TC Capital Asia Limited
天財資本亞洲有限公司

6 December 2013

The Independent Board Committee and the Independent Shareholders
*Beautiful China Holdings Co., Ltd (the "**Company**")*

Dear Sir/Madam,

(1) CONNECTED TRANSACTION – RELATING TO THE SUBSCRIPTION FOR NEW SHARES BY A SUBSTANTIAL SHAREHOLDER; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, details of which are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company dated 6 December 2013 issued to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

On 16 October 2013, the Subscriber entered into the Subscription Agreement with the Company pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 2,000,000,000 Subscription Shares at the price of HK$0.10 per Subscription Share. Background and terms of the Subscription Agreement are set out in the Board Letter in the Circular.

The Subscriber is a substantial shareholder of the Company and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the approval of the Independent Shareholders by way of poll.

As at the date of the Subscription Agreement, the Subscriber held 474,869,906 Shares representing approximately 22.21% of the voting rights of the Company. Global Prize Limited, being a person acting in concert with the Subscriber, held 2,040,000 Shares, representing approximately 0.10% of the voting rights of the Company. Upon Completion, 2,000,000,000 Subscription Shares will be issued to the Subscriber, and the interests of the Subscriber and the persons acting in concert with it in the voting rights of the Company will be increased from approximately 22.31% to approximately 59.86% (assuming that no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to Completion). Accordingly, the Subscriber and persons acting in concert with it, in the absence of the Whitewash Waiver, would be obliged to make a general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by it.

香港九龍尖沙咀廣東道9號海港城港威大廈6座19樓1904室
Suite 1904, 19th Floor, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong
Tel: (852) 3905 3388 Fax: (852) 3904 1338

An application to the Executive for the Whitewash Waiver has been made by the Subscriber and the Executive has indicated that it will grant the Whitewash Wavier subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll.

The Subscriber and Global Prize Limited are wholly-owned by Mr. Sze. Accordingly, Mr. Sze, the Subscriber and Global Prize Limited and their respective associates and those involved or interested in the Subscription and the Whitewash Waiver shall abstain from voting at the SGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lai Yip Wing, Mr. Chan Ming Sun, Jonathan and Mr. Chong Yiu Kan, Sherman, has been formed to give advice and recommendation to the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

In our capacity as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules and the Takeovers Code, our role is to give our independent opinion as to whether (1) the Subscription Agreement and the transactions contemplated thereunder are in the interests of the Company, on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; (2) the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (3) the Independent Shareholders should vote in favour of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

In formulating our opinion and recommendation, we have relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the management of the Company. We have assumed that all such information, opinions, facts and representations contained or referred to in the Circular, for which the Company is fully responsible, were true and accurate in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out independent verification of the information provided by the Directors and the representatives of the Company, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Company, the Subscriber and any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinions in respect of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

I. Background of the Group

The Company is an investment holding company. The Group is principally engaged in the provision of automatic teller machines ("ATM") in the PRC.

The ATM business of the Group has long been experiencing difficulties. In the latest three consecutive financial years that we have reviewed, the Group recorded substantial amount of losses. In order to diversify the risk associated with its ATM business, the Group has started to contemplate investment in another line of business. In the Company's annual report 2012, it is stated that the Company had been identifying potential merger and acquisition opportunities to diversify the Group's business. The Memorandum of Understanding was entered into by the Company on 4 February 2013 for the potential investment of RMB60 million by the Company in a company which engages in gardening and landscape construction. If it materialises, the MOU Investment represents an important step for the Group to tap into the eco-environment construction industry.

We note that the eco-environment construction industry is a fast growing industry in the PRC. According to the China Statistics Yearbook 2012 published by the National Bureau of Statistics of China, investment in gardening and greening in the PRC grew almost three-fold between 2007 and 2011, from RMB52.6 billion in 2007 to RMB154.6 billion in 2011 representing a compound annual growth rate of approximately 30.9%. Green land area in urban in the PRC also demonstrated a rapid growth, with size increased from 865,000 hectare in 2000 to 2,243,000 hectare in 2011, as suggested by the data from the China Statistics Yearbook 2012. We have also discussed the industry outlook with the Company and we agree that in line with the increasing public awareness of the need for sustainable development, economic growth and the urbanisation pace of the PRC, it is expected that the scale of the PRC eco-environmental industry will continue to grow at a progressive rate.

Set out below is the financial information extracted from the Company's annual reports for the years ended 31 December 2010, 2011 and 2012 and the Company's interim reports for the six months ended 30 June 2012 and 2013:

	For the year ended 31 December			For the six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	12,028	13,519	12,463	6,270	4,738
(Loss) from continuing operations	(58,525)	(41,147)	(38,840)	(21,967)	(20,359)
(Loss) for the year	(68,991)	(46,808)	(40,403)	(21,884)	(20,255)

	As at 31 December			As at 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	258,142	222,825	185,605	197,882	167,777
Total liabilities	12,133	12,138	13,987	10,942	13,861
Net assets	246,009	210,687	171,618	186,940	153,916
Bank balances and cash	151,081	148,262	131,108	128,163	105,598

As depicted by the table above, the Group has recorded net loss for the year ended 31 December 2010, 2011 and 2012 as well as for the six months ended 30 June 2012 and 2013. The net loss for the year ended 31 December 2010 was approximately HK$69 million. According to the published financial statements of the Company, the net loss for the above periods was mainly attributable to (i) the impairment losses on intangible assets, properties, plant and equipment amounted to approximately HK$9.7 million, HK$6.9 million and HK$1.9 million, which represented approximately 14%, 14.7% and 4.8% of net loss for each of the year ended 31 December 2010, 2011 and 2012 respectively; and (ii) a significant amount of administrative expenses of approximately HK$76 million, HK$57 million and HK$55 million for each of the year ended 31 December 2010, 2011 and 2012 respectively, which represented 4.4 times to 6.3 times of the turnover during the above periods. The three largest components of the administrative expenses were staff costs (including directors' emoluments), depreciation and operating lease charges, which were relatively fixed costs in nature. Although the Company's net loss for the year has been in a decreasing trend over the period under review, turnover has not indicated any sign of persistent improvement, and the Company has still been operating in a competitive environment. We are advised by the management of the Company that the decrease in the net loss in 2011 and 2012 as compared to 2010 was mainly due to the discontinued administrative expenses incurred in a potential acquisition project, which was terminated and not pursued in the year ended 31 December 2010.

As discussed in the 2013 interim report of the Company, the competitive environment is well illustrated by (i) the newly installed ATMs by banks and other operators in the surrounding area; and (ii) the operating data compiled by the Company. Moreover, the annual report 2012 and 2013 interim report of the Company stated that as uncertainties lingered, the operating environment of the ATM market has yet to see any improvement, and certain customers terminated collaboration or curtailed cooperation with the Group thereby adversely affected the turnover of the Group. Notwithstanding the above, the Group intends to continue to maintain its ATM business. Looking forward, the Group expects that the operating environment of the ATM market in the PRC will become more challenging and the Group will strictly adhere to its strategy of carefully selecting locations for ATMs and adopt a prudent approach to advance the ATM business.

The Group's total assets amounted to approximately HK$167.8 million as at 30 June 2013. The largest proportion of the assets of the Group was bank and cash balances, which amounted to approximately HK$105.6 million. As shown in the table above, owing to the continuous poor operating performance of the Group and without the introduction of new capital, total assets and bank and cash balances were shrinking over the period, from HK$288.4 million and HK$151.1 million as at 31 December 2010 to HK$167.9

million and HK$105.6 million as at 30 June 2013, respectively. As at 30 June 2013, total liabilities of the Group were approximately HK$13.9 million which comprises mainly trade and other payables of approximately HK$10.0 million. The Group did not have any bank borrowings during the period under review.

II. Information of the Subscriber

The Subscriber is an investment holding company incorporated in the British Virgin Islands and is wholly-owned by Mr. Sze, an executive Director, chairman and chief executive officer of the Company. Mr. Sze has over 22 years of experience in investing in Hong Kong and the PRC. His investment interests cover various sectors including information technology, industrial, property investment and development, transportation and trading.

We have discussed with Mr. Sze his experience and track record in the eco-environmental construction sector. He co-invested in a sports park, which consisted of a golf course and certain real estates, with the local government and other investors in Shandong Province, the PRC in 2009.

According to Mr. Sze, his extensive network and connections in the eco-environmental construction industry with the government and related companies in the PRC will benefit the Company in sourcing potential investment opportunities and securing projects relating to the eco-environmental construction sector.

Following Completion, the Subscriber intends to maintain the listing of the Shares on the Stock Exchange and the existing businesses of the Group. In addition to Mr. Sze as a long term Shareholder since 2001, the Subscription signifies the confidence of the Subscriber in the future development potentials of the Group. With the continuing support of the Subscriber, this will ensure business stability and continuity of the Group which is crucial and beneficial to the long-term development of the Group.

The Subscriber has no intention to re-deploy the employees or the fixed assets of the Group after Completion other than in its ordinary and usual course of business. The Company and the Subscriber will comply with the relevant requirements under the Listing Rules and Takeovers Code in the event that any possible diversification of the Group's business operations materialises after Completion.

III. Reasons for and benefits of the Subscription

As set out in the Board Letter and the interim report 2013 of the Company, the Group has been exploring suitable investment or business projects to invest in so as to diversify the business of the Group with an objective to broaden its income source and to minimize the idiosyncratic risks associated with the focused principal business given the slowdown and fierce competition in the operational environment of the ATM market in the PRC. To achieve its objective, and to take advantage of the PRC governmental support in the eco-environment construction sector, the Group entered into the Memorandum of Understanding, details of which have been disclosed in the announcement of the Company dated 4 February 2013. As at the Latest Practicable Date, the Company is still conducting due diligence on the Mainland China-based company and has not entered into any legally binding agreements on the MOU Investment.

As discussed above in the paragraphs headed "Background of the Group", the Group has long been loss making and has taken time to consider the option of the MOU Investment in order to diversify its business risk. According to the Memorandum of Understanding, subject to the conditions precedent thereto and the entering into a formal investment agreement, the Group will contribute RMB60 million (equivalent to approximately HK$76 million) for a 60% equity interest in the target company. In view of the Group's (i) dismal operating performance; (ii) depleting bank balances and cash at an average speed of approximately HK$15 million per year between 2010 and 2012 with a more rapid trend; and (iii) a large part of the existing bank and cash balances of approximately HK$105.6 million would be reserved for its ATM business in accordance with the intended use of proceeds from the Company's placing of convertible bonds in 2010, we concur with the Directors that there is a need to raise capital for the intended investment under the MOU Investment and the Subscription would allow the Group to strengthen its capital position and equip the Group with the financial flexibility to achieve the Group's business objectives.

According to the Board Letter, the Board has considered various fund raising methods apart from the Subscription such as debt financing, placement of new Shares to independent investors as well as rights issue or open offer. Regarding debt financing, having considered that it would increase the gearing level of the Group and the interest expenses incurred would impose additional financial burden to the Group's future cash flows and profit and loss, the Board considers that such fund raising method is currently not the most appropriate method to the Group. In considering equity financing through placement of new Shares to independent investors, the Company has encountered difficulties in engaging a placing agent believably due to the persistently low Share price and the low trading volume of the Shares under the current market sentiment. As regards the viability of a rights issue or an open offer, the Company has found it difficult to find an independent underwriter in Hong Kong which is interested in underwriting a rights issue or open offer of the Company. The Company approached certain securities firms and discussed the possibility of underwriting a rights issue or an open offer or to act as a placing agent for the placement of new Shares to independent investors, yet none of the securities firms were willing to act as an underwriter or placing agent.

In light of the above, the Board is of the view that equity financing by way of the Subscription is, in the circumstance, the most appropriate mean of raising additional capital as (i) it is more practicable and direct under a volatile market and the uncertain global market conditions currently prevailing; (ii) it is less costly and no interest burden is imposed; and (iii) it is less time consuming.

The gross proceeds from the Subscription amounts to HK$200 million and the net proceeds from the Subscription are estimated to be approximately HK$198.8 million. Based on the estimated net proceeds, the net subscription price would be approximately HK$0.09 per Subscription Share. The Group intends to apply the net proceeds from the Subscription in the following manner:

i. approximately 75% of the net proceeds to be used to capture opportunities in the eco-environment construction business by (i) funding the Company's newly setup business on gardening and landscape construction; or (ii) potential acquisitions of companies related to the business of gardening and landscape construction such as the MOU Investment, for the purposes of broadening the spectrum of business the Company provides. As at the Latest Practicable Date, the Company has not entered into any legally binding agreements in relation to any acquisitions; and

ii. approximately 25% of the net proceeds as general working capital of the Group.

The Company expects that the total fund requirement to the MOU Investment will be approximately HK$82.8 million and the remaining allocated net proceeds of HK$66.2 million will be used for other potential investment projects in gardening and eco-environment construction sector in the PRC, including landscaping, planting and planting maintenance.

As at the Latest Practicable Date, the Company has yet to identify any specific investment opportunities other than the MOU Investment, however, the additional capital on hand will facilitate the efficient execution of such potential investment projects, if any. The Company has demonstrated its commitment to diversifying its business by changing its company name in July 2013 and will take steps to identify feasible investment projects.

Regarding the general working capital of the Group, we note from the Company's 2013 interim report that expenses are expected to incur for the Group to continue its progress on developing integrated circuit ("IC") chip application and ATM optimisation as spurred by the nationwide policy of replacing bank cards with financial IC cards.

Taking into consideration the above, we concur with the Directors' view that the Subscription (i) allows the Group to strengthen its capital position as well as equip the Group with the financial stability to achieve its business objective; and (ii) is a straightforward and cost-effective means of financing for the Group. Given the aforementioned benefits of the Subscription under (i) and (ii), we are of the view that the Subscription is fair and reasonable and on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

IV. Basis of the Subscription Price

We note that the Subscription Price was arrived at after arm's length negotiation between the Company and the Subscriber with reference to, among other factors, the financial position of the Group, the historical trading volume of the Shares on the Stock Exchange and the recent trading prices of the Shares as quoted on the Stock Exchange. The issue price per Subscription Share of HK$0.10 represents:

i. a discount of approximately 22.48% to the closing price of HK$0.129 per Share as quoted on the Stock Exchange on the Last Trading Day;

ii. a discount of approximately 63.64% to the closing price of HK$0.275 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

iii. a discount of approximately 22.72% to the average closing price of HK$0.1294 per Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;

iv. a discount of approximately 23.43% to the average closing price of HK$0.1306 per Share as quoted on the Stock Exchange for the last 10 trading days up to and the including the Last Trading Day;

v. a discount of approximately 18.30% to the average closing price of HK$0.1224 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and

vi. a premium of approximately 38.89% over and above the Group's unaudited consolidated net asset value attributable to the Shareholders per Share as at 30 June 2013 of approximately HK$0.072 (based on a total of 2,138,084,922 Shares as at 30 June 2013 and the Group's unaudited consolidated net asset value attributable to the Shareholders of approximately HK$153,916,000 as at 30 June 2013).

vii. a premium of approximately 25.00% over and above the Group's audited consolidated net asset value attributable to the Shareholders per Share as at 31 December 2012 of approximately HK$0.080 (based on a total of 2,138,084,922 Shares as at 31 December 2012 and the Group's audited consolidated net asset value attributable to the Shareholders of approximately HK$171,618,000 as at 31 December 2012).

The Directors believe the discount to the closing price on the Last Trading Day of approximately 22.48% as represented by the Subscription Price is reasonable in view of the following reasons:

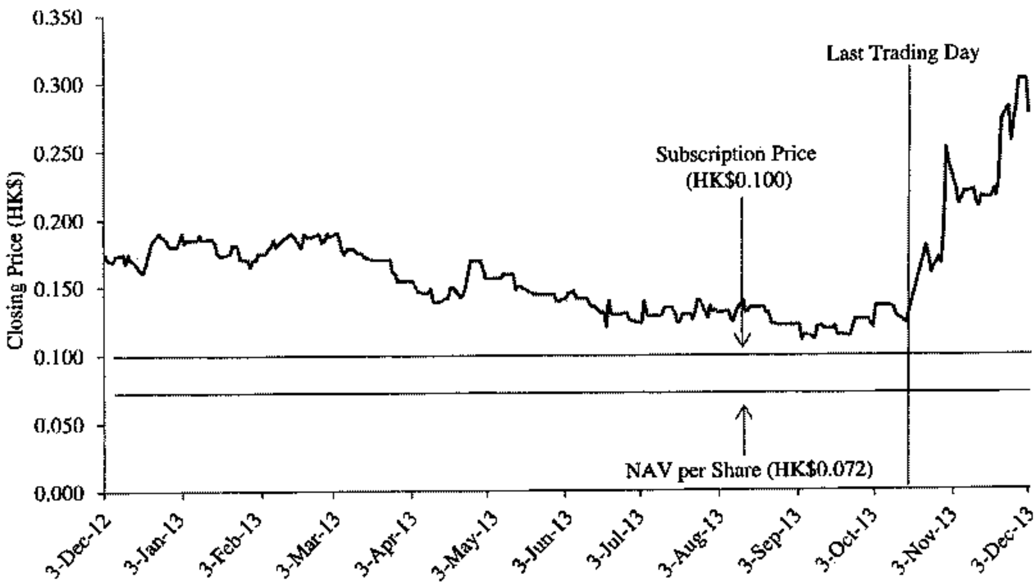
(i) The Subscription Price represents a premium of approximately 38.89% over and above the Group's unaudited consolidated net asset value attributable to the Shareholders per Share as at 30 June 2013 of approximately HK$0.072; and

(ii) The average daily trading volume of the Shares for the last 30 trading days up to and including the Last Trading Day were approximately 310,000 Shares, representing a percentage of the average total number of Shares held by the public Shareholders of approximately 0.019%. Given the low trading volume of the Shares, it is difficult for the Company to conduct equity fund raising activities with independent investors.

To assess the fairness and reasonableness of the Subscription Price, we set out the following informative analyses which include reviews on both the historical price and trading liquidity of the Shares together with a comparable analysis.

a) Historical performance of Share price

The chart below illustrates the daily closing prices of the Shares during the 12-month period up to and including the Latest Practicable Date (the "**Review Period**"):



Source: Bloomberg

During the Review Period, the daily closing price of the Shares ranged from HK$0.110 per Share to HK$0.300 per Share. The closing price of the Share on the date of the Subscription Agreement was HK$0.129 per Share. The Subscription Price falls below the above prices but represents a premium over the Group's unaudited consolidated net asset value attributable to the Shareholders per Share as at 30 June 2013. If short term fluctuation is excluded, we note that the daily closing price of the Shares has been on a declining trend during the Review Period, except for the Share prices after the Last Trading Day since when the information of the Subscription has started to impact. The Company has been loss making in the past few years as well as in the first half of 2013. In addition, it was expected that the operating environment of the ATM market in the PRC will become more challenging, thus the declining Share price was not an unexpected outcome.

b) Trading liquidity of the Shares

For the purpose of assessing the trading liquidity of the Shares, we set out below the monthly trading volume, the average daily number of Shares traded per month and the respective percentage daily trading volume compared with the issued share capital (Note 2) and the public float (Note 3) during the Review Period.

Month	Total monthly trading volume (Number of Shares)	Average daily trading volume (Number of Shares) (Note 1)	Percentage of average daily trading volume to total number of Shares in issue (%) (Note 2)	Percentage of average daily trading volume to total number of Shares held by public shareholders (%) (Note 3)
2012				
December	14,180,000	746,316	0.035%	0.045%
2013				
January	7,990,498	363,204	0.017%	0.022%
February	10,318,000	687,867	0.032%	0.041%
March	11,360,000	568,000	0.027%	0.034%
April	4,420,000	221,000	0.010%	0.013%
May	3,940,000	187,619	0.009%	0.011%
June	5,286,000	264,300	0.012%	0.016%
July	6,240,000	283,636	0.013%	0.017%
August	10,350,000	492,857	0.023%	0.030%
September	10,370,000	518,500	0.024%	0.031%
October	222,477,328	13,086,902	0.612%	0.788%
November	222,500,000	10,597,619	0.496%	0.638%
December (Up to the Latest Practicable Date)	22,420,000	11,210,000	0.524%	0.675%

Source: Bloomberg

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume of the Shares for the month by the number of trading days during the month.

2. Based on 2,138,084,922 Shares in issue as at the Latest Practicable Date.

3. Based on 1,660,525,016 Shares held by the public Shareholders as at the Latest Practicable Date.

During the Review Period, the average daily trading volume of the Shares as a percentage of the total number of Shares in issue as at the Latest Practicable Date ranged from approximately 0.009% to 0.612% while the average daily trading volume of the Shares as a percentage of the total number of Shares held by the public Shareholders as at the Latest Practicable Date ranged from approximately 0.011% to 0.788%. Based on the above average daily trading volume of Shares as a percentage of the total number of Shares in issue as well as average daily trading volume of Shares as a percentage of the total number of Shares held by the public Shareholders, and taking into consideration during the Review Period (i) an average daily trading volume of lower than 1 million Shares was recorded in 9 out of 12 months; and (ii) a daily trading volume of lower than 1 million Shares was recorded for 131 trading days out of 239 trading days, we are of the view that the trading of the Shares was relatively thin and inactive during the Review Period.

Having taken into account the (i) Subscription Price represents a premium over the consolidated net asset value per Share based on the latest published financial information of the Group; (ii) Company has been making loss for the latest three consecutive financial years in our review and is operating in a competitive business; (iii) price of the Shares was in a declining trend before the Subscription was announced; and (iv) low liquidity in the trading of the Shares during the Review Period which may imply a higher level of risk involved in trading of the Shares, we are of the view that the Subscription Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

V. Financial effects of the Subscription on the Group

i. Cashflow

According the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2013, the aggregate balance of cash and bank balances was approximately HK$105.6 million. Upon Completion, the liquidity and cash position of the Group will be improved as the Subscription will facilitate the Company to raise net proceeds of approximately HK$198.8 million. Accordingly, we are of the view that the Subscription would bring a positive impact on the cash position and net current assets of the Group.

ii. Net asset value

According to the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2013, the Company's consolidated net asset value was approximately HK$154 million and the Group's consolidated net asset value per Share was approximately HK$0.072. The Subscription would increase the total assets and share capital of the Company. Based on the estimated net proceeds of approximately HK$198.8 million, the Company's consolidated net asset value would increase to approximately HK$352.8 million whereas the Group's net asset value per Share would increase to HK$0.085 as a result of the Subscription. As such, the Subscription would increase both the net asset value as well as the Group's consolidated net asset value per Share.

iii. Gearing

According to the 2013 Interim Report of the Company, the Group's gearing ratio (expressed as a percentage of total borrowings to total assets) was approximately 8.3%. Upon Completion, the Group's net asset value would increase whilst the total liabilities would remain the same, resulting in a drop in the Group's gearing ratio to approximately 3.8%. Thus, though the Group's original gearing was low, the Subscription should improve the gearing level of the Group.

Based on the above, the Subscription would have an overall positive effect on the financial position of the Group. On such basis, we are of the view that the Subscription is in the interests of the Company and Shareholders as a whole.

VII. Effects on the shareholding of existing Shareholders

Upon Completion, 2,000,000,000 Subscription Shares will be issued. The Subscription Shares represent approximately 93.54% of the existing issued share capital of the Company and approximately 48.33% of the enlarged issued share capital of the Company. Set out below is the table showing the shareholding of the Company as at the Latest Practicable Date and immediately after Completion.

	As at the Latest Practicable Date		Assuming (i) Completion; and (ii) the subscription rights attaching to the Outstanding Options were not exercised at all		Assuming (i) Completion; and (ii) full exercise of the Outstanding Options *(Note 5)*	
	No. of Shares	*%*	*No. of Share*	*%*	*No. of Share*	*%*
The Subscriber *(Note 1)*	474,869,906	22.21	2,474,869,906	59.81	2,474,869,906	59.31
Global Prize Limited *(Note 1)*	2,040,000	0.10	2,040,000	0.05	2,040,000	0.05
Mr. Sze *(Note 2)*	–	–	–	–	2,500,000	0.06
Sub-total of the Subscriber and persons acting in concert with it *(Note 3)*	476,909,906	22.31	2,476,909,906	59.86	2,479,409,906	59.42
Executive Director(s)						
Mao Zhenhua	–	–	–	–	2,500,000	0.06
Tan Shu Jiang	–	–	–	–	4,000,000	0.10
Independent non-executive Director(s)						
Chong Yiu Kan, Sherman	650,000	0.03	650,000	0.01	2,650,000	0.06
Public:						
Grantees of Outstanding Options (other than Mr. Sze and the Directors) *(Note 4)*	–		–	–	23,700,000	0.57
Other Shareholders	1,660,525,016	77.66	1,660,525,016	40.13	1,660,525,016	39.79
	2,138,084,922	100.00	4,138,084,922	100.00	4,172,784,922	100.00

Notes:

1. The Subscriber and Global Prize Limited are companies wholly owned by Mr. Sze.

2. Mr. Sze is the executive Director, chairman and chief executive officer of the Company.

3. The persons acting in concert with the Subscriber comprises Mr. Sze and Global Prize Limited.

4. None of these grantees of the Outstanding Options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates or parties acting in concert with the Subscriber.

5. Full exercise of the Outstanding Options would result in a maximum of 34,700,000 new Shares being fallen to be allotted and issued to its holders.

Taking into consideration that the Subscription will (i) improve the financial position of the Company; (ii) facilitate the Group's MOU Investment and entering the new business line; and (iii) bring possible enhancement to the net asset value per Share, we are of the view that the dilution effect on the shareholdings of the existing Independent Shareholder resulting from the Subscription is acceptable.

VIII. Financing alternatives

We note that the Company had considered various financing alternatives for raising additional funds. Such options include debt financing, placement of new Shares to independent investors as well as rights issue or open offer.

Debt financing will increase the gearing level of the Group and the interest expenses would result in additional financial burden upon the Group's future cash flows, the Board considered that debt financing is currently not the most appropriate method to the Group. In considering equity financing through placement of Shares to independent investors, the Company has encountered difficulties in engaging a placing agent in Hong Kong. The Company has also found it difficult to engage an underwriter to underwrite a rights issue or an open offer. We were informed by the Company that it had discussed with certain securities firms the possibility of underwriting a rights issue or an open offer or to act as placing agent for the placement of Shares to independent investors. However, the Directors have advised us that the Company could not conclude an underwriting agreement with an underwriter.

In light of the above, the Board is of the view that equity financing by way of Subscription is the most appropriate mean of raising additional capital as it is more practicable, less costly and less time consuming.

Having considered the feasibility in respect of the other financing alternatives, we concur with the Company's view that the Subscription is the best available financing alternative available to the Group to raise additional capital to finance the Group's investments as and when opportunities arise as well as to meet the ongoing working capital requirements of the Group.

IX. Whitewash Waiver

Immediately following the allotment and issue of the Subscription Shares to the Subscriber, and assuming that there is no additional Shares other than the Subscription Shares will be issued since the date of the Subscription Agreement up to Completion, the interest of the Subscriber and parties acting in concert with it in the Company will be increased from approximately 22.31% to approximately 59.86%. Accordingly, the Subscriber and the parties acting in concert with it are therefore obliged under Rule 26 of the Takeovers Code to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Subscriber and parties acting in concert with it.

An application to the Executive for the Whitewash Waiver has been made by the Subscriber and parties acting in concert with it. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Subscriber and parties acting or presumed to be acting in concert with it, their respective associates and those involved or interested in the Subscription and the Whitewash Waiver will be abstained from voting on the resolution approving the Subscription and the Whitewash Waiver at the SGM.

The Subscriber has undertaken to the Company that apart from the Subscription Agreement, neither the Subscriber nor parties acting in concert with it will:

(i) from the date of the Subscription Agreement until the Completion Date acquire or dispose of or enter into any agreement or arrangement to acquire to dispose of any voting rights in the Company; and

(ii) within six months after the SGM, acquire or dispose of or enter into any agreement or arrangement to acquire or dispose of any voting rights in the Company from or to a person who is a Director or substantial shareholder of the Company.

The Subscription is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. If the Whitewash Waiver is not approved, the Subscription will not proceed and no general offer obligation will be triggered.

Having considered the benefits of the Subscription as mentioned in the previous sections in this letter, in particular, (i) the Subscription is a reasonable financing alternative available to the Group; (ii) the Subscription would strengthen the Group's capital base to enable to Group to swiftly respond to any acquisition and investment opportunities as and when they arise; (iii) the dilution effect as a result of the Subscription being acceptable; and (iv) the Subscription would have an overall positive effect on the financial position of the Group upon Completion, we are of the view that the granting of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

(i) the background and reasons for the Subscription as set out in the section "Reasons for and benefits of the Subscription";

(ii) the historical financial performance of the Group;

(iii) the trading in the Shares during the Review Period was relatively thin and inactive;

(iv) the Subscription is a reasonable financing alternative in view of the small market capitalisation of the Company and low liquidity of the Shares during the Review Period;

(v) the overall financial effects of the Subscription are favourable to the Company and the Independent Shareholders as a whole; and

TC Capital Asia Limited
天財資本亞洲有限公司

(vi) the dilution effects on the shareholdings of the Company upon Completion is acceptable,

we are of the opinion that, the Subscription Agreement and the transactions contemplated thereunder is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. We also consider that the grant of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour, and we also recommend that Independent Shareholders vote in favour, of the ordinary resolutions to be proposed at the forthcoming SGM to approve the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

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

Edward Wu
Managing Director