

1 August 2018

To: *The Independent Board Committee*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFERS BY
CMBC SECURITIES COMPANY LIMITED FOR AND ON BEHALF OF
MACROLINK INTERNATIONAL HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES AND
CANCEL ALL THE OUTSTANDING OPTIONS IN
JUNEFIELD DEPARTMENT STORE GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR
AGREED TO BE ACQUIRED BY
MACROLINK INTERNATIONAL HOLDINGS LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in connection with the Offers. Details of the Offers are contained in the composite document of the Company dated 1 August 2018 (the “**Composite Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

As set out in the letter from CMBC Securities in the Composite Document, the Offeror entered into the Sale and Purchase Agreement with the Selling Shareholder and the Guarantor on 9 May 2018 to purchase from the Selling Shareholder the Sale Shares, which represented approximately 66.75% of the issued share capital of the Company as at the date of the Joint Announcement for a consideration of HK\$433,845,522.15, equivalent to HK\$0.6217 per Sale Share.

The Sale and Purchase Completion took place on 26 July 2018 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in a total of 697,837,417 Shares, representing approximately 66.75% of the issued share capital of the Company. Accordingly, the Offeror is required to make the Offers for all the issued Shares (other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) and cancellation of all the outstanding Options under Rule 26.1 and Rule 13 of the Takeovers Code.

The Independent Board Committee comprising all the non-executive Director and independent non-executive Directors, namely Mr. Jorge Edgar Jose Muñiz Ziches, Mr. Lam Man Sum, Albert, Mr. Cao Kuangyu and Mr. Cheung Ka Wai, has been established to advise the Independent Shareholders and Optionholders as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in the same regard.

We are not associated with the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, among other things, the annual reports of the Company for the three years ended 31 December 2015 (the “**2015 Annual Report**”), 2016 (the “**2016 Annual Report**”), and 2017 (the “**2017 Annual Report**”), the circular of the Company dated 29 June 2018 (the “**Circular**”) and the information set out in the Composite Document. We have relied on the information and facts supplied by the Company, and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Composite Document were true at the time they were made and as at the Latest Practicable Date, and that the Independent Shareholders will be informed as soon as reasonably practicable if we become aware of any material change to such representations.

We have not considered the tax and regulatory implications of the Offers on the Independent Shareholders, since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

We are not associated or connected with the Company, its controlling shareholder, the Offeror or any party acting, or presumed to be acting, in concert with any of them and accordingly, we are considered eligible to give independent advice to the Independent Board Committee on the Offers. Apart from normal professional fees paid or payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any of their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company that could reasonably be regarded as relevant to our independence. In the last two years, there has been no other engagement between the Company and us. Accordingly, we do not consider any conflict of interest arises for us in acting as the independent financial adviser on the Offers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Offers, we have taken into account of the principal factors and reasons set out below:

1. Background leading to and the terms of the Offers

On 9 May 2018, the Offeror entered into the Sale and Purchase Agreement with the Selling Shareholder to purchase from the Selling Shareholder the Sale Shares, which represented approximately 66.75% of the issued share capital of the Company as at the date of the Joint Announcement for a consideration of HK\$433,845,522.15, equivalent to HK\$0.6217 per Sale Share.

The Sale and Purchase Completion took place on 26 July 2018 and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in a total of 697,837,417 Shares, representing approximately 66.75% of the issued share capital of the Company. Accordingly, the Offeror is required to make the Offers for all the issued Shares (other than those Shares already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) and cancellation of all the outstanding Options under Rule 26.1 and Rule 13 of the Takeovers Code.

The Share Offer is being made by CMBC Securities on behalf of the Offeror on the following basis:

For each Offer Share held HK\$0.6217 in cash

The Share Offer Price is the same as the purchase price per Sale Share under the Sale and Purchase Agreement which was arrived at after arm's length negotiations between the Offeror and the Selling Shareholder.

The Option Offer is being made by CMBC Securities on behalf of the Offeror in accordance with Rule 13 of the Takeovers Code for the cancellation of all outstanding Options on the following basis:

For cancellation of each outstanding Option:

Date of grant	Exercise price per Option (HK\$)	Number of new Shares to be issued upon exercise of Options by Optionholders	Offer price per Option (HK\$)
6 July 2009	0.229	13,280,000	0.3927

As at the Latest Practicable Date, the Company had 13,280,000 outstanding Options as disclosed above. The Option Offer to cancel each Option is calculated on a see-through basis pursuant to Rule 13.5 and Practice Note 6 of the Takeovers Code, so that each Optionholder will be entitled to receive a price for his/her Options being the amount by which the consideration for the Share Offer exceeds the exercise price of his/her Options with details as set out above.

Save for the outstanding Options, the Company did not have any outstanding warrants, options, derivatives or securities convertible into Shares and the Company had not entered into any agreement for the issue of such securities, options, derivatives or warrants of the Company which are convertible or exchangeable into Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, there were 1,045,399,967 Shares and 13,280,000 Options in issue. Assuming that there is no change in the issued share capital of the Company and none of the outstanding Options is exercised prior to the making of the Offers and on the basis of the Share Offer Price at HK\$0.6217 per Share, the entire issued share capital of the Company is valued at approximately HK\$649,925,159.

Assuming that all the 13,280,000 outstanding Options are fully exercised prior to the making of the Offers, there will be 1,058,679,967 Shares in issue and, on the basis of the Share Offer Price at HK\$0.6217 per Share, the entire issued share capital of the Company is valued at approximately HK\$658,181,335.

Based on the foregoing and the basis the Offeror and parties acting in concert with it will own 697,837,417 Shares immediately after the Sale and Purchase Completion, (i) assuming no Options are exercised and full acceptances under the Offers, the total consideration of the Offers would be approximately HK\$221,294,693, (ii) assuming all Options are exercised and full acceptances under the Offers, the total consideration of the Offers would be approximately HK\$224,335,813.

The Share Offer will extend to all Shares in issue other than those Shares held by the Offeror and persons acting in concert with it on the date on which the Share Offer is made, being the date of the Composite Document.

2. Information of the Group

(a) Principal business of the Group

The Group is principally engaged in the businesses of property investment and development, manufacture and sale of construction materials, securities investments, trading of mineral concentrates and coal mining.

(b) *Financial performance of the Group*

The following table sets forth the audited consolidated statement of profit or loss of the Group for each of the three financial years ended 31 December 2015 (the “FY2015”), 2016 (the “FY2016”) and 2017 (the “FY2017”) respectively, as extracted from the annual reports of the Company:

	For the year ended 31 December		
	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
CONTINUING OPERATIONS			
Revenue:	36,275	154,401	298,688
– Property investment and development	4,289	27,571	3,383
– Securities investment	(432)	455	(4,109)
– Manufacture and sale of construction materials	–	25,983	58,294
– Trading of mineral concentrates	26,953	93,354	233,563
– Coal mining	–	5,055	7,557
– Others	5,465	1,983	–
Cost of sales and services	<u>(31,038)</u>	<u>(147,551)</u>	<u>(279,100)</u>
Gross profit	5,237	6,850	19,588
Other income and gains	21,723	3,490	3,450
Selling and distribution expenses	–	(949)	(1,716)
Administrative expenses	(46,374)	(39,771)	(61,847)
Other operating expenses	(34,603)	(13,306)	(15,311)
Fair value gains on investment properties	5,422	807	2,895
Fair value loss on convertible note			
– conversion option component	–	–	(4)
Loss arising from redemption of convertible note and conversion into available-for-sale investment	–	–	(6,893)
Impairment loss of available-for-sale investment	–	–	(1,956)
Gain on disposal of available-for-sale investment	4,394	3,568	–
Gain on reclassification of investment in an associate to available-for-sale investment	–	–	559
Impairment loss on other intangible assets	<u>(14,782)</u>	<u>(11,686)</u>	<u>(10,978)</u>

	For the year ended 31 December		
	2017	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Operating loss from continuing operations	(58,983)	(50,997)	(72,213)
Finance costs	(4,908)	(884)	(584)
Share of loss of an associate	<u>—</u>	<u>—</u>	<u>(967)</u>
Loss before tax from continuing operations	(63,891)	(51,881)	(73,764)
Income tax credit/(expense)	<u>1,029</u>	<u>2,195</u>	<u>(201)</u>
Loss for the year from continuing operations	(62,862)	(49,686)	(73,965)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	<u>—</u>	<u>(1,953)</u>	<u>(1,897)</u>
Loss for the year	<u>(62,862)</u>	<u>(51,639)</u>	<u>(75,862)</u>
Attributable to:			
Owners of the Company	(44,895)	(36,495)	(69,434)
Non-controlling interests	<u>(17,967)</u>	<u>(15,144)</u>	<u>(6,428)</u>

FY2016 vs FY2015

The Group's revenue decreased by approximately HK\$144.3 million, or approximately 48.3%, from approximately HK\$298.7 million for FY2015 to approximately HK\$154.4 million for FY2016, which was mainly due to the substantial decrease in revenue contributed from the construction materials business and trading of mineral concentrates business. As disclosed in 2016 Annual Report, the Group's manufacture and sale of construction materials business has been suspended since August 2016 after the suspension of supply of granulated steel slag by its sole supplier during FY2016. Accordingly, revenue from the manufacture and sale of construction materials business decreased by approximately 55.4% from approximately HK\$58.3 million for FY2015 to approximately HK\$26.0 million for FY2016. Revenue from the trading of mineral concentrates business also decreased significantly by approximately 60.0% from approximately HK\$233.6 million for FY2015 to approximately HK\$93.4 million for FY2016 as a result of the weakening demand of the products in the PRC market and fluctuation in global quoted prices for minerals during FY2016. As a result of the foregoing, the gross profit of the continuing operations of the Group decreased from approximately HK\$19.6 million for FY2015 to approximately HK\$6.7 million for FY2016.

Despite the decrease in the revenue of the Group, the loss attributable to owners of the Company decreased by approximately HK\$32.9 million, or approximately 47.4%, from approximately HK\$69.4 million for FY2015 to approximately HK\$36.5 million for FY2016. Such decrease was mainly attributable to the absences of net foreign exchange losses of approximately HK\$18.0 million, loss arising from redemption of convertible note and conversion into available-for-sale investment of approximately HK\$6.9 million and impairment loss of available-for-sale investment of approximately HK\$2.0 million recorded in the previous financial year, and the effect of which is partially offset by the aforesaid decrease in gross profit.

FY2017 vs FY2016

The Group's revenue decreased by approximately HK\$118.1 million, or approximately 76.5%, from approximately HK\$154.4 million for FY2016 to approximately HK\$36.3 million for FY2017. Such decrease was primarily due to the decrease in revenue contributed by property investment and development business and trading of mineral concentrate business as well as the absence of revenue generated from the manufacture and sale of construction materials business. The revenue generated from property investment and development business decreased by approximately HK\$23.3 million as the Group had not launched any sales of residential units during FY2017. Further, as discussed above, the Group's manufacture and sale of the construction materials business has been suspended since August 2016 and therefore the Group has not recorded any revenue from this business segment in FY2017. As regards the trading of the mineral concentrates business, the significant decrease in revenue of approximately 71.1% in FY2017 was mainly due to the keen competition and weak demand. In spite of the decrease in revenue, the gross profit only decreased slightly from approximately HK\$6.9 million for FY2016 to approximately HK\$5.2 million for FY2017.

The Group recorded an increase in loss attributable to owners of the Company from approximately HK\$36.5 million for FY2016 to approximately HK\$44.9 million for FY2017. The increase in loss attributable to owners of the Company was mainly due to the increase in other operating expenses of approximately HK\$21.3 million and the effect of which is partially offset by the one-off compensation received from the sole supplier of the manufacture and sale of construction materials business of approximately HK\$16.4 million.

(c) *Financial position*

A summary of the audited consolidated statement of financial position of the Group as at 31 December 2016 and 2017 respectively, as extracted from the annual reports of the Company, is set out below:

	As at 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(audited)	(audited)
Non-current assets:		
Property, plant and equipment	149,400	163,499
Investment properties	75,105	63,023
Prepaid land lease payments	19,399	19,676
Other intangible assets	66,779	78,766
Available-for-sale investment	2,064	5,939
Deferred tax assets	<u>357</u>	<u>504</u>
Total non-current assets	<u>313,104</u>	<u>331,407</u>
Current assets:		
Stock of properties	5,768	5,539
Inventories	12,829	11,073
Loan and accounts receivable	1,502	12,690
Prepayments, deposits and other receivables	58,473	74,710
Amounts due from related companies	13,196	12,786
Financial instruments at fair value through profit or loss	1,047	1,479
Tax recoverable	86	86
Cash and bank balances	<u>34,290</u>	<u>33,960</u>
Total current assets	<u>127,191</u>	<u>152,323</u>

	As at 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(audited)	(audited)
Current liabilities:		
Accounts payable	5,169	15,666
Other payables and accruals	47,612	55,865
Interest-bearing bank and other borrowings	9,728	6,796
Amount due to the ultimate holding company and related companies	3,847	2,292
Tax payable	<u>6,428</u>	<u>6,662</u>
Total current liabilities	<u><u>72,784</u></u>	<u><u>87,281</u></u>
Non-current liabilities:		
Interest-bearing bank and other borrowings	31,196	9,858
Deferred tax liabilities	<u>41,667</u>	<u>41,873</u>
Total non-current liabilities	<u><u>72,863</u></u>	<u><u>51,731</u></u>
Equity attributable to owners of the Company:		
Share Capital	104,540	104,540
Reserves	<u>137,296</u>	<u>174,298</u>
	<u><u>241,836</u></u>	<u><u>278,838</u></u>
Non-controlling interests	<u><u>52,812</u></u>	<u><u>65,880</u></u>
Total equity	<u><u>294,648</u></u>	<u><u>344,718</u></u>

As at 31 December 2017, total assets of the Group amounted to approximately HK\$440.3 million, representing a decrease of approximately 9.0% when compared with the same as at 31 December 2016.

Non-current assets amounted to approximately HK\$313.1 million as at 31 December 2017, accounting for approximately 71.1% of total assets, which primarily comprised (i) property, plant and equipment of approximately HK\$149.4 million; (ii) investment properties of approximately HK\$75.1 million; and (iii) other intangible assets of approximately HK\$66.8 million. The property, plant and equipment mainly consisted of (a) quarters, office units and parking lots located in Lima, Peru for the daily operation of the Group in Peru; (b) the land and buildings located in Hunan, the PRC and certain plant and machinery which are used for the manufacture and sale of construction materials; and (c) plant and machinery for production of coal. The investment properties represented 15 office premises located in Beijing, the PRC with aggregate gross floor area of approximately 1,584 square meter.

Other intangible assets as at 31 December 2017 were related carrying values of (i) a supplier contract of approximately HK\$36.2 million; (ii) exploration and evaluation assets of approximately HK\$23.5 million; and (iii) the mining rights of approximately HK\$7.1 million. The supplier contract represented the materials supply agreement embedded in the joint venture agreement regarding the establishment of an entity engaged in the manufacture and sale of construction materials business and the remaining amortisation period of which is approximately six years. The exploration and evaluation assets mainly represented the cost of acquisition of the exploration licences related to various coal and mineral mines in Peru (under the exploration and evaluation stage) and shall not subject to amortisation until they are placed in use. The mining rights represented the rights to conduct mining activities pertains to coal mines in Peru and are amortised on a unit of production basis over the estimated economic reserve of the mine.

Current assets, on the other hand, amounted to approximately HK\$127.2 million as at 31 December 2017, which mainly consisted of prepayments, deposits and other receivables of approximately HK\$58.5 million and cash and bank balances of approximately HK\$34.3 million. Prepayments, deposits and other receivables of the Group mainly represented the deposits paid by the Group to the vendors in relation to the trading of mineral concentrates of approximately HK\$29.3 million, and the prepaid value-added tax and other taxes of approximately HK\$14.5 million.

As at 31 December 2017, total liabilities of the Group amounted to approximately HK\$145.6 million, which mainly consisted of (i) other payables and accruals of approximately HK\$47.6 million; (ii) interest-bearing bank and other borrowings of approximately HK\$40.9 million; and (iii) deferred tax liabilities of approximately HK\$41.7 million. Other payables and accruals mainly represented the interest payables on the unsecured borrowings of approximately HK\$8.6 million, provision of land cost of approximately HK\$8.7 million, the provision of land appreciation tax of approximately HK\$5.3 million, advance payments received from customers of approximately HK\$7.5 million and other payable of approximately HK\$10.7 million.

The Group had a secured bank loan of approximately HK\$9.9 million from a local bank in Peru for financing its mining projects in Peru. The loan is denominated in United States dollars and secured by the Group's property, plant and equipment situated in Peru with aggregate carrying amount of approximately HK\$47.0 million as at 31 December 2017, bears interest at an annual rate of London Interbank Offered Rate plus 6.4% per annum and repayable in August 2020. The Group also had another secured loan from a money lender in the principal amount of HK\$25.0 million for general working capital needs of the Group. Such loan is denominated in HK dollars, at an interest rate of 8.0% per annum and repayable in January 2019, and is secured by the Group's investment properties with carrying amount of approximately HK\$39.2 million as at 31 December 2017 and corporate guarantee given by the Company. The interest-bearing borrowings of the Group also included an unsecured loan in the principal amount of approximately HK\$6.0 million, which is denominated in Renminbi at an interest rate of 9.5% per annum and repayable on demand.

(d) Future plans of the Group

Upon the completion of the subscription of convertible bonds by the Offeror, the Company plans to use the net proceeds from the issue of the convertible bonds of approximately HK\$97.0 million to repay existing borrowings and maintain the securities investment business and the trading of mineral concentrates business.

As set out in the letter from the Board in the Circular, the Group has invested in listed securities in Hong Kong and overseas for trading and long term purposes in the past few years. In view of the prosperity of the securities market in Hong Kong and the PRC, the Company intends to apply approximately HK\$40.7 million to invest in the listed securities of companies engaged in financial services in Hong Kong and/or the PRC with a view to generate dividend income and seizing capital appreciation in medium or long term. The Offeror has over 20 years of experience in engaging in investment in A-Shares and securities of Hong Kong in the PRC and Hong Kong. The directors of the Offeror, Mr. Fu Kwan, Mr. Zhang Bishu and Ms. Liu Jing who will be appointed as Directors of the Company after the posting of the Composite Document in accordance with Rule 26.4 of the Takeovers Code, are currently acting as the directors of a few investment companies in the PRC and Hong Kong, with the belief of "value investment", hoping to further develop the securities investment business of the Company so as to add value for the Shareholders.

As set out in the letter from the Board in the Circular, the Group has a well-established sourcing network in Ecuador and Peru in respect of its trading of mineral concentrates business given it has invested in South America for many years. To enhance the quantity of sales to its major customer, the Group is proactively exploring stable and widespread sources of mineral concentrates in South America and expects the performance of this segment would improve in the future. The Company believes that it would be able to strengthen the financial performance of this segment with more available resources and therefore it intends to apply approximately HK\$32.0 million on the trading of mineral concentrates business and is considering to expand its trading portfolio to nickel. Further, the director of the Offeror, Mr. Fu Kwan, who will be appointed as a Director of the Company after the posting of the Composite Document in accordance with Rule 26.4 of the Takeovers Code, has over 12 years of experience in mineral trading business. He set up Macrolink Mineral Inc. (新華聯礦業有限公司), which is a subsidiary of Macrolink Group, as early as in 2006, engaging in the exploration in Indonesia and importation of nickel to the PRC for sale, and has built up good cooperation relationship with PT Central Omega Resources Tbk (央大資源公司), one of the three biggest nickel listed companies in Indonesia, with stock code DKFT. It also has the experience of trading nickel futures in the PRC. The Board believes that the Group could leverage on the Offeror's experience and the business background to expand its trading business.

3. Information of the Offeror

As set out in the letter from CMBC Securities in the Composite Document, the Offeror is a company incorporated in the Cayman Islands with limited liability and is legally and beneficially owned:

- (a) as to approximately 42.06% by Truly Industry Investment Company Limited (which is in turn owned as to 70% by Mr. Fu Kwan (傅軍), who is currently the chairman of the board of directors and the president of Macrolink Group and also a member of the National Committee of the Chinese People's Political Consultative Conference, and 30% by Ms. Wu Xiangming (吳向明)). Mr. Fu Kwan found the Macrolink Group in the year of 1990. Macrolink Group is a comprehensive corporate covering various industries such as real estate, petroleum, mining, chemical engineering, finance, etc. Ms. Wu Xiangming is the wife of Mr. Fu Kwan. Mr. Fu Kwan has almost 28 years of experience and Ms. Wu Xiangming has more than 20 years of experience, in real estate, mining, petroleum, chemicals and investment industry;
- (b) as to approximately 17.29% by Famous Victory Limited (which is in turn wholly owned by Ms. Xiao Wenhui (肖文慧), who is currently the senior vice president of the Macrolink Group and used to be the chairman of Macrolink Mineral Inc. (新華聯礦業有限公司)). Macrolink Mineral Inc. was found in 2006 and engages in mineral industry. Ms. Xiao Wenhui has experience in mineral industry for more than 7 years;
- (c) as to approximately 13.84% by Vats Group Inc. (which is in turn wholly owned by Mr. Wu Xiangdong (吳向東), who has more than 10 years of experience in the investment industry in Hong Kong and is currently the chairman of Vats Liquor Chain Store Management Joint Stock Co., Ltd. (華致酒行連鎖管理股份有限公司)("Vats Liquor")). Vats Liquor was found in 2005 and engages in wine industry;
- (d) as to approximately 13.45% by New Pacific Glory Limited (which is in turn wholly owned by Ms. Liu Jing (劉靜), who has more than 20 years of experience in the investment industry and is currently the senior vice president of Macrolink Group, the chairman of Chang-Shi Investment Limited (長石投資公司) and a director of Macrolink International Investment Co. Limited (新華聯國際投資公司)("Macrolink Investment")). Macrolink Investment carries out business in investment industry in Hong Kong and in other overseas financial markets;

- (e) as to approximately 6.28% by Mr. Chung Shan Kwang (曾憲光), who has more than 15 years of experience in the investment industry and is a director of Macrolink Investment;
- (f) as to approximately 1.95% by Ms. Fu Shuangshuang (傅爽爽), who has worked for several multinational companies and has been the chairman of New Power Capital Investment Limited (新活力資本投資有限公司) since 2014;
- (g) as to approximately 1.68% by Dongyue Team Limited (which is a substantial shareholder of Dongyue Group Limited (the shares of which are listed on the Main Board of the Stock Exchange with stock code 0189), and is in turn wholly owned by Mr. Zhang Jianhong (張建宏), who is the chairman and chief executive officer of Dongyue Group Limited and has more than 20 years of experience in the chemical industry);
- (h) as to approximately 1.41% by Mr. Chan Yeuk (陳躍), who is a director of Macrolink Investment and has more than 15 years of experience in the investment industry;
- (i) as to approximately 1.40% by Mr. Xu Junqi (許君奇), who has been the chairman of Hualian China Industry Co., Ltd. (華聯瓷業股份有限公司) since 1994; and
- (j) as to approximately 0.64% by Ms. Tang Li (唐莉), who is currently working for Vats Liquor.

The Offeror, Truly Industry Investment Company Limited, Famous Victory Limited, Vats Group Inc., New Pacific Glory Limited and Dongyue Team Limited are companies principally engaged in investment holding.

4. Offeror's intention on the Group

As set out in the letter from CMBC Securities in the Composite Document, it is the intention of the Offeror that the Group will continue to focus on the development of its existing businesses, and does not intend to introduce any major changes to the existing operations and business of the Company, dispose of any existing business of the Group or acquire any business or assets immediately after the Sale and Purchase Completion and the close of the Offers. The Offeror intends to conduct a detailed review of the operations and business activities of the Group and formulate business strategies for the Group's long term development and will explore other business opportunities for the Group, including the feasibility of diversifying the income stream of the Group by exploring business and investment opportunities in different business areas, which may or may not include any assets and/or business acquisitions or disposals, fund raising, restructuring of the business and/or business diversification, which will be appropriate in order to enhance its growth. Subject to further investigation into the business opportunities in the related areas, the Offeror will present suitable propositions to the Company in due course. However, as of the date of this letter, no such business opportunities have been identified by the Offeror nor has the Offeror entered into any agreement, arrangements, understandings, intention or negotiation in relation to the injection of any assets or business into the Group. Also, the Offeror has not entered into any agreement, arrangements, understandings, intention or negotiations in relation to the continued employment of the employees, disposal and/or re-deployment of the assets (including fixed assets) of the Group, other than in its ordinary course of business. The Board is of the view that the Offeror's plan in respect of the Company is in the best interest of the Company and the Shareholders as a whole.

Proposed change of Board composition

The Board is currently made up of nine Directors, comprising five executive directors, namely Mr. Zhou Chu Jian He, Mr. Zhang Min, Mr. Zhou Jianren, Mr. Xiang Xianhong and Mr. Lei Shuguang; one non-executive director, namely Mr. Jorge Edgar Jose Muñiz Ziches; and three independent non-executive directors, namely Mr. Lam Man Sum, Albert, Mr. Cao Kuangyu and Mr. Cheung Ka Wai.

In compliance with Rule 7 of the Takeovers Code, it is intended the following existing executive Directors and non-executive Directors as at the Latest Practicable Date will resign with effect from the earliest time permitted under the Takeovers Code (that is, upon the first Closing Date of the Offers). Mr. Zhou Chu Jian He, Mr. Zhang Min, Mr. Xiang Xianhong and Mr. Lei Shuguang intend to resign as executive Directors; and Mr. Jorge Edgar Jose Muñiz Ziches intends to resign as a non-executive Director, all with effect from the first Closing Date of the Offer.

The Offeror intends to nominate Mr. Fu Kwan, Mr. Zhang Jian, Ms. Liu Jing, Mr. Chan Yuek and Mr. Zhang Bishu to the Board for appointment with effect from a date which is no earlier than such date as permitted for appointment of Directors under Rule 26.4 of the Takeovers Code (that is, with effect from immediately after posting of this Composite Document). The biographies of the new Directors are set out in the joint announcement in relation to the despatch of the Composite Document dated 1 August 2018.

Compulsory acquisition

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offers.

Maintaining the public float and the listing status of the Company

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror, and the new Directors to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Company's Shares.

5. Analysis of the Share Offer Price

(a) Comparison of the Share Offer Price and historical Share prices

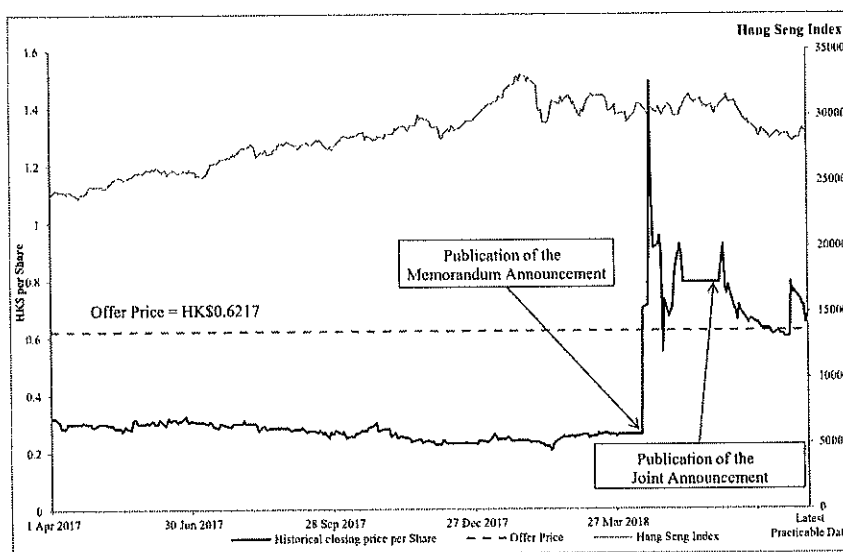
The Share Offer Price of HK\$0.6217 per Offer Share represents

- (i) a discount of approximately 21.30% to the closing price of HK\$0.790 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 24.55% to the average closing price per Share of approximately HK\$0.824 per Share for the last five consecutive Trading Days immediately prior to the Last Trading Day;

- (iii) a discount of approximately 21.50% to the average closing price per Share of approximately HK\$0.792 per Share for the last ten consecutive Trading Days immediately prior to the Last Trading Day;
- (iv) a premium of approximately 139.12% over the closing price of HK\$0.260 per Share as quoted on the Stock Exchange on 6 April 2018, being the last Trading Day prior to the publication of the Memorandum Announcement;
- (v) a premium of approximately 140.04% over the average closing price per Share of approximately HK\$0.259 per Share for the last five consecutive Trading Days immediately prior to 6 April 2018, being the last Trading Day prior to the publication of the Memorandum Announcement;
- (vi) a premium of approximately 140.97% over the average closing price per Share of approximately HK\$0.258 per Share for the last 30 consecutive Trading Days immediately prior to 6 April 2018, being the last Trading Day prior to the publication of the Memorandum Announcement;
- (vii) a premium of approximately 169.13% over the audited net asset value attributable to equity holders of the Company as at 31 December 2017 of approximately HK\$0.231 per Share based on 1,045,399,967 Shares in issue as at the Latest Practicable Date; and
- (viii) a discount of approximately 7.21% to the closing price of HK\$0.670 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

(b) Historical Share price performance

The chart below illustrates the daily closing price of the Shares as quoted on the Stock Exchange for the period from 1 April 2017, being the period of approximately 12 months prior to the date of the Memorandum Announcement up to and including the Latest Practicable Date (the “Review Period”), including a comparison to the Hang Seng Index. We consider that the Review Period a reasonable period of time within which the prevailing market price of the Shares can be illustrated.



As illustrated in the chart above, the Share price closed in a range between HK\$0.206 and HK\$1.490, with an average of approximately HK\$0.357, during the Review Period. Prior to the publication of the Memorandum Announcement, the closing price of the Shares remained stable and ranged from HK\$0.206 to HK\$0.325.

The trading in the Shares was suspended with effect from 9 April 2018. On 12 April 2018, the Company published the Memorandum Announcement. Trading in the Shares resumed on 13 April 2018. The closing price of the Shares increased from HK\$0.260 on 6 April 2018 (the last Trading Day before publication of the Memorandum Announcement) to HK\$0.700 on 13 April 2018 (the first Trading Day after publication of the Memorandum Announcement), representing an increase of approximately 169.23% over the closing price of the Share on the last Trading Day before publication of the Memorandum Announcement. During the period between the date of the Memorandum Announcement and up to the last Trading Day prior to the publication of the Joint Announcement, the Share price fluctuated in a range of HK\$0.550 to HK\$1.490, with an average Share price of approximately HK\$0.858. Such increase was likely due to market speculation on the likelihood of success of the possible disposal of the Sale Shares by the Selling Shareholder and the possible subscription of convertible bonds by the Offeror.

Subsequent to the publication of the Joint Announcement on 1 June 2018 and up to the Latest Practicable Date, the closing price of the Shares fluctuated in a range of HK\$0.600 to HK\$0.920 and the Share price closed at HK\$0.670 on the Latest Practicable Date.

(c) Liquidity of the Shares

We have also reviewed the trading liquidity of the Shares during the Review Period. The table below sets out the trading volume of the Shares on the Stock Exchange during the Review Period:

Month	Average daily trading volume of the Shares (Number of Shares) <i>(Note 1)</i>	Average daily trading volume as a percentage of the number of total issued Shares <i>(Note 1, 2)</i>
2017		
April	435,176	0.04%
May	905,100	0.09%
June	495,081	0.05%
July	377,524	0.04%
August	254,818	0.02%
September	471,000	0.05%
October	446,500	0.04%
November	992,455	0.09%
December	148,526	0.01%
2018		
January	269,818	0.03%
February	455,556	0.04%
March	129,238	0.01%
April	85,820,003	8.21%
April (prior to the publication of the Memorandum Announcement)	34,000	0.01%
April (after the publication of the Memorandum Announcement)	107,266,503	10.26%
May <i>(Note 3)</i>	21,119,834	2.02%
June <i>(Note 3)</i>	9,524,158	0.91%
July (up to the Latest Practicable Date)	3,954,055	0.38%

Notes:

1. Source: The Stock Exchange
2. The calculation is based on the average daily trading volume of the Shares divided by the total number of issued Shares at the end of each month or as at the Latest Practicable Date.
3. The Joint Announcement was published on 1 June 2018. The trading in the Shares on the Stock Exchange was halted with effect from 10 May 2018 and was resumed on 4 June 2018.

As illustrated in the above table, during the Review Period, the average daily trading volume of the Shares ranged between 129,238 and 85,820,003, representing approximately 0.01% to 8.21% of the number of total issued Shares, respectively. During to the period between 1 April 2017 and the date of publication of the Memorandum Announcement, the average daily trading volume of the Shares was very low and represented only 0.01% to 0.09% of the number of total issued Shares. The average daily trading volume of the Shares surged to 85,820,003 in April 2018, representing approximately 8.21% of the number of total issued Shares, which was mainly due to the publication of the Memorandum Announcement on 12 April 2018. However, the average daily trading volume of the Shares dropped to approximately 2.02% in May, approximately 0.91% in June and approximately 0.38% in July (up to the Latest Practicable Date) subsequently. In light of the thin liquidity of the Shares during the Review Period, we are of the view that the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares, and that the Share Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares.

(d) Market comparable analysis

As illustrated in the paragraph headed “Financial performance of the Group” above, the Group is principally engaged in the businesses of property investment and development, manufacture and sale of construction materials, securities investments, trading of mineral concentrates and coal mining. The trading of mineral concentrates business is the main revenue contributor which contributed revenue of approximately HK\$233.6 million, HK\$93.4 million and HK\$27.0 million for FY2015, FY2016 and FY2017, respectively, represented approximately 78.20%, 60.46% and 74.30% of the total revenue of the Group for FY2015, FY2016 and FY2017, respectively. The revenue contribution from the business segments other than the trading of mineral concentrates business fluctuated throughout the last three financial years and each of them contributed less than 20% of the total revenue of the Group. We have attempted to search for comparable companies engaged in the same or similar business mix with the Company. However, we have not identified any comparable company with the same business mix as the Company. Given the trading of mineral concentrates business contributed a relatively significant portion of the total revenue of the Group throughout the last three financial years, we consider it necessary to include the trading of mineral concentrates business as one of the principal business as a selection criteria in identifying the comparable companies.

During the Review Period, the lowest and highest market capitalisation of the Company were approximately HK\$200 million on 13 February 2018 and approximately HK\$1,550 million on 18 April 2018 (which is several days after the publication of the Memorandum Announcement), respectively. The market capitalisation of the Company was approximately HK\$700 million as at the Latest Practicable Date.

For the purpose of assessing the fairness and reasonableness of the Share Offer Price, we have therefore conducted a search on Bloomberg of companies based on the following criteria: (a) the shares of which are listed on the Main Board of the Stock Exchange with closing market capitalisation as at the Latest Practicable Date between HK\$400 million and HK\$1,500 million and (b) the principal business of which include trading of mineral concentrates, has accounted for not less than one third of the total revenue in absolute value for their last audited full financial year as shown in their latest published annual reports available as at the Latest Practicable Date. Based on the criteria, we have identified a total of 4 comparable companies (the “**Comparable Companies**”) set out in the table below represent an exhaustive list of companies comparable to the Company based on the aforesaid criteria. Independent Shareholders and Optionholders should note that the business, scale of operation, trading prospects, target market, product mix and capital structure of the Company are not exactly the same as those of the Comparable Companies and we have not conducted any in-depth investigation into the businesses and operations of the Comparable Companies.

As mentioned in the paragraph headed “Financial performance of the Group” in the section headed “Information of the Group” above of this letter, the Group recorded a loss attributable to owners of the Company of approximately HK\$36.5 million and HK\$44.9 million for FY2016 and FY2017 respectively. We consider that analysis of the Share Offer Price based on the earnings for FY2016 and FY2017 is not meaningful. Alternatively, we have performed an analysis of the Share Offer Price based on the historical price to book ratio (“P/B”) of the Company and the Comparable Companies, which is the most commonly used benchmark in assessing the financial valuation of a company given the data for calculating the ratios can be obtained fairly and directly from publicly available information and reflect the value of the companies determined by the open market. The results are as follows:

Comparable Companies	Stock Code	Closing market capitalisation as at the Latest Practicable Date (HK\$'million) (Note 1)	Closing share price as at the Latest Practicable Date (HK\$) (Note 1)	Net assets value attributable to shareholders per share (HK\$) (Note 2)	Historical P/B (Approximate times) (Note 3)
China Strategic Holdings Limited	235	1,359.0	0.080	0.181	0.44
New Provenance Everlasting Holdings Limited	2326	737.9	0.035	0.032	1.08
Shengli Oil & Gas Pipe Holdings Limited	1080	730.2	0.223	0.478	0.47
Lee Kee Holdings Limited	637	464.1	0.560	1.340	0.42
Mean				0.508	0.60
Maximum				1.340	1.08
Minimum				0.032	0.42
The Company	758	700.4	0.670	0.231	2.90

Notes:

1. Closing market capitalisation and share price of the Comparable Companies are sourced from Bloomberg.
2. Figures are calculated based on (i) the net assets value attributable to shareholders of the Comparable Companies as set out in their respective latest annual report or interim report available as at the Latest Practicable Date; and (ii) the number of issued shares as at the respective period end, where figures in RMB were translated at an exchange rate of HK\$1 = RMB0.8696.
3. The historical P/B of the Comparable Companies are calculated based on their respective net assets value attributable to shareholders per share as set out in note 2 above and their respective closing share price as at the Latest Practicable Date.

As set out in the table above, the historical P/B of the Comparable Companies range from approximately 0.42 times to 1.08 times, with an average of approximately 0.60 times. The implied P/B of the Share Offer of approximately 2.90 times is above the maximum and the mean of the historical P/B of the Comparable Companies.

6. Option Offer

As at the Latest Practicable Date, the Company had outstanding Options in respect of 13,280,000 Shares and the exercise price of the Options is HK\$0.229. The Options were granted under the Share Option Scheme and have a validity period from 6 July 2009 to 5 July 2019.

We note that it is a common market practice to adopt a “see-through” price (representing the difference between the share offer price and the exercise price of the Options) as the offer price for any option in conjunction with a general offer for ordinary shares. As the exercise price of all outstanding Options is HK\$0.229, the offer price of Option of HK\$0.3927 represents the difference between the Share Offer Price and the exercise price of the Share Options. Therefore, we consider such basis of determining the offer price of Options to be fair and reasonable so far as the Optionholders are concerned.

DISCUSSION

We consider that the terms of the Offers, including the Share Offer Price and the offer price of Options, are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned after taking into account the above principal factors and reasons, in particular:

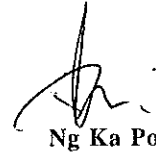
- (i) the financial results of the Group have been deteriorating over the past three financial years and the Group recorded losses of approximately HK\$52 million to approximately HK\$76 million in the last three financial years;
- (ii) the Share Offer Price represents a significant premium of approximately 140.04% and approximately 140.97% over the 5-day and 30-day average closing price of the Shares immediately prior to 6 April 2018, being the last Trading Day prior to the publication of the Memorandum Announcement, and a significant premium of approximately 169.13% over the audited net asset value attributable to equity holders of the Company as at 31 December 2017 based on 1,045,399,967 Shares in issue as at the Latest Practicable Date;
- (iii) the Share price were below the Share Offer Price at all time during the Review Period before the publication of the Memorandum Announcement. The significant increase in the Share price following the publication of the Memorandum Announcement which has been sustained up to the Latest Practicable Date may not continue after the close of the Offers;
- (iv) the liquidity of the Shares was generally low and the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. The Share Offer provides an assured opportunity to the Independent Shareholders to realise their investments in the Company;
- (v) the price to book ratio of the Company compares favourably against those of the Comparable Companies which are engaged in businesses similar to that of the Group and with sizes that are similar to the Group; and
- (vi) the basis of determining the offer price of Options is in line with market practice and is fair and reasonable as discussed in the section headed "6. Option Offer" above.

OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons set out above, we are of the opinion that the terms of the Offers are fair and reasonable so far as the Independent Shareholders and the Optionholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders and the Optionholders to accept the Offers.

Please note, however, that the Shares have been traded at above the Share Offer Price lately. Accordingly, the Independent Shareholders are reminded to monitor the trading price and liquidity of the Shares during the Offer Period and should, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds from accepting the Share Offer. Independent Shareholders who are confident in the future prospects of the Group and who accordingly may wish to retain some of all of their investments in the Shares are reminded to closely monitor the development of the Group and any announcements of the Company during the Offer Period.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED



Ng Ka Po
Senior Director

Mr. Ng Ka Po is a licensed person and a responsible officer of Optima Capital Limited registered with the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed in Hong Kong.