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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 AND MAJOR TRANSACTION  
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**

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A notice convening the special general meeting of the Company to be held at 11:00 a.m. on Thursday, 13 February 2014 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 66 and 67 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 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.

24 January 2014

\* For identification purpose only

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## DEFINITIONS

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*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 exercise/non-exercise of the Put Option, comprising all independent non-executive Directors

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## DEFINITIONS

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“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 exercise/non-exercise of the Put Option
“Latest Practicable Date”	20 January 2014, 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, for the purposes of this circular excluding Hong Kong
“Previous Circular”	the circular of the Company dated 2 September 2013
“Previous SGM”	the special general meeting of the Company held on 26 September 2013
“Put Option”	the put option granted to Gain Capital pursuant to the SP Agreement

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## DEFINITIONS

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“Put Option Period”	the period commencing from the Completion Date to 31 March 2014 (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)
“SGM”	the special general meeting of the Company to be held at 11:00 a.m. on Thursday, 13 February 2014 for the purpose of considering and, if thought fit, approving the exercise/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, 28 March 2013 and 30 September 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

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## LETTER FROM THE BOARD

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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)**

*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  
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

24 January 2014

*To the Shareholders*

Dear Sir or Madam,

### CONNECTED AND MAJOR TRANSACTION 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. Reference is made to the Company's announcement dated 17 July 2013 and the Previous Circular dated 2 September 2013 in respect of the Company's proposal not to exercise the Put Option. As set out in the Company's announcements dated 26 September 2013 and 30 September 2013, the Company's proposal not to exercise the Put Option was not approved by the Independent Shareholders at the Previous SGM.

\* For identification purpose only

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## LETTER FROM THE BOARD

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As set forth below, the exercise of the Put Option constitutes a connected transaction and a major transaction for the Company subject to independent shareholders' approval under the Listing Rules. In the Previous Circular, the Company only sought approval from the Independent Shareholders in respect of the non-exercise of the Put Option. Given that the Board considered it to be in the Company's best interests to retain the NEL Group and Kingsway Capital (the then independent financial adviser) also considered the non-exercise of the Put Option to be in the interests of the Shareholders as a whole, the Company did not expect the resolution for the non-exercise of the Put Option to fail, and therefore did not include the resolution and details in relation to the exercise of the Put Option in the Previous Circular. Moreover, there was a very low voting turnout at the Previous SGM—only 4.42% of the shares held by the Independent Shareholders who were entitled to vote in fact were voted. In view of the circumstance that the Company did not obtain Independent Shareholders' approval for the exercise of the Put Option as required under the Listing Rules, the Company did not proceed to exercise the Put Option and as soon as practicable on 6 December 2013 announced that a new special general meeting of the Company will be convened at which the Independent Shareholders will consider and vote on the exercise of the Put Option. To provide for the case that the resolution on the exercise of the Put Option is not approved by the Independent Shareholders and to decide the treatment of the Put Option, a second resolution for the non-exercise of the Put Option, which is conditional on the first resolution for the exercise of the Put Option not being approved, will also be proposed at the same special general meeting. Shareholders are advised to take note of different voting scenarios as set out on page 16 of this circular for details.

The Board considers that its plan for the Independent Shareholders to decide on the exercise of the Put Option (and the non-exercise of the Put Option in case the exercise of the Put Option is not approved) follows up the voting results of not passing the non-exercise of the Put Option at the Previous SGM, and is in good faith and in the interests of the Company and its Shareholders as a whole. The Company considers that given that the Company did not anticipate the non-exercise of the Put Option to fail at the Previous SGM, details in relation to the exercise of the Put Option were not included in the Previous Circular and considers that the Previous Circular contained the relevant details in respect of the non-exercise of the Put Option which are accurate and complete in all material respects and not be misleading under Rule 2.13 of the Listing Rules.

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. Based on the applicable percentage ratios, the exercise of the Put Option constitutes a connected transaction and a major transaction for the Company subject to Independent Shareholders' approval under the Listing Rules whereas 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 in relation to the Put Option, the respective letters of advice from the Independent Board Committee and Kingsway Capital and the notice of the SGM.

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## LETTER FROM THE BOARD

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### 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.

#### 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



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## LETTER FROM THE BOARD

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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.

### 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.

### Updated financial information

Set out below are the financial results of the NEL Group for the following periods/years:

	For the period from 1 July 2009 <sup>†</sup> to 31 March		For the year ended 31 March		For the six months ended 30 September	
	2010	2011	2012	2013	2012	2013
	Unaudited	Unaudited	Audited	Audited	Unaudited	Unaudited
<i>HK\$'000</i>						
Revenue	19,132	21,775	18,180	19,976	7,149	8,645
Profit/(Loss) before tax	1,033	4,404	(9,376)	5,062	227	3,880
Profit/(Loss) after tax	<u>809</u>	<u>3,787</u>	<u>(9,615)</u>	<u>5,155</u>	<u>112</u>	<u>3,490</u>
Revenue comprises:						
Album sales	3,191	5,255	4,187	1,203	1,156	1,179
Film production	–	1,420	–	–	–	–
Artistes management						
fee income	2,170	2,248	2,415	3,887	1,700	1,715
Concerts and shows	1,601	5,061	6,645	–	19	–
Promotion services	9,219	5,631	583	6,187	–	4,000
Licensing of musical works	2,737	2,147	4,294	2,986	2,174	851
Consulting and						
agency services	–	–	–	5,686	2,100	900
Other music and						
entertainment services	<u>214</u>	<u>13</u>	<u>56</u>	<u>27</u>	<u>–</u>	<u>–</u>
Total revenue	<u>19,132</u>	<u>21,775</u>	<u>18,180</u>	<u>19,976</u>	<u>7,149</u>	<u>8,645</u>

<sup>†</sup> *Completion Date*

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## LETTER FROM THE BOARD

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The provision of promotion services and the licensing of the content of musical works by the NEL Group to the Neway KB Group in aggregate amounted to approximately HK\$10.5 million for the period from 1 July 2009 to 31 March 2010, approximately HK\$6.2 million, approximately HK\$2.6 million and approximately HK\$7.8 million for each of the years ended 31 March 2011, 2012 and 2013 respectively and approximately HK\$4.5 million for the six months ended 30 September 2013. The NEL Group will continue to provide promotion services and license musical work contents to the Neway KB Group from time to time at the request of the Neway KB Group pursuant to an agreement dated 19 March 2012 entered into between NEL and Neway KB for a term up to 31 March 2015.

The NEL Group also provides entertainment-related consulting and agency services to other members of the Group. The NEL Group will continue to provide such entertainment-related consulting and agency services to other members of the Group from time to time at the request of other members of the Group. The NEL Group provides market information such as market trends in the entertainment industry in Hong Kong and the PRC to other members of the Group, 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 and HK\$0.9 million for the six months ended 30 September 2013. The NEL Group did not record such income before the financial year ended 31 March 2013. Apart from the aforesaid consulting and agency services, the NEL Group has not recorded any other income from other members of the Group.

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 then 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 since 31 March 2012 as a result of increase in demand from the Neway KB Group due to its change of marketing strategy. Furthermore, taking into account costs and profitability of holding concerts and shows, the NEL Group has only held its first concert since 31 March 2012 for its artiste in December 2013.

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## LETTER FROM THE BOARD

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Set out below are the assets and liabilities of the NEL Group as at the relevant dates:

<i>HK\$'000</i>	As at 31 March			As at 30 September	
	2010 Unaudited	2011 Unaudited	2012 Audited	2013 Audited	2013 Unaudited
<b>Assets</b>					
Bank balances	6,028	9,451	3,663	4,229	7,007
Record masters	–	5,024	3,802	1,831	2,250
Trade and other receivables, prepayments and deposits	8,275	10,636	8,235	4,757	9,669
Amount due from Neway KB Group	8,677	2,544	1,374	6,292	6,589
Amount due from members of the Group	–	171	171	2,774	412
Film right	5,526	–	–	–	–
Other assets	–	32	529	64	43
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	28,506	27,858	17,774	19,947	25,970
<b>Liabilities</b>					
Shareholder's Loan	21,219	21,219	21,219	21,219	21,219
Trade payables, accruals and other payables	2,374	5,787	3,348	2,366	4,899
Amount due to a member of the Group	8,504	–	2,000	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	32,097	27,006	26,567	23,585	26,118
Net assets/(deficiency in assets)	(3,591)	852	(8,793)	(3,638)	(148)
Net assets before Shareholder's Loan	17,628	22,071	12,426	17,581	21,071

As at 30 September 2013, the NEL Group had deficiency in assets of approximately HK\$0.1 million. Before the Shareholder's Loan, the NEL Group reported net assets of approximately HK\$21.1 million as at 30 September 2013. The Company has not engaged an independent valuer to appraise the current value of the NEL Group.

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## LETTER FROM THE BOARD

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### **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 his/its 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.

### **UPDATE ON NEL GROUP’S BUSINESS DEVELOPMENT AND IMPACTS OF 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; (iv) securities trading; and (v) property development and investment. The Group’s business of manufacturing and sales of printing products is its principal business segment. Given the challenging operating environment of the business of manufacturing and sales of printing products, the Group has been exploring and continues to explore other business opportunities to broaden the Group’s source of income.

### **Development of the Group’s entertainment business**

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.

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## LETTER FROM THE BOARD

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The Group's entertainment business is in the process of development and building market recognition. At present, the NEL Group has 12 contracted artistes including others HotCha, Stephanie Cheng (鄭融), Jade Kwan (關心妍) and Cheung Chi-Lam (張智霖). Since the Acquisition up to the Latest Practicable Date, the NEL Group had produced 31 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 52 albums for other artistes including Vivian Chow (周慧敏), Gigi Leung (梁詠琪) and Fiona Sit (薛凱琪). It has produced 19 shows and concerts for artistes including LMF, Cheung Chi-Lam, Jade Kwan, Stephanie Cheng and artistes from Japan and Taiwan. The NEL Group did not identify as many artistes as envisaged at the time of the Acquisition and more consumers are utilizing new media such as the Internet to access music and songs, causing the NEL Group's sales of CDs to fall below the expectation envisaged at the time of the Acquisition. The NEL Group will endeavour to identify new artistes with talent and potential. It will devote more resources to develop new media markets such as digital downloads complementing the sales of CDs. In 2014, the NEL Group plans to expand the number of online websites to distribute songs and music. The NEL Group is reviewing potential artistes and targets to contract two additional artistes with talent in singing as well as acting in 2014.

The NEL Group's revenue from promotion services provided by its artistes to the Neway KB Group amounted to approximately HK\$6.1 million for the year ended 31 March 2013 and approximately HK\$4 million for the six months ended 30 September 2013. The NEL Group plans to further develop the business of services provided by its artistes broadening its income base. In 2014, in order to promote and expand the Group's artiste services to more customers, the NEL Group will recruit new staff members to strengthen its artiste management support team in Hong Kong and will engage a third party agent in the PRC to explore opportunities in providing services by the NEL Group's artistes in Hong Kong and the PRC. The NEL Group has released albums for artistes managed by other companies and a movie soundtrack for "The Way We Dance (狂舞派)". It will continue to invite more labels and partners to release their physical and digital products through the NEL Group and to seek more cooperation opportunities with other entertainment companies. It targets to distribute music and songs of five to eight artistes that are not under any music labels in 2014. The NEL Group will assess the profitability of producing and organising concerts and shows that yield reasonable returns, and will endeavour to enhance the exposure and popularity of its artistes and promote the market recognition of the NEL Group. In 2014, the NEL Group targets to hold two concerts including a concert by Cheung Chi-Lam. The NEL Group disposed of its investments in the production of certain movies in Hong Kong during the year ended 31 March 2011 due to mounting production costs. At the time of the Acquisition, it was envisaged that the Group would generate significant revenue from film production in Hong Kong. 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. In consideration of costs, the NEL Group plans to invest in low-budget movies and theaters to allow its artistes to participate. The NEL Group from time to time reviews film scripts submitted to it. The NEL Group will only invest in production of films with suitable scripts and profitability potential and targets to invest in one movie and one theater drama in 2014.

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## LETTER FROM THE BOARD

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For the year ended 31 March 2013 and the six months ended 30 September 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 at the request of other members of the NEL Group will continue to provide such advisory services and introduce potential entertainment projects to other members of the Group and intends to provide such services to third party customers (other than members of the Group) should opportunities arise.

The NEL Group will continue to build up its artiste base, enhance its market recognition and broaden its income streams. With the continuous efforts to further develop the NEL Group's entertainment business, the Company believes that the NEL Group will continue to grow and further establish its presence in the entertainment industry.

### **Development in the PRC's entertainment market**

With regard to other development of the Group's entertainment business in particular in the PRC, the Group 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 Group is reviewing the feasibility of undertaking such potential projects. 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 business of manufacturing and sales of printing products.

### **Impacts of the exercise of the Put Option**

Leveraging on the NEL Group's market recognition in the entertainment industry, the NEL Group forms the platform from which the Group's entertainment business is positioned 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 other members of the Group engaging in entertainment business to recruit new artistes with talent 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.

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## LETTER FROM THE BOARD

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Should the resolution regarding the exercise of the Put Option be approved by the Independent Shareholders, the Put Option will be exercised as soon as practicable before the expiry of the Put Option Period on 31 March 2014 (which will not be further extended) and the members of the NEL Group would cease to be subsidiaries of the Company. In the event of disposal of the NEL Group, the Group would continue to pursue the development of the entertainment business and would need to rebuild a business group replacing the NEL Group. 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. Based on its preliminary estimation, the Company estimates that subject to negotiations and prevailing market conditions, the establishment costs of a group comparable to the NEL Group would amount to in the range of HK\$60 million which is estimated on the basis of (i) the number and popularity of the artistes of the NEL Group and the estimated costs of signing up such artistes, (ii) the number of songs of the NEL Group and the estimated costs of producing such songs and (iii) other expenditures including promotion expenses and administration expenses (such as salaries, rents and office expenses) in relation to the development of the NEL Group (taking into account the time to establish such a group). Furthermore, such a newly set-up entertainment group would take time to grow and build up its reputation, business network and track record, and would involve uncertainty in the process of building the new entertainment group. 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 NEL Group is in the process of development. Although substantial part of the revenue of the NEL Group has been derived from services provided to the Neway KB Group (a connected party group) and other members of the Group since the Acquisition and the profitability of the NEL Group has not been stable, the NEL Group's services to the Neway KB Group and other members of the Group were provided on normal commercial terms and the NEL Group reported a profit of approximately HK\$3.5 million for the latest interim period of the six months ended 30 September 2013.

It is estimated that the net assets of the Group would be increased by approximately HK\$39.5 million as a result of the disposal of the NEL Group pursuant to the exercise of the Put Option (as more detailed in the section headed "Financial effects of exercise of Put Option" below). Such improvement in net assets would only represent approximately 4.7% of the net assets of the Group of approximately HK\$826.7 million as at 30 September 2013.

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## LETTER FROM THE BOARD

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As set out in the Company's announcement dated 16 June 2009 in respect of the Acquisition, a former independent non-executive director of the Company did not approve of the Acquisition and the Put Option was granted by Dr. Suek to provide protection to the Company. As set out in the Company's announcement dated 26 September 2013, the Company's proposal of non-exercise of the Put Option was not approved by the independent shareholders (although only 4.42% of shares of the Independent Shareholders who were entitled to vote at the special general meeting in fact were voted). Nonetheless, taking into account the development of the NEL Group, including its plan to expand and promote its artiste base, and enhance its market recognition and broaden its income streams, the Company believes that the NEL Group will continue to grow and further establish its presence in the entertainment industry. The Company considers that the PRC entertainment market is of great potential given the continuous economic growth in the PRC and the NEL Group is important in the development of the Group's entertainment business in the PRC. The NEL Group's exposure and market recognition in the entertainment market provide the platform and leverage for the Group to seek business opportunities in the entertainment industry in the PRC. The Directors therefore do not consider that the exercise of the Put Option is fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors consider that the Put Option should not be exercised and 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 in relation to the treatment of the Put Option.

### **Financial effects of exercise of Put Option**

#### ***Earnings***

The NEL Group reported profit after tax of approximately HK\$5.2 million for the year ended 31 March 2013 and approximately HK\$3.5 million for the six months ended 30 September 2013 and the NEL Group's provision of consulting and agency services to other members of the Group amounted to approximately HK\$5.7 million for the year ended 31 March 2013 and approximately HK\$0.9 million for the six months ended 30 September 2013. As a result of the exercise of the Put Option, the Company will dispose of its entire equity interests in the NEL Group and the NEL Group will cease to be a subsidiary group of the Company. Therefore, following the disposal of the NEL Group as a result of the exercise of the Put Option, the income and expenses of the NEL Group will no longer be consolidated into the consolidated income statement of the Company and the NEL Group's provision of entertainment-related consulting and agency services to other members of the Group would no longer be transactions within the Group and would be recorded as expenses in the Group's consolidated income statement. On the basis of the financial results of the NEL Group for the year ended 31 March 2013 and for the six months ended 30 September 2013 and the NEL Group's provision of entertainment-related consulting and agency services to other members of the Group would be recorded as expenses in the Group's consolidated income



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## LETTER FROM THE BOARD

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statement following the disposal of the NEL Group, the Group's earnings would be reduced by HK\$5.2 million for the year ended 31 March 2013 and approximately HK\$3.5 million for the six months ended 30 September 2013 as a result of the disposal of the NEL Group. 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\$43.9 million based on the net asset value of the NEL Group (before the Shareholder's Loan) as at 30 September 2013, would be credited to reserve.

### *Assets and liabilities*

As at 30 September 2013, the NEL Group had total assets of approximately HK\$26 million and total liabilities (other than the Shareholder's Loan) of approximately HK\$4.9 million. Following the disposal of the NEL Group as a result of the exercise of the Put Option, the assets and liabilities of the NEL Group will no longer be consolidated into the consolidated balance sheet of the Company. On the basis that the Put Option was exercised on 30 September 2013, the exercise of the Put Option would have an overall effect of an increase (credit) of approximately HK\$39.5 million in the reserve of the Company which is estimated based on the consideration in relation to the exercise of the Put Option, the net asset value of the NEL Group (before the Shareholder's Loan) as at 30 September 2013 and the elimination of the Group's certain deferred liabilities and intangible assets related to the NEL Group amounting to approximately HK\$0.9 million and HK\$5.3 million respectively. On the basis of the aforesaid, following the disposal of the NEL Group, the Group's assets would be increased by approximately HK\$33.7 million and the Group's liabilities would be reduced by approximately HK\$5.8 million and overall the Group's net assets would be increased by HK\$39.5 million.

The Company would receive a cash consideration of HK\$65 million should the Put Option be exercised. Based on the cash balance of the NEL Group of approximately HK\$7 million as at 30 September 2013, the Group's overall cash balance would be increased by HK\$58 million as a result of the disposal of the NEL Group pursuant to the exercise of the Put Option. The proceeds from the exercise of the Put Option would be applied as general working capital of the Group.

Save as disclosed herein, there are no other material developments of the NEL Group and no other material change in circumstances in relation to the Put Option since the issue of the circular of the Company dated 2 September 2013.

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## LETTER FROM THE BOARD

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### 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. Based on the applicable percentage ratios, the exercise of the Put Option constitutes a connected transaction and a major transaction for the Company subject to Independent Shareholders' approval under the Listing Rules whereas 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 11:00 a.m. on Thursday, 13 February 2014 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 66 and 67 of this circular, for the Independent Shareholders to consider and, if thought fit, approve the exercise/non-exercise of the Put Option.

Both the first resolution regarding the exercise of the Put Option and the second resolution regarding the non-exercise of the Put Option will be put forward for voting at the SGM. Shareholders are advised to take note of the following voting scenarios:

- (i) In case the first resolution regarding the exercise of the Put Option is approved by the Independent Shareholders, the second resolution regarding the non-exercise of the Put Option will not become unconditional even if the second resolution is approved by the Independent Shareholders. Accordingly, the Company will exercise the Put Option in accordance with the SP Agreement and the NEL Group will cease to be part of the Group.
- (ii) In case the first resolution regarding the exercise of the Put Option is not approved by the Independent Shareholders, and the second resolution regarding the non-exercise of the Put Option is approved by the Independent Shareholders, the Company will not exercise the Put Option.
- (iii) In case both of the resolutions relating to the exercise of the Put Option and the non-exercise of the Put Option are not approved by the Independent Shareholders, the Put Option will lapse on 31 March 2014 and will not be exercisable after 31 March 2014.

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## LETTER FROM THE BOARD

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If the Independent Shareholders consider that the Company should dispose of the NEL Group by exercising the Put Option, you should vote in favour of the first resolution relating to the exercise of the Put Option and vote against the second resolution relating to the non-exercise of the Put Option.

If the Independent Shareholders consider that the NEL Group should remain as part of the Group, you should vote against the first resolution so as to reject the exercise of the Put Option and vote in favour of the second resolution so as to approve the non-exercise of the Put Option.

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 453,220,000 Shares (representing approximately 44.46% 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 exercise/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 appointed for holding the meeting to 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 do not consider that the exercise of the Put Option is in the interests of the Company and the Shareholders as a whole and consider the Put Option should not be exercised. The Independent Board Committee recommends the Independent Shareholders to vote against the first resolution so as to reject the exercise of the Put Option and vote in favour of the second resolution so as to approve the non-exercise of the Put Option.

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

24 January 2014

*To the Independent Shareholders*

Dear Sir or Madam,

#### CONNECTED AND MAJOR TRANSACTION PUT OPTION

We refer to the circular of the Company dated 24 January 2014 (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 exercise/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 19 to 55 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 exercise/non-exercise of the Put Option and taking into account the independent advice of Kingsway Capital set out in its letter on pages 19 to 55 of the Circular, we do not consider that the 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 against the ordinary resolution numbered 1 to be proposed at the SGM so as to reject the exercise of the Put Option and vote in favour of the ordinary resolution numbered 2 so as to approve the non-exercise of the Put Option.

Yours faithfully,

**Independent Board Committee**

**TSE Tin Tai**

**LUI Lai Ping, Cecily**

**LEE Kwok Wan**

*Independent non-executive Directors*

\* For identification purpose only

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## LETTER FROM KINGSWAY CAPITAL

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*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 exercise/non-exercise of Put Option.*

### SUNWAH KINGSWAY 新華滙富

Kingsway Capital Limited

7/F, Tower One  
One Lippo Centre,  
89 Queensway  
Hong Kong  
Tel. No.: (852) 2877-1830  
Fax. No.: (852) 2283-7722

24 January 2014

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

Dear Sirs,

### CONNECTED AND MAJOR TRANSACTION 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 exercise of Put Option or non-exercise of Put Option is in the interests of Neway Group Holdings Limited (the “**Company**”) and the Shareholders as a whole and is fair and reasonable so far as 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 24 January 2014, 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.

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## LETTER FROM KINGSWAY CAPITAL

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Reference is made to the announcement of the Company dated 16 June 2009 in relation to the SP Agreement. 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 shareholders' loan owed by NEL (if any) at a base consideration of HK\$65 million, as adjusted in accordance with 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 Put Option. On 26 September 2013, the Company's proposal not to exercise the Put Option was not approved by the Independent Shareholders at the Previous SGM. On 30 September 2013, the Board made an announcement on the extension of Put Option Period further to 31 March 2014. On 6 December 2013, the Company announced that a new special general meeting of the Company will be convened at which a resolution will be proposed for the Independent Shareholders to approve the exercise of Put Option. In case the resolution on the exercise of Put Option is not approved by the Independent Shareholders and to decide the treatment of Put Option, a second resolution for the non-exercise of Put Option, which is conditional on the first resolution for the exercise of Put Option not being approved, will also be proposed at the special general meeting.

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 exercise of 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, Ms. Lui Lai Ping, Cecily and Mr. Lee Kwok Wan, (all being independent non-executive Directors), has been formed to advise the Independent Shareholders in relation to the exercise or non-exercise of Put Option.

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## LETTER FROM KINGSWAY CAPITAL

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As Dr. Suek and his associates are interested in 453,220,000 Shares as at the Latest Practicable Date, representing approximately 44.46% 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 resolutions to approve the proposed resolutions in respect of the exercise/non-exercise of the Put Option and the transactions contemplated thereunder at the SGM.

### **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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## LETTER FROM KINGSWAY CAPITAL

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### PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders on the 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 issued share capital of NEL and the then shareholder's loan due from NEL to the Vendor at an aggregate consideration of approximately HK\$65 million. As at 30 April 2009, the Sales Loan amounted to approximately HK\$21.2 million (the "Sale Loan").

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 shareholders' loan.

In addition, upon completion of the Acquisition, the Vendor, Dr. Suek and Mr. Suek Ka Lun, Ernie ("the Covenanters") have 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 his/its 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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## LETTER FROM KINGSWAY CAPITAL

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The Company subsequently extended the Put Option Period on 29 June 2011, 29 June 2012, 28 March 2013 and 30 September 2013, respectively. As mentioned in the Company's announcement dated 30 September 2013, the reason for the most recent extension of Put Option Period is due to the Company's proposal not to exercise the Put Option was not approved by the Independent Shareholders. If absent any further extension, the Put Option would be expired on 30 September 2013. In view of the imminent expiry of the Put Option at that time, the Board has extended the Put Option Period to 31 March 2014. The Board will convene a shareholders' meeting at which resolutions will be proposed for the Independent Shareholders to consider and vote on the exercise of the Put Option and non-exercise of Put Option on 13 February 2014.

### 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 ("**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**"); (iv) securities trading; and (v) property development and investment ("**Property business**").

#### *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 2012 ("**2012 Annual Report**"), the annual report for the year ended 31 March 2013 ("**2013 Annual Report**") and the interim results for the six months ended 30 September 2013 ("**Interim Results**").

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## LETTER FROM KINGSWAY CAPITAL

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**Table I – Selected financial information of the Group  
for the two years ended 31 March 2013 and for the six months ended 30 September 2013**

	For the year ended 31 March 2012 <i>HK\$'000</i> (audited)	For the year ended 31 March 2013 <i>HK\$'000</i> (audited)	% change from 2012 to 2013 (%)	For the six months ended 30 September 2012 <i>HK\$'000</i> (unaudited)	For the six months ended 30 September 2013 <i>HK\$'000</i> (unaudited)	% change from 2012 to 2013 (%)
Revenue						
Printing:	639,983	625,665	(2.2)	362,532	350,935	(3.2)
– <i>Manufacturing and Sales</i>	620,459	599,137	(3.4)	348,462	335,818	(3.6)
– <i>Trading</i>	19,524	26,528	35.9	14,070	15,117	7.4
Music and Entertainment	20,704	18,084	(12.7)	6,759	7,746	14.6
Property business	–	–	N/A	–	–	N/A
Securities trading	–	–	N/A	–	–	N/A
<b>Total Revenue</b>	660,687	643,749	(2.6)	369,291	358,681	(2.9)
<b>Gross profit</b>	105,130	112,682	7.2	74,535	89,756	20.4
<b>Profit (loss) before taxation</b>	(54,862)	3,463	N/A	29,405	13,836	(52.9)
<b>Profit (loss) for the year</b>	(56,115)	1,653	N/A	27,264	11,316	(58.5)
				<b>As at 31 March 2012 <i>HK\$'000</i> (audited)</b>	<b>As at 31 March 2013 <i>HK\$'000</i> (audited)</b>	<b>As at 30 September 2013 <i>HK\$'000</i> (unaudited)</b>
Cash and cash equivalents		122,604		143,668	150,811	
Short-term bank deposits		160,747		103,732	80,344	
Total current assets		536,437		467,934	597,899	
Total assets		883,672		881,998	989,870	
Total liabilities		97,428		87,838	163,191	
Total equity attributable to owners of the Company		786,421		794,357	810,470	

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## LETTER FROM KINGSWAY CAPITAL

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### *3.2.1 Revenue, Gross Profit and Net Profit*

Overall, the printing business contributed to the majority of revenue to the Group, accounted for 96.9%, 97.2% and 97.8% of the total revenue, for the year ended 31 March 2012 and 31 March 2013 and for the six months ended 30 September 2013, respectively. Music and Entertainment accounted for approximately 3.1%, 2.8% and 2.2% of the total revenue for the year ended 31 March 2012 and 31 March 2013 and for the six months ended 30 September 2013. 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.

### *3.2.2 Printing business*

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 the 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 about 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 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 during the year.

For the six months ended 30 September 2013, the revenue from the Manufacturing and Sales business decreased by approximately 3.6%, as compared to the corresponding period in 2012. According to the Interim Results, such decrease was attributable to the decline in both export and domestic sales during the corresponding periods.

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## LETTER FROM KINGSWAY CAPITAL

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### *3.2.3 Music and Entertainment Business*

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 and investment return on the two PRC teleplays and promotion income. 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 recognized 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%.

For the six months ended 30 September 2013, the revenue generated from the Music and Entertainment business increased by approximately 14.6%. According to the Interim Results, the increase was mainly attributable by increase in promotion income notwithstanding that there was no investment income from teleplays and a decrease in song licensing income due to the delay in the new song release schedule during the period, as compared to the corresponding period in 2012. For the six months ended 30 September 2013, although the Music and Entertainment business accounted for only approximately 2.2% of the total revenue of the Group, it accounted for 14.6% of the total segment profit from all the revenue streams of the Group.

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 recognized in respect of goodwill of approximately HK\$36.0 million for the year ended 31 March 2012.

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## LETTER FROM KINGSWAY CAPITAL

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For the six months ended 30 September 2013, the Group recorded profit before taxation for the period of approximately HK\$13.8 million as compared to a profit of approximately HK\$29.4 million during the corresponding period in 2012. The decrease was mainly attributable to the absence of a one-off gain of approximately HK\$14.4 million from the disposal of a subsidiary principally engaged in cultural and entertainment businesses in the PRC during the corresponding period in 2012 and the unrealized loss arising from change in fair value of held-for-trading investment of approximately HK\$4.5 million for the period ended 30 September 2013.

As stated in the Interim Results, the printing industry continues to face the rising cost of operation in the PRC and the volatile global market. The Group will continue to enhance its quality and cost control policy to reduce operating costs, and to boost the production efficiency of its PRC factories. On the other hand, for the music and entertainment segment, the Group will continue to contract more established artistes and it was expected that the revenue base will be broadened accordingly. The Group will continue to identify new artistes with high potential and deliver high quality production to strengthen the asset base of the business. The Group will also devote more resources to developing the new media market and the promotion service. Meanwhile, the Group is also actively seeking and identifying high quality teleplays and dramas as well as different investment opportunities in the music, media and cultural tourism businesses in Hong Kong and the PRC.

As stated in the Board Letter, given the challenging operating environment of the Group's Printing Business, the Group has been exploring and continues to explore other business opportunities to broaden the Group's source of income.

### *3.2.4 Property business and securities trading*

As stated in the Interim Results, during the six months ended 30 September 2013, the Group subscribed for shares in two initial public offerings in Hong Kong for a total amount of HK\$60.1 million. As stated in the Interim Results, the Company will continue to take a prudent approach while seeking further investment opportunities in securities trading to improve return on investments for the Company.

During the six months ended 30 September 2013, the Group acquired two companies that are engaged in are engaged in property development and investment in the PRC. As such, property development has become a new business segment to the Group. The Group will continue to look for potential projects in the area of property development.

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## LETTER FROM KINGSWAY CAPITAL

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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 28 August 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 entertainment business is planned to expand and develop, particularly the PRC market.

#### 4.2 Financial performance of NEL Group

The table below set out the selected financial information extracted from the unaudited accounts of the NEL Group for the period from 1 July 2009 to 31 March 2010, the year ended 31 March 2011 and the six months ended 30 September 2012 and the audited accounts of the NEL Group for each of the 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)	For the six months ended 30 September 2012 <i>HK\$'000</i> (unaudited)	For the six months ended 30 September 2013 <i>HK\$'000</i> (unaudited)
Revenue						
– Sales of album	3,191	5,255	4,187	1,203	1,156	1,179
– Film production	–	1,420	–	–	–	–
– Artistes management fee income	2,170	2,248	2,415	3,887	1,700	1,715
– Concert and show income	1,601	5,061	6,645	–	19	–
– Promotion income	9,219	5,631	583	6,187	–	4,000
– Income from the licensing of the musical works	2,737	2,147	4,294	2,986	2,174	851
– Income from the licensing of brand name (consultancy and agency services)	–	–	–	5,686	2,100	900
– Other music and entertainment services	214	13	56	27	–	–
<b>Total revenue</b>	<b>19,132</b>	<b>21,775</b>	<b>18,180</b>	<b>19,976</b>	<b>7,149</b>	<b>8,645</b>
<b>Gross profit (loss)</b>	<b>7,983</b>	<b>6,331</b>	<b>(1,464)</b>	<b>11,463</b>	<b>3,270</b>	<b>5,957</b>
<b>Gross profit margin</b>	<b>41.7%</b>	<b>29.1%</b>	<b>N/A</b>	<b>57.4%</b>	<b>45.7%</b>	<b>68.9%</b>
<b>Profit (loss) before taxation</b>	<b>1,033</b>	<b>4,404</b>	<b>(9,376)</b>	<b>5,062</b>	<b>227</b>	<b>3,880</b>
<b>Profit (loss) for the period</b>	<b>809</b>	<b>3,787</b>	<b>(9,615)</b>	<b>5,155</b>	<b>112</b>	<b>3,490</b>

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## LETTER FROM KINGSWAY CAPITAL

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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, HK\$20.0 million and HK\$8.6 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 and for the six months ended 30 September 2013, respectively.

The NEL Group recorded gross profit of approximately HK\$8.0 million, HK\$6.3 million, HK\$11.5 million and HK\$6.0 million for the period from 1 July 2009 to 31 March 2010 and each of the two years ended 31 March 2011 and 2013 and for the six months ended 30 September 2013, respectively, and a gross loss of approximately HK\$1.5 million for the year ended 31 March 2012. In addition, the gross profit margin of the NEL Group has increased from approximately 41.7% for the period from 1 July 2009 to 31 March 2010 to approximately 68.9% for the six months ended 30 September 2013. The increase in gross profit margin during the Reviewing Period was mainly due to (i) the increase in promotion income and income from the licensing of brand name since the year ended 31 March 2013; (ii) the increase in artistes management fee income while the cost of this particular business has remained stable; (iii) the reduction of sales of album business which involved high operating cost; and (iv) the cessation of entertainment business, such as film production, concert and shows, which involved high operating cost since the year ended 31 March 2013.

Overall, the NEL Group was profitable for most of the Reviewing Period, except for the year ended 31 March 2012. The loss for the year ended 31 March 2012 was mainly due 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 was overall stable. However, the sales of album decreased in the year ended 31 March 2013, by approximately 71.4% to approximately HK\$1.2 million, as compared to HK\$4.2 million in 2012. For the six months ended 30 September 2013, the revenue from sales of album amounted to approximately HK\$1.2 million, which was overall stable as compared to the corresponding period in 2012.

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## LETTER FROM KINGSWAY CAPITAL

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### *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, HK\$3.9 million and HK\$1.7 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 and for the six months ended 30 September 2013, respectively. For the six months ended 30 September 2013, the revenue derived from artistes management fee amounted to approximately HK\$1.7 million, which was overall stable as compared to the corresponding period in 2012. In addition, according to our discussion with the Directors, it is expected that the revenue contribution from the artistes management fee income will continue to be stable as the Group will continue to seek and engage more famous artistes to join the NEL Group.

### *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 and six months ended 30 September 2013, the NEL Group did not organize any concert and show considering the high and increasing production cost during the corresponding periods which would affect profitability. According to our discussion with the Directors, the management of the NEL Group will take a more prudent approach on planning and organizing the concert and show in the future.

### *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 under 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\$6.2 million and HK\$4.0 million for the year ended 31 March 2013 and for the six months ended 30 September 2013, respectively. The new master service agreement has a term of three years until the year ending 31 March 2015.



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### 4.2.6 *Income from the licensing of musical works*

The income from the licensing of the musical works contributed a stable amount of revenue of approximately HK\$2.7 million, HK\$2.1 million, HK\$4.3 million, HK\$3.0 million and HK\$0.9 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 and for the six months ended 30 September 2013, respectively.

### 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 and HK\$0.9 million for the year ended 31 March 2013 and for the six months ended 30 September 2013, which consists of income from general consultancy services and agency fees for the introduction of various investment projects to the Group. The NEL Group has been appointed as a consultant to the Group since April 2012 in the provision of general 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.

**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)	As at 30 September 2013 HK\$'000 (unaudited)
<b>Total Assets</b>	17,774	19,947	25,970
– Bank balances	3,663	4,229	7,007
<b>Total Liabilities</b>	26,567	23,585	26,118
– Amount due to immediate holding company	21,219	21,219	21,219
<b>Net Liabilities</b>	(8,793)	(3,638)	(148)
<b>Total equity before amount due to immediate holding company</b>	12,426	17,581	21,071

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## LETTER FROM KINGSWAY CAPITAL

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As of 30 September 2013, the total assets of the NEL Group consisted of bank balances of approximately HK\$7.0 million, record masters (in relation to production of master tapes of audio-visual products) of approximately HK\$2.3 million, trade and other receivables, prepayments and deposits of approximately HK\$9.7 million, an amount due from Neway KB of approximately HK\$6.6 million, amounts due from members of the Group of approximately HK\$0.4 million and other assets of approximately HK\$43,000. 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\$148,000 as of 30 September 2013. However, the net liabilities situation of NEL Group was mainly attributable to the Sale Loan of approximately HK\$21.2 million as of 30 September 2013, which was an intra-group liability and consolidated to the balance sheet of the Group. As confirmed by the Directors, such amount 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\$21.1 million instead of a net liabilities position. In fact, on the basis that the Sale Loan is excluded, the net assets position of the NEL Group has been strengthening, increased from approximately HK\$12.4 million as at 31 March 2012 to approximately HK\$21.1 million as at 30 September 2013, representing an increase of approximately 70.2%. 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 at 31 March 2012 and 2013 and for the six months ended 30 September 2013. According to the Directors, if the Put Option is not exercised, it is expected that the Sale Loan will be capitalised.

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 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. Furthermore, for the six months ended 30 September 2013, the gross profit and net profit of the NEL Group improved significantly compared to the corresponding period of the previous year.

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## LETTER FROM KINGSWAY CAPITAL

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### 5. The operating performance of the businesses of the Group

The Group is principally engaged in (i) Manufacturing and Sales; (ii) Trading; (iii) Music and Entertainment; (iv) securities trading; (v) property development and investment. In order to assess whether it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to exercise the Put Option or not to exercise the 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, 2013 Annual Report and the Interim Results.

#### *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 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% as compared to the same period in 2012. For the six months ended 30 September 2013, revenue from Manufacturing and Sales declined by approximately 3.6% as compared to the same period in 2012. Despite the decrease revenue, the Group exerted greater effort in sourcing alternative materials in the PRC and enhancing the material requirement planning of its factory during the six months ended 30 September 2013, which has lowered the material costs of the Manufacturing and Sales business. However, the Directors foresee the Group would continue to face increasing labour and operation cost in the PRC. From our discussion with the Directors, we understand they are of the view that the increasing raw material prices, rising minimum wages, labor shortage in the PRC and the RMB appreciation will continue to increase the cost of the 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\$860.00 per metric ton in November 2013, representing an increase of approximately 21.5% and with reference to a report released by a research organisation dedicated for the global pulp industry in September 2013, it is expected that the increasing trend of pulp price will be continued in 2014.

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## LETTER FROM KINGSWAY CAPITAL

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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 workers 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 (深圳市人力資源和社會保障局) has increased the minimum wages in Shenzhen Municipality to RMB1,600 per month as compared to the previous 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. In addition, according to the Interim Results, the management of the Group will evaluate the performance of the newly acquired press machine and plan to replace existing old press machines gradually in the foreseeable future to reduce the pressure of increasing labour cost and increase the productivity as a whole. 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 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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## LETTER FROM KINGSWAY CAPITAL

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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. 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 revenue base, and to develop the entertainment business in Hong Kong and the PRC. In addition, 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 Put Option will enable the Group to maintain such business and hence is in line with the existing business strategies of the Group.

### ***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 entertainment sector by strengthening its song production, artistes 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 entertainment industry. Since the Acquisition, the artistes recruited by the NEL Group include some of the famous singers in the music industry in Hong Kong, the NEL Group currently has 12 contracted artistes including among others, Hotcha, Stephanie Cheung (鄭融), Jade Kwan (關心妍) and Cheung Chi-Lam (張智霖). Those artistes have helped the Group to generate revenue from sales of albums, concerts and shows, licensing of musical works, promotion and artiste management. In 2013, the NEL Group has released albums for artistes managed by other companies and a movie soundtrack for "The Way We Dance

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## LETTER FROM KINGSWAY CAPITAL

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(狂舞派)”。 In 2014, the NEL Group target to hold two concerts including a concert by Cheung Chi-Lam. According to the Board Letter, The Group will continue invite more labels and partners to release their physical and digital products through the NEL Group and to seek more cooperation opportunities with other entertainment companies.

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, 2011 and 2013 and for the six months ended 30 September 2013, 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 the 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 and for the six months ended 30 September 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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## LETTER FROM KINGSWAY CAPITAL

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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\$36.0 million arising from the acquisition of the NEL Group was recorded. As stated in the annual report for the year ended 31 March 2012, 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 HK\$36.0 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 revenue 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 revenue to be significant for the years following the year ended 31 March 2012.

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## LETTER FROM KINGSWAY CAPITAL

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For the year ended 31 March 2013, the NEL Group recorded a 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 nil as of 31 March 2013. Therefore, whether the Put Option is exercised or not, there will not be 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 professional consultant relating to the music and entertainment industry is needed. Based on our review of the information provided by the Company, we noticed that the Group has engaged a professional consultant, an independent third party, to provide professional consultancy services during the 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 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 as such provision of services 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 entertainment industry in Hong Kong and the PRC, and advises on entertainment projects including their operation, feasibility and prospects.



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## LETTER FROM KINGSWAY CAPITAL

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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 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 has maintained a group of experienced business development executives and professionals who carry out the execution of 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 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.

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## LETTER FROM KINGSWAY CAPITAL

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### *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 revenue generated from the promotion services 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 31 March 2012. Following the launch of new marketing strategies of the Neway KB Group, the NEL Group began to receive promotion revenue in late 2012. As a result, since the year ended 31 March 2013, the income of the NEL Group generated from the promotion services has 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 and for the six months ended 30 September 2013, the revenue from artiste management has been stable, and promotion service 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.

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## LETTER FROM KINGSWAY CAPITAL

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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. 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, 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 was 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.

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,

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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 held an investment 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.

### *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 and his 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'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.

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## LETTER FROM KINGSWAY CAPITAL

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### *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. The Directors are of the view that, if the Put Option is not exercised, 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.

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) the exposure of the Group to access other cultural and entertainment projects in the PRC and other regions in the future will be enhanced; and (iii) the Group will be better recognized by 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.

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## LETTER FROM KINGSWAY CAPITAL

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

According to the Board Letter, if the Put Option is exercised, the NEL Group would cease to be the subsidiaries of the Company. In addition, 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 Company 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. According to the Board Letter, based on its preliminary estimation, the Company estimates that subject to negotiations and prevailing market conditions, the establishment costs of a group comparable to the NEL Group would amount to in the range of approximately HK\$60.0 million. We have reviewed the cost breakdown estimates provided by the Company and noticed that the total start up cost comprising cost components same as the NEL Group would be comparable with the proceeds from the exercise of Put Option (if exercised). Furthermore, there is also no guarantee that the Company 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, besides 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 company; (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 exercise of Put Option and the then disposal of the NEL Group would adversely affect the Group's development of the Music and Entertainment business.

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## LETTER FROM KINGSWAY CAPITAL

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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 costs 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. In 2014, the NEL Group targets to hold two concerts including a concert by Cheung Chi-Lam. 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. The Group will only invest in production of films with suitable scripts and profitability potential targets to invest in one movie and one theater drama in 2014.

As mentioned in the above, the Group has invested in Huijin in April 2012 and has identified another investment opportunities in early 2013, both of which are relating to cultural tourism in the PRC. Meanwhile, the Group is also actively seeking investment opportunities in quality teleplays and dramas in Hong Kong and the PRC. Leveraging on (i) the established brand 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 set up a representative office in Guangzhou and a company in 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 alleviating the Group's reliance on its printing products business.

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## LETTER FROM KINGSWAY CAPITAL

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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 gross domestic product (“**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 compound annual growth rate (“**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 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 “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.

##### 7.1.2 *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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### **7.2 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 lead 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.

#### *7.2.2 Support from the PRC government*

On 20 February 2012, the Ministry of Culture of the PRC 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 (中華人民共和國文化部) 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 (國家文化旅游重點項目名錄) 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

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## LETTER FROM KINGSWAY CAPITAL

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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 opportunities in the PRC which both are related to cultural tourism, it is expected that the policies 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) to 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 Put Option allows the Group to capture the market opportunities of the industry in Hong Kong and the PRC.

In conclusion of all of the aforementioned factors, given (i) the challenging business operating condition of the Group's Manufacturing and Sales business; (ii) that 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 NEL Group; (v) that 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 that the exercise of Put Option will prevent the Group from benefiting from 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 and the further business opportunities in the entertainment industry in the PRC. Accordingly, we are of the view that the exercise of Put Option is not in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM KINGSWAY CAPITAL

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### 8. The cash balance of the Group

As of 30 September 2013, the Group had cash and cash equivalent and short-term bank deposits of approximately HK\$150.8 million and HK\$80.3 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 4.2% as of 30 September 2013. If the Put Option is exercised, the Group will receive HK\$65.0 million in cash as consideration and will be applied as general working capital. However, given the Group's strong cash balance and the low gearing ratio as of 30 September 2013, (i) the Group is not in any imminent need to obtain further cash resources; and (ii) there will not be 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 the six months ended 30 September 2013.

In fact, given the available cash on the balance sheet of the Group, in order to better utilize the Group's cash resources, broaden the income base 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.

### 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 exercise of Put Option or non-exercise of 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 is 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.

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## LETTER FROM KINGSWAY CAPITAL

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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. We have considered to compare the PER and PSR of the Market Comparables with the indicative ratio implied by the exercise of the Put Option. We have not considered comparing price to book ratio (P/B ratio) as the business of NEL Group or the Market Comparables does not rely on tangible assets, so the P/B ratio is not relevant. We have noted that all of the Market Comparables were in a loss position during the previous financial year and hence no PER could be made reference to.

Given the unavailability of meaningful PER from the Market Comparables, PSR became the best available reference from Market Comparables. Comparing PSR is a commonly recognized method in valuation analysis and it represents how much the market value the revenue of a company.

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

**Table III – PSR analysis**

Company Name (Stock Code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$'000)	Revenue for the latest financial year (HK\$'000)	Net profit (loss) attributable to owners for the latest financial year (HK\$'000)	PSR (times) (Note 1)
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.	704,129	555,777	(48,735)	1.3
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.	79,206	23,253	(52,058)	3.4
China Media and Films Holdings Ltd. (8172)	Artiste management; film production and distribution.	154,223	26,547	(15,100)	5.8
China 3D Digital Entertainment Ltd. (8078)	Artiste management services; film and television programme production, distribution and licensing.	126,172	70,018	(21,237)	1.8
<b>Maximum</b>					5.8
<b>Minimum</b>					1.3
<b>Average</b>					3.1
The ratios implied by exercise price of Put Option (Note 2)		65,000	19,976	5,155	3.3

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

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## LETTER FROM KINGSWAY CAPITAL

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*Note 1:* 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 2:* 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.

We noted from the above table that the average PSR as represented by the Market Comparables was approximately 3.1 times and with a range of 1.3 times to 5.8 times.

Based on the exercise price of the Put Option of approximately HK\$65.0 million, and the revenue for the year ended 31 March 2013 of the NEL Group of approximately HK\$19.9 million, the implied PSR of the Group is approximately 3.3 times, and thus is within the PSR range of the Market Comparables and slightly above the average of the Market Comparables. On top of that, compared to the Market Comparables, we noted that the NEL Group is the only profit-making company. Furthermore, the unaudited net profit of the NEL Group for the year ended 30 September 2013 has been significantly improved as compared to the corresponding period last year. Given such, we consider the valuation implied by the exercise of the Put Option cannot reflect the true value of the NEL Group.

We noted that part of the revenue of the NEL Group were generated from other members of the Group or connected party. However, despite such fact, such revenue represents services actually rendered by the NEL Group and they are expected to recur in the near future as (i) the contract on the services to Neway KB is active until the expiry/renewal in March 2015; and (ii) 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 addition, as mentioned in the above, we have also considered the estimation on the establishments cost to start up a new business comparable to the NEL Group provided by the Company. The cost would be approximately HK\$60 million, which is comparable to the consideration under the exercise of the Put Option.

Taking into account (i) the trading multiples analysis above; (ii) the valuation implied by the exercise of the Put Option; and (iii) the establishments cost to start up a new business comparable to the NEL Group provided by the Company, we consider that the valuation implied by the exercise of Put Option is not in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM KINGSWAY CAPITAL

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

The following summarises the financial effects on the Group as a result of the non-exercise of 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 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 equity*

As confirmed by the Company, if the Put Option is not exercised, the put option reserve on the balance sheet of the Group 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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## LETTER FROM KINGSWAY CAPITAL

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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 on the exercise of Put Option. 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 Put Option over the carrying value of the NEL Group would be credited to reserves under the total equity.

In addition, after 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 connected 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 30 September 2013, the NEL Group had cash balance of approximately HK\$7.0 million. Assuming the Put Option had been exercised on 1 October 2013, the cash position of the Group would have been increased by approximately HK\$58.0 million.

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## LETTER FROM KINGSWAY CAPITAL

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***(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 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 October 2013, the Put Option reserve would have become zero, deemed contribution from a shareholder would have remained unchanged, and an amount of approximately HK\$4.0 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\$39.5 million.

***(v) Impact on gearing***

Assuming the Put Option had been exercised on 1 October 2013, the total equity and the total assets of the Group would have increased by approximately HK\$39.5 million. Hence, the gearing of the Group would have been improved.

In conclusion, if the Put Option is exercised, there is possible increase in total equity and cash balance of the Group and improved gearing ratio of the Group while, on the other hand, there is no adverse financial impact to the Group under the situation of non-exercise of Put Option.

We, after taking into consideration of:

- (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 established resources, serves as the platform of the Music and Entertainment business for the Group;
- (ii) the latest financial performance of the NEL Group;



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## LETTER FROM KINGSWAY CAPITAL

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(iii) the strong cash balance of the Group; and

(iv) the PSR analysis of the Market Comparables,

are of the view that the non-exercise of Put Option is more in the interest of the Company and the Shareholders as a whole, compared to the exercise of Put Option.

### 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 Independent Board Committee to recommend the Independent Shareholders, and we advise the Independent Shareholders, not to vote in favour of the first resolution to be proposed at the SGM to approve the exercise of Put Option and we advise the Independent Board Committee to recommend the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour the second resolution to be proposed at the SGM to approve the non-exercise of Put Option.

Yours faithfully,

For and on behalf of

**Kingsway Capital Limited**

**Chu Tat Hoi**

*Executive Director*

**Liu Kam Yin**

*Director*

**1. INDEBTEDNESS STATEMENT**

As at the close of business on 30 November 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had secured interest-bearing bank borrowings of approximately HK\$35,354,000, all of which was repayable within one year. The bank borrowings were secured by corporate guarantee given by the Company and the Group's building.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 30 November 2013, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

**2. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the Group's internal resources and the available banking facilities, the Group will have sufficient working capital to satisfy the requirements for at least the next 12 months following the date of this circular, whether or not the Put Option is exercised.

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, save for the significant decrease in the consolidated profit of the Company for the six months ended 30 September 2013 compared to the corresponding period in 2012 (as set out in the Company's announcement dated 4 November 2013 and the Company's interim report for the six months ended 30 September 2013), the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2013, being the date to which the latest published audited financial statements of the Group were made up.

**4. FINANCIAL AND TRADING PROSPECT**

The Group principally engages in (i) manufacturing and sales of printing products; (ii) trading of printing products; (iii) music and entertainment businesses; (iv) securities trading; and (v) property development and investment.

The Group's business of manufacturing and sales of printing products is its principal business segment. Given the rising cost of operation in the PRC and the uncertain global market, the operating environment of the business of manufacturing and sales of printing products has been challenging putting pressure on the profit margin of printing businesses in the market. The Group is in the process of enhancing its quality and cost control policy to reduce operating costs, and to boost the production efficiency of its PRC factories. The Company will assess the performance of the newly acquired press machine and plans to gradually replace the older press machines to reduce the pressure of increasing labour costs and increase productivity as a whole. Furthermore, the Group has been exploring and continues to explore other business opportunities to broaden the Group's source of income.

As set out in the Letter from the Board in this circular, the Group will continue to identify new artistes with talent and potential. The Group will also devote more resources to developing the new media markets and the promotion services. Meanwhile, the Group is also actively seeking and identifying high quality teleplays as well as different investment opportunities in the music, media and culture and entertainment related projects in particular in the PRC. Further details in respect of the plans and prospects of the Group's entertainment business are set out in the section headed "Update on NEL Group's business development and impacts of exercise of Put Option" in the Letter from the Board in this circular.

With regard to the Group's business of property investment and development, during the six months ended 30 September 2013, the Group acquired interests in two companies which are engaged in property development and investment in the PRC. The two companies hold land use rights of certain commercial land in Chengdu province and Qingyuan city, Guangdong province respectively in the PRC. Their development plans cover residential units for sales and a shopping mall for sale or rent. The construction work is expected to commence in 2014 and its costs are expected to be financed by capital contribution by shareholders and bank borrowings. The Group will closely monitor the development progress of these two projects and will continue to look for projects with potential. As stated above, the Group's entertainment business seeks investment opportunities including culture and entertainment related projects in the PRC. Such projects may contain theaters, museums as well as property development elements including residential and commercial (e.g., shopping facilities) developments.

On 11 December 2013, the Company announced that the Group commenced money lending business in Hong Kong through a wholly-owned subsidiary which is a licensed money lender in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong). Given the Group's experience in obtaining finance leases for its printing machinery, the Group considers that there may be business opportunities to provide equipment lease financing to its business partners including suppliers and customers. The Group will only provide such financing after diligent consideration of the borrowers' background and credibility. At present, the money lending business is not a principal business of the Group given that it is still in the stage of early development. The Directors believe that such new business can diversify the income stream of the Group.

## 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 <sup>1</sup>	36.43%
Fiducia Suisse SA	Trustee	371,320,000 <sup>2</sup>	36.43%
David Henry Christopher Hill	Interest in a controlled corporation	371,320,000 <sup>2</sup>	36.43%
Rebecca Ann Hill	Interest of Spouse	371,320,000 <sup>2,3</sup>	36.43%
Dr. SUEK Chai Kit, Christopher	Founder of trust	398,720,000 <sup>4</sup>	39.11%
Dr. NG Wai Yung	By attribution	398,720,000 <sup>5</sup>	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 from 1 April 2012 to 31 October 2013, (ii) the grant of licence by Neway KB to the NEL Group to occupy and use certain areas at Units 801-802, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong at a license fee of HK\$30,000 per month for a term from 1 November 2013 to 31 March 2014 and (iii) 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 2013, 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. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against any member of the Group as at the Latest Practicable Date.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Group within the two years preceding the Latest Practicable Date and are, or may be, material to the Group:

- (a) the supplemental agreements dated 29 June 2012, 28 March 2013 and 30 September 2013 entered into between Gain Capital, the Vendor and Dr. Suek in relation to the extension of the expiry date of the Put Option;
- (b) the share purchase agreements dated 13 September 2012 and 24 September 2012 entered into between Brilliant Wise International Limited (“**Brilliant Wise**”, a wholly-owned subsidiary of the Company) and New Concept Capital Limited (as agent of Precise Energy Holdings Limited) in relation to the acquisition of 90,644 shares in the issued share capital of Wavesquare Inc. by Brilliant Wise at the consideration of US\$1,000,000;
- (c) the equity transfer agreement dated 9 April 2012 entered into between Mr. Pu Si Jia (浦思佳) and 佛山市星宏投資管理有限公司 (Foshan Xing Hong\* (“**Foshan Xing Hong**”), a wholly-owned subsidiary of the Company) in relation to Foshan Xing Hong’s acquisition of a 40% equity interest in 匯金泛亞 (福建) 有限公司 (Huijin Pan Asia (Fujian) Co., Ltd.\*, “**Huijin Pan Asia**”) from Mr. Pu Si Jia at nil consideration;
- (d) the shareholder’s loan agreement dated 13 April 2012 entered into between Foshan Xing Hong and Huijin Pan Asia in relation to the provision of RMB40 million by Foshan Xing Hong to Huijin Pan Asia;

\* For identification purpose only



- (e) the capital increase agreement dated 27 February 2013 entered into between Shi Qiuzhen 施秋珍, Chen Yin 陳穎, 成都匯金泛亞地產開發有限公司 (Chengdu Huijin Fanya Real Estate Development Co., Ltd.\*), 匯達地產(福州)有限公司 (Huida Real Estate (Fuzhou) Co., Ltd.\*) and 深圳市中星國隆投資發展有限公司 (Shenzhen Zhongxing Guolong Investment Development Co., Ltd.\* (“**Zhongxing Guolong**”), a wholly-owned subsidiary of the Company) regarding the increase of the registered capital of 四川英華房地產有限公司 (Sichuan Yinghua Real Estate Co., Ltd.\*, “**Sichuan Yinghua**”) and subscription of the additional registered capital in the amount of RMB10 million by Zhongxing Guolong;
- (f) the agreement dated 27 February 2013 made between the Sichuan Yinghua and Zhongxing Guolong in relation to the provision of the shareholder’s loan of RMB30 million by Zhongxing Guolong to Sichuan Yinghua;
- (g) a put option deed dated 27 February 2013 entered into between Dream Class Limited (“**Dream Class**”, a wholly-owned subsidiary of the Company) and Kwong Da Enterprises Limited (“**Kwong Da**”, which owns the entire equity interest of Huida Real Estate (Fuzhou) Co., Ltd.) pursuant to which Kwong Da has granted a put option to Dream Class entitling Dream Class to require Kwong Da to purchase from Dream Class the entire issued share capital of Star Rank Limited (“**Star Rank**”) at the put option consideration. In accordance with the put option deed, the put option consideration shall be equal to the higher of RMB52 million or an amount equal to 16.67% of the performance target as defined in the put option deed (if such performance target is not available, the amount shall be deemed to be RMB52 million), in each case, less the amount of the shareholder’s loan repaid by Sichuan Yinghua to Zhongxing Guolong and the dividends received by Zhongxing Guolong during the period commencing from the date of the put option deed and ending on 26 February 2016; and
- (h) the shareholders’ agreement entered into between Star Rank, Wealth Century Limited (“**Wealth Century**”) and Reliance Partner Limited (the “**JV Company**”) dated 31 May 2013 for the purpose of, among other things, governing the relationship between Star Rank and the Wealth Century as shareholders of the JV Company and to set out the basis on which the business and affairs of the JV Company shall be managed and controlled.

\* For identification purpose only

**8. 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.

**9. 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:

<b>Name</b>	<b>Qualification</b>
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.

**10. 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.

#### **11. DOCUMENT AVAILABLE FOR INSPECTION**

Copies of the following documents 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:

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 18 of this circular;
- (iii) the letter from Kingsway Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 55 of this circular;
- (iv) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix;
- (v) the SP Agreement;
- (vi) the non-competition undertakings provided by the Vendor, Dr. Suek and Mr. Suek Ka Lun, Ernie;
- (vii) the written consent of Kingsway Capital;
- (viii) the annual reports of the Company for each of the two years ended 31 March 2012 and 31 March 2013; and
- (ix) the circular of the Company dated 2 September 2013.

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## NOTICE OF SPECIAL GENERAL MEETING

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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)

### 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 11:00 a.m. on Thursday, 13 February 2014 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 resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT**
  - (a) the 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 exercise of the Put Option.”
2. “**THAT** subject to the resolution numbered 1 above not being passed by the shareholders of the Company as an ordinary resolution:
  - (a) the non-exercise of 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

\* For identification purpose only

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## NOTICE OF SPECIAL GENERAL MEETING

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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, 24 January 2014

*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 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 resolutions will be decided by way of poll.