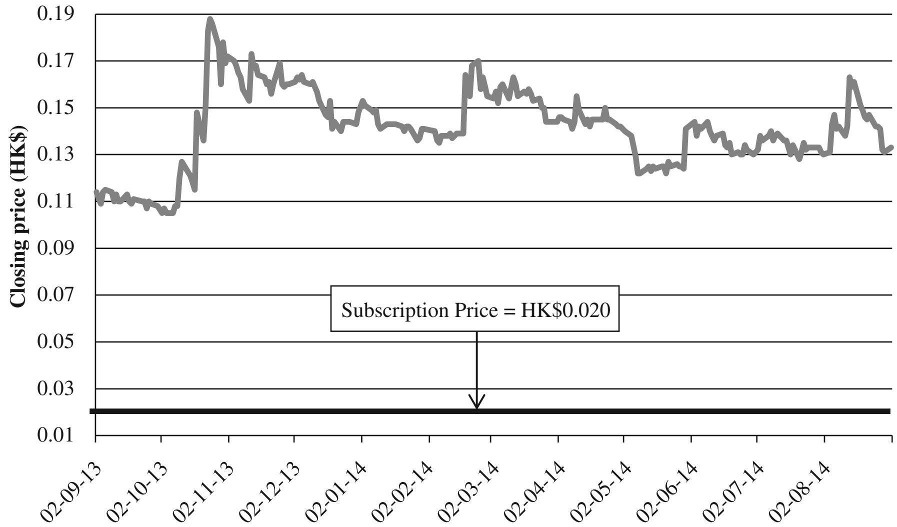
As set out in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to the prevailing market price and trading liquidities of the Shares prior to the Last Trading Day.

By taking into consideration (i) the theoretical ex-entitlement price per Share; (ii) each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its shareholding in the Company on the Record Date, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group, and that the discount would encourage the Qualifying Shareholders to participate in the Open Offer and the future growth of the Group; (iii) monthly working capital requirements for the Group's operations in Hong Kong and Indonesia; and (iv) the net proceeds to be raised from the Open Offer shall be sufficient to support the working capital requirement of the Group for a reasonable period of time, the Directors consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We considered that the substantial discount to the closing prices and theoretical ex-entitlement price represented by the Subscription Price was offered with a view to encourage the Qualifying Shareholders to participate in the Open Offer and participate in the future growth of the Company. In addition, we noted the limited cash position and the funding needs of the Company for its operations, we share the Directors' view that the Subscription Price, which has been set at a substantial discount, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(b) Historical closing prices of Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the trading prices of the Shares for the period from 2 September 2013, being the 12-month period prior to the date of the Underwriting Agreement, up to and including the Last Practicable Date (the "**Review Period**"). The trading price and volume of the Shares during the Review Period reflect the market's view on the performance and prospect of the Company. We consider that a 12-month review period to be a reasonable period of time within which the historical trend of the closing price of the Shares can be illustrated in relation to the Open Offer. The chart below illustrates the daily closing prices of the Shares versus the Subscription Price during the Review Period:



Source: http://www.hkex.com.hk

During the Review Period, the highest closing price and the lowest closing price of the Shares were HK$0.188 on 24 October 2013 and HK$0.105 on 2 October, 4 October and 7 October 2013, respectively. The Subscription Price represents a discount of approximately 89.36% and a discount of approximately 80.95%, respectively, to such highest and lowest closing prices of the Shares during the Review Period.

(c) Trading liquidity of the Shares

The average daily number of the Shares traded for each month (the "**Average Volume**") during the Review Period as compared to the total number of issued Shares as at the Latest Practicable Date are tabulated as follows:

Month/Period	**Number of trading days of the Shares in the relevant month** *(days)*	**Approximate Average Volume** *(rounded to the nearest Shares)*	**Approximate % of Average Volume to the total number of issued Shares on the Latest Practicable Date**
2013			
September	20	2,076,300	0.06
October	21	38,180,476	1.09
November	21	9,699,905	0.28
December	20	4,525,100	0.13
2014			
January	21	4,041,762	0.12
February	19	11,035,474	0.32
March	21	7,370,286	0.21
April	20	2,195,200	0.06
May	20	2,195,200	0.06
June	20	1,874,800	0.05
July	22	1,549,182	0.04
August	21	19,611,238	0.56
September (up to and including the Latest Practicable Date)	14	19,091,209	0.55
Total number of issued Shares on the Latest Practicable Date	3,493,546,000		

Source: http://www.hkex.com.hk

As shown in the table above, the highest Average Volume was recorded in October 2013, representing approximately 1.09% of the total number of Shares in issue as at the Latest Practicable Date while the lowest Average Volume was recorded in July 2014, representing approximately 0.04% of the total number of Shares in issue as at the Latest Practicable Date. We noted that throughout the Review Period, only the Average Volume recorded in October 2013 is higher than 1.00% of the total number of Shares in issue as at the Latest Practicable Date. We consider that the unusual high Average Volume recorded in October 2013 was mainly due to the substantial trading volume of the Shares on 18 October 2013 and 23 October 2013, i.e. 123,934,000 Shares, representing approximately 3.55% of the total number of Shares in issue as at the Latest Practicable Date and 272,396,000 Shares, representing approximately 7.80% of the total number of Shares in issue as at the Latest Practicable Date, respectively.

By also taking into account of the abovementioned unusual movements in the trading volume of the Shares in October 2013, we are of the view that the overall trading volume of the Shares during the Review Period was thin, with the Average Volume to the Shares in issue as at the Latest Practicable Date at the mean of 0.25% and ranging from 0.04% to 0.56%. Accordingly, we take the view that the Shares were generally illiquid in the market and concur with the view of the Directors that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Open Offer if the Subscription Price was not set at substantial discount to the historical closing prices of the Shares. With this being the case, we consider that the substantial discount to the share price is justifiable, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(d) Comparison with open offer comparables

In assessing the fairness and reasonableness of the Subscription Price, we have also identified, after taken reasonable efforts, an exhaustive list of companies listed on the Stock Exchange which had announced the conduct of open offers during the six months prior to and including the date of the Underwriting Agreement, i.e. from 1 March 2014 to 1 September 2014 (the "**Comparable Period**"). During the Comparable Period, 25 open offers had taken place, among which, three open offers were conducted by listed companies while they were undergoing prolonged trading suspension for a period of time ranging from four to six years. These three listed companies are First Mobile Group Holdings Limited (stock code: 0865.HK), Proview International Holdings Limited (stock code: 0334.HK) and Incutech Investments Limited (stock code: 0356.HK). We decided to carve out these three listed companies from our analysis mainly due to the fact that the shares of these listed companies had been suspended for trading throughout the Comparable Period.

By excluding the abovementioned three listed companies, we have identified 22 listed companies (the "**Comparables**"), which represent a fair and representative sample population for the present comparison purpose. We consider that the terms of the open offers conducted by the Comparables are determined under similar market conditions and sentiments as the Open Offer and we believe that the Comparables may reflect the recent trend of the open offer transactions in the market. Nevertheless, Shareholders should note that the businesses, operations and prospects of the Company are not exactly the same as the Comparables and we have not conducted any in-depth investigation into the businesses, operations and prospects of the Comparables. Details of the Comparables are summarised in the following table:

	Date of Announcement	Name of Company (stock code)	Basis of entitlement	Subscription price (HK$/ shares)	Premium/ (discount) of subscription price over/(to) the closing price on the last trading day	Premium/ (discount) of subscription price over/(to) the theoretical ex-rights/ entitlement price	Maximum dilution (%)*	Underwriting commission (%)	Excess application (Yes/No)
1	8 August 2014	DeTeam Company Limited (65)	1 for 1	0.50	(66.67%)	(50.00%)	50.00	—	No
2	1 August 2014	Chinese Energy Holdings Limited (8009)	1 for 2	0.10	(52.38%)	(17.46%)	33.33	2.50	No
3	29 July 2014	China Culiangwang Beverages Holdings Limited (904)	1 for 2	0.25	(49.00%)	(39.00%)	33.33	1.96#	No
4	25 July 2014	Integrated Waste Solutions Group Holdings Limited (923)	1 for 1	0.20	(50.60%)	(34.00%)	50.00	2.00	No
5	25 July 2014	Auto Italia Holdings Limited (720)	1 for 2	0.065	(39.81%)	(30.50%)	33.33	2.00	Yes
6	22 July 2014	Henry Group Holdings Limited (859)	1 for 5	0.85	(24.11%)	(20.93%)	16.67	3.00	Yes
7	16 July 2014	Greaterchina Professional Services Limited (8193)	1 for 2	0.20	(51.22%)	(41.18%)	33.33	2.00	No
8	30 July 2014	Celebrate International Holdings Limited (8212)	8 for 1	0.20	(80.00%)	(30.80%)	88.89	3.00	Yes
9	25 June 2014	EDS Wellness Holdings Limited (8176)	1 for 2	3.00	(8.26%)	(5.66%)	33.33	3.50	No
10	9 June 2014	China Investment and Finance Group Limited (1226)	1 for 2	0.20	(47.37%)	(37.50%)	33.33	2.00	No
11	5 June 2014	Green International Holdings Limited (2700)	3 for 10 (Bonus issue of 2 bonus warrants for every 3 offer shares taken up)	0.45	(54.55%)	(48.28%)	23.08	—	Yes
12	9 May 2014	China Energy Development Holdings Limited (228)	1 for 4	0.095	(8.70%)	(7.00%)	20.00	2.75	No
13	7 May 2014	DX.com Holdings Limited (8086)	1 for 10	0.10	(45.95%)	(43.60%)	9.09	3.00	No
14	30 April 2014	Cosmopolitan International Holdings Limited (120)	2 for 1	0.10	(83.60%)	(63.00%)	66.67	—	Yes
15	28 April 2014	Inno-Tech Holdings Limited (8202)	25 for 1	0.215	(90.30%)	(26.40%)	96.15	3.00	No
16	25 April 2014	21 Holdings Limited (1003)	1 for 2	0.50	(49.49%)	(16.46%)	33.33	3.50	No
17	25 April 2014	Hao Tian Development Group Limited (474)	2 for 1	0.25	(83.66%)	(38.42%)	66.67	2.50	No
18	22 April 2014	China Packaging Group Company Limited (572)	1 for 2	0.04	(70.37%)	(61.17%)	33.33	2.50	No

	Date of Announcement	Name of Company (stock code)	Basis of entitlement	Subscription price (HK$/ shares)	Premium/ (discount) of subscription price over/(to) the closing price on the last trading day	Premium/ (discount) of subscription price over/(to) the theoretical ex-rights/ entitlement price	Maximum dilution (%)*	Underwriting commission (%)	Excess application (Yes/No)
19	11 April 2014	MelcoLot Limited (8198)	3 for 10	0.90	(23.73%)	(18.86%)	23.08	3.00	No
20	11 April 2014	Sunwah Kingsway Capital Holdings Limited (188)	1 for 4	0.148	(5.13%)	(3.90%)	20.00	2.00	Yes
21	1 April 2014	Well Way Group Limited (8063)	1 for 2	0.70	(22.22%)	(15.97%)	33.33	3.50	No
22	28 March 2014	Ground Properties Company Limited (989)	1 for 2	0.20	(28.57%)	(20.95%)	33.33	—	Yes
		Mean			**(47.08%)**	**(30.50%)**	**39.25**	**2.17**	
		Maximum			**N/A**	**N/A**	**96.15**	**3.50**	
		Minimum			**N/A**	**N/A**	**9.09**	**0**	
		Minimum Discount			**(5.13%)**	**(3.90%)**	**N/A**	**N/A**	
		Maximum Discount			**(90.30%)**	**(63.00%)**	**N/A**	**N/A**	
		Median			**(49.25%)**	**(30.65%)**	**33.33**	**2.50**	
		Company	**1 for 2**		**(84.96%)**	**(79.02%)**	**33.33**	**1.50**	

* Maximum dilution effect of each open offer is calculated as: (number of offer shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the offer shares under the basis of entitlement + number of offer shares).

China Culiangwang Beverages Holdings Limited (the "**CCLW**") proposed to raise not less than approximately HK$132,605,067.50 and not more than approximately HK$200,684,230.50 from the open offer. The underwriting commission payable by CCLW to its underwriter is amounted to, among others, HK$3,267,832.70. Therefore, the average underwriting commission rate for this open offer is calculated as: HK$3,267,832.70/((HK$132,605,067.50+HK$200,684,230.50)/2)*100%= 1.96%.

As shown in the above table, we noted that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in an open offer, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. The Comparables had subscription prices at a discount to their respective closing price per share on the last trading day within a range from a minimum discount of approximately 5.13% to a maximum discount of approximately 90.30% (the "**LTD Range**"), with an average discount of approximately 47.08% (the "**LTD Mean**"). The discount of the Subscription Price to the closing price per Share on the Last Trading Day is approximately 84.96%. We noticed that although such discount of the Subscription Price deviates from the LTD Mean, it falls within the LTD Range.

The discount represented by subscription prices to the theoretical ex-entitlement prices of the shares of the Comparables ranged from a minimum discount of approximately 3.90% to a maximum discount of approximately 63.00% (the "**TEP Range**"), with an average discount of approximately 30.50% (the "**TEP Mean**"). The discount of the Subscription Price to the theoretical ex-entitlement price per

Share after the Open Offer, based on the closing price of HK$0.133 per Share as quoted on the Stock Exchange on the Last Trading Day is approximately 79.02%, which exceeds the upper limit of the TEP Range and the TEP Mean.

Nevertheless, having considered (i) each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its shareholding in the Company on the Record Date, which would enable the Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the future growth of the Group, and that the discount would encourage the Qualifying Shareholders to participate in the Open Offer and the future growth of the Group; (ii) the financial position of the Group and its need for funding in the near future as discussed in the section headed "Reasons for the Open Offer and the use of proceeds" above; (iii) the fact that the Shares were generally illiquid in the market during the Review Period; (iv) the discount of the Subscription Price to the closing price per Share on the Last Trading Day is within the LTD range; (v) a substantial discount would encourage the Qualifying Shareholders to participate in the Open Offer; and (vi) other factors as stated in the section headed "Reasons for the Open Offer and the use of proceeds" above, we are of the view that the substantial discount of the Subscription Price to each of the closing price per Share on the Last Trading Day and the theoretical ex-entitlement price of the Shares are fair and reasonable so far as the Independent Shareholders are concerned.

3.3 Underwriting Commission

As advised by the management of the Company, the underwriting commission of 1.50% on the total Subscription Price of the Underwritten Shares is arrived after arm's length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Open Offer, and the current and expected market condition. It is expected that the maximum commission to be received by the Underwriter will be approximately HK$380,000. The Directors considers the underwriting commission rate is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

As noted from the table set out in the section headed "Comparison with Open Offer Comparables" above, the underwriting commissions of open offers conducted by the Comparables range from nil to 3.50% (the "**Commission Range**"), with an average commission of 2.17% (the "**Commission Mean**"). The commission rate as stipulated under the Underwriting Agreement lies within the Commission Range and is lower than the Commission Mean.

After taking into consideration (i) the underwriting commission was determined after arm's length negotiations between the Company and the Underwriter with reference to the abovementioned factors; (ii) the underwriting commission of 1.50% is within the Commission Range and lower than the Commission Mean; and (iii) the Company could not secure other parties to act as the underwriters to the Open Offer due to the past financial performance of the Company, the Dispute and the Termination, we consider that the underwriting commission of 1.50% is in line with the market practice and is fair and reasonable as far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole.

3.4 Bonus Issue

The Company also proposed the Bonus Issue on the basis of three Warrants for every five Offer Shares taken up under the Open Offer.

The subscription rights attaching to the Warrants may be exercised at any time between the date of issue of the Warrants and 2 years after the date of issue of the Warrants (the "**Warrants Exercise Period**").

The initial Exercise Price of HK$0.21 per Warrant Share represents:

(i) a premium of approximately 57.89% over the closing price of HK$0.133 per Share as quoted on the Stock Exchange on 1 September 2014, being the Last Trading Day;

(ii) a premium of approximately 54.64% over the average closing price of HK$0.136 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 1 September 2014, being the Last Trading Day;

(iii) a discount of approximately 25.19% to the unaudited consolidated net asset value per Share of approximately HK$0.281 (calculated by dividing the unaudited consolidated net asset value of the Group as at 30 June 2014 as shown in the interim results announcement of the Company for the six months ended 30 June 2014 by the number of Shares in issue as at 30 June 2014); and

(iv) a premium of approximately 47.89% over the closing price of HK$0.142 per Share as quoted on the Stock Exchange as at the Latest Practicable Date:

As set out in the Letter from the Board, the Exercise Price was determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, (i) the current trading price of the Shares; (ii) the duration of the Warrants Exercise Period; (iii) the historical volatility of the trading price of the Shares; (iv) the amount of proceeds expected to be raised from the exercise of the Warrants; and (v) the attractiveness of the terms of the Open Offer. Assuming all the Warrants are exercised, the estimated proceeds of not less than approximately HK$220.1 million and not more than HK$235.9 million will be raised.

As advised by the Board, the Company has assessed the possibility of issuing listed Warrants by considering the pros and cons of issuing listed Warrants in the context of the Bonus Issue. While listed Warrants are readily tradable by warrantholders, the Board considered that the Warrants are issued at a premium and will be of minimal value until they are in-the-money. To incur the additional costs for issuing listed Warrants and which listing platform may not be readily utilised by the warrantholders, the Board considered it not to be in the best interests of the Company and the Shareholders. Nevertheless, under the terms of the Warrants, the Warrants may be transferred or assigned to any person provided that any transfer of the Warrants to connected person shall be subject to the requirements that the Stock Exchange may impose from time to time. To facilitate the transfer of the Warrants by the warrantholders, the Company has appointed an agent to stand in the market to provide matching services on a best efforts basis for all warrantholders during the duration of exercise period. Other details of the Warrants had been set out in the Letter from the Board.

In order to evaluate the fairness and reasonableness of the Exercise Price, we have tried to identify open offer transactions with bonus warrants issue during the Comparable Period by companies listed on the Stock Exchange. We were able to identify only one company for the present comparison purpose. Green International Holdings Limited (Stock code: 2700) (the "**Warrants Comparable**") announced its open offer with bonus warrants issue on 5 June 2014. We noted that the exercise price of the bonus warrants of the Warrants Comparable represented discounts to the closing price of its shares on the last trading day and to the average closing price of shares for the last five consecutive trading days up to and including the last trading day of approximately 54.55% and approximately 55.00%, respectively. Given that there is only one Warrants Comparable during the Comparable Period, we consider that it does not represent a fair and representative sample population for the present comparison purpose and provided the fact that discount was offered to the last trading price of the shares of the Warrants Comparable when compared to a premium over the last trading price of the Shares in the present case, we are of the view that the Warrants Comparable is not relevant for the purpose of comparison with the terms of the Bonus Issue.

As set out in the Letter from the Board, although the Exercise Price represents a premium to the latest trading price of the Shares, it is offered at a discount to the Group's consolidated net asset value per Share as at 30 June 2014. In addition, the price of the Shares has historically been trading at a much higher price. The average trading price of the Shares for the preceding five years and one year were approximately HK$0.309 and HK$0.142, respectively, with a high of HK$0.82 per Share and HK$0.188 per Share and a low of HK$0.105 per Share and HK$0.105 per Share, respectively. The Company believes that the main reason for the Shares to be trading at a lower level recently was that the Group's projects were not progressing in accordance with expectations. It was the Board's view that the future performance of the Group's projects may have positive impact to the price of the Shares before the expiry of the Warrants Exercise Period.

By taking into consideration (i) additional funding may be raised by the Company upon the exercise of the subscription rights attaching to the Warrants to strengthen its capital base, (ii) the purpose of the Bonus Issue is to offer a future opportunity for the Shareholders to capture any potential upside in the trading price of the Shares above the Exercise Price, and when taken into account with the terms of the Open Offer as a whole, the Bonus Issue should provide incentive to the Shareholders to accept the Offer Shares; (iii) the Warrants Exercise Period of two years commencing on the date of issue of the Warrants and the Bonus Issue would provide a free option for the Shareholders who have taken up their respective entitlements under the Open Offer to exercise the Warrants at the

Exercise Price to further increase the shareholdings in the Company before the end of the Warrants Exercise Period; (iv) there is no additional cost for the warrantholders even though the Warrants may be out-of-money throughout the Warrants Exercise Period; and (v) the Warrants, though unlisted, are transferable and the Company has appointed an agent to stand in the market to provide matching services on an efforts basis for all warrantholders during the Warrants Exercise Period, we are of the view that the Bonus Issue is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

3.5 No application for excess Offer Shares

As set out in the Letter from the Board, considering that (i) the Open Offer with the Bonus Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholdings interests in the Company and (ii) the Company will incur additional administrative work and costs to administer the excess application procedures, the Board has decided that there will be no application for excess Offer Shares by the Qualifying Shareholders. The Open Offer, including the fact that there will be no excess application for the Offer Shares, will be put forward to the Independent Shareholders for approval at the EGM. The Qualifying Shareholders will therefore not be entitled to apply for any Offer Shares in excess of their respective Offer Shares under the Open Offer. All Offer Shares (other than the Committed Shares) not taken up by the Qualifying Shareholders and not available to the Excluded Shareholders are underwritten by the Underwriter.

To those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements, the absence of an excess application arrangement by the Company may be unsatisfactory, given the fact that the Underwriter is a connected person of the Company. However, we consider that the aforesaid should be balanced against the following observations:

(i) the Qualifying Shareholders have the first right to decide whether to accept the Open Offer;

(ii) the terms of the Open Offer are structured in such a way as to encourage the Qualifying Shareholders to take up their respective assured entitlement of the Offer Shares at the Subscription Price, which is set at a substantial discount to the prevailing market price of the Shares to enhance its attractiveness, it provides reasonable incentives for the Qualifying Shareholders to participate in the Open Offer;

(iii) the Open Offer is offered equitably to all Qualifying Shareholders with an equal opportunity to maintain their respective pro rata shareholding in the Company. The Qualifying Shareholders who choose to fully accept their respective entitlements under the Open Offer can maintain their respective pro rata shareholdings in the Company after the Open Offer;

(iv) the absence of an excess application arrangement will lower the administrative cost of the Open Offer to the Company, which benefits the Company and all the Shareholders as a whole;

(v) amongst the Comparables, 15 out of 22 companies did not adopt excess application when they conduct open offer for fund raising and we believed that the absence of the excess application arrangement is not an uncommon market practice;

(vi) all Shareholders not accepting the Open Offer shall have their interests in the Company diluted but they shall be able to benefit from the overall improvement of the financial position of the Company upon completion of the Open Offer; and

(vii) the absence of excess application arrangement for the Offer Shares is subject to approval by the Independent Shareholders at the EGM.

Given the above, we are of the view that the absence of the excess application arrangement is acceptable.

3.6 Risk associated with the Open Offer

The Independent Shareholders face the following risks which are associated with the Open Offer.

(a) Potential dilution effect on the shareholding interests of Independent Shareholders

As the Open Offer is offered to all Qualifying Shareholders on the same basis, Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full. As set out under the section headed "Effects on Shareholding Structure of the Company" in the Letter from the Board, (i) assuming none of the Exercisable Options having been exercised on or before the Record Date and no Qualifying Shareholders (except Colpo as Shareholder and Underwriter and Mr. Chan as Shareholder) take up the Offer Shares, the shareholdings of the existing Independent Shareholders will be decreased from approximately 52.21% as at the Latest Practicable Date to approximately 34.81% immediately after completion of the Open Offer and to approximately 29.01% immediately after completion of the Open Offer and full exercise of the Warrants; and (ii) assuming the Exercisable Options having been exercised in full on or before the Record Date and no Qualifying Shareholders (except Colpo as Shareholder and Underwriter and Mr. Chan as Shareholder) take up the Offer Shares, the shareholdings of the existing Independent Shareholders will be decreased from approximately 54.52% as at the Latest Practicable Date to approximately 36.34% immediately after completion of the Open Offer and to approximately 30.29% immediately after completion of the Open Offer and full exercise of the Warrants.

Having taken into account (i) the Group's bank balances and cash of approximately HK$10.02 million as at 30 June 2014 and the Group encounters difficulties in raising funds from financial institutions by way of equity and/or debt financing in light of its recent financial performance and positions; (ii) the Group has immediately need of funding and the Open Offer with the Bonus Issue will strengthen the capital base of the Group to ease the Group's short-term financial stress and to enhance its financial position; (iii) the Company has exhausted other fund raising options and the Open Offer with the current structure is the only one available for the time being which allows all Shareholders to participate in an equal and fair basis (which will be further discussed under the section headed "Alternatives to the Open Offer" below); (iv) the Group had not conducted any fund raising activities in the past twelve months immediately prior to the Latest Practicable Date; (v) the Open Offer with the Bonus Issue is on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and participate in the growth of the Company; and (vi) the discount of the Subscription Price as compared to the market price of the Shares is to encourage the Qualifying Shareholders to participate in the Open Offer with the Bonus Issue and is within the LTD Range, we are of the view that the possible dilution effect on the Independent Shareholders is acceptable.

(b) The Open Offer with the Bonus Issue may not proceed

(i) Non-fulfilment of the conditions precedent

Shareholders and potential investors should note that the Open Offer with the Bonus Issue are conditional, inter alia, upon the fulfilment of the conditions set out in the section headed "Conditions of the Open Offer with the Bonus Issue" in the Letter from the Board. In particular, the Open Offer and the Bonus Issue are conditional upon, among others, the Whitewash Waiver having been granted by the Executive and the approval of the Open Offer, the Bonus Issue and the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll. Accordingly, the Open Offer and the Bonus Issue may or may not proceed.

Any dealing in the Shares up to the date on which all the conditions of the Open Offer with the Bonus Issue are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. The Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares. If in doubt about their position, they should consult their professional advisers.

(ii) Termination of the Underwriting Agreement

The Open Offer with the Bonus Issue will likewise not proceed if the Underwriter terminates the Underwriting Agreement in accordance with the terms set out in the section headed "Termination of the Underwriting

Agreement" in the Letter from the Board. Such terms include (i) changes in market conditions which may adversely affect the success of the Open Offer; (ii) changes in the Company's prospects; and (iii) events of force majeure.

As it is common for underwriting agreements to be subject to conditions precedent clauses and termination clauses, we regard the provisions in the two sections in the Letter from the Board referred to above as normal commercial terms and, after reviewing the announcements of the Comparables, we are of the view that the provisions in those two sections are in line with common market practice.

4. Alternatives to the Open Offer

As set out in the Letter from the Board, the Board acknowledged the difficulties in raising fund from financial institutions by way of equity and/or debt financing in light of its recent financial performance and positions. The Board had also considered conducting a rights issue instead of the Open Offer. However, if the Company raises funds through rights issue instead of the Open Offer, the Company would need to make arrangements with the share registrar on the trading of nil paid rights with additional administrative cost. The Company will also involve additional time and resources to administer the trading of the nil-paid rights including communication between the Company and other parties such as the registrar, and these additional costs and time are difficult to quantify. The objective of the Open Offer is to enable the Shareholders to maintain their proportionate interests in the Company should they wish to do so, ensuring stability in the Company's Shareholders' base, and to participate in the Company's future growth and development. The Board therefore considers, since the Open Offer provides the Qualifying Shareholders with an equal and fair opportunity to maintain their respective pro-rata shareholding interests in the Company, even without the right to trade their nil-paid rights as in a rights issue, on balance, to conduct the Open Offer instead of a rights issue will be more beneficial to the Company and the Shareholders in the current circumstances.

Based on the above, and having considered that (i) debt financing may incur interest burden to the Company and would worsen the liquidity of the Group amid the poor financial position of the Group; (ii) rights issue may incur relatively higher costs and longer time to complete as compared with an open offer; and (iii) all Qualifying Shareholders are offered an equal opportunity to participate in the Open Offer and to take up their entitlement in full at the same price to maintain their respective shareholdings in the Company, we consider that the Open Offer is an equitable means to raise capital for the Company under the existing circumstances.

5. Financial effects of the Open Offer

5.1 Net tangible assets

According to the unaudited pro forma financial information of the Group as set out in the Appendix II of the Circular (the "**Pro forma Financial Information**"), the unaudited consolidated net tangible assets of the Group attributable to the owners of the Company is approximately HK$21.77 million as at 30 June 2014. As set out in the Pro forma Financial Information, based on 1,746,773,000 Offer Shares (assuming no new

Share being issued and no Share being repurchased by the Company on or before Record Date) and 1,048,063,800 Warrants to be issued under the Bonus Issue, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the Open Offer and Bonus Issue would be approximately HK$275.25 million as a result of the inflow of the estimated net proceeds of approximately HK$253.48 million upon completion of the Open Offer and assuming the Warrants have been exercised in full.

As set out in the Pro forma Financial Information, the unaudited consolidated net tangible assets of the Group per Share attributable to the owner of the Company as at 30 June 2014 before the Open Offer and Bonus Issue is approximately HK$0.0062 (based on 3,493,546,000 Shares in issue as at 30 June 2014). According to the Pro forma Financial Information, unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Open Offer and Bonus Issue (based on 1,746,773,000 Offer Shares (assuming no new Share being issued and no share being repurchased by the Company on or before Record Date) and 1,048,063,800 Warrants to be issued under the Bonus Issue) would be increased by approximately HK$0.0376 to approximately HK$0.0438 upon completion of the Open Offer and assuming the Warrants have been exercised in full (based on 6,288,382,800 Shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the Open Offer and Bonus Issue).

5.2 Gearing

According to the IR 2014, the Group had no bank borrowing, the gearing ratio of the Group as at 30 June 2014 was nil. As it is expected that there will be no material change to the total liabilities immediately upon completion of the Open Offer, there will be no material change of the gearing of the Group immediately upon completion of the Open Offer.

5.3 Working capital

Upon completion of the Open Offer, the cash and bank balance of the Group will be increased as a result of the net proceeds from the Open Offer. Accordingly, the working capital and liquidity position of the Group will be substantially improved as a result of the Open Offer.

In light of above, we consider the Open Offer is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6. Whitewash Waiver

As at the Latest Practicable Date, Colpo, together with its beneficial owner and parties acting in concert with any one of them, is beneficially interested in 1,213,361,200 Shares, representing approximately 34.73% of the issued share capital of the Company. Mr. Chan holds

26,000,000 Share Options, all of which are Exercisable Options. To the best knowledge of the Company and having made all reasonable enquiries, Mr. Chan has no intention to exercise the 26,000,000 Exercisable Options held by him at any time on or before the Record Date.

As set out in the Letter from the Board, in the event that, upon completion of the Open Offer (assuming no new Share being issued and no Share being repurchased by the Company on or before the Record Date), no Qualifying Shareholders will take up any Offer Shares (other than the Committed Shares), the Underwriter will be required to subscribe for and take up all Underwritten Shares, which will result in the aggregate shareholding of Colpo and its ultimate beneficial owner and parties acting in concert with any of them in the Company increasing from 1,213,361,200 Shares, representing approximately 34.73% of the issued share capital of the Company (not taking into account of the 26,000,000 Exercisable Options held by Mr. Chan, a concert party of Colpo, as such Exercisable Options have not been exercised as at the Latest Practicable Date), to:

(i) assuming that none of the Exercisable Options having been exercised on or before the Record Date, 2,960,134,200 Shares representing approximately 56.49% of the issued share capital of the Company as enlarged by the Offer Shares, or 4,008,198,000 Shares representing approximately 63.74% of the issued share capital of the Company as enlarged by the Offer Shares and assuming the full exercise of the Warrants by Colpo and parties acting in concert with it immediately upon the issue of the Warrants; or

(ii) assuming that the 26,000,000 Exercisable Options having been exercised in full by Mr. Chan only on or before the Record Date, 2,999,134,200 Shares representing approximately 56.81% of the issued share capital of the Company as enlarged by the Offer Shares, or 4,054,998,000 Shares representing approximately 64.01% of the issued share capital of the Company as enlarged by the Offer Shares and assuming the full exercise of the Warrants by Colpo and parties acting in concert with it immediately upon the issue of the Warrants.

Accordingly, the underwriting of the Underwritten Shares by Colpo pursuant to the Underwriting Agreement, the subscription for the Committed Shares pursuant to the Undertaking and the exercise of the Warrants under the Bonus Issue will trigger an obligation on Colpo, together with parties acting in concert with it, to make a mandatory offer under Rule 26 of the Takeovers Code for all the issued securities of the Company (including the Exercisable Options) not already owned or agreed to be acquired by Colpo and parties acting in concert with it, unless the Whitewash Waiver is obtained.

An application has been made by Colpo to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll, which Colpo and parties acting in concert with it and (if applicable) Shareholders who are not Independent Shareholders will abstain from voting at the EGM on the relevant resolutions. If the Whitewash Waiver is not granted by the Executive, the Open Offer and the Bonus Issue will not become unconditional and will not proceed.

As set out in the Letter from the Board, it is the intention of Colpo that the Group will continue its current business. Colpo has no intention to make any major change to the business or employment of the employees of the Group or redeploy the fixed assets of the Group. The decision to support the Open Offer with the Bonus Issue by way of acting as the Underwriter to the Open Offer with the Bonus Issue was mainly because Colpo believed that the Open Offer with the Bonus Issue would strengthen the Group's financial position and enlarge its capital base.

Based on our analysis of the terms of the Open Offer with the Bonus Issue, we consider that the Open Offer with the Bonus Issue is in the interests of the Company and the Independent Shareholders as a whole. If the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Open Offer and the Bonus Issue will not proceed and the Company will lose all the benefits that are expected to be brought by the completion of the Open Offer with the Bonus Issue. Accordingly, for the purposes of implementing the Open Offer with the Bonus Issue and taking into consideration of the abovementioned intention of Colpo, we consider that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

By taking into account the factors and reasons as mentioned above, although the Open Offer with the Bonus Issue is not in the ordinary course of business of the Company, we consider that the terms of the Open Offer with the Bonus issue are normal and commercial, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. We would therefore advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Open Offer with the Bonus Issue to be proposed at the EGM.

The Open Offer with the Bonus Issue is conditional upon the approval of the Whitewash Waiver. If the Whitewash Waiver is not approved, the Open Offer with the Bonus Issue will not proceed. Having taken into account our recommendation on the Open Offer with the Bonus Issue above, we consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders and the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For and on behalf of
FORTUNE FINANCIAL CAPITAL LIMITED

Alan Chung
Director

Abpy So
Assistant Director

Mr. Alan Chung is a licensed person under the SFO to engage in type 6 (advising on corporate finance) regulated activities and a practicing solicitor in Hong Kong. He has over 11 years of experience in corporate finance.

Ms. Abpy So is a licensed person under the SFO to engage in type 6 (advising on corporate finance) regulated activities and has over 9 years of experience in corporate finance.