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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Neway Group Holdings Limited (“**Company**”), you should at once hand this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**NEWAY GROUP HOLDINGS LIMITED****中星集團控股有限公司****(Incorporated in Bermuda with limited liability)***(Stock Code: 00055)****CONNECTED TRANSACTION
NON-EXERCISE OF PUT OPTION
AND
NOTICE OF SPECIAL GENERAL MEETING****Independent financial adviser to
the Independent Board Committee and the Independent Shareholders****SUNWAH KINGSWAY
新華滙富
Kingsway Capital Limited**

A notice convening the special general meeting of the Company to be held at 2:30 p.m. on Thursday, 26 September 2013 at Camomile Room, Lower Level II, Kowloon Shangri-La Hotel, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong is set out on pages 57 and 58 of this circular. Whether or not you are able to attend and vote at the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof to the office of the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition of the entire issued share capital of NEL and the then shareholder’s loan owed by NEL to the Vendor under the SP Agreement
“Board”	the board of Directors
“CD”	compact disc, an optical disc used for storing digital information
“Company”	Neway Group Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“Completion Date”	1 July 2009, being the date of completion of the Acquisition
“connected person(s)”	has the meaning ascribed to such term in the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Suek”	Dr. Suek Chai Kit Christopher
“Gain Capital”	Gain Capital International Limited, a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee established to advise the Independent Shareholders in relation to the non-exercise of the Put Option, comprising all independent non-executive Directors

DEFINITIONS

“Independent Shareholders”	the shareholders of the Company other than Dr. Suek and his associates
“Kingsway Capital”	Kingsway Capital Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as set out in schedule 5 of the SFO, being the independent financial adviser which has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the non-exercise of the Put Option
“Latest Practicable Date”	27 August 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NEL”	Neway Entertainment Limited
“NEL Group”	NEL and its subsidiaries
“Neway KB”	Neway Karaoke Box Limited, a company wholly owned by a discretionary trust for the benefits of Dr. Suek and his family members
“Neway KB Group”	Neway KB and its subsidiaries
“PRC”	the People’s Republic of China
“Put Option”	the put option granted to Gain Capital pursuant to the SP Agreement
“Put Option Period”	the period commencing from the Completion Date to 30 September 2013 (as extended), during which Gain Capital may exercise the Put Option
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be held at 2:30 p.m. on Thursday, 26 September 2013 for the purpose of considering and, if thought fit, approving the non-exercise of the Put Option
“Share(s)”	share(s) of the Company of HK\$0.05 each
“Shareholder(s)”	shareholder(s) of the Company
“Shareholder’s Loan”	the shareholder’s loan owed by NEL to Gain Capital from time to time
“SP Agreement”	the agreement dated 16 June 2009 entered into between Gain Capital (as purchaser), the Vendor and Dr. Suek (as warrantor) in relation to inter alia the sale of the entire issued share capital of NEL as amended by the supplemental agreements dated 29 June 2011, 29 June 2012 and 28 March 2013
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Neway Enterprise Holdings Limited, the vendor under the SP Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar(s), the lawful currency of the US
“%”	per cent

LETTER FROM THE BOARD



NEWAY GROUP HOLDINGS LIMITED

中星集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00055)

Executive Directors:

Mr. SUEK Ka Lun, Ernie (*Chairman*)

Mr. SUEK Chai Hong (*Chief Executive Officer*)

Non-Executive Directors:

Dr. NG Wai Kwan

Mr. CHAN Kwing Choi, Warren

Mr. WONG Sun Fat

Independent Non-Executive Directors:

Mr. TSE Tin Tai

Mr. CHENG Chi Wai

Ms. LUI Lai Ping, Cecily

Mr. LEE Kwok Wan

Alternate Director:

Mr. LAU Kam Cheong (*alternate to Dr. NG Wai Kwan*)

Registered Office:

Clarendon House

Church Street

Hamilton, HM11

Bermuda

Principal Place of Business

in Hong Kong:

Chung Tai Printing Group Building

11 Yip Cheong Street

On Lok Tsuen, Fanling

New Territories

Hong Kong

2 September 2013

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION NON-EXERCISE OF PUT OPTION

INTRODUCTION

Pursuant to the SP Agreement, Gain Capital (a wholly-owned subsidiary of the Company) has been granted the Put Option. Should the Put Option be exercised, Dr. Suek would acquire from Gain Capital the entire issued share capital of NEL and the Shareholder's Loan. As announced in the announcement of the Company dated 17 July 2013, the Company proposes not to exercise the Put Option.

* *For identification purpose only*

LETTER FROM THE BOARD

Dr. Suek is a connected person of the Company. Pursuant to Rule 14A.70 of the Listing Rules and based on the applicable percentage ratios, the non-exercise of the Put Option constitutes a connected transaction for the Company subject to Independent Shareholders' approval under the Listing Rules. The Company has established the Independent Board Committee and has appointed Kingsway Capital to advise the Independent Board Committee and the Independent Shareholders in this regard. This circular is to provide you with information on the non-exercise of the Put Option, the respective letters of advice from the Independent Board Committee and the Independent Financial Adviser and the notice of the SGM.

PUT OPTION

Date

The Put Option was granted to Gain Capital on 16 June 2009 and became exercisable on 1 July 2009.

Parties

Gain Capital is a wholly-owned subsidiary of the Company.

Dr. Suek is the father of Mr. Suek Ka Lun, Ernie, an executive Director and the chairman of the Board, an elder brother of Mr. Suek Chai Hong, an executive Director and the chief executive officer of the Company and the brother-in-law of Dr. Ng Wai Kwan, a non-executive Director. Dr. Suek and his family members are the beneficiaries of a discretionary trust which holds a controlling interest in the Company. Dr. Suek is therefore a connected person of the Company.

Subject matter of the Put Option

The Put Option is exercisable by Gain Capital during the Put Option Period. Should the Put Option be exercised, Dr. Suek would acquire from Gain Capital the entire issued share capital of NEL and the Shareholder's Loan.

LETTER FROM THE BOARD

Consideration under the exercise of the Put Option

Should the Put Option be exercised, a consideration of HK\$65 million would be payable by Dr. Suek to Gain Capital on the third business day after the exercise of the Put Option. The consideration is calculated based on the terms of the SP Agreement as follows:

Consideration = A + B – C, where:

A is HK\$65,000,000 (which equals the original consideration for the Acquisition);

B is the investment cost (whether by way of subscription of share capital, shareholder's loan and/or advances by shareholders) contributed by members of the Group (other than members of NEL Group) made towards NEL Group subsequent to the Completion Date, which was nil as at the Latest Practicable Date; and

C is the aggregate of any dividend or distribution declared and paid by NEL Group to any members of the Group (other than members of NEL Group) prior to the completion of the sale and purchase of the entire issued share capital of NEL and the amount of shareholder's loan repaid by NEL Group to the Group, which was nil as at the Latest Practicable Date.

NON-EXERCISE OF THE PUT OPTION

For the reasons stated in paragraph headed "Reasons for and benefits of non-exercise of Put Option" below, the Company proposes to put forward to the Independent Shareholders at the SGM a proposal not to exercise the Put Option.

LETTER FROM THE BOARD

INFORMATION ON THE NEL GROUP

The NEL Group principally engages in artistes management, production and distribution of music albums, production of concerts and shows and provision of entertainment-related licensing, consulting and agency services.

Set out below are the financial results of the NEL Group for the period from 1 July 2009 (the Completion Date) to 31 March 2010 and for the three years ended 31 March 2013.

Financial Highlights

	For the period from 1 July 2009 to 31 March		For the year ended 31 March	
	2010	2011	2012	2013
	Unaudited	Unaudited	Audited	Audited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	19,132	21,775	18,180	19,976
Profit/(Loss) before tax	1,033	4,404	(9,376)	5,062
Profit/(Loss) after tax	809	3,787	(9,615)	5,155

Forming part of the revenue of the NEL Group, the NEL Group has been providing promotion services carried out by the artistes managed by the NEL Group and licensed contents of karaoke music videos which together amounted to approximately HK\$12.0 million, HK\$7.8 million, HK\$4.9 million and HK\$9.2 million for the period from 1 July 2009 to 31 March 2010 and for each of the three years ended 31 March 2013 respectively. Of such amounts, the provision of promotion services and licensed contents to the Neway KB Group amounted to approximately HK\$10.5 million, approximately HK\$6.2 million, approximately HK\$2.6 million and approximately HK\$7.8 million for the aforesaid period and years respectively. The NEL Group also provides entertainment-related consulting and agency services to other members of the Group. The NEL Group provides to other members of the Group market information such as market trends in the entertainment industry in Hong Kong and the PRC, and advises on entertainment projects including their operation, feasibility and prospects. The NEL Group maintains contacts in the Hong Kong and PRC entertainment industry and introduces entertainment project opportunities to other members of the Group. Such consulting and agency services to the other members of the Group, forming part of the revenue of the NEL Group, amounted to approximately HK\$5.7 million for the year ended 31 March 2013. The NEL Group did not record such income before 2013. Apart from the aforesaid consulting and agency services, the NEL Group has not recorded any other income from other members of the Group.

LETTER FROM THE BOARD

The Group recorded goodwill of approximately HK\$36 million arising from the Acquisition. For the year ended 31 March 2012, the NEL Group incurred losses from holding concerts and shows during the year. Furthermore, the income from the provision of promotion services by the NEL Group to the Neway KB Group decreased during the year as the Neway KB Group required less promotion services. Taking into account the actual performance of the NEL Group for the year ended 31 March 2012 as well as the prospects of the NEL Group, the Company estimated that the recoverable amount of the NEL Group would not be sufficient to cover the goodwill and the whole amount of the goodwill was written off in the year ended 31 March 2012. The income from the promotion services provided by the NEL Group to the Neway KB Group recovered during the year ended 31 March 2013 as a result of increase in demand from the Neway KB Group due to its change of marketing strategy while the NEL Group did not organise any concerts or shows during the year in an effort to control costs and improve profitability of the NEL Group.

As at 31 March 2013, the NEL Group reported a deficit to net assets of approximately HK\$3.6 million comprising total assets of approximately HK\$20 million and total liabilities of approximately HK\$23.6 million. As at 31 March 2013, the total assets of the NEL Group consisted of bank balances of approximately HK\$4.2 million, record masters (in relation to production of master tapes of audio-visual products) of approximately HK\$1.8 million, trade and other receivable, prepayments and deposits of approximately HK\$4.8 million, an amount due from Neway KB of approximately HK\$6.3 million, amounts due from members of the Group of approximately HK\$2.8 million and other assets of approximately HK\$0.1 million. As at 31 March 2013, the total liabilities of the NEL Group consisted of the Shareholder's Loan of approximately HK\$21.2 million and trade payables, accruals and other payables of approximately HK\$2.4 million. Before the Shareholder's Loan, the NEL Group reported net assets of approximately HK\$17.6 million as at 31 March 2013. The Company has not engaged an independent valuer to appraise the current value of the NEL Group.

At the time of the Acquisition, it was envisaged that the NEL Group would generate significant revenue from sales of music albums as well as production of films in Hong Kong. As more consumers are utilizing new media such as the Internet to access music and songs contributing to the general decline in the sales of CDs in the music industry and the NEL Group did not identify as many artistes as envisaged at the time of the Acquisition, the NEL Group's sales of CDs fell below the expectation envisaged at the time of the Acquisition. Due to the mounting production costs, the NEL Group disposed of its investments in movie production in Hong Kong and apart from the revenue from film production of approximately HK\$1.4 million for the year ended 31 March 2011, the NEL Group did not record any revenue from the production of films in Hong Kong.

LETTER FROM THE BOARD

Non-competition undertakings

Upon completion of the SP Agreement, the Vendor, Dr. Suek and Mr. Suek Ka Lun, Ernie (“Covenantors”) executed non-competition undertakings in favour of the Group that for so long as the Covenantors and/or their respective associates, directly or indirectly, whether individually or taken together, remain the controlling Shareholders of the Company (as defined in the Listing Rules), he/it will not and will procure their respective associates not to directly or indirectly (whether as an investor, shareholder, partner, agent or otherwise or whether for profit, reward or otherwise) engage or otherwise be interested in the management of artistes, production and/or distribution of music albums and movie production in Hong Kong. Such non-competition undertakings remain valid.

REASONS FOR AND BENEFITS OF NON-EXERCISE OF PUT OPTION

The Group principally engages in (i) manufacturing and sales of printing products; (ii) trading of printing products; (iii) music and entertainment businesses; and (iv) securities trading. The Group’s printing products business is a major business segment of the Group. Given the challenging operating environment of the printing products business, the Group is exploring other business opportunities to broaden the Group’s source of income.

In 2009, the Group acquired the NEL Group and diversified into the entertainment business. Following the Acquisition, the Company changed its name to Neway Group Holdings Limited to reflect the Group’s diversification into the entertainment business. Undertaken by the NEL Group and other members of the Group, the Group’s entertainment business principally engages in artistes management, production and distribution of music albums, investment in teleplays (TV dramas) and cultural and entertainment projects.

The Group’s entertainment business is in the process of development and building market recognition. Since the Acquisition, the NEL Group has as many as 18 artistes under its management and at present has 16 Hong Kong artistes including among others HotCha, Stephanie Cheng (鄭融) and Jade Kwan (關心妍). Since the Acquisition, the NEL Group has produced 26 albums for artistes including HotCha, Stephanie Cheng, Jade Kwan, Myolie Wu (胡杏兒), Linda Chung (鍾嘉欣) and Cheung Chi Lam (張智霖). The NEL Group has distributed 42 albums for other artistes including Vivian Chow (周慧敏), Gigi Leung (梁詠琪) and Fiona Sit (薛凱琪). It has produced 18 shows and concerts for artistes including LMF, Cheung Chi Lam and artistes from Japan and Taiwan. The NEL Group will continue to identify new artistes of talents and potential. It will devote more resources to develop new media market such as digital download complementing the sales of CDs. The NEL Group’s revenue from promotion services provided by its artistes to the Neway KB Group increased to approximately HK\$6.1 million for the year ended 31 March 2013 from approximately HK\$0.5 million for the previous year. The NEL Group plans to further develop the business of services provided by its artistes including promotion services broadening its income base. It plans to invite more labels and partners to release their physical and digital products by the

LETTER FROM THE BOARD

NEL Group and to seek more cooperation opportunities with other entertainment companies. The NEL Group will assess the profitability of production of concerts and shows, and organise concerts and shows that yield reasonable returns, enhance the exposure and popularity of its artistes and promote the market recognition of the NEL Group. It also plans to invest in low-budget movies and theaters to allow its artistes to participate. For the year ended 31 March 2013, the NEL Group recorded income from providing consulting and agency services to other members of the Group. The NEL Group provides market information, advises on entertainment projects and introduces entertainment-related investment opportunities to other members of the Group. Leveraging on its experience, business networks and market recognition, the NEL Group will continue to provide such advisory services and introduce potential entertainment projects to other members of the Group.

With regard to other development of the Group's entertainment business (carried out by the Group's members other than the NEL Group) in particular in the PRC, it set up a representative office in Guangzhou and a company in Beijing. The Group (through its members other than the NEL Group) cooperated with television broadcasting companies in the PRC to produce two teleplays which were broadcast on China Central Television (中國中央電視台) channels in 2011. The Group plans to allocate further resources in investment and cooperation opportunities with entertainment partners in the PRC and overseas, including cooperating with PRC TV stations or investors for production of high quality teleplays in the PRC. The Group acquired a 40% equity interest in a joint venture in 2012 to seek investment opportunities in the development of cultural and entertainment projects in Fujian province, the PRC. The Company is optimistic about the long-term development of the Group's entertainment business which should help alleviate the Group's reliance on its printing products business.

Leveraging on the NEL Group's market recognition in the entertainment industry, the NEL Group forms the platform on which the Group's entertainment business is planned to expand and develop particularly in the PRC market. The synergy of the NEL Group with other members of the Group engaging in the entertainment business is important to the development of the Group's entertainment business. The Company considers that the NEL Group will enhance the Group's exposure and market recognition in the entertainment business, assisting the Group to recruit new artistes of talents and potential, form business partnerships in the entertainment industry in the PRC such as production of teleplays and find suitable investment opportunities in cultural and entertainment projects in the PRC. Taking into account the development of the NEL Group, including its plan to expand and promote its artiste base, and the development in the promotion services and consulting and agency services, the benefits of the NEL Group to the development of other members of the Group and the business opportunities in the entertainment industry in the PRC, the Group therefore proposes not to exercise the Put Option, and proposes to continue to hold the NEL Group for the long-term development of the Group's entertainment business. The Company considers that the non-exercise of the Put Option is a strategic step forward in building and developing its entertainment business reinforcing its commitment in the long-term development of the Group's entertainment business.

LETTER FROM THE BOARD

Should the Put Option be exercised, the NEL Group would cease to be subsidiaries of the Company. The Company estimates that establishing an entertainment group comparable to the NEL Group would entail considerable costs. The Company would need to spend significant amounts to sign up artistes and to build up a catalogue of music and songs, and would incur significant advertisement, promotion and administration expenses. Such newly set-up entertainment group would take time to grow and build up its reputation, business network and track record. Given that the Group leverages on the NEL Group's market recognition and track record to form business relationships with partners in the PRC entertainment industry, the disposal of the NEL Group would adversely affect the Group's entertainment businesses in particular in the PRC. The Group would not record any gain or loss on the financial statements of the Group should the Put Option be exercised given that any excess of the consideration under the exercise of the Put Option over the net asset value of the NEL Group (before the Shareholder's Loan), which amounts to HK\$47.4 million based on the net assets of the NEL Group (before the Shareholder's Loan) as at 31 March 2013, would be credited to reserve. On the basis that the Put Option was exercised on 31 March 2013, taking into account other impacts on the reserve, the exercise of the Put Option would have an overall effect of an increase (credit) of approximately HK\$42.5 million in the reserve of the Company. The proceeds from the exercise of the Put Option would be applied as general working capital of the Group.

In view of the above, the Directors (including the independent non-executive Directors whose view is set out in the letter from the Independent Board Committee in this circular) consider that the non-exercise of the Put Option is fair and reasonable and in the interests of the Company and its Shareholders as a whole. In view of their relationships with Dr. Suek, Mr. Suek Ka Lun, Ernie, Mr. Suek Chai Hong and Dr. Ng Wai Kwan abstained from voting on the relevant board resolutions approving the proposal of non-exercise of the Put Option.

LISTING RULES IMPLICATIONS

Dr. Suek and his family members are the beneficiaries of a discretionary trust which holds a controlling interest in the Company. Dr. Suek is therefore a connected person of the Company. Pursuant to Rule 14A.70 of the Listing Rules and based on the applicable percentage ratios, the non-exercise of the Put Option constitutes a connected transaction for the Company subject to Independent Shareholders' approval under the Listing Rules. The Company has established the Independent Board Committee and has appointed Kingsway Capital to advise the Independent Board Committee and the Independent Shareholders in this regard.

SGM

The SGM will be held at 2:30 p.m. on Thursday, 26 September 2013 at Camomile Room, Lower Level II, Kowloon Shangri-La Hotel, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong, the notice of which is set out on pages 57 and 58 of this circular, for the Independent Shareholders to consider and, if thought fit, approve the non-exercise of the Put Option.

LETTER FROM THE BOARD

Dr. Suek and his associates (as defined in the Listing Rules) in aggregate holding and entitled to exercise control over the voting rights in respect of 453,313,000 Shares (representing approximately 44.47% of the issued Shares) as at the Latest Practicable Date will abstain from voting at the SGM. Apart from Dr. Suek and his associates (as defined in the Listing Rules), as at the Latest Practicable Date, no other Shareholders had a material interest in the non-exercise of Put Option.

Enclosed is a form of proxy for use at the SGM. Whether or not you are able to attend and vote at the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the meeting to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM in person should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors whose view is expressed in the letter from the Independent Board Committee in this circular) consider that the non-exercise of the Put Option is in the interests of the Company and the Shareholders as a whole. The Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the non-exercise of the Put Option.

On behalf of the Board
NEWAY GROUP HOLDINGS LIMITED
Suek Ka Lun, Ernie
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



NEWAY GROUP HOLDINGS LIMITED

中星集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00055)

2 September 2013

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION NON-EXERCISE OF PUT OPTION

We refer to the circular of the Company dated 2 September 2013 (the “Circular”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the non-exercise of the Put Option. Kingsway Capital has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving their advice, are set out on pages 14 to 50 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendix thereto.

Having considered the principal factors and reasons of the non-exercise of the Put Option and taking into account the independent advice of Kingsway Capital set out in its letter on pages 14 to 50 of the Circular, we consider that the non-exercise of the Put Option is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend that you vote in favour of the ordinary resolution to be proposed at the SGM to approve the non-exercise of the Put Option.

Yours faithfully,

Independent Board Committee

TSE Tin Tai

CHENG Chi Wai

LUI Lai Ping, Cecily

LEE Kwok Wan

Independent non-executive Directors

* *For identification purpose only*

LETTER FROM KINGSWAY CAPITAL

The following is the text of a letter of advice from Kingsway Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the non-exercise of the Put Option.

SUNWAH KINGSWAY 新華滙富

Kingsway Capital Limited

7/F, Tower One
Lippo Centre,
89 Queensway
Hong Kong
Tel. No.: (852) 2283-7000
Fax. No.: (852) 2283-7722

2 September 2013

*To the Independent Board Committee and the Independent Shareholders of
Neway Group Holdings Limited*

Dear Sirs,

CONNECTED TRANSACTION NON-EXERCISE OF PUT OPTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the non-exercise of the Put Option is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as Neway Group Holdings Limited (the “**Company**”) and the Independent Shareholders are concerned, particulars of which are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular (the “**Circular**”) of the Company dated 2 September 2013, of which this letter forms part. Unless otherwise defined, capitalized terms used in this letter shall have the same meanings as defined in the Circular.

LETTER FROM KINGSWAY CAPITAL

Reference is made to the announcements of the Company dated 16 June 2009 in relation to the SP Agreement. Reference is also made to the announcements of the Company dated 29 June 2011, 29 June 2012 and 28 March 2013 in relation to the extension of Put Option Period and the announcement dated 17 July 2013 in relation to the non-exercise of the Put Option.

On 16 June 2009, Gain Capital (a wholly-owned subsidiary of the Company), the Vendor and Dr. Suek entered into the SP Agreement pursuant to which Gain Capital has acquired from the Vendor the issued share capital of NEL and the then shareholder's loan due from NEL to the Vendor. Pursuant to the SP Agreement, Gain Capital has been granted a put option to require Dr. Suek to acquire from it the entire issued share capital of NEL and the then outstanding shareholder's loan owed by NEL (if any) at a base consideration of HK\$65 million, as adjusted in accordance with the SP Agreement. The Put Option Period will expire on 30 September 2013. On 17 July 2013, the Board made an announcement about the non-exercise of Put Option after the various extensions, subject to Independent Shareholders' approval.

As stated in the Board Letter, Dr. Suek is the father of Mr. Suek Ka Lun, Ernie, an executive Director and chairman of the Board, an elder brother of Mr. Suek Chai Hong, an executive Director and the chief executive officer of the Company and the brother-in-law of Dr. Ng Wai Kwan, a non-executive Director. Dr. Suek and his family members are the beneficiaries of a discretionary trust which holds a controlling interest in the Company. Dr. Suek is therefore a connected person of the Company. Pursuant to Rule 14A.70 of the Listing Rules and based on the applicable percentage ratios, the non-exercise of the Put Option constitutes a connected transaction for the Company subject to Independent Shareholders' approval under the Listing Rules.

An Independent Board Committee comprising Mr. Tse Tin Tai, Mr. Cheng Chi Wai, Ms. Lui Lai Ping, Cecily and Mr. Lee Kwok Wan, (all being independent non-executive Directors of the Company), has been formed to advise the Independent Shareholders in relation to the non-exercise of the Put Option.

As Dr. Suek and his associates are interested in 453,313,000 Shares as at the Latest Practicable Date, representing approximately 44.47% of the issued share capital of the Company, Dr. Suek and any parties who have an interest in the SP Agreement and Put Option and their respective associates are required to abstain from voting for the resolution to approve the proposed resolution in respect of the non-exercise of the Put Option and the transactions contemplated thereunder at the Special General Meeting.

LETTER FROM KINGSWAY CAPITAL

BASIS OF OUR OPINION

In formulating our view and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information, opinions and representations contained or referred to in the Circular and provided to us by the Company, the Directors and the management of the Company, which the Directors consider to be complete, accurate and relevant. We have assumed that all the information, opinions, representations and statements contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate as at the date of the Circular. We have also assumed that all the statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance, which would render the information provided, representations and opinions made to us by the Company, the Directors and the management of the Company untrue, inaccurate or misleading.

We consider that we have reviewed sufficient information to enable us to reach an informed view. The Directors have confirmed that no material facts or representations have been withheld or omitted from the information provided and referred to in the Circular. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Company or NEL Group or any of their respective subsidiaries or associates.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date.

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PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders on the non-exercise of the Put Option, we have considered the following principal factors and reasons:

1. Background of the Acquisition

On 16 June 2009, Gain Capital (a wholly-owned subsidiary of the Company) as a purchaser, Neway Enterprise Holdings Limited as a vendor and Dr. Suek as a warrantor entered into the SP Agreement pursuant to which Gain Capital agreed to acquire the Sale Share and the Sale Loan at an aggregate consideration of approximately HK\$65 million. As at 30 April 2009, the Sale Loan amounted to approximately HK\$21.4 million.

As advised by the Directors, the completion of the Acquisition took place on 1 July 2009, on which the Company paid an aggregate consideration of approximately HK\$65 million to acquire the Sale Share and Sale Loan to Neway Enterprise Holdings Limited.

2. Background of the Put Option

Pursuant to the SP Agreement, Dr. Suek has granted the Put Option for a consideration of HK\$10 to the Company and the Put Option is exercisable by the Company at any time from the date of completion of the Acquisition and ending on the second anniversary date of the date of completion of the Acquisition to require Dr. Suek to acquire or procure the acquisition from the Company all the entire issued share capital of NEL Group and the outstanding shareholder's loan.

In addition, upon completion of the Acquisition, the Vendor, Dr. Suek and Mr. Suek Ka Lun, Ernie (“**the Covenanters**”) has executed non-competition undertakings in favour of the Group that for so long as the Covenanters and/or their respective associates, directly or indirectly, whether individually or taken together, remain the controlling Shareholders of the Company (as defined in the Listing Rules), he/it will not and will procure their respective associates not to directly or indirectly (whether as an investor, shareholder, partner, agent or otherwise or whether for profit, reward or otherwise) engage or otherwise be interested in the management of artistes, production and/or distribution of music albums and movie production in Hong Kong. The non-competition undertakings are currently valid. For further details of the Put Option and the non-competition undertakings, please refer to the Board Letter.

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The Company subsequently extended the Put Option Period on 29 June 2011, 29 June 2012 and 28 March 2013, respectively. As mentioned in the Company's announcement dated 28 March 2013, the reason for the most recent extension of Put Option Period is to allow more time for the Company to assess the development of the NEL Group in particular the performance of the NEL Group for the year ended 31 March 2013.

3. Information of the Group

3.1 Principal business of the Group

The Group is principally engaged in (i) manufacturing and sales of printing products of labels, plastic cards and advertising materials ("**Manufacturing and Sales**"); (ii) trading of non-self-manufactured printing products ("**Trading**"); (iii) artistes management, production and distribution of music albums, investment in teleplays, cultural and entertainment projects ("**Music and Entertainment**"); and (iv) securities trading.

3.2 Financial performance of the Group

The table below set out the audited financial information of the Group for the two years ended 31 March 2013 as extracted from the annual report for the year ended 31 March 2013 of the Group ("**2013 Annual Report**").

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**Table I – Selected financial information of the Group
for the two years ended 31 March 2013**

	For the year ended 31 March 2012	For the year ended 31 March 2013	% change from 2012 to 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>(%)</i>
	(audited)	(audited)	
Revenue			
Printing:	639,983	625,665	(2.2)
– Manufacturing and Sales	620,459	599,137	(3.4)
– Trading	19,524	26,528	35.9
Music and Entertainment	20,704	18,084	(12.7)
Securities trading	–	–	N/A
Total revenue	660,687	643,749	(2.6)
Gross profit			
Profit (loss) before taxation	105,130	112,682	7.2
Profit (loss) for the year	(54,862)	3,463	N/A
	(56,115)	1,653	N/A
		As at 31 March 2012	As at 31 March 2013
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(audited)	(audited)
Cash and cash equivalents		122,604	143,668
Short-term bank deposits		160,747	103,732
Total current assets		536,437	467,934
Total assets		883,672	881,998
Total liabilities		97,428	87,838
Total equity attributable to owners of the Company		786,421	794,357

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Overall, the printing business contributed to the majority of revenue to the Group, accounted for approximately 96.9% and 97.2% of total revenue, for the year ended 31 March 2012 and 31 March 2013, respectively. Music and Entertainment accounted for approximately 3.1% and 2.8% of total revenue, for the year ended 31 March 2012 and 31 March 2013, respectively. During the year ended 31 March 2013, a new business segment, namely, securities trading has been separately presented as the Directors expect the Group would expand such business prudently.

The Group's printing business comprises two segments, namely, (i) Manufacturing and Sales; and (ii) Trading. For the year ended 31 March 2013, overall, the revenue from printing business decreased by approximately 2.2%. According to the 2013 Annual Report, the decrease was mainly attributable to the decline in the Manufacturing and Sales business of the Group, which dropped by approximately 3.4%. During the year, the number of orders placed by the Group's export sales customers, especially those engaged in the toy industry was affected by the slow economic recovery in the United States and high volatility in the European countries. On the other hand, the revenue generated from the Trading business increased by approximately 35.9% for the year ended 31 March 2013, which is attributable to the increase in customer demand for the Group's 3M products used in decoration and advertisement and the increase in customers. However, the contribution of revenue of the Trading business only accounted for approximately 4.1% of the Group's total revenue for the year ended 31 March 2013. Hence, despite the significant increase in revenue from the Trading business, the Group's revenue from printing business has overall recorded a decline.

For the Music and Entertainment business, the Group recorded a decrease in revenue of approximately 12.7% for the year ended 31 March 2013. According to the 2013 Annual Report, the decrease was mainly due to the decrease in commission in respect of the distribution of CD albums for other entertainment companies and the decrease in concert income. Such decrease was partially offset by the increase in artiste management fee income, promotion income and investment return on the two PRC teleplays. Further, the Group recorded income of two PRC teleplays during the year ended 31 March 2013 after diversifying the entertainment platform into the PRC teleplay market, and the return rate was approximately 22.6%. Besides revenue on a recurring basis, for the year ended 31 March 2013, the Group recognised a gain on disposal of a subsidiary of approximately HK\$14.4 million as it divested a PRC associate which is principally engaged in the cultural and entertainment business in the PRC. The return on investment was approximately 77.5%.

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As shown in the table above, the Group recorded profit before taxation for the year ended 31 March 2013 of approximately HK\$3.5 million as compared to a loss for the year ended 31 March 2012. The increase was mainly attributable to (i) the gain from the disposal of a subsidiary which principally engaged in cultural and entertainment businesses in the PRC of approximately HK\$14.4 million for the year ended 31 March 2013; (ii) the reversal of allowance for bad and doubtful debts of approximately HK\$4.9 million; and (iii) the absence of the one-off impairment loss recognised in respect of goodwill of approximately HK\$36.0 million for the year ended 31 March 2012.

As stated in the 2013 Annual Report, the printing industry is facing difficulties brought by the uncertainties in the global economy and cost pressure from the PRC market in the coming year. Customer and geographical diversification will still be the major initiatives of the Group in the coming year. On the other hand, for the Music and Entertainment segment, the Group will continue to identify new artistes with high potential and deliver quality productions to strengthen the asset base of the business. The Group will also devote more resources to developing the new media market, such as the digital download, etc., and the promotion services. The Group will also invite more labels and partners to release their physical and digital products (such as CD albums and digital music downloads) through the Group's established distribution network. Meanwhile, the Group is actively seeking cooperation opportunities with other cultural and entertainment companies in the PRC and overseas. Furthermore, through the establishment of office in Beijing, the PRC, in the current year, the Group will devote more resources to broadening the music and entertainment platform in various aspects and creating synergies with other businesses of the Group. The Group will also continue to invest in the securities market in Hong Kong.

As stated in the Board Letter, strengthening the Music and Entertainment business is one of the moves that the Group made in order to mitigate the risk of heavy reliance on the challenging printing business. It is essential for the Group to diversify its business and to broaden the Group's source of income.

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4. Information of the NEL Group

4.1 Principal business of the NEL Group

The Group completed the acquisition of the NEL Group on 1 July 2009. Since then, the NEL Group has become a wholly-owned subsidiary of the Group. The NEL Group is principally engaged in artistes management, production and/or distribution of music albums. Leveraging on the NEL Group's market recognition in the entertainment industry, the NEL Group forms the platform on which the Group's Music and Entertainment business is planned to expand and develop, particularly the PRC market.

4.2 Financial performance of NEL Group

The table below sets out the selected financial information from the unaudited accounts of the NEL Group for the period from 1 July 2009 to 31 March 2010 and the year ended 31 March 2011 and the audited accounts of the NEL Group for each of the two years ended 31 March 2012 and 2013 provided by the Company (the "Reviewing Period").

Table II – Selected profit and loss information of NEL Group

	For the period from 1 July 2009 to 31 March 2010 <i>HK\$'000</i> (unaudited)	For the year ended 31 March 2011 <i>HK\$'000</i> (unaudited)	For the year ended 31 March 2012 <i>HK\$'000</i> (audited)	For the year ended 31 March 2013 <i>HK\$'000</i> (audited)
Revenue				
– Sales of album	3,191	5,255	4,187	1,203
– Film production	–	1,420	–	–
– Artistes management fee income	2,170	2,248	2,415	3,887
– Concert and show income	1,601	5,061	6,645	–
– Promotion income	9,219	5,631	583	6,187
– Income from the licensing of the musical works	2,737	2,147	4,294	2,986
– Income from the licensing of brand name	–	–	–	5,686
– Other music and entertainment services	214	13	56	27
Total revenue	19,132	21,775	18,180	19,976
Gross profit	7,983	6,331	(1,464)	11,463
Profit (loss) before taxation	1,033	4,404	(9,376)	5,062
Profit (loss) for the year	809	3,787	(9,615)	5,155

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4.2.1 Revenue, Gross Profit and Net Profit

As shown in the table above, the NEL Group recorded the revenue of approximately HK\$19.1 million, HK\$21.8 million, HK\$18.2 million and HK\$20.0 million for the period from 1 July 2009 to 31 March 2010 and each of the three years ended 31 March 2011, 2012 and 2013, respectively.

The NEL Group recorded gross profit of approximately HK\$8.0 million, HK\$6.3 million and HK\$11.5 million for the period from 1 July 2009 to 31 March 2010 and each of the two years ended 31 March 2011 and 2013, respectively, and a gross loss of approximately HK\$1.5 million for the year ended 31 March 2012. The increase in gross profit for the year ended 31 March 2013 was mainly due to (i) the increase in promotion income and income from the licensing of brand name, and (ii) the increase in the artistes management fee income while the cost of this particular segment has remained stable.

The NEL Group was profitable for most of the Reviewing Period, except for the year ended 31 March 2012, where a net loss was recorded. The net loss for the year ended 31 March 2012 was mainly attributable to (i) the increase of production cost for the concert and show; (ii) the increase of production cost of albums; and (iii) the decrease of promotion income.

4.2.2 Sales of album

During the Reviewing Period, the revenue from sales of album is overall, stable, except for the year ended 31 March 2013, where the revenue decreased from approximately HK\$4.2 million for the year ended 31 March 2012 to approximately HK\$1.2 million. Such decrease in sales of album for the year ended 31 March 2013 was mainly due to the decrease in sales of albums of the artistes contracted to other record companies instead of the artistes contracted to the NEL Group.

4.2.3 Artistes management fee income

The artistes management fee contributed a stable amount of revenue of approximately HK\$2.2 million, HK\$2.2 million, HK\$2.4 million and HK\$3.9 million for the period from 1 July 2009 to 31 March 2010 and each of the three years ended 31 March 2011, 2012 and 2013, respectively.

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4.2.4 Concert and show income

The revenue from the concert and show income contributed approximately HK\$1.6 million, HK\$5.1 million, HK\$6.6 million and nil for the period from 1 July 2009 to 31 March 2010 and each of the three years ended 31 March 2011, 2012 and 2013, respectively. As the number of concerts and shows varies each year, the revenue from such revenue stream also varied year by year. For the year ended 31 March 2013, the NEL Group did not organize any concert and show considering the high and increasing production cost in that year which would affect the profitability of the Group.

4.2.5 Promotion income

According to our discussion with the Directors, the NEL Group has been appointed by the Neway KB Group in relation to the promotion services with the artistes contracted to the NEL Group and the distribution of licenses content to the karaoke outlets operated by Neway KB Group since 2007. The revenue generated from the promotion income represented a significant income stream to the NEL Group in the Reviewing Period, except for the year ended 31 March 2012. According to the Directors, for the year ended 31 March 2012, promotion income to NEL Group declined significantly due to the redesign of marketing strategy of Neway KB Group which has caused less promotion services be required. During the year ended 31 March 2013, as a new master service agreement between the NEL Group and Neway KB Group has been entered into, the promotion income has substantially increased to approximately HK\$6.1 million. The new master service agreement has a term of three years until the year ending 31 March 2015.

4.2.6 Income from the licensing of musical works

The income from the licensing of the musical works contributed a stable amount of income of approximately HK\$2.7 million, HK\$2.1 million, HK\$4.3 million and HK\$3.0 million for the period from 1 July 2009 to 31 March 2010 and each of the three years ended 31 March 2011, 2012 and 2013, respectively.

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4.2.7 *Income from the licensing of brand name (consultancy and agency services)*

The income generated from licensing of brand name was approximately HK\$5.7 million for the year ended 31 March 2013, which consists of income from general consultancy services and agency services for the introduction of various investment projects in relation to Music and Entertainment to the Group. The NEL Group has been appointed as a consultant to the Group since April 2012 in the provision of consultancy services in relation to the music and entertainment projects that the Group has identified. The Directors confirmed that the Group will continue to use the consultancy services provided by NEL Group, the details of which are set out in the section headed “The existing music and entertainment business of the Group in Hong Kong” in this letter. According to the Directors, if the Put Option is exercised, it is still the intention of the Group to continue to engage the NEL Group for the provision of consultancy services in relation to the music and entertainment projects.

Table III – Selected balance sheet information of NEL Group

	As at 31 March 2012 HK\$'000 (audited)	As at 31 March 2013 HK\$'000 (audited)
Total Assets	17,774	19,947
– Bank balances	3,663	4,229
Total Liabilities	26,567	23,585
– Amount due to immediate holding company	21,219	21,219
Total equity	(8,793)	(3,638)
Total equity before amount due to immediate holding company	12,426	17,581

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As of 31 March 2013, the total assets of the NEL Group consisted of bank balances of approximately HK\$4.2 million, record masters (in relation to production of master tapes of audio-visual products) of approximately HK\$1.8 million, trade and other receivables, prepayments and deposits of approximately HK\$4.8 million, an amount due from Neway KB of approximately HK\$6.3 million, amounts due from members of the Group of approximately HK\$2.8 million and other assets of approximately HK\$0.1 million. According to our understanding from the Directors, the business operation of the NEL Group does not require intensive investment in tangible assets and hence the total asset base of NEL Group is relatively small.

The NEL Group recorded net liabilities of approximately HK\$3.6 million as of 31 March 2013. However, the net liabilities situation of NEL Group was mainly attributable to a significant amount due to immediate holding company that amounted to approximately HK\$21.2 million as of 31 March 2013 (the “**Sale Loan**”) which was an intra-group liability and consolidated to the balance sheet of the Group. As confirmed by the Directors, such due to immediate holding company were mainly attributable to the Sale Loan acquired together from the Acquisition. If the Sale Loan is excluded, the NEL Group reported net assets of approximately HK\$17.6 million instead of a net liabilities position. As confirmed by the Directors, the source of funding for daily operation of the NEL Group was from the Sale Loan, and as a matter of fact, the share capital of the NEL Group was only HK\$8 as of 31 March 2012 and 2013. According to the Directors, it is expected that the Sale Loan will be capitalised following the non-exercise of the Put Option.

After reviewing the historical financial performance of the NEL Group, we consider that the NEL Group provides a reasonable source of revenue to the Group. We acknowledge that due to the dynamic nature of the music and entertainment industry, the revenue and net profit of the business will differ year by year. Nonetheless, we note that the revenue of the NEL Group has been overall stable, and, except for the year ended 31 March 2012, the NEL Group has been profitable subsequent to the Acquisition. Overall, we consider that the NEL Group provides an additional source of revenue to the Group and is consistent with the Group’s strategy to develop in the music and entertainment industry.

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5. Reasons for, and benefits of the non-exercise of the Put Option

The Group is principally engaged in (i) Manufacturing and Sales; (ii) Trading; (iii) Music and Entertainment; and (iv) securities trading. In order to understand the reasons for, and benefits of the non-exercise of Put Option, we have reviewed and analyzed the Group's Manufacturing and Sales business and the Music and Entertainment business of the Group based on the 2012 Annual Report and 2013 Annual Report.

5.1 Manufacturing and Sales business of the Group

The Group's core business, the Manufacturing and Sales business, was negatively affected by the slow economic recovery in the United States and high volatility in the European countries and resulted that the number of orders placed by the Group's export sales was affected. For the year ended 31 March 2013, revenue from Manufacturing and Sales declined by approximately 3.4%. Despite the revenue generated from the PRC market has increased slightly by approximately 1.3% and the Group has devoted more resources and efforts to improving the production efficiency and reducing operating cost during the year, the Group continued to face increasing labour and operation cost in the PRC. During our discussion with the Directors, they are of the view that the increasing in the raw material prices, rising minimum wages and labor shortage in the PRC and the Renminbi appreciation will continue to increase the cost of the Group's Manufacturing and Sales business.

5.1.1 The continuing increase in the price of raw materials

As advised by the Company, wood pulp is the main raw materials used in the printing industry. With reference to the official statistics obtained from the World Bank Group, the international wood pulp price has increased from approximately US\$708.00 per metric ton in October 2012 to approximately US\$832.02 per metric ton in July 2013, representing an increase of approximately 17.5% and with reference to a report released by a research organisation dedicated for the global pulp industry in May 2013, it is expected that the increasing trend of pulp price will be continued in 2013.

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5.1.2 The increase in minimum wages in the PRC

The production plants of the Group's printing business are located in Shenzhen Municipality, the PRC. The wages of the Group's workers in these production plants are subject to the minimum wages policy regulated by the PRC government. As effective from 1 March 2013, the Human Resources and Social Security Administration of Shenzhen Municipality (深圳市人力資源及社會保障局) has increased the minimum wages in Shenzhen Municipality to RMB1,600 per month as compared to the current level of RMB1,500 per month, representing an increase of approximately 6.7%. The minimum wages in Shenzhen Municipality has increased by approximately 21.2% since 2011.

As noted in the 2013 Annual Report, customer and geographical diversification will still be the major strategy of the Group's Manufacturing and Sales business. The Group will re-allocate its resources so as to better serve clients with greater environmental awareness and higher standard of environmental compliance, on which the Group has a competitive edge. The Group will also allocate more resources on product quality enhancement, cost reduction and boosting production efficiency in the future to cope with the increasing cost of operation in the PRC. The Group will take a prudent approach in expanding and diversifying its customer base. While these measures may help the Group to enhance the production and reduce the production cost, in view of the challenging operating environment to the Group's manufacturing and sales business, the Group is also exploring business opportunities to diversify its business in order to broaden its income base.

As a matter of fact, the Group began diversification into the music and entertainment industry following the acquisition of NEL Group in June 2009. Since then, Music and Entertainment business has been one of the major business activities of the Group, alongside with the Group's Manufacturing and Sales business. To reflect the Group's diversification into the music and entertainment business, the Company changed its name to Neway Group Holdings Limited following the Acquisition.

As stated in the 2013 Annual Report, leveraging on the strong foothold of its Manufacturing and Sales business and Trading business with a sustainable and stable cashflow, the Group will dedicate its efforts to the development of music and entertainment business and other high potential projects in the PRC and overseas. The Group will maintain this diversification strategy with a view to providing steady returns as well as fruitful growth for the shareholders.

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According to our discussion with the Directors, the Group will still retain all the existing businesses and will allocate adequate resources to each business segment with an aim to broaden the Group's revenue base. Since part of the music and entertainment business is carried out via the NEL Group, we are of the view that the non-exercise of the Put Option will enable the Group to maintain such business and hence is in line with the existing business strategies of the Group. On the other hand, if the Put Option is exercised, the Group will give up a solid platform for the development of entertainment business in Hong Kong and the PRC, which is not consistent with the Group's business strategy to diversify and broaden its revenue base, and to develop the music and entertainment business in Hong Kong and the PRC.

5.2 Music and entertainment business of the Group

The Group's Music and Entertainment business is conducted through various subsidiaries of the Group, including companies comprising the NEL Group. The businesses of artiste management, sales of album, concerts and shows are solely conducted through the NEL Group, while the investment and production of teleplays, dramas and the cultural and entertainment projects in the PRC are conducted through the NEL Group and the other subsidiaries of the Group. The Directors are of the view that the business of NEL Group and the other subsidiaries of the Group in relation to the music and entertainment will generate a synergy effect to the Group's Music and Entertainment businesses in Hong Kong and the PRC as a whole. For details of the business synergy, please refer to the sub-section "The business synergy of NEL Group and the Music and Entertainment business of the Group" as set out below.

5.2.1 The existing music and entertainment business of the Group in Hong Kong

Since the Acquisition, the Group has expanded its portfolio in the music entertainment sector by strengthening its album production, artiste management, music concert show business and exploring other entertainment-related investments. In order to enhance its artiste base, the Group has been actively recruiting new artistes, and contracting additional established artistes in the music and entertainment industry since the Acquisition. The artistes recruited by the NEL Group since the Acquisition has included some of the famous singers in the Hong Kong and Taiwan music industry, the NEL Group currently manages 16 Hong Kong artistes including HotCha, Stephanie Cheng (鄭融) and Jade Kwan (關心妍). Those artistes have helped the Group to generate revenue from sales of album, concert and show, licensing of musical works, promotion and artiste management.

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At the time of the Acquisition in 2009, the Company anticipated huge market potential for music and entertainment industry. However, since the Acquisition, despite profit was recorded during the years ended 31 March 2010 and 2011, the profitability of the NEL Group turned out to be different from the management originally anticipated.

After discussion with the Directors, we noticed that due to the nature of music and entertainment industry, factors affecting revenue and profitability may change from time to time. Major factors that have affected the performance of the NEL Group since Acquisition included:

- (i) the rapid changes in the music and entertainment industry in the recent years, especially the increasing popularity of digital music download which contributed to the general decline in the sales of albums;
- (ii) the uncertainty in signing up new artistes as it is subject to negotiation with the artistes; and
- (iii) the unexpected increase in costs, especially for concerts and shows.

We concur with the Directors and noted that the abovementioned factors cannot be fully anticipated at the time of Acquisition due to the dynamic nature of the music and entertainment business. At the same time, we note that the revenue of NEL Group has been overall stable, and, except for the year ended 31 March 2012, the NEL Group has been profitable following the Acquisition. In addition, based on the information provided by the Company, the Group's Music and Entertainment business (not operated through NEL Group) has also recorded positive result during the year ended 31 March 2013. Overall, we consider that the NEL Group provides an additional source of revenue to the Group and retaining the NEL Group is consistent with the Group's strategy to develop in the music and entertainment industry.

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Goodwill impairment in the year ended 31 March 2012

For the year ended 31 March 2010, goodwill amounted to approximately HK\$36 million arising from the Acquisition of the NEL Group was recorded. As stated in the 2012 Annual Report, the Group failed to achieve the previous budgeted results of Music and Entertainment business due to unsatisfying income generated from sales of albums and concerts and shows income in the second half of the year ended 31 March 2012. The management of the Group has re-estimated the cash flow projections of the music and entertainment business carried out principally via NEL Group. As a result, the Company estimated that the recoverable amount of the NEL Group as of 31 March 2012 would not be sufficient to cover the carrying amount of the goodwill and an impairment loss of approximately HK\$36 million was written off in the year ended 31 March 2012.

According to the Board Letter and our discussion with the Directors, as of 31 March 2012,

- (i) the management of the Company expected the sales of albums and concerts and shows segments continued to underperform as compared to the original projection at the time of Acquisition due to the unexpected surge of operating cost of the segments;
- (ii) the management of the Company is being cautious and conservative when they made projections considering the market trend and prospect of the music and entertainment industry in Hong Kong and the PRC during the year ended 31 March 2012; and
- (iii) the promotion income from the Neway KB Group declined significantly for the year ended 31 March 2012 due to the redesign of marketing strategy of Neway KB Group which has caused less promotion services be required. For conservative purpose, the management of the Company did not forecast promotion income to be significant for the years following the year ended 31 March 2012.

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For the year ended 31 March 2013, the NEL Group recorded a net profit of approximately HK\$5.2 million. However, according to accounting standards, any impairment on goodwill been made in the previous financial years could not be written back. We consider the impairment of goodwill in the year ended 31 March 2012 to be a one-off event which arose as a result of the specific circumstances and expectation of the management as of 31 March 2012. Also, following the impairment of goodwill made in the year ended 31 March 2012, the goodwill arising from the acquisition of the NEL Group on the balance sheet of the Group was zero as of 31 March 2013. Therefore, whether the Put Option is exercised or not shall not have any further impact on the amount of goodwill on the balance sheet of the Group.

Consultancy and agency services

As the Group has been diversifying its business into music and entertainment business in Hong Kong and the PRC since the completion of the Acquisition, in order to be a niche player in the music and entertainment industry, the Directors consider that a professional consultant relating to the music and entertainment industry is needed to provide professional advice in relation to the Music and Entertainment business of the Group. Base on our review of the information provided by the Group, we noticed that the Group has engaged a professional consultant who was an independent third party to provide professional consultancy services during the two years ended 31 March 2010 and 2011. At the same time, the Group has also been seeking professional advice from the NEL Group relating to the Music and Entertainment business of the Group from time to time, however, no revenue was charged by the NEL Group to the Group prior to the formal appointment in April 2012 in view of the fact that such provision of services as a whole, it was an intra-Group transaction.

The NEL Group was formally appointed as the consultant of the Group since April 2012, for which the Group will pay to the NEL Group a fixed amount consultancy fee per month on a continuous basis. The NEL Group provides market information such as market trends in the music and entertainment industry in Hong Kong and the PRC, and advises on music and entertainment projects including their operation, feasibility and prospects.

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According to the Directors, the executives and professionals of the NEL Group possessed substantial experiences in the music and entertainment industry and have established network in the industry, especially in music production and artiste management in Hong Kong and the PRC. The Directors believe that the NEL Group is able to help the Group to identify, source and invest in valuable and good quality projects for execution. Since the appointment of the NEL Group as the consultant of the Group in April 2012, the NEL Group has successfully identified and introduced 18 projects relating to entertainment business in Hong Kong and the PRC to the Group. Meanwhile, the Group itself has maintained a group of experienced business development executives and professionals who carry out the execution of the different projects of the Group in Hong Kong and the PRC, and the investments of those projects referred or introduced by the NEL Group have been conducted through subsidiaries of the Group (other than the NEL Group). We concur with the Directors' view that such segregation of duties between the Group and the NEL Group enhances the cohesion of the business synergy within the Group and utilizes the manpower and financial resources of the Group efficiently.

Furthermore, according to the Directors, it has become a common practice in the industry to hire consultants and to pay an amount of introduction fees for business referrals of good quality projects. The Directors has considered that (i) the team within NEL Group possesses the expertise and network in the music and entertainment industry; and (ii) in view of the proven track record of entertainment projects referral since the appointment in April 2012, the Directors have confirmed to the NEL Group that the Group will continue to appoint NEL Group as the consultant and to introduce or refer good quality of music and entertainment projects to the Group. According to the Directors, if the Put Option is exercised, it is still the intention of the Group to continue to engage the NEL Group for the provision of consultancy services in relation to music and entertainment projects. In view of the above, we concur with the Directors' view that the provision of consultancy and agency services will continue to generate a stable income to the NEL Group.

LETTER FROM KINGSWAY CAPITAL

Promotion services

The NEL Group has been appointed by the Neway KB Group in relation to the promotion services with the artistes contracted under the NEL Group and the distribution of licenses content to the karaoke outlets operated by Neway KB Group since 2007. We have noticed that the promotion income has been significant except for the year ended 31 March 2012. According to our discussion with the Directors, this was mainly due to the redesign of marketing strategy of Neway KB Group for the year ended 31 March 2012 which has caused less promotion services be required. A new master service agreement between the NEL Group and Neway KB Group was entered into in the year ended March 2013. Following the launch of new marketing strategies of the Neway KB Group, the NEL Group began to receive promotion income in late 2012. As a result, during the year ended 31 March 2013, the revenue of the NEL Group generated from promotion services substantially increased. The new master service agreement has a term of three years until the year ending 31 March 2015. In view of the above, we concur with the Directors' view that the provision of promotion services with the artistes of the NEL Group will continue to generate a stable income to the NEL Group during the term of the master service agreement.

We consider that, despite the decrease in sales of album, income generated from concert and show, and the licensing of musical works of the NEL Group for the year ended 31 March 2013, the revenue from artiste management has been stable, and promotion income is expected to be significant in the near future. Furthermore, the Directors are of the view that the Group will continue to take a further prudent approach and continue to put more resources in the artiste management with a higher gross profit margin and continue to contract more talented artistes to generate various sources of income, including sales of album, income from the licensing of musical works and promotion services.

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5.2.2 The expansion of entertainment business of the Group in the PRC

The Group conducted the entertainment business in the PRC through NEL Group and the other subsidiaries of the Group. As stated in the Board Letter, the Group has been actively seeking cooperation opportunities with the other entertainment partners in the PRC and overseas, including cooperating with PRC television broadcasting companies for production of high quality teleplays. According to the Company, in October 2009 and 2010, the Group, through two of its subsidiaries (not being a member of the NEL Group) entered into two PRC teleplay agreements with the television broadcasting and production companies in the PRC, respectively, the two teleplays namely, “International Rescue”(國際大營救) and “Bullet Hole”(彈孔). Both teleplays were broadcasted through the channels of China Central Television (中國中央電視台) in 2011 and have received positive reviews in the PRC. According to the 2013 Annual Report, the two abovementioned teleplays contributed investment income to the Group for the year ended 31 March 2013 with a desirable return on investment of approximately 22.6%, and it was the first time for the Group to record an investment income after diversifying the entertainment platform into the PRC teleplay.

In addition, the Group, through one of its subsidiaries (not being a member of the NEL Group), has invested in the production of a drama namely, “Liaisons”(情話紫釵) which staged in January 2012. According to the 2012 Annual Report, the drama was directed by a famous Hong Kong drama director, Mr. Mao Chun Fai Fredric and the drama was received positive feedback in Hong Kong and the PRC. According to the Directors, with the recent success of teleplays and drama, the Group plans to allocate further resources to identify and invest in the good quality teleplays and dramas in the future. As at the Latest Practicable Date, the Group has not identified or entered into any agreement in relation to teleplay or drama with the other parties.

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The Group continuously seeks investment opportunities in the entertainment industry in the PRC. The Group entered into a sale and purchase agreement with an independent third party on 9 April 2012 to acquire 40% equity interest in 匯金泛亞(福建)有限公司 (unofficial English translation as Huijin Pan Asia (Fujian) Co., Ltd) (“**Huijin**”), a joint venture company incorporated in Fuzhou, the PRC. Huijin is principally engaged in the development of cultural and entertainment project in Fujian province, the PRC. According to the 2013 Annual Report, Huijin has submitted several development proposals to the PRC government for further comments and approval. As represented by the Directors, there is no definite time on the approval from the PRC government yet. As at the Latest Practicable Date, the Group has not entered into any formal agreement or made any capital expenditure in relation to the development proposals that has submitted to the PRC government.

According to the 2013 Annual Report, the Group recognized a gain on disposal of a subsidiary amounting to approximately HK\$14.4 million. The subsidiary holds an investment in a PRC associate principally engaged in cultural and entertainment business in Guilin, Guangxi province, the PRC. The return of investment of approximately 77.5% was recorded. It was the first time for the Group to record an investment income by carrying the business model of cultural and entertainment project for disposal. The Directors are of the view that the satisfactory result indicated the feasibility of this business model.

The Group continues to seek expansion opportunities utilizing its presence in the music and entertainment industry. From our discussion with the Directors and the information provided to us, in early 2013, the Group has identified another investment opportunity in the PRC relating to cultural tourism in the PRC. As at the Latest Practicable Date, the Group has not entered into any formal agreement with any party or made any major capital expenditure and investment yet in the project.

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5.2.3 The experienced management team in the music and entertainment industry

The management team of the Group and the NEL Group has accumulated experience in the music and entertainment business in Hong Kong and the PRC. In particular, Mr. Suet Ka Lun, Ernie, being one of the directors of the Group and Dr. Suet whom he and his family members are the beneficiaries of a discretionary trust which holds a controlling interest in the Company, have over 7 years of experience in the music and entertainment industry in Hong Kong and the PRC. Dr. Suet, Mr. Suet Ka Lun, Ernie and their family members founded the NEL Group in 2005. Dr. Suet founded Neway Karaoke Box Group in 1993 and has been the chairman since. The Directors are of the view that, leveraging on Dr. Suet and Mr. Suet's experience in the music and entertainment industry in Hong Kong and the PRC, together with the experience and the network possessed by the executives and professionals of the NEL Group, the Group is able to identify, source and invest in the good quality of cultural and entertainment projects which will be able to maximize the returns of the Company and the Shareholders as a whole.

5.2.4 The business synergy of NEL Group and the Music and Entertainment business of the Group

The Directors are of the view that the NEL Group's portfolio of artistes contributes significantly to the promotional income of the Group. Further, the portfolio of artistes contracted to the NEL Group and the brand recognition of the NEL Group will continue to help the Group to enhance its market recognition in the music and entertainment industry of Hong Kong and the PRC through participating in the teleplays, dramas and the cultural tourism projects that will be invested by the Group in the future. According to the Board Letter, the Directors regard the non-exercise of Put Option as a strategic step forward in building and developing the Music and Entertainment business of the Group in the music and entertainment industry in Hong Kong and the PRC. The Directors are of the view that the NEL Group and the Group will continue cooperate together in the Music and Entertainment business, the Group will also continue to invest in the NEL Group and the existing Music and Entertainment businesses as a whole which will provide the Group a comprehensive multimedia entertainment platform comprising music and movies production, production of teleplays, production of concert and show, artiste management, promotion and other music and entertainment services.

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We concur with the Directors' view that by utilizing the comprehensive entertainment platform and the well recognized brand of NEL Group, (i) the Group will enjoy more channels for recruitment of new talent artistes or contracting additional established artistes for the music production and teleplays production in the future; (ii) it will enhance the exposure of the Group to access other cultural and entertainment projects in the PRC and other regions in the future; and (iii) the Group will be better recognized by the overseas reputable potential business partners within the entertainment industry. Given the above, we are of the view that the abovementioned synergy effect is beneficial to the current and future business strategies of the Group.

5.2.5 Barriers of setting up a new entertainment company comparable to the NEL Group

According to the Board Letter, if the Group chooses to exercise the Put Option, the NEL Group would cease to be the subsidiaries of the Group. If the Group establishes an entertainment group to carry out the existing function of the NEL Group, considerable start up costs would be needed. The Group would need to spend significant amount of money to sign up artistes and to build up a catalogue of music and songs, and would incur significant advertisement, promotion and administration expenses. We have reviewed the cost estimates provided by the Directors and noticed that the total start up cost would be comparable with the proceeds from the exercise of the Put Option (if exercised). Furthermore, there is also no guarantee that the Group would be able to achieve the scale of business comparable to that of the NEL Group. In addition, according to our discussion with the Directors, beside the start up costs, it also incurs a lot of time costs (i) to re-establish the brand, reputation and confidence from the general public to the Group; (ii) to re-build the whole network within the music and entertainment industry; (iii) to promote the company and the brand to the general public and the industry; and (iv) to persuade and attract potential artistes to join the new company. Hence, the Directors will opt for retaining the NEL Group instead of setting up a new music and entertainment arm itself.

Given that the NEL Group has already established its brand recognition among the public, its network within the music and entertainment industry in Hong Kong and the PRC and its proven track record of successfully identified and introduced the entertainment projects in Hong Kong and PRC to the Group, we concur with the Directors' view that the disposal of the NEL Group would adversely affect the Group's development of its Music and Entertainment business.

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6. Future prospect of Music and Entertainment business of the Group

As stated in the 2013 Annual Report, the Group will continue to identify new artistes with high potential and deliver quality productions to strengthen the asset base of the business. The Group will also devote more resources to develop new media market, such as digital download, and the promotion services. The Group will also invite more labels and partners to release their physical and digital products (such as CD albums and digital music downloads) through the Group's established distribution network. In addition, the Group plans to tighten the cost and to adopt a prudent approach on cost monitoring (such as concerts and shows pre-assessment and budget analysis) from the stage of assessment to the production of concerts and shows in the coming year with local and overseas artistes in order to continue boosting the exposure and popularity of our artistes as well as the corporate brands. The Group plans to invest in low budget movies and theaters to allow its artistes to participate and seek more cooperation opportunities with other entertainment companies.

As mentioned in the above, the Group has invested in Huijin on April 2012 and has identified another investment opportunities in early 2013, which both are relating to cultural tourism in the PRC. Meanwhile, the Group is also actively seeking and identify quality teleplays and dramas in Hong Kong and the PRC to invest. Leveraging on (i) the established brand recognition of the NEL Group in Hong Kong and PRC; (ii) the expertise and established network in relation to the music and entertainment industry in Hong Kong and the PRC possessed by the NEL Group; and (iii) the proven track record of successfully identified and introduced entertainment project to the Group from the NEL Group, the Group will continue co-operate with the NEL Group to identify and pursue different investment opportunities relating to music, media and cultural tourism business in the PRC. In order to facilitate such objective, the Group has established representative office in Guangzhou and Beijing in 2012. The Group will put more effort and resources in developing the PRC market and broadening the entertainment platform in various aspects and creating synergies with other businesses of the Group.

In conclusion of the above, the Group is generally optimistic about the long-term development of the Group's Music and Entertainment business which should help alleviate the Group's reliance on its printing products business.

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7. Outlook of the entertainment industry in Hong Kong and the PRC

7.1 Brief overview of the entertainment industry in Hong Kong and the PRC

According to a research report published by an international accounting firm (the “**Research Report**”) in April 2013, it is suggested that the increase in GDP per capita of one place will indirectly contribute to the increase in the individual consumption in the cultural and entertainment sectors. According to the statistics obtained from the World Bank Group, the GDP per capita of Hong Kong in 2012 was approximately US\$36,796, as compared to the GDP per capita in 2008 of approximately US\$31,516, representing a CAGR of approximately 4.0%. The GDP per capita of the PRC in 2012 was approximately US\$6,091, as compared to the GDP per capita in 2008 of approximately US\$3,414, representing a CAGR of approximately 15.6%.

7.1.1 Cultural and entertainment industry in Hong Kong

The cultural and entertainment industry in Hong Kong comprises several sub-industries, including movies and television production, music production, concerts and show production, publishing and advertising, etc. According to a feature article namely, *The Cultural and Creative Industries in Hong Kong*, 2011, published by the Census and Statistics Department of Hong Kong in May 2013, the added value of the cultural and creative industries in Hong Kong was approximately HK\$89.6 billion in 2011, representing a CAGR of approximately 9.4% from 2005. The added value of the film, video and music sub-industries was approximately HK\$3.2 billion in 2011, representing a CAGR of approximately 6.3% from 2005.

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7.1.2 Cultural and entertainment industry in the PRC

According to the Research Report, the cultural and entertainment industry in the PRC comprises of four major sub-industries, namely publishing, movies and television production, games and advertising. The added-value of cultural and entertainment industry in the PRC amounted to approximately RMB1,340 billion in 2011. In view of the favorable government policy such as the “Multiple Increase of cultural industry under the Twelfth-Five years plan”, it is expected that the added value of the cultural and entertainment industry in the PRC will increase to approximately RMB5,500 billion in 2020, representing a CAGR of approximately 17.0%, from 2011. For the television industry in the PRC, a total of approximately 2,950,490 hours of television programme have been produced in 2011, representing an increase of approximately 15.5% as compared to the same period in 2005, according to the National Bureau of Statistics of the PRC.

7.2 Support from the government in the entertainment industry in Hong Kong and the PRC

7.2.1 Support from the Hong Kong government

The cultural and entertainment industry is named as one of “The Sixth Industries” in Hong Kong”. In June 2009, the Commerce and Economic Development Bureau of the Hong Kong government has established an agency, namely, Create Hong Kong, to provoke the development of the creative industry (including advertising, music, movies, publishing industries and etc.) in Hong Kong. The agency has also established a campaign, namely “Create Smart Initiative” for the purpose of fostering the creative industry in Hong Kong. In addition, the Hong Kong government has been negotiating with the relevant government authorities in the PRC regarding the “open doors” of creative industry under Mainland and Hong Kong Closer Economic Partnership Arrangement (“CEPA”), which enables the companies that engaged in the music and entertainment business from Hong Kong to establish companies in the PRC and to engage in the music and entertainment business within the PRC. Under the benefit from CEPA, companies like the Group are able to establish its footstep in the massive PRC market.

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7.2.2 Support from the PRC government

On 20 February 2012, the Ministry of Culture of the PRC (中華人民共和國文化部) has announced the “Multiple Increase of cultural industry under the Twelfth-Five years plan” (“十二五文化產業倍增計劃”) (the “**Plan**”). The Plan has set an ultimate target of the net value of the cultural and entertainment industry shall achieve a growth of 20% per year. One of the main focusing industries under the Plan is the cultural tourism industry. In order to achieve that, the PRC government will encourage and support the projects which concentrate on cultural tourism by increasing the financing alternatives and setting policies in favor of the industry to attract investments in cultural tourism projects. The PRC government will also invest in the infrastructure in order to promote the cultural tourism industry, the government planned to build approximately 100 cultural tourism spots with particular themes in accordance with the Plan. In addition, the Ministry of Culture of the PRC and China National Tourism Administration (中華人民共和國國家旅遊局) constantly publish a list of cultural tourism spots, namely, the Directory of the Key Cultural Tourism Spot in the PRC (國家文化旅遊重點項目名錄) to promote the cultural tourism spot in the PRC to the general public. Furthermore, the Plan also advocates the increase in the personal consumption, education, investment and financing of the cultural activities in order to achieve the growth rate of 20% per year. According to the Directors, as the Group has already invested in Huijin and identified another investment opportunity in the PRC which both are related to cultural tourism, it is expected that the Plan will favor to the Group (i) to source financing alternatives and to seek cooperation opportunities with other investors within cultural tourism industry on the Group’s existing cultural tourism projects; and (ii) to educate the general public on the cultural tourism concept which will lead an increase on the individual consumption spending in cultural tourism; and (iii) increase the promotion and exposure to the general public relating to cultural tourism, which will help to foster a long-term benefit for the cultural tourism business of the Group.

In view of the positive outlook of the industry, we concur with the Directors’ view that opportunities in the entertainment industry are present and consider that the non-exercise of the Put Option allows the Group to capture the market opportunities of the industry in Hong Kong and the PRC.

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In conclusion of all of the aforementioned factors, given (i) the challenging business operating condition of the Group's Manufacturing and Sales business; (ii) developing the Music and Entertainment business is in line with the Group's strategy; (iii) the recent development and improved financial performance of the NEL Group; (iv) the experienced management team in the music and entertainment industry; (v) it will be cost and time consuming for the Group to re-establish another entertainment company comparable to the NEL Group; (vi) the future prospect and the Group's commitment on the further development of the Music and Entertainment business of the Group; and (vii) the positive outlook of the cultural and entertainment industry in Hong Kong and the PRC, we concur with the Directors' view and recognised the commercial reasoning of non-exercise of the Put Option. Accordingly, we are of the view that the non-exercise of the Put Option is in the interest of the Company and the Shareholders as a whole.

8. The cash balance of the Group

As of 31 March 2013, the Group had cash and cash equivalent and short-term bank deposits of approximately HK\$143.7 million and HK\$103.7 million, respectively. The gearing ratio of the Group, as calculated by dividing total bank borrowings by total equity and then multiplying it by 100%, was approximately 0.2% as of 31 March 2013. If the Put Option is exercised, the Group will receive HK\$65 million in cash as consideration. However, we consider the Group's strong cash balance and the low gearing ratio of the Group will not impose any immediate financial burden to the Group if the Put Option is not exercised. As confirmed by the Directors, as of the Latest Practicable Date, there is no material change to the cash position and gearing ratio since 31 March 2013.

In fact, in order to broaden the income base, better utilize the Group's cash resources and maximize the Shareholder's return, the Group has been actively seeking target for acquisition and investment. In recent years, the Group has made investments and acquisitions in industries other than printing and music and entertainment business as well as investment in listed securities. As mentioned in the 2013 Annual Report, the Company has added securities trading as a new business segment.

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9. Valuation

The Group did not appoint an independent valuer to value the business of the NEL Group. In order to further assess the fairness and reasonableness of the non-exercise of the Put Option, we have identified a total of four comparable companies (“**Market Comparables**”) for comparison that are listed in Hong Kong and principally engaging in the media and entertainment business, including artistes management business in Hong Kong and the PRC. The Market Comparables generate their revenue from various music and entertainment activities and media productions engaged by the artistes under the management of the Market Comparables. We consider that the business model of the Market Comparables are similar to the Music and Entertainment business of the NEL Group. We have also taken into account the various factors that will affect the music and entertainment business of the NEL Group and the Market Comparables, we noticed that they are within the same geographic coverage of the PRC and Hong Kong, would be affected by similar general market trend, general economic conditions and the development conditions of music and entertainment and media industry of the covered region, thus we consider the comparison is relevant, fair and representative.

We have, based on the above selection criteria and the information available on the website of the Stock Exchange of Hong Kong, as well as to the best of our knowledge and as far as we are aware of, identified all Market Comparables. It is noted that a majority of the Market Comparables recorded net loss for the latest financial year. Hence, in addition to comparing the price to earnings ratio (“**PER**”), we have compared the price to sales ratio (“**PSR**”) as well.

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The table below sets out the information of the PERs and PSRs of the Market Comparables as at the Latest Practicable Date.

Table III – PER and PSR analysis

Company Name (Stock Code)	Principal business	Market capitalisation as at the Latest Practicable Date <i>(HK\$'000)</i>	Revenue for the latest financial year <i>(HK\$'000)</i>	Net profit (loss) for the latest financial year <i>(HK\$'000)</i>	PER <i>(times)</i> <i>(Note 1)</i>	PSR <i>(times)</i> <i>(Note 2)</i>
Mei Ah Entertainment Group Ltd. (0391)	Television operations, film exhibition, film rights licensing and sub-licensing, sales and distribution of films and programs in audio visual product format, artiste management and theatre operations.	659,065	555,777	(49,076)	N/A	1.2
See Corporation Ltd. (0491)	Film and TV programme production, event production, artiste and model management, music production, a pay TV operation and investment in securities.	108,355	34,128	27,723	3.9	3.2
China Media and Films Holdings Ltd. (8172)	Artiste management; film production and distribution.	189,619	26,547	(15,100)	N/A	7.1
China 3D Digital Entertainment Ltd. (8078)	Artiste management services, film and television programme production, distribution and licensing.	151,004	17,718	(8,831)	N/A	8.5
Maximum					3.9	8.5
Minimum					3.9	1.2
Average					3.9	5.0
The ratios implied by exercise price of the Put Option <i>(Note 3)</i>		65,000	19,976	5,155	12.6	3.3

Data source: website of the Stock Exchange of Hong Kong, and annual reports of the respective companies.

Note 1: The PER is calculated by dividing the market capitalisation as at the Latest Practicable Date by the net profit after tax for the latest published financial year results.

Note 2: The PSR is calculated by dividing the market capitalization as at the Latest Practicable Date by the total revenue for the latest published financial year results.

Note 3: The PER and the PSR implied by exercise price of the Put Option are calculated based on the indicative exercise price of the Put Option divided by the profit for the year and revenue for the year ended 31 March 2013 of NEL, respectively.

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Based on the exercise price of the Put Option of approximately HK\$65 million, and the profit for the year ended 31 March 2013 of the NEL Group of approximately HK\$5.2 million, the implied PER is approximately 12.6 times. From the above table, we noted that only one out of four Market Comparables was profitable for the respective latest financial year. Consequently, we consider that the comparison on PER is not representative.

As for the PSR, we noted from the above table that the average PSR as represented by the Market Comparables was approximately 5.0 times and with a range of 1.2 times to 8.5 times.

Based on the exercise price of the Put Option of approximately HK\$65 million, and the revenue for the year ended 31 March 2013 of the NEL Group of approximately HK\$19.9 million, the implied PSR is approximately 3.3 times, and thus is within the PSR range of the Market Comparables and below the average of the Market Comparables, which indicates that the exercise price of the Put Option underestimated the value of the NEL Group against the industry average level.

Taking into account the trading multiples analysis above, we consider that the non-exercise of the Put Option is fair and reasonable so far as the Independent Shareholders are concerned.

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10. Financial effects on the non-exercise of the Put Option

The following summarises the financial effects on the Group as a result of the non-exercise of the Put Option.

(i) Accounting effect

Currently, NEL Group is a wholly-owned subsidiary of the Group. The accounts of the NEL Group are consolidated to the Group's accounts. As confirmed by the Company, the non-exercise of the Put Option has no impact on the basis of consolidation and the accounts of the NEL Group will continue to be consolidated into the Group.

(ii) Impacts on earnings

The accounts of the NEL Group are consolidated to the Group's accounts. As confirmed by the Company, there is no financial effect on the earnings of the Group and the NEL Group if the Put Option is not exercised.

(iii) Impacts on the equity

As confirmed by the Company, if the Put Option is not exercised, the put option reserve will be transferred to retained profits, and deemed contribution from shareholders will remain unchanged on the consolidated statement of changes in equity of the Group. The total equity on the consolidated statement of financial position of the Group will also remain unchanged.

(iv) Impacts on cash position and gearing

The accounts of the NEL Group are consolidated to the Group's accounts. There is no financial effect on the cash position and gearing of the Group and the NEL Group if the Put Option is not exercised.

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11. Possible financial effects if the Put Option is exercised

The following summarises the possible financial effects on the Group if the Put Option is exercised.

(i) Accounting effect

If the Put Option is exercised, the NEL Group will cease to be a wholly-owned subsidiary of the Group and its subsidiaries will also cease to be subsidiaries of the Group. The financial results of the NEL Group will not be consolidated into the Group's financial results.

(ii) Impact on earnings

As confirmed by the Company, there is no financial effect on earnings on the Group if the Put Option is exercised. The Group would not record any gain or loss on the financial statements of the Group should the Put Option be exercised given that any excess of the consideration under the exercise of the Put Option over the carrying value of the NEL Group would be credited to reserves under the total equity.

In addition, if the Put Option is exercised, the NEL Group will no longer be a subsidiary of the Group, hence its profit or loss will no longer be consolidated into the Group. Furthermore, the transaction between the Group and the NEL Group relating to the professional consultancy services will become an expense to the Group paid to an external party.

(iii) Impact on cash position

If the Put Option is exercised, the Group will receive an amount of approximately HK\$65.0 million from the receipt of the consideration (including the entire issued share capital of the NEL Group and the Sale Loan), set off by the cash balance of the NEL Group. As of 31 March 2013, the NEL Group had cash balance of approximately HK\$4.3 million. Assuming the Put Option had been exercised on 31 March 2013, the cash position of the Group would have been increased by approximately HK\$60.7 million.

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Based on the audited financial information of the NEL Group for the year ended 31 March 2013, the NEL Group had net liabilities of approximately HK\$3.6 million as at 31 March 2013. The gearing ratio (as calculated by dividing total liabilities by the total equity) of the Group is expected to improve as a result of the exercise of the Put Option.

(iv) Impact on Equity

If the Put Option is exercised, the put option reserve under equity attributable to owners of the Company will be removed from the total equity of the Group. However, there will be no change from the deemed contribution from the shareholder in relation to the Put Option. In addition, the Sale Loan of approximately HK\$21.2 million of the NEL Group will be discharged to the Vendor.

If there are any excess or deficit of the consideration under the exercise of the Put Option over the carrying value of the NEL Group, it would be credited or debited to the reserves under total equity of the Group.

Assuming the Put Option had been exercised on 1 April 2013, the Put Option reserve would have become zero, deemed contribution from a shareholder would have remained unchanged, and an amount of approximately HK\$11.0 million would have been debited to deemed contribution to shareholders under total equity of the Group. Hence, overall, the total equity of the Group would have increased by approximately HK\$42.5 million.

(v) Impact on Gearing

Assuming the Put Option had been exercised on 1 April 2013, the total equity and the total assets of the Group would have increased by approximately HK\$42.5 million. Hence, the gearing of the Group would have been improved.

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In conclusion, despite the possible increase in total equity and cash balance of the Group and improved gearing ratio of the Group under the situation that the Put Option is exercised, taking into consideration (i) the Group's intention to diversify its revenue stream and to continue to develop the Music and Entertainment business while the NEL Group, with its abundant resources, has served as the platform of the Music and Entertainment business for the Group; (ii) the latest financial performance of the NEL Group; (iii) the strong cash balance of the Group; (iv) the PSR analysis; and (v) the fact that there is no adverse financial impact to the Group under the situation of non-exercise of the Put Option, overall, we are of the view that the non-exercise of the Put Option is in the interest to the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons above, we are of the view that the non-exercise of Put Option is in the interest of the Company and the Shareholders as a whole. Therefore, we advise the (i) Independent Board Committee to recommend the Independent Shareholders; and (ii) the Independent Shareholders to vote in favour of the resolution to be proposed at the Special General Meeting to approve the non-exercise of the Put Option.

Yours faithfully,

For and on behalf of

Kingsway Capital Limited

Chu Tat Hoi

Liu Kam Yin

Executive Director

Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) Interest in the shares of the Company

Name of Director	Capacity	Number of Shares held	Approximate shareholding percentage
Mr. SUEK Ka Lun, Ernie	Other interests <i>(Note)</i>	371,320,000	36.43%
Mr. SUEK Chai Hong	Beneficial owner	7,000,000	0.69%
Dr. NG Wai Kwan	Beneficial owner	80,000	0.01%
Mr. WONG Sun Fat	Beneficial owner	800,000	0.08%

Note: These Shares are beneficially owned by CNA Company Limited ("CNA") which in turn is beneficially owned by CNA Trust, a discretionary trust whose beneficiaries include Mr. SUEK Ka Lun Ernie.

(ii) Interest in shares in the associated corporations

Name of owner	Name of associated corporations	Number and par value of deferred non-voting shares
CNA	Chung Tai Management Limited	2 shares of HK\$1 each
	Chung Tai Printing (China) Company Limited	100 shares of HK\$100 each
	Chung Tai Printing Company Limited	3,000 shares of HK\$100 each
	Profit Link Investment Limited	2 shares of HK\$1 each
	The Greatime Offset Printing Company, Limited	9,500 shares of HK\$100 each

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Interest in shares in the Company

Name of shareholder	Capacity	Number of Shares held	Approximate shareholding percentage
CNA	Beneficial owner	371,320,000 ¹	36.43%
Fiducia Suisse SA	Trustee	371,320,000 ²	36.43%
David Henry Christopher Hill	Interest in a controlled corporation	371,320,000 ²	36.43%
Rebecca Ann Hill	Interest of Spouse	371,320,000 ^{2,3}	36.43%
Dr. SUEK Chai Kit, Christopher	Founder of trust	398,720,000 ⁴	39.11%
Dr. NG Wai Yung	By attribution	398,720,000 ⁵	39.11%

Notes:

1. CNA is beneficially owned by a discretionary trust. Dr. Suek and Mr. SUEK Ka Lun, Ernie (an executive Director and the chairman of the Board) are directors of CNA.
2. 371,320,000 shares duplicate with those held by CNA.
3. Spouse of Mr. David Henry Christopher Hill.

4. Out of these shares, 371,320,000 shares are beneficially owned by CNA which in turn is beneficially owned by a discretionary trust set up by Dr. SUEK Chai Kit, Christopher, who is also one of the beneficiaries; 27,400,000 shares are beneficially owned by Dr. SUEK Chai Kit, Christopher.
5. Spouse of Dr. SUEK Chai Kit, Christopher, a substantial shareholder.

Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date,

- (a) save for (i) the grant of licence by Neway KB to the NEL Group to occupy and use certain areas at 15th Floor, Park-In Commercial Centre, 56 Dundas Street, Mongkok, Kowloon, Hong Kong at a license fee of HK\$30,000 per month for a term commencing from 1 April 2012 and ending on 31 October 2013 and (ii) the renting by the Group from Pimo Group Limited (a company of which Mr. SUEK Ka Lun, Ernie, an executive Director, is one of the beneficial owners) of residential premises at House 21, Windsor Park, Phase II, 1 Ma Lok Path, Shatin, New Territories as staff quarter at a monthly rental of HK\$83,333 for a term of two years commencing from 1 November 2011, none of the Director had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up; and
- (b) save for (i) the non-competition undertakings given by the Vendor, Dr. Suek and Mr. Suek Ka Lun, Ernie as set out in the paragraph headed “Non-competition undertakings” in the letter from the Board in this circular; and (ii) the master agreement in relation to the provision of promotion services and licensed content between NEL and Neway KB, details of which are set out in the announcement of the Company dated 19 March 2012, none of the Directors was materially interested in contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there had not been any material adverse change in the financial or trading position of the Group since 31 March 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

8. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given, or agreed to inclusion of, its opinion or advice in this circular:

Name	Qualification
Kingsway Capital	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Kingsway Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear. The letter from Kingsway Capital is given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Kingsway Capital did not have any interest in the share capital of any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and Kingsway Capital did not have any interest, either directly or indirectly, in any assets which have been, since 31 March 2013, the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. GENERAL

- (a) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is at Chung Tai Printing Group Building, 11 Yip Cheong Street, On Lok Tsuen, Fanling, New Territories, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Ms. CHEUNG Yuk Shan who is a fellow member of the Association of Chartered Certified Accountants and member of the Hong Kong Institute of Certified Public Accountants.

10. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the SP Agreement will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the principal office of the Company in Hong Kong from the date of this circular up to the date of the SGM.

NOTICE OF SPECIAL GENERAL MEETING



NEWAY GROUP HOLDINGS LIMITED

中星集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00055)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Neway Group Holdings Limited (the “**Company**”) will be held at 2:30 p.m. on Thursday, 26 September 2013 at Camomile Room, Lower Level II, Kowloon Shangri-La Hotel, 64 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT**

- (a) the non-exercise of the put option granted to Gain Capital International Limited (“**Gain Capital**”) by Dr. Suek Chai Kit Christopher pursuant to the agreement dated 16 June 2009 entered into between Gain Capital, Neway Enterprise Holdings Limited and Dr. Suek Chai Kit Christopher (the “**Put Option**”) be and is hereby approved; and
- (b) any one director of the Company or any two directors of the Company, if the affixation of the common seal of the Company is necessary, be and is/are hereby authorised to execute for and on behalf of the Company (and, if necessary, affix the common seal of the Company to) any such other documents, instruments and agreements and to do any such acts or things as may be deemed by him/her/them in his/her/their absolute discretion to be necessary or incidental to, ancillary to or in connection with the non-exercise of the Put Option.”

By order of the Board
NEWAY GROUP HOLDINGS LIMITED
Suek Ka Lun, Ernie
Chairman

Hong Kong, 2 September 2013

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

Registered Office:

Clarendon House
Church Street
Hamilton, HM11
Bermuda

Principal Place of Business in Hong Kong:

Chung Tai Printing Group Building
11 Yip Cheong Street
On Lok Tsuen, Fanling
New Territories
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the special general meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the special general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the special general meeting or any adjournment thereof, should he/she so wish.
- (3) Completion and return of an instrument appointing a proxy will not preclude a member of the Company from attending and voting in person at the meeting and/or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of poll.