THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, the Whitewash Waiver 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 for independent advice.

If you have sold or transferred all your shares in Climax International Company Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES; (2) APPLICATION FOR WHITEWASH WAIVER; (3) AMENDMENT TO BYE-LAWS; (4) CHANGE OF COMPANY NAME; (5) APPOINTMENT OF DIRECTORS; AND (6) NOTICE OF SPECIAL GENERAL MEETING

Financial advisers to the Company

KINGSTON CORPORATE FINANCE LTD. **REORIENT Financial Markets Limited**

Independent financial adviser to the Independent Board Committee

Nuada Limited

Corporate Finance Advisory

A letter from the Board is set out on pages 7 to 43 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 44 to 45 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee is set out on pages 46 to 80 of this circular.

A notice convening the SGM to be held at Lavender, Level 3, Three Pacific Place, 1 Queen's Road East, Admiralty, Hong Kong on 21 August 2014 at 11:00 a.m. is set out on pages 169 to 172 of this circular.

Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registrar of the Company, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, 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 (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

29 July 2014

CONTENTS

DEFINITIONS

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

"acting in concert"	has the same meaning as ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated 13 June 2014 in connection with, among other things, the Subscription and the Whitewash Waiver
"Appointment of Directors"	the appointment of Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang and Mr. Ko Chun Shun, Johnson as executive Directors and Dr. Liu Jun and Dr. Wong Kai Kit as independent non-executive Directors, which will take effect from Completion
"associate(s)"	has the same meaning as ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than Saturday or Sunday or public holiday and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business
"BVI"	British Virgin Islands
"Bye-laws"	bye-laws of the Company
"Change of Company Name"	the proposed change of the English name of the Company from "Climax International Company Limited" to "KuangChi Science Limited" and the adoption and registration of a Chinese name "光啟科學有限公司" as its secondary name
"Company"	Climax International Company Limited (stock code: 439), a company incorporated in Bermuda with limited liability and the Ordinary Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
"Completion Date"	the date on which Completion occurs

"connected person(s)"	has the same meaning as ascribed to it under the Listing Rules
"Conversion Share(s)"	Ordinary Share(s) to be allotted and issued upon conversion of the Preferred Share(s)
"Cutting Edge"	Cutting Edge Global Limited
"Director(s)"	director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Grand Consulting"	Grand Consulting Management S.A.
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board established by the Board, comprising all the non-executive Directors, namely Mr. Wong Hung Ki, Mr. Lau Man Tak, Mr. Man Kwok Leung and Dr. Wong Yun Kuen, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and the Whitewash Waiver and as to voting
"Independent Financial Adviser"	Nuada Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Subscription (including the Specific Mandate) and the Whitewash Waiver

"Independent Shareholders"	(a) for the purpose of the Subscription (including the Specific Mandate), the Redesignation Resolution and the amendment to Bye-laws, Shareholders other than the Subscribers, their respective associates and other Shareholders who have a material interest in the Subscription (including the Specific Mandate), the Redesignation Resolution and the amendment to Bye-laws; and (b) for the purpose of the Whitewash Waiver, Shareholders other than the Subscribers and parties acting in concert with New Horizon and any other Shareholders who are interested or involved in the Subscription (including the Specific Mandate) and/or the Whitewash Waiver
"Kuang-Chi"	Kuang-Chi Innovative Technology Limited (深圳光啟創新技術有限公司)
"Last Trading Day"	29 May 2014, being the last trading day of the Ordinary Shares immediately prior to the date of the Announcement
"Latest Practicable Date"	25 July 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information therein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan Agreement"	the facility agreement entered into between New Horizon and Rosier dated 29 May 2014 in respect of the revolving credit facility in the aggregate principal amount of HK$181,640,000
"Long Stop Date"	31 October 2014 (or such other date as may be agreed by the parties to the Subscription Agreement in writing)
"Lucky Time"	Lucky Time Global Limited
"New Horizon"	New Horizon Wireless Technology Limited
"Ordinary Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company from time to time
"Ordinary Shares Subscription"	the subscription of the Ordinary Subscription Shares under the Subscription Agreement
"Ordinary Subscription Shares"	1,666,666,668 new Ordinary Shares, in aggregate, to be subscribed by the Subscriber(s)

"Outsourcing Technology Development Agreement"	an agreement to be made between the WFOE as principal and Kuang-Chi as developer at Completion in relation to the development of certain technology
"PRC"	the People's Republic of China (which for the purpose of the Subscription Agreement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan)
"Preferred Share(s)"	after the Redesignation Resolution having been passed, 2,683,333,332 convertible preferred shares of HK$0.01 each in the capital of the Company, comprising the Tranche A Preferred Shares and the Tranche B Preferred Shares
"Redesignation Resolution"	the ordinary resolution to be passed by the Independent Shareholders in general meeting reclassifying and redesignating the existing shares of the Company of HK$0.01 each in the authorised share capital of the Company into 7,316,666,668 Ordinary Shares of HK$0.01 each and 2,683,333,332 Preferred Shares of HK$0.01 each, and among others, approving the rights of each of such class of shares, such that following such redesignation and reclassification, the authorised share capital of the Company will be HK$100,000,000 divided into 7,316,666,668 Ordinary Shares and 2,683,333,332 Preferred Shares with the rights, privileges and restrictions set out thereto
"Relevant Period"	the period commencing 14 December 2013, being the date falling six months before the date of the Announcement, up to and including the Latest Practicable Date
"REORIENT Global"	REORIENT Global Limited
"RFML"	REORIENT Financial Markets Limited
"RMB"	Renminbi, the lawful currency of the PRC
"Rosier"	Rosier Investments Limited
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened and held at Lavender, Level 3, Three Pacific Place, 1 Queen's Road East, Admiralty, Hong Kong on 21 August 2014 at 11:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve, the Subscription and the transactions contemplated thereunder (including the Specific Mandate), the Whitewash Waiver, the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name and the Appointment of Directors
"Shareholder(s)"	holder(s) of Ordinary Share(s)
"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM for the allotment and issue of the Subscription Shares and the Conversion Shares
"Starbliss"	Starbliss Holdings Limited
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber(s)"	New Horizon, Starbliss, Grand Consulting, Lucky Time, Cutting Edge and REORIENT Global, or any of them as the context may suggest
"Subscription"	the subscription of the Subscription Shares under the Subscription Agreement
"Subscription Agreement"	the subscription agreement entered into between the Company and the Subscribers dated 29 May 2014
"Subscription Price"	HK$0.08 per Subscription Share
"Subscription Shares"	collectively, the Ordinary Subscription Shares, the Tranche A Preferred Shares and the Tranche B Preferred Shares
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC as amended from time to time
"Tranche A Preferred Shares"	1,341,666,666 new Preferred Shares, in aggregate, to be subscribed by the Subscribers
"Tranche A Preferred Shares Subscription"	the subscription of the Tranche A Preferred Shares under the Subscription Agreement
"Tranche B Preferred Shares"	1,341,666,666 new Preferred Shares, in aggregate, to be subscribed by the Subscribers

"Tranche B Preferred Shares Subscription"	the subscription of the Tranche B Preferred Shares under the Subscription Agreement
"WFOE"	a wholly-foreign owned subsidiary of the Company to be established under PRC laws as a party to the Outsourcing Technology Development Agreement
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscribers to make a mandatory general offer for all of the Ordinary Shares and other securities of the Company not already owned or agreed to be acquired by the Subscribers and parties acting in concert with New Horizon which would, if the Subscription proceeds, otherwise arise as a result of Completion and full conversion of the Preferred Shares
"%"	percentage

CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

Executive Directors:
Mr. Wong Hin Shek
Mr. Ng Man Chan

Non-executive Director:
Mr. Wong Hung Ki

Independent Non-executive Directors:
Mr. Lau Man Tak
Mr. Man Kwok Leung
Dr. Wong Yun Kuen

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 906, 9/F
Wings Building
110–116 Queen's Road Central
Central
Hong Kong

29 July 2014

To the Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES; (2) APPLICATION FOR WHITEWASH WAIVER; (3) AMENDMENT TO BYE-LAWS; (4) CHANGE OF COMPANY NAME; (5) APPOINTMENT OF DIRECTORS; AND (6) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement dated 13 June 2014, in which the Board announced that on 29 May 2014 (after the trading hours), the Company and the Subscribers entered into the Subscription Agreement pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 Subscription Shares, comprising 1,666,666,668 new Ordinary Shares and 2,683,333,332 new Preferred Shares at an issue price of HK$0.08 per Subscription Share.

The purpose of this circular is to give you, among other things, (i) information of the Subscription (including the Specific Mandate), the Whitewash Waiver, the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name and the Appointment of Directors; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Subscription (including the Specific Mandate) and the Whitewash Waiver; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Subscription (including the Specific Mandate) and the Whitewash Waiver; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules and the Takeovers Code.

THE SUBSCRIPTION AGREEMENT

Date : 29 May 2014 (after the trading hours)

Issuer : The Company

Subscribers : (i) New Horizon
(ii) Starbliss
(iii) Grand Consulting
(iv) Lucky Time
(v) Cutting Edge
(vi) REORIENT Global

The Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Please refer to the section headed "Information of the Subscribers" for more information of the Subscribers.

The Subscription Shares

The Subscription comprises the Ordinary Shares Subscription, the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription.

The following sets out a summary of the subscription of the Subscription Shares by each of the Subscribers:

	Ordinary Shares Subscription		**Tranche A Preferred Shares Subscription**		**Tranche B Preferred Shares Subscription**	
	No. of Ordinary Shares	*Consideration HK$ million*	*No. of Preferred Shares*	*Consideration HK$ million*	*No. of Preferred Shares*	*Consideration HK$ million*
New Horizon	1,133,333,334	90.67	912,333,333	72.98	912,333,333	72.98
Starbliss	155,555,556	12.44	125,222,222	10.02	125,222,222	10.02
Grand Consulting	77,777,778	6.22	62,611,111	5.01	62,611,111	5.01
Lucky Time	77,777,778	6.22	62,611,111	5.01	62,611,111	5.01
Cutting Edge	155,555,556	12.44	125,222,222	10.02	125,222,222	10.02
REORIENT Global	66,666,666	5.34	53,666,667	4.29	53,666,667	4.29
	1,666,666,668	133.33	1,341,666,666	107.33	1,341,666,666	107.33

The 1,666,666,668 Ordinary Subscription Shares represented (i) approximately 115% of the number of issued Ordinary Shares as at the Latest Practicable Date; and (ii) approximately 53.5% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares (on the basis that no Preferred Shares have been converted into Ordinary Shares and that there was no other change in the number of issued Ordinary Shares). The aggregate nominal value of the Ordinary Subscription Shares is HK$16,666,666.68.

Upon conversion of the Tranche A Preferred Shares in full, 1,341,666,666 Conversion Shares will be allotted and issued, representing (i) approximately 92.6% of the number of issued Ordinary Shares as at the Latest Practicable Date; and (ii) approximately 30.1% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares under the Tranche A Preferred Shares (on the basis that no Tranche B Preferred Shares have been converted into Ordinary Shares and assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares). The aggregate nominal value of the 1,341,666,666 Conversion Shares under the Tranche A Preferred Shares is HK$13,416,666.66.

Upon conversion of the Tranche B Preferred Shares in full, 1,341,666,666 Conversion Shares will be allotted and issued, representing (i) approximately 92.6% of the number of issued Ordinary Shares as at the Latest Practicable Date; and (ii) approximately 23.1% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares under both the Tranche A Preferred Shares and the Tranche B Preferred Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares). The aggregate nominal value of the 1,341,666,666 Conversion Shares under the Tranche B Preferred Shares is HK$13,416,666.66.

The Subscription Price

The Subscription Price of HK$0.08 per Subscription Share represented (i) a discount of approximately 76.1% to the closing price of HK$0.335 per Ordinary Share as quoted on the Stock Exchange on 29 May 2014, being the Last Trading Day; (ii) a discount of approximately 74.9% to the average closing price of approximately HK$0.319 per Ordinary Share for the last five consecutive trading days up to and including the Last Trading Day; (iii) a discount of approximately 75.2% to the average closing price of approximately HK$0.322 per Ordinary Share for the last 10 consecutive trading days up to and including the Last Trading Day; (iv) a discount of approximately 97.5% to the closing price of HK$3.26 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date; (v) a discount of approximately 44.1% to the unaudited net asset value per Ordinary Share of approximately HK$0.143 as at 30 September 2013; and (vi) a discount of approximately 30.4% to the audited net asset value per Ordinary Share of approximately HK$0.115 as at 31 March 2014.

The unaudited net asset value of the Group as at 30 September 2013 was approximately HK$207.5 million and the audited net asset value of the Group as at 31 March 2014 was approximately HK$167.2 million.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers after taking into account the prevailing market price of the Ordinary Shares, the trading volume of the Ordinary Shares and the unaudited net asset value per Ordinary Share of approximately HK$0.143 as at 30 September 2013. Taking into account that the Subscription may generate strategic value to the development of the Group's business and broaden the Group's revenue potential, the Directors consider that the Subscription Price (including the discount to the prevailing market price and net asset value per Ordinary Share) is fair and reasonable.

The aggregate Subscription Price amounts to approximately HK$348 million which shall be payable in cash by the Subscribers in proportion to their Subscription Shares subscribed in the following manners:

(i) at Completion, the Subscription Price of the Ordinary Shares Subscription and approximately 5% of the Subscription Price of the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription, i.e. being approximately HK$144 million in aggregate;

(ii) on a date falling within six months after the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the date falling on the last day of such six-month period after the Completion Date (or such other date as the parties under the Subscription Agreement may agree in writing), approximately 95% of the aggregate Subscription Price of the Tranche A Preferred Shares Subscription, i.e. being approximately HK$102 million; and

(iii) on a date falling before the first anniversary of the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the first anniversary of the Completion Date (or such other date as the parties under the Subscription Agreement may agree in writing), approximately 95% of the aggregate Subscription Price of the Tranche B Preferred Shares Subscription, i.e. being approximately HK$102 million.

Upon Completion, the Preferred Shares shall be issued and credited as partly paid. Payment of the remaining Subscription Price in respect of the Preferred Shares as set out in paragraphs (ii) and (iii) above are subject further to fulfilment of the following conditions by the Company:

(a) Completion having occurred in accordance with the terms and conditions of the Subscription Agreement;

(b) the approval by the Independent Shareholders at the SGM for the Specific Mandate not having been or proposed to be withdrawn, amended or revoked; and

(c) the current listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on the Stock Exchange at all times from the Completion Date to the payment date (save for any temporary suspension not more than five trading days (or such other period as such Subscriber may agree)), and the Stock Exchange approval with respect to the listing and dealing in such Conversion Shares not having been revoked or cancelled or amended.

In the event the Company fails to fulfil the above conditions on or before the relevant payment date (or such later date as the relevant Subscriber may otherwise agree to defer in writing in accordance with the Subscription Agreement), the relevant Subscriber shall be entitled not to pay the balance of the Subscription Price of the relevant Preferred Shares, and may in its absolute discretion by written notice to the Company: (1) defer payment of such balance by not more than 28 days to such other date as the relevant Subscriber may specify; or (2) elect not to proceed further with its outstanding payment obligation of its balance of the aggregate Subscription Price of the relevant Preferred Shares, and accordingly the Company shall repurchase the relevant Preferred Shares from the relevant Subscriber at an amount equivalent to the Subscription Price received by the Company for the relevant number of Preferred Shares from such Subscriber. The repurchased Preferred Shares will be cancelled upon such repurchase in accordance with the terms of the Preferred Shares. In the event the relevant Subscriber fails to pay its remaining Subscription Price of the Preferred Shares as set out in paragraphs (ii) and (iii) above on or before the relevant payment date (or such later date as the Company may otherwise agree to defer in writing in accordance with the Subscription Agreement), the Company shall be entitled not to convert the relevant Preferred Shares and may in its absolute discretion by written notice to the relevant Subscriber: (1) defer payment of such balance by not more than 28 days to such other date as the Company may specify; or (2) in the event that by the last day of the relevant payment date, the relevant Subscriber has not paid in full its balance of the aggregate Subscription Price of the relevant Preferred Shares, forfeit such Preferred Shares issued to such Subscriber.

Information on the Preferred Shares

A summary of the principal terms of the Preferred Shares is set out below:

Issue price:	HK$0.08 per Preferred Share
Dividends:	None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.
Return on capital:	The Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

Transferability:	Any Preferred Shares, subject to it having been fully paid up and the ‘‘Lock-up undertakings’’ as detailed below, shall be freely transferable. For the avoidance of doubt, no partly-paid Preferred Shares can be transferred.
Voting:	The holder(s) of the Preferred Shares will not be entitled to attend or vote at any general meeting of the Company, unless a resolution is to be proposed at a general meeting for winding up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder(s) thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holder(s) may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares.
Conversion period:	The period commencing from the Completion Date and ending on the second anniversary of the Completion Date.
Conversion:	Subject to the minimum public float requirement set out below and the payment in full of the Subscription Price of the Preferred Shares, the Preferred Shares shall be convertible into Ordinary Shares by the Preferred Shareholder serving the conversion notice to the Company on any Business Day within the conversion period, without the payment of any additional consideration therefor, into such number of fully-paid Conversion Shares. The Company’s obligation to effect conversion of fully-paid Preferred Shares into Conversion Shares shall be subject to the minimum public float requirement under the Listing Rules being met.

For fully-paid Preferred Shares, the conversion right attaching to the Preferred Shares shall cease if the same is not exercised on the last date of the conversion period. Holders of Preferred Shares shall no longer be entitled to convert such Preferred Shares into Ordinary Shares after such date. Such fully-paid but unconverted Preferred Shares will remain as Preferred Shares with the rights set out in the terms of the Preferred Shares and will not be redeemable, and the issued as well as authorised share capital of the Company shall remain comprising both the Ordinary Shares and the Preferred Shares (the latter of which having no conversion right attaching thereto). Upon liquidation of the Company, according to the terms of the Preferred Shares, the Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

For partly-paid Preferred Shares, since the payment date for the remaining balance of the aggregate Subscription Price falls before the expiry of the conversion period, any partly-paid Preferred Shares would have been either forfeited or repurchased by the Company prior to the expiry of the conversion period in circumstances as set out in the paragraph headed "The Subscription Price" above.

Conversion price: HK$0.08 per Conversion Share, subject to conversion adjustments set out under the section headed "Conversion adjustments" below.

The conversion price of HK$0.08 per Conversion Share (subject to adjustments set out under the section headed "Conversion adjustments") is used for the purpose of calculating the number of Ordinary Shares convertible from Preferred Shares. No conversion price is payable upon conversion. The partly-paid Preferred Shares to be issued at Completion are not convertible into Conversion Shares until the Subscription Price of the relevant Preferred Shares have been fully paid.

Conversion rate: One Preferred Share convertible into one Ordinary Share (subject to adjustment of the conversion price), which is determined by dividing the Subscription Price by the conversion price per Ordinary Share in effect at the time of conversion, provided that the conversion price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible.

Redemption: Other than the repurchase as set out in the section headed "The Subscription Price" above, the Preferred Shares shall be non-redeemable.

Conversion adjustments

The conversion price of HK$0.08 per Conversion Share shall from time to time be adjusted in accordance with the following relevant provisions so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of clauses (a) to (f) inclusive, it shall fall within the first of the applicable clauses to the exclusion of the remaining clauses:

(a) if and whenever the Ordinary Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the conversion price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or reclassification becomes effective;

(b) if and whenever the Company shall:

(i) issue (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account); or

(ii) issue Ordinary Shares paid out of distributable profits or reserves and/or share premium accounts issued in lieu of the whole or any part of a cash dividend, being a dividend which the holders of the Ordinary Shares concerned would or could otherwise have received but only to the extent that the market value of such Ordinary Shares exceeds 110% of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash and which would not have constituted a capital distribution) (for which purpose the "market value" of an Ordinary Share shall mean the average of the closing prices published in the Stock Exchange's Daily Quotation Sheet for one Ordinary Share for 5 trading days ending an the last trading day immediately preceding the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash); then the conversion price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Ordinary Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for such issue;

(c) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the conversion price in force immediately prior to such distribution or grant shall be adjusted by multiplying by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the closing price published in the Stock Exchange in respect of one Ordinary Share on the trading day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or failing any such announcement, the date of the capital distribution or the grant, as the case may be, as determined in good faith by the independent financial adviser appointed by the Company, of the portion of the capital distribution or of such rights which is/are attributable to one Ordinary Share,

Provided that:

(i) if, in the opinion of the relevant independent financial adviser appointed by the Company, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Stock Exchange's Daily Quotation Sheet of one Ordinary Share which should properly be attributed to the value of the capital distribution or rights; and

(ii) the conversion adjustment under paragraph (c) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day following the record date for the capital distribution or grant;

(d) if and whenever the Company shall offer to all holders of Ordinary Shares new Ordinary Shares for subscription by way of rights, or shall grant to all holders of Ordinary Shares any options or warrants to subscribe for new Ordinary Shares, at a price per new Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Ordinary Shares or other persons), the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + I}$$

where:

G = the number of Ordinary Shares in issue immediately before the date of such announcement;

H = the number of Ordinary Shares which the aggregate of the two following amounts would purchase at such market price:

(i) the total amount (if any) payable to the rights, options or warrants being offered or granted; and

(ii) the total amount payable for all of the new Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted; and

I = the aggregate number of Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant.

(e) (i) if and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares, and the total Effective Consideration per new Ordinary Share initially receivable for such securities is less than 90% of the market price at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Shares of other persons), the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such issue by the following fraction:

$$\frac{J + K}{J + L}$$

where:

J = the number of Ordinary Shares in issue immediately before the date of the issue of such securities;

K = the number of Ordinary Shares which the total Effective Consideration receivable for such securities would purchase at such market price; and

L = the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

(ii) if and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned the conversion adjustment under paragraph (e)(i) are modified so that the total Effective Consideration per new Ordinary Share initially receivable for such securities shall be less than 90% of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such modification by the following fraction:

$$\frac{M + N}{M + O}$$

where:

M = the number of Ordinary Shares in issue immediately before the date of such modification;

N = the number of Ordinary Shares which the total Effective Consideration receivable for such securities at the modified conversion or exchange rate or subscription price would purchase at such market prices; and

O = the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

(iii) for the purposes of the conversion adjustment under paragraph (e):

(aa) the "total Effective Consideration" receivable for the securities issued shall be deemed to be the aggregate consideration receivable by the issuer for such securities for the issue thereof plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto; and

(bb) the "total Effective Consideration per new Ordinary Share" initially receivable for such securities shall be such aggregate consideration divided by the maximum number of new Ordinary Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial subscription price, in each case, without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof.

(f) if and whenever the Company shall issue wholly for cash any Ordinary Shares at a price per Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of such issue, the conversion price shall he adjusted by multiplying the conversion price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{P + Q}{P + R}$$

where:

P = the number of Ordinary Shares in issue immediately before the date of such announcement;

Q = the number of Ordinary Shares which the aggregate amount payable for such issue would purchase at such market price; and

R = the number of Ordinary Shares allotted pursuant to such issue. Such adjustment shall become effective on the date of the issue.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

Mandate for the issue of the Subscription Shares

The Subscription Shares and the Conversion Shares will be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM.

Ranking

The Ordinary Subscription Shares and the Conversion Shares will rank pari passu in all respects with the Ordinary Shares in issue as at the date of allotment and issue of the Ordinary Subscription Shares and the Conversion Shares respectively.

Listing application

No application will be made for the listing of, or permission to deal in, the Preferred Shares on the Stock Exchange or any other stock exchange. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Ordinary Subscription Shares and the Conversion Shares.

Conditions of the Subscription

The Subscription is conditional upon satisfaction (or waiver by the Subscribers jointly in the case of paragraphs (g), (h), (i) and (m) below) of the following conditions:

(a) the current listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on the Stock Exchange at all times from the date of the Subscription Agreement to the Completion Date (save for any temporary suspension pending the Announcement (or such other period as the Subscribers may agree)) and neither the Stock Exchange nor the SFC having indicated that either one of them will qualify, object to, cancel or withdraw such listing and/or dealings in the Ordinary Shares (including the Ordinary Subscription Shares) for reasons related to or arising from the transactions contemplated in the Subscription Agreement;

(b) the passing of resolutions (special resolution or ordinary resolution, as the case may be) by the Shareholders (other than those who are required by the Listing Rules and/or the Takeovers Code to abstain from voting) in general meeting of the Company approving, among other things:

   (i) the execution, consummation and completion of the Subscription Agreement;

   (ii) the Redesignation Resolution;

   (iii) the Specific Mandate;

   (iv) where required under the Listing Rules, the terms of the Outsourcing Technology Development Agreement and the transactions contemplated thereunder and authorising its execution thereof; and

   (v) amendment to Bye-laws in respect of, among others, the creation, allotment and issue of a class of Preferred Shares with the rights, obligations and privileges attaching thereto;

(c) the Executive having granted to the Subscribers the Whitewash Waiver (and such grant not having been revoked or withdrawn) and any necessary conditions prior to Completion, if any, attached to it having been fulfilled;

(d) the Company having obtained approval of its Independent Shareholders in general meeting for the Whitewash Waiver;

(e) the Listing Committee of the Stock Exchange having granted listing of and permission to deal in the Ordinary Subscription Shares and the Conversion Shares and such approval and granting of permission not having been withdrawn or revoked;

(f) the Group having obtained all consent from the relevant governmental or regulatory authorities which are necessary to be obtained for the execution and performance of the Subscription Agreement and any of the transactions contemplated under the Subscription Agreement and the Outsourcing Technology Development Agreement;

(g) the warranties under the Subscription Agreement remaining true, accurate and not misleading in all material respects at Completion by reference to the facts and circumstances subsisting as at the Completion Date;

(h) the Company having complied fully with the pre-completion obligations set out in the Subscription Agreement and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under the Subscription Agreement;

(i) there being no material adverse change in respect of the Company's ability to perform its obligations under the Subscription Agreement or the business, assets and liabilities, condition or results of operations of the Group as a whole subsisting;

(j) the Group having obtained all consent from third parties which are necessary to be obtained for the execution and performance of the Subscription Agreement and the Outsourcing Technology Development Agreement and any of the transactions contemplated under the Subscription Agreement and the Outsourcing Technology Development Agreement;

(k) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the transactions contemplated under the Subscription Agreement and the Outsourcing Technology Development Agreement, nor shall any action have been taken by any person seeking any of the foregoing, and no statute, rule, regulation or order shall have been enacted, enforced or deemed applicable to the transactions contemplated under the Subscription Agreement and the Outsourcing Technology Development Agreement, which makes the consummation of which illegal;

(l) no statute, regulation or decision which would prohibit or restrict the execution, delivery or performance of the Subscription Agreement and the Outsourcing Technology Development Agreement or the consummation of the transactions contemplated under the Subscription Agreement and the Outsourcing Technology Development Agreement having been enacted or taken by any governmental or official authority whether in Hong Kong, the PRC or elsewhere;

(m) a legal opinion dated no earlier than three Business Days before the Completion Date to be issued by the Company's Bermuda counsel and addressed to the Company and the Subscribers as to the Bermuda law on (i) the due incorporation and good standing of the Company; (ii) the capacity of the Company entering into the Subscription Agreement; (iii) the performance by the Company of its obligations under the Subscription Agreement will not violate the memorandum of association of the Company or the Bye-laws nor any applicable law in Bermuda; and (iv) matters relating to the allotment and issue of the Preferred Shares and the conversion thereof and other matters customary for transactions of this nature; and

(n) New Horizon having procured the delivery of a legal opinion (in the agreed form) addressed to the Company to be issued by a PRC law firm acceptable to the Company confirming, among other matters: (i) the power and authority of Kuang-Chi to perform its obligations under the Outsourcing Technology Development Agreement; (ii) the legality, validity and enforceability of the Outsourcing Technology Development Agreement and the transactions contemplated thereunder; (iii) the validity of the relevant consents required to be obtained by the Group for the transactions contemplated under the Outsourcing Technology Development Agreement; and (iv) such other matters as may be reasonably required by the Company.

Conditions precedent (a), (b), (c), (d), (e), (f), (j), (k) and (l) are not waivable by the Subscribers and condition precedent (n) is not waivable by the Company.

In the event that any of the above conditions shall not have been fulfilled or waived (as applicable) prior to the Long Stop Date, then none of the Company nor the Subscribers shall be bound to proceed with the transactions contemplated under the Subscription Agreement and the Subscription Agreement shall cease to be of any effect save as to any antecedent breach of the Subscription Agreement. Hence, among other things, if the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders at the SGM, the Subscription will not proceed.

As at the Latest Practicable Date, all conditions precedent had yet been fulfilled.

Completion

Completion shall take place on the fifth Business Day from and excluding the day on which the last of the conditions precedent of the Subscription Agreement has been fulfilled or waived. At Completion, the Subscribers shall subscribe for, and the Company shall allot and issue to such Subscribers, their respective number of the Ordinary Subscription Shares, the Tranche A Preferred Shares and the Tranche B Preferred Shares.

Upon issuance at Completion, the 1,666,666,668 Ordinary Subscription Shares will be issued as fully paid, and the 2,683,333,332 new Preferred Shares will be issued as partly paid. The new Preferred Shares which will be partly-paid shares at Completion do not carry any voting right in the Company.

Upon Completion, the Subscribers shall be entitled to nominate any person to the Board for appointment as Director. The Bye-laws do not contain any provisions preventing the Company from entering into or restricting it from entering into an agreement which contains a term entitling the counterparty to nominate any person to become a Director. The Subscribers' right to nominate any person to become Directors upon Completion as set out in the Subscription Agreement is on a one-off basis and does not automatically guarantee the appointment of such person(s). The credentials of the nominees proposed by the Subscribers have been submitted for review by the nomination committee of the Company in compliance with the nomination procedures adopted by the Company. As set out in the notice of SGM to this circular, the appointment of Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang, Mr. Ko Chun Shun, Johnson, Dr. Liu Jun and Dr. Wong Kai Kit as Directors as nominated by the Subscribers is still subject to approval by the Shareholders at the SGM.

According to the Bye-laws, any Shareholder holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company is entitled to requisition a special general meeting of the Company for transaction of any business. Upon Completion, the Subscribers and parties acting in concert with New Horizon will in aggregate be interested in approximately 53.5% of the issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares (on the basis that no Preferred Shares have been converted into Ordinary Shares and that there is no other change in the number of issued Ordinary Shares). Accordingly, the Subscribers shall be entitled to requisition a special general meeting of the Company for appointment of Directors anyway. As such, the Directors do not consider the term in the Subscription Agreement granting the Subscribers a right to nominate any person to become a Director upon Completion having conferred any special right to the Subscribers. The Appointment of Directors will be subject to compliance with the Listing Rules, procedures of the Company's nomination committee and re-election at general meeting. The Company will take into account a number of factors including directors' fiduciary duties when considering any appointment to the Board.

Lock-up undertakings

New Horizon (together with its holding companies, namely Kuang-Chi and Shenzhen Kuang-Chi Hezhong Technology Limited (深圳光啟合眾科技有限公司)) undertakes and covenants with the Company that, without the prior written consent of the Company, it shall not dispose, transfer or sell, among other things, all and any of (i) the Ordinary Subscription Shares, the Tranche A Preferred Shares and/or the Tranche B Preferred Shares; (ii) Conversion Shares derived as a result of the conversion of any Tranche A Preferred Shares and Tranche B Preferred Shares, subscribed by and issued to it at Completion pursuant to the Subscription Agreement within two years from the Completion Date; and (iii) any other Ordinary Subscription Shares, Preferred Shares and Conversion Shares derived as a result of the conversion of the Preferred Shares under the Subscription Agreement transferred from any other Subscribers to New Horizon within the period from the date of such transfer up to the expiry of the two-year period from the Completion Date, save and except that the aforesaid restrictions shall not apply to any disposal, transfer or sale of any of the Ordinary Subscription Shares, Preferred Shares, and/or Conversion Shares made with any other Subscribers.

Starbliss, Grand Consulting, Lucky Time and Cutting Edge each separately undertakes and covenants (together with their respective shareholders) with the Company that, without the prior written consent of the Company, Starbliss, Grand Consulting, Lucky Time and Cutting Edge shall not dispose, transfer or sell among other things, all and any of (i) the Ordinary Subscription Shares within three months from the Completion Date; (ii) the Tranche A Preferred Shares and any Conversion Shares derived as a result of the conversion of any Tranche A Preferred Shares within three months from the date on which such Tranche A Preferred Shares are fully paid up; (iii) the Tranche B Preferred Shares and any Conversion Shares derived as a result of the conversion of any Tranche B Preferred Shares within one year from the date on which such Tranche B Preferred Shares are fully paid up; and (iv) any other Ordinary Subscription Shares, Preferred Shares and Conversion Shares derived as a result of the conversion of the Preferred Shares under the Subscription Agreement transferred from any of the other Subscribers to it within the period from the date of such transfer up to the expiry of the respective lock-up periods referred to in (i), (ii) and (iii) aforesaid, save and except: (i) that the aforesaid restrictions shall not apply to any disposal, transfer or sale of any of the Ordinary Subscription Shares, Preferred Shares, and/or Conversion Shares made with any other Subscribers, or (ii) with the consent of the Board.

Any such Ordinary Subscription Shares, Preferred Shares and/or Conversion Shares so transferred among the Subscribers and any subsequent transfers of the same block of Ordinary Subscription Shares, Preferred Shares and/or Conversion Shares among the Subscribers shall be: (i) subject to the remainder of the original lock-up period in respect of the Ordinary Subscription Shares, Preferred Shares and/or Conversion Shares to which the transferee Subscriber(s) is subject, and (ii) freely transferrable with the consent from the Board (with respect to any such transfer among Subscribers (other than New Horizon) as originally provided in the undertakings by Starbliss, Grand Consulting, Lucky Time and Cutting Edge).

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

The Directors are of the view that the Subscription represents a valuable opportunity for the Group to bring in New Horizon as a solid strategic corporate investor, the holding companies and shareholders of which have extensive experience, strong expertise and a wide business network in the near space and other innovative technology industry in the PRC. Whilst the Group does not have any immediate funding need, the Directors further consider that entering into the Subscription Agreement represents a good opportunity to (i) raise a substantial amount of additional funds for the Company; (ii) improve the financial position and liquidity of the Group; (iii) provide the Company with the financial flexibility necessary for the Group's future business development and the capability to capture any prospective investment opportunities as and when they arise; and (iv) enable the Company to develop a new business segment relating to the near space and other innovative technology industry in the PRC (as further described below) in parallel to its existing business. The Directors are confident that the Subscribers will bring in additional resources and investment opportunities to the Company which are beneficial to the Company and the Shareholders as a whole.

As set out in the Company's interim report for the six months ended 30 September 2013, the Group would closely monitor the conditions of the paper product market and the property market and was prepared to respond swiftly and take advantage of the market adversities to seize further suitable investment opportunities to provide maximum return to Shareholders. The Group has been actively seeking opportunities to broaden its revenue base.

The Directors are of the view that the near space and other innovative technology industry in the PRC offers attractive potential growth and return. Pursuant to the Outsourcing Technology Development Agreement, the WFOE (as principal) shall appoint Kuang-Chi (as developer) to research and develop a civil near space flying apparatus with a volume of not less than 10,000 cubic metre, which shall be equipped with communication facilities to be used in the range from ground level to near space and shall be able to fly at no less than 20 kilometres above sea level.

According to New Horizon and Kuang-Chi, near space is the region of earth's atmosphere that lies between 20 kilometres to 100 kilometres above sea level, which is, in other words, higher than where the commercial aircrafts fly but below orbiting satellites. According to information provided by New Horizon, this region is subject to less electromagnetic interference from ionosphere and free from weather influences in the atmosphere, it therefore provides a stabler environment for the operation of communication devices. According to New Horizon and Kuang-Chi, comparing with satellites, the near space flying apparatus is expected to achieve higher cost efficiency because of lower material costs, lower maintenance costs, lower lifting costs, less signal loss with a closer distance from sea level and nonetheless more loading capacity.

The research results and related intellectual property rights arising from the development of the technologies as prescribed in the Outsourcing Technology Development Agreement shall be owned exclusively by the WFOE upon development of such technologies. Such technologies will be applied to produce near space flying apparatus and it is intended that the near space flying apparatus can be used to carry devices relating to communication solutions for maritime, land-based and aeronautical uses.

Kuang-Chi shall achieve the following research and development milestones pursuant to the Outsourcing Technology Development Agreement:

(i) by 15 September 2014, complete the design and testing of the scaled flying apparatus;

(ii) by 30 October 2014, complete the research and development of the required materials for the flying apparatus, and the inspection and delivery of such relevant materials; and

(iii) by 31 December 2014, complete the testing of the flying apparatus and deliver the flying apparatus to the WFOE to conduct further test run.

The WFOE shall pay a research and development fee in RMB which is equivalent to HK$55,000,000 to Kuang-Chi in the following manner:

(a) an amount in RMB equivalent to HK$20,000,000 upon signing of the Outsourcing Technology Development Agreement;

(b) an amount in RMB equivalent to HK$25,000,000 upon completion of the milestones (i) and (ii) above; and

(c) an amount in RMB equivalent to HK$10,000,000 upon delivery of the flying apparatus to the WFOE (together with the relevant technology information in writing) and acceptance by the WFOE under the terms of the Outsourcing Technology Development Agreement.

The fee payable pursuant to the Outsourcing Technology Development Agreement was agreed between the Company and Kuang-Chi after arm's length negotiations on a cost-plus basis having considered the costs and resources committed by Kuang-Chi on research in the near space flying apparatus technology and incidental expenses plus a small margin.

The development of the near space flying apparatus business will be funded partly or wholly by the net proceeds from the Subscription and/or the Group's internal resources. Following completion and delivery of the civil near space flying apparatus by Kuang-Chi pursuant to the Outsourcing Technology Development Agreement, the Group may consider manufacturing more near space flying apparatus and/or may consider constructing its own production sites.

The Group intends to license its near space flying apparatus for civil commercial use in a number of areas, including but not limited to telecommunication, local area wireless technology (Wi-Fi), meteorological surveillance, satellite television, satellite broadcasting and traffic surveillance, etc. In addition, the Group may partner with its potential customers to explore further business opportunities relating to near space flying apparatus business. Income that may be generated by the licensing of near space flying apparatus will depend on a number of factors, including but not limited to the nature of the licences, the flying distance and the air-borne duration, etc. As at the Latest Practicable Date, the Group did not have any licensing or sale and purchase contracts in connection with the near space flying apparatus business.

The Company and/or the WFOE will have on-going discussions with potential customers of the civil near space flying apparatus and related services from time to time but it is not expected that any concrete and meaningful business proposals with the customers can be concluded until the completion and delivery of the flying apparatus, which currently is expected to occur by 31 December 2014, and the successful test-fly of such flying apparatus is expected to take place by February 2015. The Company expects that the terms of services, including the fees, tenure, scope of services, restrictions, representations, etc. to be offered with respect to the civil near space flying apparatus will be tailored to the specific needs of different potential customers. The Company does not currently have an exhaustive list of potential customer profiles and considers that the initial customers for the civil near space flying apparatus shall be companies which are currently using satellite services and engaged in businesses such as telecommunication, Wi-Fi, meteorological surveillance, satellite television, satellite broadcasting and traffic surveillance. The timing of the commercialisation of the civil near space flying apparatus and developing any long-term service contracts for the civil near space flying apparatus depends on a number of factors, including but not limited to the successful launching of the near space flying apparatus. The Company expects the timing of the commercialisation of and the development of any service contract for the civil near space flying apparatus to be no later than the end of 2015.

Save as disclosed below in the use of proceeds of the Subscription, the Company did not have an estimation of any further capital requirement in respect of the commercialisation of the near space flying apparatus as at the Latest Practicable Date, as the major factors that will affect the capital requirement, being (i) the production costs and time required for building a near space flying apparatus; and (ii) the success and timing of developing any long-term service contracts in respect of the civil near space flying apparatus depend on a number of external factors at the relevant time and therefore cannot be ascertained at this stage. The Company expects to be provided with further information regarding the production costs and time required for building a near space flying apparatus after the test-fly (which is expected to take place by the end of February 2015) is successful. The Company will work closely with Kuang-Chi to obtain the necessary data to estimate the production costs and timing as soon as practicable. The Company believes that the estimated timing of the project deliverables is reasonable and achievable. The Group will actively develop a new business relating to the civil near space flying apparatus although it does not currently have an estimated timetable as to when revenue will be generated or when this new business will break even. In the event that the research and development work under the Outsourcing Technology Development Agreement progresses ahead of the agreed timeline, it is possible that the commercialisation of the civil near space flying apparatus will be moved forward and that the Company will consider conducting further fund raising activities to fund any business and operational needs as and when necessary.

According to New Horizon, there is no specific licence, permit or qualification required to carry out the development of the civil near space flying apparatus business in the PRC other than the regular requirements for registration of any companies conducting business activities in the PRC. It is set out in the Outsourcing Technology Development Agreement that, Kuang-Chi has warranted that the civil near space flying apparatus to be delivered by it under the Outsourcing Technology Development Agreement shall not result in any infringement of any intellectual property rights.

Whilst the Board has no relevant working or management experience in the near space and other innovative technology business, the Directors consider that the Outsourcing Technology Development Agreement presents a good opportunity which helps the Group to develop a new business in the near space and other innovative technology sector in the PRC and to diversify its business portfolio. Through contracting with Kuang-Chi for its assistance to perform research and development in the commercialisation of the civil near space flying apparatus technology, the Company will be able to establish its own capabilities in this new business step by step. The Company will consider arrangements to put in place appropriately skilled and experienced research and development staff in the related technology field to assist the development of the Company's new business. The Directors consider that the Outsourcing Technology Development Agreement is a practicable and effective solution for advancing the

Company's new business plan. The Directors envisage that funds to be raised in the Subscription may strengthen the Group's financial condition and that the Group will be in a better position to consider any possible attractive business development opportunities relating to the Group's principal business and also in the new near space and other innovative technology business. The Directors have no current intention to discontinue any existing businesses of the Group.

The Company has had general discussions with third parties regarding the Company's business development ideas from time to time and none of these discussions have progressed into any advance business opportunities or arrangements as at the Latest Practicable Date. In the event that any of such general business discussions advance to more concrete business plans, the Company may have further capital needs and may need to consider further fund raising activities. As at the Latest Practicable Date, apart from the Outsourcing Technology Development Agreement and the business opportunities in connection with the civil near space flying apparatus, the Company had not identified any other investment opportunity.

The gross proceeds and the net proceeds from the Subscription are approximately HK$348 million and approximately HK$327 million respectively. The net proceeds are intended to be applied as follows:

— as to approximately HK$55 million for payment of the research and development fee under the Outsourcing Technology Development Agreement;

— as to approximately HK$200 million for acquisition of land site and construction of research and development and manufacturing facilities in respect of the near space and other innovative technology business. The Company understands that New Horizon envisages that the Group may benefit from having a specific site or premises for long term use when the civil near space flying apparatus project may progress to a stage closer to commercialising any research and development results and expects to locate a suitable site within six months after Completion;

— as to approximately HK$50 million to approximately HK$72 million for research and development expenses in respect of the civil near space flying apparatus and other innovative technology businesses (including staff costs, equipment, etc). The Company expects that the research and development expenses will be incurred in an on-going basis and utilised within twelve months after Completion; and

— as to the remaining balance, if any, to fund future expansion of the Group's businesses and for general working capital of the Group.

As at the Latest Practicable Date, no proposals, terms or timetable had been determined for any such possible future transactions or arrangements, and the Company and New Horizon had only held preliminary discussions in respect of the above.

As set out under the section headed "The Subscription Price", approximately HK$144 million of the aggregate Subscription Price of approximately HK$348 million will be settled at Completion. Pursuant to the Subscription Agreement, HK$102 million of the remaining aggregate Subscription Price in respect of the Preferred Shares is conditionally payable in six months from the Completion Date and HK$102 million of the remaining aggregate Subscription Price in respect of the Preferred Shares is conditionally payable within twelve months from the Completion Date. In the event the Company fails to fulfil the prescribed conditions, any Subscriber shall be entitled to defer payment of the balance of the aggregate Subscription Price of the relevant Preferred Shares or elect not to proceed further with its outstanding payment obligation of such balance. The occurrence of the Completion does not assure that the payment of the remaining aggregate Subscription Price in respect of the Preferred Shares may occur.

The net proceeds raised per Subscription Share upon completion of the Subscription and payment in full of the Subscription Price will represent a net price of approximately HK$0.075 per Subscription Share.

The Group does not have any immediate funding need. Taking into account the reasons for and benefits of the Subscription as described above (including the proposed use of proceeds) and the dilution effect to the existing Shareholders as a result of the Subscription (as set out in the section headed "Effect on Shareholding Structure" below), the Directors (including members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that the Independent Shareholders have been provided access to sufficient information to consider the Subscription Agreement, and that the terms of the Subscription Agreement are fair and reasonable and the Subscription is in the interests of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE

The Company had no outstanding convertible securities, options, warrants or derivatives in issue which were convertible or exchangeable into Ordinary Shares as at the Latest Practicable Date.

The table below is for illustration purpose only and sets out the effect of the Subscription on the shareholding structure of the Company immediately upon (i) Completion of the Subscription; (ii) conversion in full of the Tranche A Preferred Shares; and (iii) conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares, assuming no other Ordinary Shares will be issued between the Latest Practicable Date and the date until all Tranche A Preferred Shares and Tranche B Preferred Shares have been fully converted:

	As at the Latest Practicable Date		**Immediately after the allotment and issue of the Ordinary Subscription Shares and before the allotment and issue of any Conversion Shares**		**Immediately after Completion and the conversion in full of the Tranche A Preferred Shares** *(Note 3)*		**Immediately after Completion and the conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares** *(Note 3)*	
	Number of Ordinary Shares	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*
World Treasure Global Limited *(Note 1)*	638,981,013	44.08%	638,981,013	20.50%	638,981,013	14.33%	638,981,013	11.02%
Mr. Ruan Yuan *(Note 4)*	219,867,657	15.17%	—	—	—	—	—	—
The Subscribers								
New Horizon	—	—	1,133,333,334	36.37%	2,045,666,667	45.89%	2,958,000,000	51.01%
Starbliss	—	—	155,555,556	4.99%	280,777,778	6.30%	406,000,000	7.00%
Grand Consulting	—	—	77,777,778	2.50%	140,388,889	3.15%	203,000,000	3.50%
Lucky Time	—	—	77,777,778	2.50%	140,388,889	3.15%	203,000,000	3.50%
Cutting Edge	—	—	155,555,556	4.99%	280,777,778	6.30%	406,000,000	7.00%
REORIENT Global	—	—	66,666,666	2.14%	120,333,333	2.70%	174,000,000	3.00%
Subtotal	—	—	1,666,666,668	53.49%	3,008,333,334	67.49%	4,350,000,000	75.01%
RFML *(Note 2)*	1	—	1	—	1	—	1	—
Public Shareholders								
Existing public Shareholders	590,652,454	40.75%	590,652,454	18.95%	590,652,454	13.25%	590,652,454	10.18%
Mr. Ruan Yuan *(Note 4)*	—	—	219,867,657	7.06%	219,867,657	4.93%	219,867,657	3.79%
Subtotal	590,652,454	40.75%	810,520,111	26.01%	810,520,111	18.18%	810,520,111	13.97%
Total	**1,449,501,125**	**100.00%**	**3,116,167,793**	**100.00%**	**4,457,834,459**	**100.00%**	**5,799,501,125**	**100.00%**

Note:

1. The 638,981,013 Ordinary Shares are beneficially owned by World Treasure Global Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong Hin Shek, an executive Director.

2. The one Ordinary Share held by RFML is a residue resulting from fractions of Ordinary Shares which were unallocated to brokerage clients of RFML when the Company conducted a bonus issue of Ordinary Shares in May 2012.

3. The allotment and issue of the Conversion Shares are subject to the Tranche A Preferred Shares or the Tranche B Preferred Shares (as the case may be) having been fully paid up and the minimum public float requirements under the Listing Rules, as further set out below.

4. Save for Mr. Ruan Yuan's shareholding in the Company of 10% or more as at the Latest Practicable Date, Mr. Ruan Yuan is otherwise not a connected person of the Company. Upon Completion, Mr. Ruan Yuan's shareholding interest will fall below 10% of the number of issued Ordinary Shares and his holding in the issued Ordinary Shares will be considered as held in public hands.

5. As at the Latest Practicable Date, parties acting in concert with New Horizon (other than the Subscribers and RFML) did not hold any Ordinary Shares.

Upon the exercise of the conversion rights attaching to the Tranche A Preferred Shares, the public float of the Company may fall below the minimum 25% threshold as required under Rule 8.08(1)(a) of the Listing Rules. Under the terms of the Preferred Shares, the Company's obligation to effect conversion of fully-paid Preferred Shares into Conversion Shares shall be subject to the Company's compliance with the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules. In the event the Preferred Shares are held by more than one holder and the headroom for conversion by the Company is insufficient to enable all of such Preferred Shares be converted in one batch, the Preferred Shares held by the relevant holders shall be converted by the Company on a pro-rata basis. The Company will ensure its compliance with the public float requirements under the Listing Rules at all times.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and sale of paper packaging products and paper gift items and the printing of paper promotional materials (the "Paper Business") and property investments.

In July 2012, the Group entered into an agreement to acquire the land use right of a parcel of land located in Huizhou City, Guangdong Province, the PRC through the acquisition of the entire issued capital of Miracle True Investment Limited ("Miracle True") for the purpose of constructing a production plant to enhance the Group's manufacturing capacity. As set out in the Company's interim report for the six months ended 30 September 2013, the segment profit of the Paper Business had declined. The Directors decided not to construct any production plant in Huizhou City and consider it appropriate to streamline and consolidate the Paper Business in the existing plant located in Shenzhen City. On 20 June 2014, the Company agreed to dispose the entire issued capital of Miracle True at a consideration of approximately HK$12 million (the "Disposal"). The Disposal did not constitute a discloseable transaction for the Company under the Listing Rules.

INFORMATION ON THE SUBSCRIBERS

New Horizon is an investment holding company incorporated in the BVI with limited liability. New Horizon is owned as to 51% by Kuang-Chi and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. According to New Horizon, Kuang-Chi is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership of which Dr. Liu Ruopeng is the controlling shareholder, and Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited. As at the Latest Practicable Date, each of Kuang-Chi, Shenzhen Kuang-Chi Hezhong Technology Limited and Dr. Liu Ruopeng was a third party independent of the Company and its connected persons.

Kuang-Chi is a company established in the PRC and headquartered in Shenzhen, principally engaged in the provision of solutions to innovative products by using new technology. According to New Horizon, Kuang-Chi has developed a series of innovative technology in Meta-RF electromagnetism modulate, metamaterial, intelligent photon, etc. functioned in transmission of satellite, communications by phones, computers, etc.

To finance the Subscription, New Horizon and Rosier entered into the Loan Agreement, which principal terms are as follows:

Date:	29 May 2014
Borrower:	New Horizon
Lender:	Rosier
Facility amount:	HK$181,640,000, to be drawn down on the following dates (or any other dates as may be notified by New Horizon to Rosier with at least one month's notice): (i) HK$97,965,334 on the Completion Date; (ii) HK$24,337,333 on the date falling six months after the Completion Date; and (iii) HK$59,337,333 on the date falling twelve months after the Completion Date
Final maturity date:	29 January 2016
Interest:	6.5% per annum
Repayment date:	Unless otherwise waived by Rosier under the conditions of waiver of loan below, New Horizon shall repay the outstanding loan in one lump sum on the final maturity date
Security:	A share charge to be given by New Horizon in favour of Rosier over 986,000,000 Ordinary Shares beneficially owned by New Horizon and as subscribed by it under the Subscription, which will be duly executed and dated as soon as practicable and in any event no later than three Business Days after the first loan advance is made

Waiver of loan conditions:

(1) If on or prior to 1 February 2015 (the "First Benchmark Date"), New Horizon has provided evidence demonstrating the success of a test-flight for the flying apparatus under the circumstances as set out in the Loan Agreement, then 50% of the then outstanding loan amount and the interests then accrued thereon shall be waived by Rosier and be deemed reduced or repaid to the effect that, as of 5:00 p.m. of the First Benchmark Date, the then outstanding loan amount shall automatically be reduced to 50% thereof as of the date immediately prior to the First Benchmark Date.

(2) If on or prior to 31 December 2015 (the "Second Benchmark Date"), New Horizon has provided evidence demonstrating substantiated business applications, development plans of commercial products, the entering into of any cooperative

agreement and the development of such commercial products, then 100% of the then outstanding loan amount and the accrued interest thereon shall be waived by Rosier and be deemed reduced or repaid to the effect that, as of 5:00 p.m. of the Second Benchmark Date, the then outstanding loan amount and the accrued interests thereon shall automatically be reduced to zero.

Rosier is a company incorporated in the BVI with limited liability and is owned as to approximately 41.7% by Starbliss (ultimately wholly owned by Mr. Ko Chun Shun, Johnson), approximately 14.6% by Grand Consulting (ultimately wholly owned by Ms. Liu Shu Ling), approximately 14.6% by Lucky Time (ultimately wholly owned by Ms. Guo Shanling) and approximately 29.1% by Cutting Edge (ultimately wholly owned by Ms. Yu Nan). Rosier and its ultimate beneficial owners are third parties independent of the Company and its connected persons. On 29 May 2014, Starbliss, Mr. Ko Chun Shun, Johnson, Grand Consulting, Ms. Liu Shu Ling, Lucky Time, Ms. Guo Shanling, Cutting Edge and Ms. Yu Nan as shareholders or beneficial owners of Rosier entered into an undertaking. Each of Mr. Ko Chun Shun, Johnson, Ms. Liu Shu Ling, Ms. Guo Shanling and Ms. Yu Nan has undertaken to each of the other parties that he or she shall provide sufficient funding on behalf of his or her controlled company and shall procure his or her controlled company to in turn provide funding to Rosier by way of unsecured and interest-free shareholder's loan pro-rata to the respective shareholdings in Rosier of his or her controlled company for the purpose of Rosier's performance of its lending obligation under the Loan Agreement.

According to Starbliss, it is an investment holding company. Starbliss was incorporated in the BVI with limited liability and is ultimately wholly owned by Mr. Ko Chun Shun, Johnson.

According to Grand Consulting, it is an investment holding company. Grand Consulting was incorporated in the Republic of Seychelles with limited liability and is ultimately wholly owned by Ms. Liu Shu Ling.

According to Lucky Time, it is an investment holding company. Lucky Time was incorporated in the BVI with limited liability and is ultimately wholly owned by Ms. Guo Shanling.

According to Cutting Edge, it is an investment holding company. Cutting Edge was incorporated in the BVI with limited liability and is ultimately wholly owned by Ms. Yu Nan.

REORIENT Global was incorporated in Hong Kong with limited liability. According to REORIENT Global, it is principally engaged in provision of administrative services and is a fellow subsidiary of RFML, one of the financial advisers to the Company. Both REORIENT Global and RFML are wholly owned by REORIENT Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. REORIENT Group Limited is principally engaged in securities broking, placing and underwriting, and provision of consultancy and advisory services. Mr. Ko Chun Shun, Johnson, the sole beneficial owner of Starbliss (one of the Subscribers), is an executive director and the controlling shareholder (as defined under the Listing Rules) of REORIENT Group Limited.

DEALING AND INTEREST OF THE SUBSCRIBERS AND PARTIES ACTING IN CONCERT WITH NEW HORIZON IN THE SECURITIES OF THE COMPANY

Save for the Subscription, the one Ordinary Share owned by RFML disclosed in the section headed "Effect on shareholding structure" above, the Loan Agreement disclosed in the section headed "Information on the Subscribers" above and the lock-up undertakings by the Subscribers (other than REORIENT Global) disclosed in the section headed "Lock-up undertakings" above, New Horizon had confirmed that as at the Latest Practicable Date, neither the Subscribers nor any parties acting in concert with New Horizon:

(a) owned, controlled or had direction over any outstanding options, warrants, or any securities that were convertible into Ordinary Shares or any derivatives in respect of securities in the Company, or held any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(b) had received an irrevocable commitment to vote for the Subscription and/or the Whitewash Waiver;

(c) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(d) had any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or any of the Subscribers, which might have been material to the Subscription and/or the Whitewash Waiver, with any other persons;

(e) had any agreement or arrangement to which it is a party which relates to the circumstances in which it might or might not invoke or sought to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver; or

(f) had dealt in any Ordinary Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into Ordinary Shares, during the Relevant Period.

FUTURE INTENTIONS OF NEW HORIZON REGARDING THE GROUP

New Horizon intends to develop the near space and other innovative technology related business in the PRC in parallel to the Group's existing business, with the main focus in the near space technology and the commercial utilisation of the civil near space flying apparatus to provide a lower-cost and high-quality spatial services other than satellites.

As at the Latest Practicable Date, no proposals, terms or timetable had been determined or agreed for any such possible future transaction or arrangement. Save as disclosed above, as at the Latest Practicable Date, New Horizon had no intention to make any major changes to the continued employment of the employees of the Group, nor did it envisage any redeployment of the fixed assets of the Group. Upon Completion, New Horizon will constantly assess the performance and prospects of the Group's business and will be prepared to flexibly strategise the Group's business development in light of the ever-changing economic outlook and market conditions. New Horizon will seek to further strengthen the capital base of the Company through conducting any further equity fund raising activities from time to time subject to market sentiment and other market factors. As at the Latest Practicable Date, New Horizon did not have any plan or timetable for any further equity fund raising activities.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not conducted any equity fund raising activities in the past twelve months immediately preceding the date of the Announcement.

IMPLICATIONS UNDER THE LISTING RULES

The Subscription Shares and the Conversion Shares will be allotted pursuant to the Specific Mandate, which is subject to the approval of the Independent Shareholders at the SGM. Any Shareholders and its associates who have material interest in the Subscription (including the Specific Mandate) shall abstain from voting on the resolutions to be proposed at the SGM to approve the Subscription (including the Specific Mandate). Save for RFML (being an associate of REORIENT Global and Starbliss (being two of the Subscribers)), none of the Shareholders had a material interest in the Subscription (including the Specific Mandate) as at the Latest Practicable Date. RFML will abstain from voting on all resolutions at the SGM.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR WHITEWASH WAIVER

Upon Completion, New Horizon (being one of the Subscribers) will be interested in 1,133,333,334 Ordinary Shares, representing approximately 78.2% of the number of issued Ordinary Shares as at the Latest Practicable Date or approximately 36.4% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares (on the basis that no Preferred Shares have been converted into Ordinary Shares and that there is no other change in the number of issued Ordinary Shares). Starbliss, Grand Consulting, Lucky Time, Cutting Edge and REORIENT Global, who are also the Subscribers, are parties acting in concert with New Horizon in respect of the Subscription. Upon full conversion of the Preferred Shares, New Horizon will in aggregate be interested in 2,958,000,000 Ordinary Shares, representing approximately 204.1% of the number of issued Ordinary Shares as at the Latest Practicable Date and approximately 51% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares).

Upon Completion, the Subscribers and parties acting in concert with New Horizon will in aggregate be interested in 1,666,666,669 Ordinary Shares, representing approximately 115% of the number of issued Ordinary Shares as at the Latest Practicable Date and approximately 53.49% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares (on the basis that no Preferred Shares have been converted into Ordinary Shares and that there is no other change in the number of issued Ordinary Shares). Upon full conversion of the Preferred Shares, the Subscribers and parties acting in concert with

New Horizon will in aggregate be interested in 4,350,000,001 Ordinary Shares, representing approximately 300.1% of the number of issued Ordinary Shares as at the Latest Practicable Date and approximately 75.01% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares).

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Ordinary Shares and other securities of the Company not already owned or agreed to be acquired by the Subscribers and parties acting in concert with New Horizon, unless the Whitewash Waiver is obtained from the Executive. In this regard, New Horizon (on its own behalf and on behalf of the other Subscribers) has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon full conversion of the Preferred Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. Completion of the Subscription is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders on a vote by way of poll at the SGM. World Treasure Global Limited (which is wholly and beneficially owned by Mr. Wong Hin Shek, an executive Director, who was involved in the negotiation of the Subscription for and on behalf of the Company) will abstain from voting at the SGM in respect of the resolution relating to the Whitewash Waiver. RFML (being an associate of REORIENT Global and Starbliss (being two of the Subscribers)) will abstain from voting on all resolutions at the SGM. Save for World Treasure Global Limited and RFML, none of the Shareholders were interested or involved in the Subscription (including the Specific Mandate) and/or the Whitewash Waiver as at the Latest Practicable Date.

If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of the Subscribers and parties acting in concert with New Horizon in the Company will exceed 50% upon Completion. The Subscribers and parties acting in concert with New Horizon may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

RECLASSIFICATION AND REDESIGNATION OF SHARES AND AMENDMENT TO BYE-LAWS

As one of the conditions precedent to the Subscription, the Board proposes to reclassify and redesignate the existing shares of the Company of HK$0.01 each in the authorised share capital of the Company into 7,316,666,668 Ordinary Shares of HK$0.01 each and 2,683,333,332 Preferred Shares of HK$0.01 each, and among others, approve the rights of each of such class of shares and 1,449,501,125 shares of the Company of HK$0.01 each in the issued share capital of the Company into 1,449,501,125 Ordinary Shares, such that following such redesignation and reclassification, the authorised share capital of the Company will be

HK$100,000,000 divided into 7,316,666,668 Ordinary Shares and 2,683,333,332 Preferred Shares with the rights, privileges and restrictions set out thereto. The above reclassification and redesignation is conditional upon passing of an ordinary resolution by Independent Shareholders at the SGM under the Redesignation Resolution.

The Board further proposes to amend the Bye-laws to, among others, reflect (i) the reclassification and redesignation of shares of the Company such that the authorised share capital of the Company will be changed from HK$100,000,000 divided into 10,000,000,000 shares of the Company to HK$100,000,000 divided into 7,316,666,668 Ordinary Shares and 2,683,333,332 Preferred Shares; and (ii) the creation and issue of Preferred Shares with the rights, privileges and restrictions set out thereto. The Bye-laws are proposed to be amended in the manner as set out in Appendix III to this circular. Such amendments to the Bye-laws are conditional upon, among others, the passing of the special resolution by Independent Shareholders at the SGM.

Save for RFML (being an associate of REORIENT Global and Starbliss (being two of the Subscribers)), none of the Shareholders had a material interest in the Redesignation Resolution and the amendment to Bye-laws as at the Latest Practicable Date. RFML will abstain from voting on all resolutions at the SGM.

CHANGE OF COMPANY NAME

The Board proposes to change the English name of the Company from "Climax International Company Limited" to "KuangChi Science Limited" and to adopt and register a Chinese name "光啟科學有限公司" as its secondary name. Following the Change of Company Name becoming effective, the Company will cease to use its existing Chinese name "英發國際有限公司" for identification purposes.

Conditions for the Change of Company Name

The Change of Company Name is subject to the following conditions having been satisfied:

(a) the passing of a special resolution by the Shareholders at the SGM approving the Change of Company Name;

(b) completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement; and

(c) the Registrar of Companies in Bermuda approving the Change of Company Name.

The relevant filing with the Registrar of Companies in Bermuda will be made after the passing of the special resolutions at the SGM. Subject to the satisfaction of the conditions set out above, the Change of Company Name will take effect from the date of entry of the new English and Chinese names of the Company on the register maintained by the Registrar of Companies in Bermuda. The Company will then carry out all necessary filing procedures with the Companies Registry in Hong Kong.

Reasons for the Change of Company Name

Upon completion of the Subscription, Kuang-Chi will become the controlling shareholder (as defined in the Listing Rules) of the Company. The Board believes that the new English and Chinese names of the Company will provide the Company with a fresh corporate image, which will benefit the Company's future business development. The Directors are of the view that the Change of Company Name is in the interests of the Company and the Shareholders as a whole.

Effects of the Change of Company Name

The Change of Company Name will not affect any rights of the existing Shareholders. All existing share certificates of the Company in issue bearing the present name of the Company shall, after the Change of Company Name becoming effective, continue to be evidence of title to such shares of the Company and valid for trading, settlement, registration and delivery purposes. Accordingly, there will not be any arrangement for the exchange of the existing share certificates for new certificates bearing the new English and Chinese names of the Company.

Once the Change of Company Name becomes effective, any issue of share certificates thereafter will be in the new English and Chinese names of the Company. Subject to the confirmation by the Stock Exchange, the English and Chinese stock short names of the Company for trading in the Shares on the Stock Exchange will also be changed after the Change of Company Name becomes effective.

Further announcement(s) will be made by the Company to inform the Shareholders of the effective date of the Change of Company Name, the new English and Chinese stock short names of the Company for trading in the Shares on the Stock Exchange and the new website address of the Company as and when appropriate.

APPOINTMENT OF DIRECTORS

The Board has proposed the Subscribers' six nominees as the candidates for election as Directors at the SGM. Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang and Mr. Ko Chun Shun, Johnson are proposed to be appointed as executive Directors and Dr. Liu Jun and Dr. Wong Kai Kit are proposed to be appointed as independent non-executive Directors. If the appointments of the above candidates as Directors are approved by the Shareholders at the SGM, their appointments as Directors will take effect from Completion.

Further announcement(s) will be made by the Company upon appointment of the above mentioned Directors in compliance with the Listing Rules.

The biographical details of the above candidates proposed to be nominated as Directors are set out below:

Dr. Liu Ruopeng

Dr. Liu Ruopeng, aged 30, is the sole director of New Horizon. Dr. Liu is the president of 深圳光啟高等理工研究院 (Kuang-Chi Institute of Advanced Technology). Dr. Liu was the vice chairman of 深圳市總商會第六屆理事會 (The 6^{th} Executive Committee of the Shenzhen Federation Of Industry and Commerce) in 2012. He was appointed a member of the First Shenzhen-Hong Kong Youth Consulting Committee for Authority of Qinhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen in 2014. Dr. Liu was awarded 中國青年五四獎章 ("4^{th} May Youth Excellence Award in China") in 2014 and 2010年度廣東十大新聞人物 ("2010 Guangdong News-Focus People Top 10") in 2011. Dr. Liu obtained a master of science degree and a doctorate degree from Duke University, the United States of America in 2008 and a bachelor's degree in engineering from Zhejiang University, the PRC in 2006.

Dr. Liu has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Dr. Liu as an executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for executive directors. As at the Latest Practicable Date, Dr. Liu was deemed to be interested in 2,958,000,000 Ordinary Shares (being the 2,958,000,000 Subscription Shares to be subscribed by New Horizon under the Subscription Agreement) within the meaning of Part XV of the SFO. Save as disclosed above, Dr. Liu had not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Dr. Liu confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Dr. Luan Lin

Dr. Luan Lin, aged 34, has been the vice president of 深圳光啟高等理工研究院 (Kuang-Chi Institute of Advanced Technology) since 2010. Dr. Luan obtained a doctorate degree from Duke University, the United States of America in 2010 and a master's degree from Peking University, the PRC in 2004.

Dr. Luan has not entered into any service contract with the Company and she is subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Dr. Luan as an executive Director is to be determined by the Board with reference to her experience and prevailing market levels for director's fees for executive directors. As at the Latest Practicable Date, Dr. Luan did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Save as disclosed above, Dr. Luan has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Dr. Luan confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Dr. Zhang Yangyang

Dr. Zhang Yangyang, aged 35, has been the executive vice president of 深圳光啟高等理工研究院 (Kuang-Chi Institute of Advanced Technology) since 2009. Dr. Zhang has been the vice president of 深圳市青年科技人才協會 (Shenzhen Young Science and Technology Talents Association) since 2012. Dr. Zhang obtained a doctorate degree from the University of Oxford, the United Kingdom in 2009, and graduated as 碩士研究生 (Master Research Student) from Northeastern University, the PRC in 2004.

Dr. Zhang has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Dr. Zhang as an executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for executive directors. As at the Latest Practicable Date, Dr. Zhang did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Save as disclosed above, Dr. Zhang has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Dr. Zhang confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Mr. Ko Chun Shun, Johnson

Mr. Ko Chun Shun, Johnson, aged 62, is the sole director of Starbliss. Mr. Ko has extensive experience in a variety of activities, including manufacturing, securities trading, international trade, electronics and the renewable energy industry. He also has extensive experience in corporate finance, corporate restructuring and mergers and acquisitions. Mr. Ko is the chairman and an executive director of both REORIENT Group Limited (stock code: 376) and Varitronix International Limited (stock code: 710); the vice chairman and an executive director of China WindPower Group Limited (stock code: 182); and the deputy chairman and an executive director of Frontier Services Group Limited (stock code: 500), the shares of which are all listed on the Stock Exchange.

Mr. Ko has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Mr. Ko as an executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for executive directors. As at the Latest Practicable Date, Mr. Ko was deemed to be interested in 580,000,001 Ordinary Shares (including the 580,000,000 Subscription Shares under the Subscription Agreement) within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Ko had not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Mr. Ko confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Dr. Liu Jun

Dr. Liu Jun, aged 49, was appointed a professor of statistics at Harvard University in 2000 and has written research papers and publications about Markov chain Monte Carlo algorithms. Dr. Liu received a number of awards including The Committee of Presidents of Statistical Societies 2002 Presidents' Award in 2002 and the Morningside Gold Medal in Mathematics in 2010. Dr. Liu was elected as a fellow of the Institute of Mathematical Statistics in 2004 and the American Statistical Association in 2005. Dr. Liu obtained a doctorate degree from The University of Chicago, the United States of America in 1991.

Dr. Liu has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Dr. Liu as an independent non-executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for independent non-executive directors. As at the Latest Practicable Date, Dr. Liu did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Save as disclosed above, Dr. Liu has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Dr. Liu confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

Dr. Wong Kai Kit

Dr. Wong Kai Kit, aged 40, was appointed a reader at the Department of Electronic and Electrical Engineering, University College London, United Kingdom in October 2011. Dr. Wong had other teaching and research roles in universities and education institutes in Hong Kong, the United States of America and the United Kingdom. Dr. Wong is a senior member of The Institute of Electrical and Electronics Engineers Inc. ("IEEE") and is also on the editorial board of IEEE Wireless Communications Letters, IEEE Communications Letters, Journal of Communications and Networks, and IET Communications. He is the senior editor for the IEEE Communications Letters. Dr. Wong obtained a doctorate degree, a master's degree and a bachelor's degree from the Hong Kong University of Science and Technology, Hong Kong, in 2001, 1998 and 1996 respectively.

Dr. Wong has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the Bye-laws. The director's fee of Dr. Wong as an independent non-executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for independent non-executive directors. As at the Latest Practicable Date, Dr. Wong did not have any interest in the Ordinary Shares within the meaning of Part XV of the SFO. Save as disclosed above, Dr. Wong had not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling shareholders of the Company. Dr. Wong confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of holders of securities of the Company.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Wong Hung Ki, Mr. Lau Man Tak, Mr. Man Kwok Leung and Dr. Wong Yun Kuen, being all the non-executive Directors, has been established to give recommendations to the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. Nuada Limited has been appointed with the approval of the Independent Board Committee as the independent financial adviser to advise the Independent Board Committee in respect of the fairness and reasonableness of the Subscription and the Whitewash Waiver.

SGM

The SGM will be convened and held at Lavender, Level 3, Three Pacific Place, 1 Queen's Road East, Admiralty, Hong Kong on 21 August 2014 at 11:00 a.m. for the purposes of considering and, if thought fit, approving, among other things, the Subscription and the transactions contemplated thereunder (including the Specific Mandate), the Whitewash Waiver, the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name and the Appointment of Directors. The voting in relation to the proposed resolutions to approve the Subscription (including the Specific Mandate), the Whitewash Waiver, the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name and the Appointment of Directors at the SGM will be conducted by way of a poll whereby (i) for the purpose of the proposed resolutions to approve the Subscription (including the Specific Mandate), the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name and the Appointment of Directors, any Shareholders and its associates who have material interest in the Subscription (including the Specific Mandate), the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name and the Appointment of Directors shall abstain from voting; and (ii) for the purpose of the proposed resolutions to approve the Whitewash Waiver, the Subscribers and parties acting in concert with New Horizon and other Shareholders who are interested or involved in the Subscription (including the Specific Mandate) and/or the Whitewash Waiver shall abstain from voting. As at the Latest Practicable Date, World Treasure Global Limited (which is wholly and beneficially owned by Mr. Wong Hin Shek, an executive Director) held 638,981,013 Ordinary Shares and RFML held one Ordinary Share. Mr. Wong Hin Shek was involved in the negotiation of the Subscription on behalf of the Company. Save for RFML (being an associate of REORIENT Global and Starbliss (being two of the Subscribers)), none of the Shareholders had a material interest in the Subscription (including the Specific Mandate), the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name or the Appointment of Directors. Save for World Treasure Global Limited and RFML (being an associate of REORIENT Global and Stawbliss (being two of the Subscribers)), none of the Shareholders were interested or involved in the Whitewash Waiver as at the Latest Practicable Date. Accordingly, RFML shall abstain from voting at the SGM in respect of the resolutions relating to the Subscription (including the Specific Mandate), the Whitewash Waiver, the Redesignation Resolution, the amendment to Bye-laws, the Change of

Company Name and the Appointment of Directors, and World Treasure Global Limited shall abstain from voting at the SGM in respect of the resolution relating to the Whitewash Waiver. As at the Latest Practicable Date, save for the one Ordinary Share owned by RFML, the Subscribers and parties acting in concert with New Horizon did not hold any Ordinary Shares and accordingly will not be entitled to vote on any of the resolutions at the SGM.

A notice convening the SGM is set out on pages 169 to 172 of this circular. A proxy form for use at the SGM is enclosed herewith. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM and any adjournment thereof (as the case may be) should you so wish.

RECOMMENDATION

The Directors (including the members of the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Subscription Agreement are fair and reasonable and the Subscription (including the Specific Mandate) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the Subscription (including the Specific Mandate) and the Whitewash Waiver.

Your attention is drawn to:

(a) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 44 to 45 of this circular; and

(b) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the text of which is set out on pages 46 to 80 of this circular.

The Directors consider that the Redesignation Resolution, the amendment to Bye-laws, the Change of Company Name and the Appointment of Directors are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Warning: The Subscription is subject to the fulfilment or waiver (as the case may be) of a number of conditions precedent set out under the section headed "Conditions of the Subscription" in this circular, including approval by the Independent Shareholders at the SGM for the Subscription and the Whitewash Waiver, and the granting of the Whitewash Waiver by the Executive. As such, the Subscription may or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully,
For and on behalf of the Board
Climax International Company Limited
Wong Hin Shek
Executive Director

CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

29 July 2014

To the Independent Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES; AND (2) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 29 July 2014 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, (i) the terms of the Subscription Agreement are fair and reasonable; (ii) the Subscription (including the Specific Mandate) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Subscription and the Whitewash Waiver at the SGM. Nuada Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 46 to 80 of the Circular.

Having considered the terms of the Subscription (including the Specific Mandate), the Whitewash Waiver and the advice of the Independent Financial Adviser, we are of the opinion that (i) the terms of the Subscription Agreement are fair and reasonable; (ii) the Subscription (including the Specific Mandate) is in the interests of the Company and the Shareholders as a whole; and (iii) the grant of the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully
For and on behalf of the
Independent Board Committee

Mr. Wong Hung Ki	**Mr. Lau Man Tak**	**Mr. Man Kwok Leung**	**Dr. Wong Yun Kuen**
Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of a letter of advice from Nuada Limited in connection with the terms of the Subscription Agreement and the Whitewash Waiver which has been prepared for inclusion in this circular.

Nuada Limited
Corporate Finance Advisory

Unit 1805–08, 18/F
OfficePlus@Sheung Wan
93–103 Wing Lok Street
Sheung Wan, Hong Kong
香港上環永樂街93–103號
協成行上環中心18樓1805–08室

29 July 2014

To the Independent Board Committee and the Independent Shareholders of Climax International Company Limited

Dear Sirs,

(1) SUBSCRIPTION OF NEW ORDINARY SHARES AND NEW PREFERRED SHARES; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the Whitewash Waiver, details of which are set out in the Letter from the Board (the "**Board's Letter**") in the circular to the Shareholders dated 29 July 2014 (the "**Circular**"), of which this letter forms part. Unless otherwise stated, terms used in this letter have the same meanings as those defined in the Circular.

On 29 May 2014 (after the trading hours), the Company and the Subscribers entered into the Subscription Agreement, pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 Subscription Shares, comprising 1,666,666,668 new Ordinary Shares and 2,683,333,332 new Preferred Shares at an issue price of HK$0.08 per Subscription Share. The aggregate Subscription Price amounts to approximately HK$348 million.

Upon Completion, New Horizon (being one of the Subscribers) will be interested in 1,133,333,334 Ordinary Shares, representing approximately 78.2% of the number of issued Ordinary Shares as at the Latest Practicable Date or approximately 36.4% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares (on the basis that no Preferred Shares have been converted into Ordinary Shares and that there is no other change in the issued Ordinary Shares). Starbliss, Grand Consulting, Lucky Time, Cutting Edge and REORIENT Global, who are also the Subscribers, are parties acting in concert with New Horizon in respect of the Subscription.

Upon Completion, the Subscribers and parties acting in concert with New Horizon will in aggregate be interested in 1,666,666,669 Ordinary Shares, representing approximately 115% of the number of issued Ordinary Shares as at the Latest Practicable Date and approximately 53.49% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares (on the basis that no Preferred Shares have been converted into Ordinary Shares and that there is no other change in the number of issued Ordinary Shares). Upon full conversion of the Preferred Shares, the Subscribers and parties acting in concert with New Horizon will in aggregate be interested in 4,350,000,001 Ordinary Shares, representing approximately 300.1% of the number of issued Ordinary Shares as at the Latest Practicable Date and approximately 75.01% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares).

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Ordinary Shares and other securities of the Company not already owned or agreed to be acquired by the Subscribers and parties acting in concert with New Horizon, unless the Whitewash Waiver is obtained from the Executive. In this regard, New Horizon (on its own behalf and on behalf of the other Subscribers) has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon full conversion of the Preferred Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. Completion of the Subscription is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the Subscription Agreement and the Whitewash Waiver are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, and how to vote.

BASIS OF OUR OPINION

In formulating our opinion in respect of the Subscription Agreement and the Whitewash Waiver, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors and/or the Subscribers. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company and the Directors and/or the Subscribers, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the SGM. The Company will notify the Shareholders of any material changes during the period after the dispatch of the

Circular to the SGM as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided in the Circular and our opinion as soon as possible after the Latest Practicable Date and throughout the period between the date after the dispatch of the Circular and the SGM.

The Directors collectively and severally accept full responsibility for the accuracy of the information contained in the Circular. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Subscription Agreement and the Whitewash Waiver. We have not, however, conducted any independent verification of the information and representations provided to and reviewed by us, nor have we carried out any form of independent in-depth investigation into the businesses and affairs, financial position or the future prospects of the businesses of the Group and/or the Subscribers or the markets in which it operates.

We have not studied, investigated nor verified the validity of all legal aspects of, and procedural aspects for, the Subscription Agreement and the Whitewash Waiver.

Our opinion is necessarily based upon the financial, economic (including exchange rates and interest rates), 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. Our opinion does not in any manner address the Company's own decision to proceed with the Subscription Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in giving our advice to the Independent Board Committee are set out below:

Business and financial information of the Group

The Group is principally engaged in the manufacture and sale of paper packaging products and paper gift items and the printing of paper promotional materials and property investments.

Reference is made to the annual report 2013 and the annual report 2014 of the Company. The financial results of the Group for each of the three years ended 31 March 2014 are summarised as follows:

	For the years ended 31 March		
	2012	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Continuing operations			
Turnover	—	81,178	113,433
Cost of sales	—	(64,725)	(93,755)
Gross profit	—	16,453	19,678
Other operating income	2,504	3,641	1,868
Selling and distribution expenses	—	(2,862)	(5,178)
Administrative expenses	(7,981)	(13,030)	(16,118)
Impairment loss recognized in respect of goodwill	—	—	(36,393)
(Loss) gain on changes in fair value of held for trading investments	828	(195)	(672)
(Loss) gain on changes in fair value of investment properties	—	1,250	(100)
Finance costs	(1)	(1,777)	(417)
Profit (loss) before tax	(4,650)	3,480	(37,332)
Income tax expenses	—	(1,248)	(576)
Profit (loss) for the year from continuing operations	(4,650)	2,232	(37,908)
Discontinued operation *(Note)*			
Loss for the year from discontinued operation	(140)	—	—
Profit (loss) for the year	(4,790)	2,232	(37,908)
Other comprehensive income			
Exchange difference arising on translating of foreign operations and total other comprehensive income for the year	—	1,350	377
Total comprehensive income (expense) for the year	(4,790)	3,582	(37,531)

Note: The Group ceased the trading of electronic products operation during the year ended 31 March 2012. Accordingly, the business segment of trading of electronic products is classified as discontinued operation for the year ended 31 March 2012.

For the financial year ended 31 March 2013, the Group recorded turnover of approximately HK$81.18 million, and net profit of approximately HK$2.23 million which is mainly attributable to the operating profit contributed by its paper business. For the financial year ended 31 March 2013, the Group has two reportable segments for financial reporting purposes, comprising paper business and property investment. The paper business was acquired by the Group in May 2012. For the year ended 31 March 2013, approximately HK$80.83 million of the Group's turnover was contributed by its paper business and a segment profit after relevant tax expenses of approximately HK$6.43 million was recorded. In August and October 2012, the Group acquired residential properties for property investment and rental purposes, respectively. The Group intends to hold such properties for investment purpose with a view that it can establish an additional stream of recurring rental income, while capture any possible future capital appreciation. For the financial year ended 31 March 2013, leasing income of approximately HK$0.35 million and a gain on changes in fair value of investment properties of approximately HK$1.25 million were recognised.

For the year ended 31 March 2014, the Group recorded turnover of approximately HK$113.4 million and net loss of approximately HK$37.9 million. For the year ended 31 March 2014, the turnover contributed by the paper business of the Group increased by 39.4% to approximately HK$112.6 million (2013: HK$80.8 million). However, as stated in the annual report 2014, due to the weakening global demand and fierce competition in the printing and packaging industry, the order prices of the Company's products were slightly decreased. On the other hand, the increase in minimum wage requirement in the PRC together with the effect of the appreciation of Renminbi ("RMB") to Hong Kong Dollar have significantly increased the labour costs and other production costs respectively. As a result, the profit margins of the Company's products and overall performance of the Group were inevitably adversely affected. The paper business of the Group recorded a loss of approximately HK$29.7 million for the year ended 31 March 2014 as compared to a profit of approximately HK$7.7 million with the previous corresponding period.

As at 31 March 2014, the Group had audited net assets of approximately HK$167.2 million and audited net tangible assets (excluding goodwill) of approximately HK$119.5 million. As at 31 March 2014, the audited net current assets of the Group amounted to approximately HK$57.8 million, with cash and cash equivalents amounted to approximately HK$44.3 million.

Information of the Subscribers and future intentions of New Horizon regarding the Group

The Subscribers comprise New Horizon, Starbliss, Grand Consulting, Lucky Time, Cutting Edge and REORIENT Global. The Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

New Horizon is an investment holding company incorporated in the BVI with limited liability. New Horizon is owned as to 51% by Kuang-Chi and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership, of which Dr. Liu Ruopeng is the controlling shareholder, and Dr. Liu Ruopeng is the controlling shareholder of Shenzhen Kuang-Chi

Hezhong Technology Limited. Kuang-Chi which is a high-tech company established in the PRC and headquartered in Shenzhen principally engaged in the provision of solutions to innovative products by using new technology. Kuang-Chi has developed a series of innovative technology in Meta-RF electromagnetism modulate, metamaterial, intelligent photon, etc. functioned in transmission of satellite, communications by phones, computers, etc. Kuang-Chi has established a series of research and innovation platforms of science and technology. Kuang-Chi Institute of Advanced Technology is a non-enterprise private scientific research institute founded in 2010 by Shenzhen Dapeng Kuang-Chi Technology Co., Ltd. wholly held by Kuang-Chi. The Ministry of Science and Technology of the PRC, with the help of Kuang-Chi, established the State Key Laboratory of Metamaterial Electromagnetic Modulation Technology, which focuses on the research on metamaterials and electromagnetic modulation. The Standardization Administration of the PRC established the National Standardization Technical Committee on Electromagnetic Metamaterial Technology and Product, which, with Kuang-Chi serving as the Secretariat, is dedicated to the standard formation of the metamaterial industry and other related industries. The Ministry of Human Resources and Social Security of the PRC and the National Administrative Committee of Post-Doctoral Researchers approved Kuang-Chi Institute of Advanced Technology to establish a postdoctoral research center, which focuses on training of postdoctoral fellows in related industries such as metamaterial research and development and industrialization. Kuang-Chi has established a series of key laboratories and engineering laboratories in Guangdong and Shenzhen, and has undertaken 863 Program (National High-tech R&D Program of China) and other major R&D and industrialization programs.

For reference purpose, to finance the Subscription, New Horizon and Rosier entered into the Loan Agreement, details of which are set out in the Board's Letter. Rosier is a company incorporated in the BVI with limited liability and is owned as to approximately 41.7% by Starbliss (ultimately wholly owned by Mr. Ko Chun Shun, Johnson), approximately 14.6% by Grand Consulting (ultimately wholly owned by Ms. Liu Shu Ling), approximately 14.6% by Lucky Time (ultimately wholly owned by Ms. Guo Shanling) and approximately 29.1% by Cutting Edge (ultimately wholly owned by Ms. Yu Nan). Rosier and its ultimate beneficial owners are third parties independent of the Company and its connected persons. On 29 May 2014, Starbliss, Mr. Ko Chun Shun, Johnson, Grand Consulting, Ms. Liu Shu Ling, Lucky Time, Ms. Guo Shanling, Cutting Edge and Ms. Yu Nan as shareholders or beneficial owners of Rosier entered into an undertaking. Each of Mr. Ko Chun Shun, Johnson, Ms. Liu Shu Ling, Ms. Guo Shanling and Ms. Yu Nan has undertaken to each of the other parties that he or she shall provide sufficient funding on behalf of his or her controlled company and shall procure his or her controlled company to in turn provide funding to Rosier by way of unsecured and interest-free shareholder's loan pro-rata to the respective shareholdings in Rosier of his or her controlled company for the purpose of Rosier's performance of its lending obligation under the Loan Agreement.

According to Starbliss, it is an investment holding company. Starbliss was incorporated in the BVI with limited liability and is ultimately wholly owned by Mr. Ko Chun Shun, Johnson.

According to Grand Consulting, it is an investment holding company. Grand Consulting was incorporated in the Republic of Seychelles with limited liability and is ultimately wholly owned by Ms. Liu Shu Ling.

According to Lucky Time, it is an investment holding company. Lucky Time was incorporated in the BVI with limited liability and is ultimately wholly owned by Ms. Guo Shanling.

According to Cutting Edge, it is an investment holding company. Cutting Edge was incorporated in the BVI with limited liability and is ultimately wholly owned by Ms. Yu Nan.

REORIENT Global was incorporated in Hong Kong with limited liability. According to REORIENT Global, it is principally engaged in provision of administrative services and is a fellow subsidiary of RFML, one of the financial advisers to the Company. Both REORIENT Global and RFML are wholly-owned by REORIENT Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. REORIENT Group Limited is principally engaged in securities broking, placing and underwriting, and provision of consultancy and advisory services. Mr. Ko Chun Shun, Johnson, the sole beneficial owner of Starbliss (one of the Subscribers), is an executive director and the controlling shareholder (as defined under the Listing Rules) of REORIENT Group Limited.

New Horizon intends to develop the near space and other innovative technology related business in the PRC in parallel to the Group's existing business, with the main focus in the near space technology and the commercial utilisation of the civil near space flying apparatus to provide a lower-cost and high-quality spatial services other than satellites. As at the Latest Practicable Date, no proposals, terms or timetable had been determined or agreed for any such possible future transaction or arrangement. New Horizon has no intention to make any major changes to the continued employment of the employees of the Group, nor does it envisage any redeployment of the fixed assets of the Group. The Company will develop a new business segment relating to the near space and other innovative technology industry in the PRC in parallel to its existing business. The development of the new business will utilize the fund raised from the Subscription and, therefore, there will be no redeployment of the existing fixed assets of the Group. New Horizon will constantly assess the performance and prospects of the Group's business and will be prepared to flexibly strategise the Group's business development in light of the ever-changing economic outlook and market conditions. New Horizon will seek to further strengthen the capital base of the Company through conducting any further equity fund raising activities from time to time subject to market sentiment and other market factors. As at the Latest Practicable Date, New Horizon did not have any plan or timetable for any further equity fund raising activities. We are of the view that the new business will broaden the revenue base of the Group and is beneficial to the Company as a whole.

Industry Overview

The near space and other innovative technology business

We have tried to search for official reports issued by the governments which are related to near space and other innovative technology businesses but in vain. As such, we have looked for other sources.

According to an article issued by Professor Yasheng Huang on 14 November 2012, the factors that drive a country to grow when its GDP per capita is US$500 are totally different from the growth drivers when a country has a per capita GDP beyond US$5,000. At US$500 — which was the case in China in 1994 — the technology and production methods of other countries can be copied and drop them into the economy. Those premium features of a country's political system, such as rule of law, intellectual property rights, labor rights, and democracy, are not that important. Indeed, they can be a hindrance, because at that low level of per capita GDP, these Western institutions inflict transaction costs rather than facilitate growth.

As a country gets richer, its growth formula changes. Innovations, technology, and productivity improvements become more important, as do domestic entrepreneurs and innovators. Many Chinese leaders are trained engineers, and there is no shortage of technocratic ideas and expertise in China. In the past 20 years, China has invested heavily in research and development.

Chinese leaders want the country's economy to grow on the back of technology and science-based innovations. This is not only a goal but also an imperative need. China's growth today is unbalanced. The environmental costs are astronomical. Government spending is extremely high. Labor exploitation is politically costly, as Chinese workers are increasingly conscious of their rights and demanding a bigger share of the economic pie. A ready outlet for the Chinese economy — the huge export markets in Europe and the United States — is shrinking on the demand side.

Professor Yasheng Huang is professor of political economy and international management and holds International Program Professorship in Chinese Economy and Business at Sloan School of Management, Massachusetts Institute of Technology. The Sloan School of Management (also known as MIT Sloan or Sloan) is the business school of the Massachusetts Institute of Technology, in Cambridge, Massachusetts, USA. MIT Sloan offers bachelor's, master's, and doctoral programs, as well as non-degree executive education and is one of the leading business school in the world. Several Nobel laureates in economics have been on the faculty. Professor Huang also holds a special-term professorship at School of Management, Fudan University and an honorary professorship at Hunan University. His previous appointments include faculty positions at the University of Michigan and at Harvard University.

In addition to academic journal articles, Professor Huang has published Inflation and Investment Controls in China (1996), FDI in China (1998), Selling China (2003, Chinese edition, 2005), Financial Reform in China (2005, co-edited with Tony Saich and Edward Steinfeld), and Capitalism with Chinese Characteristics (2008, Chinese edition, 2010). *Capitalism with Chinese Characteristics* is a detailed narrative account of history of economic reforms in China. It is based on detailed archival and quantitative evidence spanning three decades of reforms since the 1980s. The book shows that private entrepreneurship, facilitated by financial liberalization and microeconomic flexibility, played a central role in China's economic miracle. The book predicted and discusses in detail the current economic challenges facing China. The book was selected by the Economist magazine as one of the best books published in 2008 and was 2008 Finalist/Honorable Mention in Economics, Professional & Scholarly Publishing Division, Association of American Publishers, Inc.

In collaborations with other scholars, Professor Huang is conducting research on a range of research projects including higher education in China, production of scientific knowledge in China, on entrepreneurship, and on foreign direct investment. His research has been profiled in many publications, including the *Wall Street Journal*, the *Economist, Businessworld, Le Monde, Economic Times, Daily Telegraph, Bloomberg, Businessweek, Guardian, The Australian, Canberra Times, The Standard Financial Times, Times* magazine as well as in numerous Chinese publications and publications in Germany, France, Sweden, Romania, Brazil, and Russia. He has published articles in *Financial Times, New York Times, Wall Street Journal*, and *Foreign Policy*. He is a columnist for *Entrepreneurs* and *Global Entrepreneurs* magazines in China.

At MIT Sloan School, Professor Huang founded and runs China Lab and India Lab, which aim to help entrepreneurs in China and India to improve their management. He has held or received prestigious fellowships such as National Fellowship at Stanford University and Social Science Research Council-MacArthur Fellowship. He is a member of MIT Entrepreneurship Center, a fellow at the Center for China in the World Economy at Tsinghua University, a fellow at William Davidson Institute at Michigan Business School, and a World Economic Forum Fellow. He has served as a consultant at World Bank and at The Organisation for Economic Co-operation and Development and is serving on a number of advisory boards of non-profit and for-profit organizations. Based on our check on the experience and expertise of Professor Huang, we are satisfied that reliance could be placed on his work.

According to another article issued on 27 May 2010 by The Beijing Axis, a China-focused international advisory firm and made available in the INSEAD knowledge database, foreign firms currently still retain a strong presence in China's high-tech exports and patents. While domestic patent applications to the Chinese State Intellectual Property Office expanded nearly sixfold between 1995 and 2006, patents granted to Chinese nationals have been mainly non-invention patents (in the form of utility models or appearance-based designs). China has set out its vision to become a global technology leader in its medium to long-term science and technology (S&T) strategic plan 2006–2020 ("MLP"). In essence, the MLP aims to reduce China's reliance on foreign technology to less than 30 per cent by 2020; to increase GERD (gross domestic expenditure on R&D as a percentage of GDP) to 2 per cent by 2010 and to 2.5 per cent by 2020; to have S&T and innovation contribute 60 per cent to GDP growth, and for China to be among the top five worldwide contributors to domestic patents and international citations in scientific papers.

Significant progress has already been achieved with the MLP, and it is not hard to identify signs of China's rapidly improving innovative abilities. GERD increased to 1.54 per cent in 2008 from 0.57 per cent in 1995. Occurring at a time when its GDP was growing exceptionally fast, China's GERD now ranks behind only the US and Japan. The number of triadic patents (granted in all three of the major patent offices in the US, Japan and Europe) granted to China remains relatively small, reaching 433 in 2005 (compared to 652 for Sweden and 3,158 for Korea), yet Chinese patent applications are increasing rapidly. Chinese patent applications to the World Intellectual Property Office (WIPO), for example, increased by 44% in 2005 and by a further 57% in 2006. From a total of about 20,000 in 1998, China's output of scientific papers has increased fourfold to about 112,000 as of 2008, moving China to second place in the global rankings, behind only the US. In the period 2004 to 2008, China produced about 400,000 papers, with the major focus areas being material science, chemistry, physics, mathematics and engineering, but new fields like biological and medical science also gaining prominence. As such, China's global emergence in technology is just beginning.

Based on the above, we consider that the PRC government encourages technology and innovation development and, therefore, concur with the Directors that the development of the near space and other innovative technology related business in the PRC will be beneficial to the Company and will offers potential growth and return.

INSEAD Knowledge is a monthly online publication showcasing — in video and in written articles — the latest research, global business trends and thought leadership from INSEAD, the business school for the world. Their aim is to present fresh viewpoints and ideas, and suggest innovative solutions to some of the challenges facing the world of business today. Topics closely follow INSEAD's areas of excellence, such as finance, organizational behavior, and marketing, but also draw on the more unconventional ideas generated by INSEAD's Social Innovation Center: entrepreneurship, sustainability, and corporate social responsibility, for example. Drawing on the resources of INSEAD's three campuses, INSEAD Knowledge has access to global business leaders, and public policy-makers, as well as to the expertise of several hundred respected faculty members. Their contributors include veteran journalists from around the world, and our site enables and encourages readers to comment at will. Based on our check on the experience and expertise of INSEAD Knowledge, we are satisfied that reliance could be placed on the article issued by them.

INSEAD, found in 1957, is one of the world's leading graduate business school with campuses in Europe (Fontainebleau, France), Asia (Singapore) and the Middle East (Abu Dhabi). INSEAD offers various academic programs including a full-time Master of Business Administration (MBA) program, a Master in Finance program, a PhD in management program, and several executive education programs (including an executive MBA). INSEAD has 15 research centers conducting research in different business and geographical areas. The name INSEAD was originally an acronym for the French "Institut Européen d'Administration des Affaires" or *European Institute of Business Administration*. As such, we consider that the article published on INSEAD Knowledge is reliable and representative.

The near space flying technology is capable of tapping into the satellite service business because the near space flying apparatus can provide similar functions with lower cost, we, therefore, refer to the satellite market data to gauge the near space industry's potential market outlook.

According to the Satellite Industry Association's ("**SIA**") 17th annual study of satellite industry data, namely State of the Satellite Industry Report ("**SIA Report 2014**"), which was issued in May 2014 by the Tauri Group, the global satellite industry revenues grew from approximately US$189 billion in 2012 to approximately US$195 billion in 2013, representing an increase of approximately 3%. The global satellite industry revenues of approximately US$195 billion in 2013 was attributed 61% by satellite services, 28% by satellite ground equipment, 8% by satellite manufacturing and 3% by satellite launch industry. There were nearly 1,200 operating satellites as of 31 December 2013 of which approximately 53% were communication satellites (being the sum of approximately 40% attributed by commercial communication satellites and approximately 13% attributed by government communications), approximately 13% were remote sensing related satellites, 12% were research and development related satellites and the remaining 23% satellites were related to navigation, military surveillance, scientific and meteorology. According to the SIA Report 2014, the global satellite industry revenues have nearly tripled since 2004 of approximately US$74 billion to approximately US$195 billion in 2013.

Satellite services, which accounted for 61% of the total revenue of the satellite industry of approximately US$195 billion in 2013, comprised the following:

- consumer services including satellite television, satellite radio and satellite broadband;

- fixed satellite services including transponder agreements and managed network services;

- mobile satellite services including mobile data and mobile voice; and

- remote sensing and imaging services.

The near space flying technology can provide solutions largely similar to the satellite services category as defined in the SIA Report 2014. In other words, the Group's potential market size with respect to the civil near space flying apparatus to be developed under the Outsourcing Technology Development Agreement is comparable with approximately US$119 billion (being 61% of the total revenue of the satellite industry of approximately US$195 billion in 2013 according to the SIA Report 2014). Based on the above, as the near space flying technology is capable of tapping into the satellite industry as described below, we considered that the business of the civil near space flying apparatus has a huge market potential and the early entrance will be beneficial to the Group.

We have tried to search for satellite market data for China but could not find any reliable and meaningful information. The SIA Report 2014 does not break down the global satellite market data by geographic segments. We believe it is reasonable not to study the satellite market by geographic segments because one of the main functions of satellite services is to provide transmission around the world. Creating geographical segments may not be relevant or it could be misleading in understanding such market data. The 2013 data in the SIA Report 2014 was derived from surveys, other public information and independent analysis.

According to the website of the SIA (http://www.sia.org/), SIA was formed in 1995 by several major U.S. satellite companies as a forum to discuss issues and develop industry-wide positions on shared business, regulatory and policy interests. SIA has developed into a full service trade association representing the commercial satellite industry. SIA has established active working groups involved with a host of policy issues including: regulatory issues (satellite licensing, spectrum allocation and regulatory policy); government services, public safety, export control policy, and international trade issues. SIA is now a recognized focal point for the U.S. satellite industry in Washington, D.C., representing and advocating industry positions with key policy makers on Capitol Hill and with the White House, Federal Communication Commission and most Executive Branch departments and agencies.

According to the website of the Tauri Group, a U.S. based company, (http://space.taurigroup.com/), the Tauri Group's Space and Technology practice is built around an integrated analytic team of professionals with expertise in disciplines critical to the space and technology domain. The Tauri Group's experts in engineering, physics, statistics, biology, operations research, applied economics, communications, and policy analysis are bound together by a commitment to analytic rigor as the foundation for effective decision support.

Nearly 80 percent of the Tauri Group's analysts have advanced degrees and together have experience serving more than 20 federal government agencies and organizations as well as working with hundreds of companies in space, energy, technology, aviation, and defense. Working together as a multi-disciplinary and cohesive unit, the Space and Technology practice brings a broad-based and objective perspective to decision support. Based on our check on the experience and expertise of the SIA and Tauri Group, we are satisfied that reliance could be placed on the article issued by them.

Paper Business

The paper business of the Group represents manufacture and sale of paper packaging products and paper gift items and the printing of paper promotional materials. As stated in the annual report 2014, due to the weakening global demand and fierce competition in the printing and packaging industry, the order prices of the Group's products were slightly decreased. On the other hand, the increase in minimum wage requirement in the PRC together with the effect of the appreciation of RMB to Hong Kong Dollar has significantly increased the labour costs and other production costs respectively. As a result, the profit margins of the products and overall performance of the Group were inevitably adversely affected.

According to the World Economic Outlook published in April 2014 by International Monetary Fund ("IMF"), the real GDP as projected by IMF to the World for 2014 and 2015 is 3.6% and 3.9% respectively while the real GDP for China for 2014 and 2015 is 7.5% and 7.3% respectively and the real GDP for advanced economies including U.S. and Euro area for 2014 and 2015 are approximately 2.2% and 2.3% respectively. Since (1) the major customers of the Group's paper business are primarily distributors, manufacturers of consumer products and advertising agencies based in the U.S., Europe, Hong Kong and the PRC; (2) the paper packaging products used in a wide range of industries across food and drink, healthcare, cosmetics and other consumer goods as well as a range of industrial sectors, packaging has become an essential everyday item, with its usage growing broadly in line with the global economy; and (3) the real GDP in those countries where the customers of the Group situated are increasing, we consider that the demand for paper packaging products of the Group will become better.

Since January 2014, the exchange rate of RMB to HK$ has dropped from its historical highest approximately 1.287 to the 3 months lowest 1.234 and bounced to 1.248 as at the Latest Practicable Date. There was about a 3.0% drop of the exchange rate since its historical peak. We considered the recent drop of the RMB to HK$ has increased the competitive power of the Group to other international manufacturers.

However, according to the labour law of Shenzhen City, in where the factory of the Group locates, the minimum wages have increased from RMB1,600 per month to RMB1,808 per month or by approximately 13% since 1 February 2014. Therefore, Chinese manufacturers in this region including the Group are challenged to seek more stringent cost control measures to keep their profitability level, including but not limiting to streamline and simplify the production process or outsource certain processes to sub-contractors.

Based on the above, we considered that the paper business market is still growing in line with the growth of real GDP globally, but the Group is required to review and enhance its cost control and efficiency to maintain it competitiveness in the paper business industry.

Reasons for and benefits of the Subscription

The Subscription comprises the Ordinary Shares Subscription, the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription.

The following sets out a summary of the subscription of the Subscription Shares by each of the Subscribers:

	Ordinary Shares Subscription		**Tranche A Preferred Shares Subscription**		**Tranche B Preferred Shares Subscription**	
	Number of Ordinary Shares	*Consideration HK$ million*	*Number of Preferred Shares*	*Consideration HK$ million*	*Number of Preferred Shares*	*Consideration HK$ million*
New Horizon	1,133,333,334	90.67	912,333,333	72.98	912,333,333	72.98
Starbliss	155,555,556	12.44	125,222,222	10.02	125,222,222	10.02
Grand Consulting	77,777,778	6.22	62,611,111	5.01	62,611,111	5.01
Lucky Time	77,777,778	6.22	62,611,111	5.01	62,611,111	5.01
Cutting Edge	155,555,556	12.44	125,222,222	10.02	125,222,222	10.02
REORIENT Global	66,666,666	5.34	53,666,667	4.29	53,666,667	4.29
	1,666,666,668	133.33	1,341,666,666	107.33	1,341,666,666	107.33

The aggregate Subscription Price amounts to approximately HK$348 million.

The Directors are of the view that the Subscription represents a valuable opportunity for the Group to bring in New Horizon as a solid strategic corporate investor, the holding companies and shareholders of which have extensive experience, strong expertise and a wide strategic business network in the civil near space flying apparatus and other innovative technology industry in the PRC. The Directors consider that entering into the Subscription Agreement represents a good opportunity to (i) raise a substantial amount of additional funds for the Company; (ii) improve the financial position and liquidity of the Group; (iii) provide the Company with the financial flexibility necessary for the Group's future business development and the capability to capture any prospective investment opportunities as and when they arise; and (iv) enable the Company to develop a new business segment in parallel to its existing business. The Directors are confident that the Subscribers will bring in additional resources and investment opportunities to the Company which are beneficial to the Company and the Shareholders as a whole.

In particular, it is noted that the Company, through the WFOE (as principal), intends to enter into the Outsourcing Technology Development Agreement with Kuang-Chi (as developer) at Completion, pursuant to which the WFOE shall appoint Kuang-Chi to research and develop a civil near space flying apparatus with a volume of not less than 10,000 cubic metre, which shall be equipped with communication facilities to be used in the range from ground level to near space and shall be able to fly at no less than 20 kilometres above sea level. The research results and related intellectual property rights arising from the development of the technologies as prescribed in the Outsourcing Technology Development Agreement shall be owned exclusively by the WFOE upon development of such technologies. The WFOE shall pay a research and development fee in RMB which is equivalent to HK$55,000,000 to Kuang-Chi. For details regarding the Outsourcing Technology Development Agreement, the civil near space flying apparatus and the related technologies, please refer to the Board's Letter in the Circular.

Kuang-Chi shall achieve the following research and development milestones pursuant to the Outsourcing Technology Development Agreement:

(i) by 15 September 2014, complete the design and testing of the scaled civil near space flying apparatus;

(ii) by 30 October 2014, complete the research and development of the required materials for the civil near space flying apparatus, and the inspection and delivery of such relevant materials; and

(iii) by 31 December 2014, complete the testing of the civil near space flying apparatus and deliver civil near space flying apparatus to the WFOE to conduct further test run.

The Directors are of the view that the civil near space flying apparatus and other innovative technology industry in the PRC offers attractive potential growth and return. According to the information provided by New Horizon and Kuang-Chi, near space is the region of earth's atmosphere that lies between 20 kilometres to 100 kilometres above sea level, which is, in other words, higher than where the commercial aircrafts fly but below orbiting satellites. This region is subject to less electromagnetic interference from ionosphere and free from weather influences in the atmosphere, it therefore provides a stabler environment for the operating of communication devices. Comparing with satellites, the civil near space flying apparatus is expected to achieve higher cost efficiency because of lower material costs, lower maintenance costs, lower lifting costs, less signal loss with a closer distance from sea level and nonetheless more loading capacity. Kuang-Chi is not aware of any other commercial research and development initiatives about near space flying device of a scale close to that being contemplated in the Company's new business except those conducted by an American multinational corporation specialising in internet-related services and products which include online advertising technologies, search, cloud computing and software, etc.

We understand from Kuang-Chi that the critical component in the near space flying technology is the use of the materials in the flying apparatus. The flying apparatus is lifted by balloons filled with helium which is a colorless, tasteless, non-toxic, inert, monatomic gas. The balloon materials must be light to increase effectiveness and durable to stand the atmospheric pressure. Kuang-Chi's research team has accumulated experience in research and development of other innovative technology related projects and is therefore confident in its expertise and knowledge in the development of the civil near space flying apparatus including any special material required for the balloons under the Outsourcing Technology Development Agreement. Kuang-Chi is committed to deliver the development milestones in accordance with the Outsourcing Technology Development Agreement.

The Directors consider that the Outsourcing Technology Development Agreement presents a good opportunity which helps the Group to develop a new business in the near space and other innovative technology sector in the PRC and to diversify its business portfolio. Through contracting with Kuang-Chi for its assistance to perform research and development in the commercialization of the near space civil flying apparatus technology, the Company will be able to establish its own capabilities in this new business step by step. The Company will consider arrangements to put in place appropriately skilled and experienced research and development staff in the related technology field to assist the development of the Company's new business. The Directors consider that the Outsourcing Technology Development Agreement is a practicable and effective solution for advancing the Company's new business plan. The Directors envisage that funds to be raised in the Subscription may strengthen the Group's financial condition and that the Group will be in a better position to consider any possible attractive business development opportunities relating to the Group's principal business and also in the new near space and other innovative technology business. Although the Board has no experience in the near space and other innovative technology industry, three persons with relevant industry experience have been nominated and will be proposed to be appointed as executive Directors in the SGM subject to Independent Shareholder's approval and with effect from Completion, we consider that they have experiences in assisting the Company to develop the new business.

The Group intends to license its civil near space flying apparatus for civil commercial use in a number of areas, including but not limited to telecommunication, local area wireless technology (Wi-Fi), meteorological surveillance, satellite television, satellite broadcasting and traffic surveillance, etc. In addition, the Group may partner with its potential customers to explore further business opportunities relating to civil near space flying apparatus business. Income that may be generated by the licensing of civil near space flying apparatus will depend on a number of factors, including but not limited to the nature of the licences, the flying distance and the airborne duration, etc. As at the Latest Practicable Date, the Group did not have any licensing or sale and purchase contracts in connection with the civil near space flying apparatus business.

The Company and/or the WFOE will have on-going discussions with potential customers of the civil near space flying apparatus and related services from time to time but it is not expected that any concrete and meaningful business proposals with the customers can be concluded until the completion and delivery of the flying apparatus, which currently is expected to occur by 31 December 2014, and the successful test-fly of such flying apparatus is expected to take place by February 2015. The Company expects that the terms of services, including the fees, tenure, scope of services, restrictions, representations, etc. to be offered with respect to the near space civil flying apparatus will be tailored to the specific needs of different potential customers. The Company does not currently have an exhaustive list of potential customer profiles and considers that the initial customers for the civil near space flying apparatus shall be companies which are currently using satellite services and engaged in businesses such as telecommunication, Wi-Fi, meteorological surveillance, satellite television, satellite broadcasting and traffic surveillance. The timing of the commercialization of the civil near space flying apparatus and developing any long-term service contracts for the civil near space flying apparatus depends on a number of factors, including but not limited to the successful launching of the civil near space flying apparatus. The Company expects the timing of the commercialization and the development of any service contract for the civil near space flying apparatus to be no later than the end of 2015.

Save as disclosed below in the use of proceeds of the Subscription, the Company did not have an estimation of any further capital requirement in respect of the commercialization of the civil near space flying apparatus as at the Latest Practicable Date, as the major factors that will affect the capital requirement, being (i) the production costs and time required for building a civil near space flying apparatus; and (ii) the success and timing of developing any long-term service contracts in respect of the civil near space civil flying apparatus depend on a number of external factors at the relevant time and therefore cannot be ascertained at this stage. The Company expects to be provided with further information regarding the production costs and time required for building a civil near space flying apparatus after the test-fly (which is expected to take place by the end of February 2015) is successful. The Company will work closely with Kuang-Chi to obtain the necessary data to estimate the production costs and timing as soon as practicable. The Company believes that the estimated timing of the project deliverables is reasonable and achievable. The Group will actively develop a new business relating to the civil near space flying apparatus although it does not currently have an estimated timetable as to when revenue will be generated or when this new business will break even. In the event that the research and development work under the Outsourcing Technology Development Agreement progresses ahead of the agreed timeline, it is possible that the commercialization of the civil near space flying apparatus will be moved forward and that the Company will consider conducting further fund raising activities to fund any business and operational needs as and when necessary.

The Directors have no intention to discontinue any of its existing businesses.

The gross proceeds and the net proceeds from the Subscription are approximately HK$348 million and approximately HK$327 million respectively. The net proceeds are intended to be applied as follows:

— as to approximately HK$55 million for payment of the research and development fee under the Outsourcing Technology Development Agreement;

— as to approximately HK$200 million for acquisition of land site and construction of research and development and manufacturing facilities in respect of the near space and other innovative technology businesses. The Company understands that New

Horizon envisages that the Group may benefit from having a specific site or premises for long term use when the civil near space flying apparatus project may progress to a stage closer to commercialising any research and development results and expects to locate a suitable site within six months after Completion;

— as to approximately HK$50 million to approximately HK$72 million for research and development expenses in respect of the civil near space flying apparatus and other innovative technology businesses (including staff costs, equipment, etc). The Company expects that the research and development expenses will be incurred in an on-going basis and utilised within twelve months after Completion; and

— as to the remaining balance, if any, to fund future expansion and for general working capital of the Group.

Our View

Based on: (1) the business of the near space technology (including the civil near space flying apparatus) has market potentials based on reference to the global satellite services market of approximately US$119 billion in 2013 (according to the SIA Report 2014); (2) Kuang-Chi, the developer under the Outsourcing Technology Development Agreement, is an experienced research and development corporation; and (3) by 31 December 2014, Kuang-Chi will complete the testing of the civil near space flying apparatus and deliver the civil near space flying apparatus to the WFOE to conduct further test runs pursuant to the Outsourcing Technology Development Agreement, we consider that the Company might be able to be benefited from the development of the new business provided the successful launching and commercialization of the civil near space flying apparatus and/or other innovative technology which may be developed by the Group in the future.

Based on the above, we consider that the Subscription would enable the Company to raise funds with net proceeds of approximately HK$327 million, which is beneficial to the Group in (i) financing the Group with additional cash inflow for future business development in particular for its business venture into the near space and other innovative technology industry; (ii) providing the Group with the financial flexibility for any future investment opportunities in line with its existing business or in exploring new business segment in particular in the field of the near space and other innovative technology sector in the PRC; (iii) financing the research and development fee under the Outsourcing Technology Development Agreement, as a strategic step of the Group to participate in the near space and other innovative technology sector; and (iv) bringing in New Horizon as a solid strategic corporate investor.

Risks relating to the Group's business venture into the near space and other innovative technology industry

Notwithstanding the foregoing, Independent Shareholders should note that there are risks that (i) the research and development of the civil near space flying apparatus may not be completed and the revenue to be generated by the new business in the future is not ascertained; (ii) any failure at any stage of development in the process might incur investment loss to the Group; (iii) any monies invested in the relevant innovative projects (whether financed by the

Subscription or otherwise) might not be recoverable. The success of the new business mainly relies on the success of the research and development and the commercialization of the civil near space flying apparatus.

Notwithstanding the recent development and the anticipated market potentials of the near space technology as illustrated above, given the innovative and developing nature of the near space technology, the near space-related business of the Group is subject to a number of uncertainties and risks, including but not limited to,

1. the anticipated benefits from the market potentials of the near space technology (including the civil near space flying apparatus) might not be materialized, due to a number of internal and external factors, such as any failure in research and development, launching and commercialization of near space technology (including the near space flying apparatus) developed by the Group, as well as the emergence and advancement of other innovative technologies which might rival for the market potentials;

2. the near space technology (including the civil near space flying apparatus) is still under development stage with uncertainties over the timing for achieving economic benefits, and the commercialization of the near space technology (including the civil near space flying apparatus) and the successful launching of commercial applications of the near space technology (including the civil near space flying apparatus) developed by the Group might be subject to lengthy processes and might not be realized;

3. the market acceptance in adopting the near space technology (including the civil near space flying apparatus) developed by the Group which is currently intended for civil commercial uses, such as in areas of telecommunication, local area, wireless technology, meteorological surveillance, satellite broadcasting and traffic surveillance, are unproven, such that the revenue of the near space-related business of the Group might not be ascertained;

4. as any other kinds of innovative technologies, the failure to keep pace with and/or stay ahead of the latest technological development might cause losing chances in capturing any market potentials which would in turn adversely affect the economic return of the Group's investment in the innovative business, in particular the near space-related business; and

5. additional capital for developing near space technology (including the civil near space flying apparatus) and other innovative technologies might be required from time to time, while the return on the investment might be remote and is not guaranteed.

Principal terms of the Subscription Agreement

Pursuant to the Subscription Agreement, the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 Subscription Shares, comprising:

(i) 1,666,666,668 new Ordinary Shares;

(ii) 1,341,666,666 Tranche A Preferred Shares (upon full conversion of the Tranche A Preferred Shares in full, 1,341,666,666 Conversion Shares will be allotted and issued);

(iii) 1,341,666,666 Tranche B Preferred Shares (upon full conversion of the Tranche B Preferred Shares in full, 1,341,666,666 Conversion Shares will be allotted and issued).

Information on the Preferred Shares

A summary of the principal terms of the Preferred Shares is set out below:

Issue price:	HK$0.08 per Preferred Share
Dividends:	None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.
Return on capital:	The Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.
Transferability:	Any Preferred Shares, subject to it having been fully paid up and the "Lock-up undertakings" as detailed below, shall be freely transferable. For the avoidance of doubt, no partly-paid Preferred Shares can be transferred.

Voting:	The holder(s) of the Preferred Shares will not be entitled to attend or vote at any general meeting of the Company, unless a resolution is to be proposed at a general meeting for winding up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder(s) thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holder(s) may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares.
Conversion period:	The period commencing from the Completion Date and ending on the second anniversary of the Completion Date.
Conversion:	Subject to the minimum public float requirement set out in the Circular and the payment in full of the Subscription Price of the Preferred Shares, the Preferred Shares shall be convertible into Ordinary Shares by the Preferred Shareholder serving the conversion notice to the Company on any Business Day within the conversion period, without the payment of any additional consideration therefor, into such number of fully-paid Conversion Shares. The Company's obligation to effect conversion of fully-paid Preferred Shares into Conversion Shares shall be subject to the minimum public float requirement under the Listing Rules being met.

For fully-paid Preferred Shares, the conversion right attaching to the Preferred Shares shall cease if the same is not exercised on the last date of the conversion period. Holders of Preferred Shares shall no longer be entitled to convert such Preferred Shares into Ordinary Shares after such date. Such fully-paid but unconverted Preferred Shares will remain as Preferred Shares with the rights set out in the terms of the Preferred Shares and will not be redeemable, and the issued as well as authorised share capital of the Company shall remain comprising both the Ordinary Shares and the Preferred Shares (the latter of which having no conversion right attaching thereto). Upon liquidation of the Company, according to the terms of the Preferred Shares, the Preferred Shares shall rank pari passu in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

For partly-paid Preferred Shares, since the payment date for the remaining balance of the aggregate Subscription Price falls before the expiry of the conversion period, any partly-paid Preferred Shares would have been either forfeited or repurchased by the Company prior to the expiry of the conversion period in circumstances as set out in the paragraph headed "The Subscription Price" in the Board's Letter.

Conversion price: HK$0.08 per Conversion Share, subject to conversion adjustments set out under the section headed "Conversion adjustments" in the Board's Letter.

The conversion price of HK$0.08 per Conversion Share (subject to adjustments set out under the section headed "Conversion adjustments") is used for the purpose of calculating the number of Ordinary Shares convertible from Preferred Shares. No conversion price is payable upon conversion. The partly-paid Preferred Shares to be issued at Completion are not convertible into Conversion Shares until the Subscription Price of the Preferred Shares have been fully paid.

Conversion rate:	One Preferred Share convertible into one Ordinary Share (subject to adjustment of the conversion price), which is determined by dividing the Subscription Price by the conversion price per Ordinary Share in effect at the time of conversion, provided that the conversion price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible.
Redemption:	Other than the repurchase as set out in the section headed "The Subscription Price" in the Board's Letter, the Preferred Shares shall be non-redeemable.

The Subscription Price

The Subscription Price is HK$0.08 per Subscription Share, which represents:

(i) a discount of approximately 76.1% to the closing price of HK$0.335 per Ordinary Share as quoted on the Stock Exchange on 29 May 2014, being the Last Trading Date;

(ii) a discount of approximately 74.9% to the average closing price of approximately HK$0.319 per Ordinary Share for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 75.2% to the average closing price of approximately HK$0.322 per Ordinary Share for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 30.4% to the audited net asset value per Ordinary Share of approximately HK$0.115 as at 31 March 2014; and

(v) a discount of approximately 97.5% to the closing price of HK$3.26 per Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date.

The aggregate Subscription Price amounts to approximately HK$348 million which shall be payable in cash by the Subscribers in proportion to their Subscription Shares subscribed in the following manners:

(i) at Completion, the Subscription Price of the Ordinary Shares Subscription and approximately 5% of the Subscription Price of the Tranche A Preferred Shares Subscription and the Tranche B Preferred Shares Subscription, i.e. being approximately HK$144 million in aggregate;

(ii) on a date falling within six months after the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the date falling on the last day of such six-month period after the Completion Date (or such other date as the parties under the

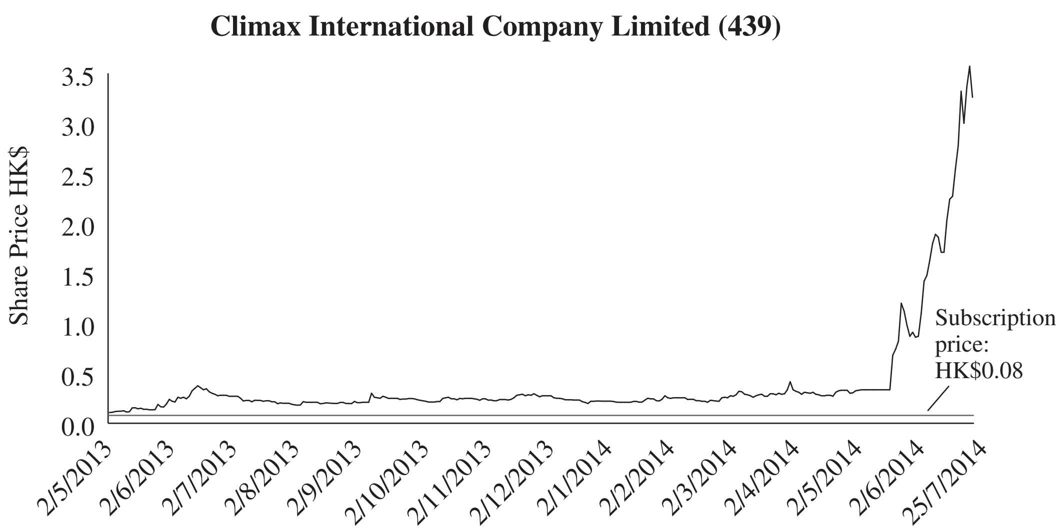
Subscription Agreement may agree in writing), approximately 95% of the aggregate Subscription Price of the Tranche A Preferred Shares Subscription, i.e. being approximately HK$102 million; and

(iii) on a date falling before the first anniversary of the Completion Date specified by the relevant Subscriber(s) by written notice to the Company, or if no such written notice has been received by the Company, the first anniversary of the Completion Date (or such other date as the parties under the Subscription Agreement may agree in writing), approximately 95% of the aggregate Subscription Price of the Tranche B Preferred Shares Subscription, i.e. being approximately HK$102 million.

Upon Completion, the Preferred Shares shall be issued and credited as partly paid. Payment of the remaining Subscription Price of the Preferred Shares as set out in paragraphs (ii) and (iii) above are subject further to fulfilment of the conditions by the Company as detailed in the Board's Letter. In the event the Company fails to fulfil such conditions (as detailed in the Board's Letter) on or before the relevant payment date (or such later date as the relevant Subscriber may otherwise agree to defer in writing in accordance with the Subscription Agreement), the relevant Subscriber shall be entitled not to pay the balance of the aggregate Subscription Price of the relevant Preferred Shares, and may in its absolute discretion by written notice to the Company: (1) defer payment of such balance by not more than 28 days to such other date as the relevant Subscriber may specify; or (2) elect not to proceed further with its outstanding payment obligation of its balance of the aggregate Subscription Price of the relevant Preferred Shares, and accordingly the Company shall repurchase the relevant Preferred Shares from the relevant Subscriber at an amount equivalent to the Subscription Price received by the Company for the relevant number of Preferred Shares from such Subscriber. In the event the relevant Subscriber fails to pay its remaining Subscription Price of the Preferred Shares as set out in paragraphs (ii) and (iii) above on or before the relevant payment date (or such later date as the Company may otherwise agree to defer in writing in accordance with the Subscription Agreement), the Company shall be entitled not to convert the relevant Preferred Shares and may in its absolute discretion by written notice to the relevant Subscriber: (1) defer payment of such balance by not more than 28 days to such other date as the Company may specify; or (2) in the event that by the last day of the relevant payment date, the relevant Subscriber has not paid in full its balance of the aggregate Subscription Price of the relevant Preferred Shares, forfeit such Preferred Shares issued to such Subscriber.

Historical Ordinary Share price performance

The graph below illustrates the closing price level of the Ordinary Shares during the period from 1 May 2013 to 25 July 2014 (being the 12 calendar months period prior to the date of the Subscription Agreement up to the Latest Practicable Date) (the "**Review Period**"):



Data source: Website of the Stock Exchange (www.hkex.com.hk)

Note: Trading of the Ordinary Shares was suspended from 3 June 2014 to 13 June 2014.

During the Review Period, the closing price level of the Ordinary Shares had fluctuated ranging from the lowest of HK$0.107 per Ordinary Share (recorded on 2 May 2013) to the highest of HK$3.57 per Ordinary Share (recorded on 24 July 2014). The Subscription Price is at all time below the closing prices of the Ordinary Shares during the Review Period.

Comparable issues

As set out in the section headed "Effect on shareholding structure" in the Board's Letter, New Horizon did not hold any Shares as at the date of the Announcement and the Latest Practicable Date. Upon Completion, the interests of the Subscribers and parties acting in concert with New Horizon in the voting rights of the Company will be approximately 53.49%, assuming that there is no change in the issued share capital of the Company other than the issue of the Ordinary Subscription Shares from the Latest Practicable Date and up to Completion, resulting in a change in control of the Company. New Horizon (on its own behalf and on behalf of the other Subscribers) has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon full conversion of the Preferred Shares.

For the purpose of our analysis, we have performed an analysis of comparable issues by searching the website of the Stock Exchange on a best efforts basis for all share issues (the "Comparable Issues") announced since 29 May 2012 (two years prior to the date of the

Subscription Agreement) and up to the date immediately prior to the Latest Practicable Date by companies listed on the main board of the Stock Exchange with the application of a whitewash waiver involving placing/subscription/issue of new shares of the listed companies to/by a subscriber(s). As a result of such placing/subscription/issue of new shares, those subscriber(s), which did not hold any shares prior to such placing/subscription/issue, together with parties acting in concert with any of them became holding more than 30% of the voting rights and became the single largest shareholder of such listed companies, and leading to a change in control of such listed companies upon completion of the placing/subscription/issue. We have excluded (i) placing/subscription/issues announced by listed companies which, as at the date of announcement and/or currently, were/are under prolonged suspension; and (ii) open offers or rights issues of new shares, which are usually made at discounts under open offers or rights issues. The Comparable Issues represent all placing/subscription/issues meeting the said criteria above. The table below illustrates the details of the Comparable Issues:

		Premium/(discount) of placing/ subscription/issue price over/(to)		
Date of announcement	**Company name**	**Closing share price as at the last day of trading immediately prior to the announcement** % *(approximate)*	**Average closing share price for the 5 trading days immediately prior to the announcement** % *(approximate)*	**Average closing share price for the 10 trading days immediately prior to the announcement** % *(approximate)*
17 October 2012	King Stone Energy Group Limited (stock code: 663)	(6.2)	(8.4)	(11.2)
4 December 2012	Asia Coal Limited (stock code: 835)	(82.5)	(83.2)	(82.6)
8 May 2013	Greenland Hong Kong Holdings Limited (formerly known as "SPG Land (Holdings) Limited" ("SPG Land") (stock code: 337) *(note 1)*	(25.3)	(10.2)	5.1
26 June 2013	New Focus Auto Tech Holdings Limited (stock code: 360)	(41.2)	(46.4)	(45.3)
10 October 2013	China New Town Development Company Limited ("China New Town") (stock code: 1278 *(note 2)*	(46.0)	(44.8)	(41.0)
20 November 2013	Buildmore International Limited (stock code: 108)	(55.0)	(54.1)	(55.2)
23 January 2014	CITIC 21 CN Company Limited (stock code: 241)	(63.9)	(61.8)	(61.2)
13 February 2014	Same Time Holdings Limited (stock code: 451)	(47.1)	(44.0)	(42.3)
11 March 2014	Chinavision Media Group Limited (stock code: 1060)	(20.6)	0.4	16.6

Date of announcement	Company name	Premium/(discount) of placing/ subscription/issue price over/(to) Closing share price as at the last day of trading immediately prior to the announcement % *(approximate)*	Average closing share price for the 5 trading days immediately prior to the announcement % *(approximate)*	Average closing share price for the 10 trading days immediately prior to the announcement % *(approximate)*
25 March 2014	Neo-Neon Holdings Limited (stock code: 1868)	(50.0)	(50.0)	(50.5)
	Mean	(43.8)	(44.8) *(note 3)*	(48.7) *(note 3)*
	Median	(46.6)	(45.6)	(43.8)
	Minimum	(6.2)	0.4	16.6
	Maximum	(82.5)	(83.2)	(82.6)
	The Company	(76.1)	(74.9)	(75.2)

Source: relevant announcements or circular of the companies for the Comparable Issues

Notes:

1. As mentioned in the announcement of SPG Land dated 8 May 2013, a special dividend of HK$1.275 per share was proposed by SPG Land after the completion of the subscription of shares by the subscriber. Since the subscriber had waived its entitlement to the special dividend and the shares of SPG Land were traded cum the special dividend, the comparison was made between the subscription price of HK$1.9 per share (as set out in the announcement of SPG Land dated 8 May 2013) to the adjusted closing share prices of SPG Land to reflect the effect of the special dividend (being the closing price of shares of SPG Land on each relevant trading day less the special dividend of HK$1.275 per share).

2. China New Town published an announcement on 18 January 2013 in relation to, among other things, the discussions with several independent third parties regarding possible investment in China New Town in the form of subscription of new shares. As stated in the announcement of China New Town dated 10 October 2013, the subscription price of HK$0.27 per share was determined with reference to, among other things, average closing price of its shares for the three month period prior to the suspension of trading of the shares on 14 January 2013, i.e. the last trading day of the shares before the release of the aforesaid announcement dated 18 January 2013. Accordingly, 14 January 2013 was set as the last trading day for the assessment, including calculation of the average share prices of different periods prior to and including 14 January 2013.

3. For the calculation of the mean for discount, premium to the closing price or average closing price are being excluded.

All of the discounts to the price of the Ordinary Shares on the Last Trading Day, average closing price for the 5 trading days and 10 trading days represented by the Subscription Price are:

(1) within the range of and slightly less than the maximum discounts of the Comparable Issues for the closing share price as at the last trading day immediately prior to the announcement, as well as the average closing share price for each of the 5 and 10 trading days;

(2) larger than the mean of the Comparable Issues with discounts for the closing share price as at the last trading day immediately prior to the announcement, as well as the average closing share price for each of the 5 and 10 trading days; and

(3) larger than the median discount of the Comparable Issues for the closing share price as at the last trading day immediately prior to the announcement, as well as the average closing share price for each of the 5 and 10 trading days.

Also, the discounts represented by the Subscription Price to the price of the Ordinary Shares on the Last Trading Day, average closing price for the 5 trading days and 10 trading days are larger than 9 of the 10 Comparable Issues for the corresponding period.

Peer comparison

In assessing the fairness and reasonableness of the Subscription Price, we have attempted to make reference to the price earnings multiple and price-to-book ratio of all the companies listed on the Stock Exchange which are principally engaged in business similar to that of the Group, namely the manufacture and trading of paper packaging products and paper gift items and the printing of paper promotional materials, and with over 80% of the revenue generated from the such principal business and with profit-making record (the "**Comparables**"). Due to the fact that the Group recorded net loss of approximately HK$37.9 million for the year ended 31 March 2014, no price earnings multiple would be set out. Details of price-to-book ratios are set out below:

Company name	Stock code	Principal Business	Price-to-book ratio *(Note 1)*	Market Capitalization *million*
Jin Bao Bao Holdings Ltd.	1239	Design, manufacture and sale of packaging products and structural components	1.36 times	344
Samson Paper Holdings Ltd.	731	Manufacture, trading and marketing of paper products, trading of consumable aerobautic parts and provision of related services, provision of logistic services and marine services	0.26 times	451
Come Sure Group (Holdings) Ltd.	794	Manufacture and sale of corrugated board, corrugated paper-based packing and offset printed corrugated products, and properties leased	0.39 times	235

Company name	Stock code	Principal Business	Price-to-book ratio *(Note 1)*	Market Capitalization *million*
Zhenggye International Holdings Co. Ltd.	3363	Manufacturing and sale of paper, paperboard, and paper-based packaging products	0.48 times	300
China Sunshine Paper Holdings Co. Ltd.	2002	Production and sale of white top linerboard, lightcoated linerboard and core board	0.31 times	554
Hop Fung Group Holdings Ltd.	2320	Manufacture and sale of containerboard, and corrugated packaging	0.19 times	217
Starlite Holdings Ltd.	403	Printing and manufacturing of packaging materials, labels, paper products and environmentally friendly products	0.40 times	223
Cheong Ming Investments Ltd.	1196	Manufacture and sale of paper cartons, packaging boxes, children's novelty books, hangtags, labels and shirt paper boards, plastic bags and commercial printing	1.79 times	870
China Packaging Holdings Development Ltd.	1439	Design, manufacture, printing and sale of paper-based packaging products, which include flexo-printed cartons and offset-printed cartons	1.85 times	308
		Maximum	**1.85 times**	
		Minimum	**0.19 times**	
		Median	**0.40 times**	
		Mean	**0.78 times**	
The Subscription			**0.70 times** *(Note 3)*	**486**

Date source: Website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on the respective market capitalization of the Comparables as at the close of the Last Trading Day and the respective net assets of the Comparables as at their respective latest financial reporting date as disclosed in their respective annual report/interim report.

2. Relevant financial figures denominated in RMB are converted into HK$ at the exchange rate of RMB1.00 to HK$1.20, which is for illustrative purpose only in this letter. No representation is made that any amount in RMB/HK$ could have been or could be converted at such rate or any other rates or at all.

3. Based on the Subscription Price divided by the net assets per Ordinary Share of approximately HK$0.115 as at 31 March 2014 (calculated based on the net assets of the Company as at 31 March 2014 divided by 1,449,501,125 Ordinary Shares in issue as at the Last Trading Day which was the date the Subscription Agreement entered into).

Although (i) the Subscription Price is at all time below the closing prices of the Ordinary Shares during the Review Period; and (ii) all of the discounts to the price of the Ordinary Shares on the Last Trading Day, average closing price for the 5 trading days and 10 trading days represented by the Subscription Price are larger than the mean discount of the Comparable Issues with discounts and the median discount of the Comparable Issues for the closing share price as at the last trading day immediately prior to the announcement and the average closing share price for each of the 5 and 10 trading days, based on (i) the recent deteriorated and weak performance of the Group which recorded net loss of approximately HK$37.9 million for the year ended 31 March 2014 as compared to a profit of approximately HK$2.2 million for the year ended 31 March 2013; (ii) the price-to-book ratio represented by the Subscription Price is (a) within the range of the Comparables; (b) above the median of the Comparables; (c) slightly lower than the mean of the Comparables; and (d) higher than the price-to-book ratio of 6 of the 9 Comparables, we consider that the Subscription Price is fair and reasonable.

Lock-up undertakings

New Horizon (together with its holding companies, namely Kuang-Chi and Shenzhen Kuang-Chi Hezhong Technology Limited (深圳光啟合眾科技有限公司)) undertakes and covenants with the Company that without the prior written consent of the Company, it shall not dispose, transfer or sell, among other things, all and any of (i) the Ordinary Subscription Shares, the Tranche A Preferred Shares and/or the Tranche B Preferred Shares; and (ii) Conversion Shares derived as a result of the conversion of any Tranche A Preferred Shares and Tranche B Preferred Shares, subscribed by and issued to it at Completion pursuant to the Subscription Agreement within two years from the Completion Date; and (iii) any other Ordinary Subscription Shares, Preferred Shares and Conversion Shares derived as a result of the conversion of the Preferred Shares under the Subscription Agreement transferred from any other Subscribers to New Horizon within the period from the date of such transfer up to the expiry of the two-year period from the Completion Date, save and except that the aforesaid restrictions shall not apply to any disposal, transfer or sale of any of the Ordinary Subscription Shares, Preferred Shares and/or Conversion Shares made with any other Subscribers.

Starbliss, Grand Consulting, Lucky Time and Cutting Edge each separately undertakes and covenants (together with their respective shareholders) with the Company that without the prior written consent of the Company, Starbliss, Grand Consulting, Lucky Time and Cutting Edge shall not dispose, transfer or sell, among other things, all and any of (i) the Ordinary Subscription Shares within three months from the Completion Date; (ii) the Tranche A Preferred Shares and any Conversion Shares derived as a result of the conversion of any Tranche A Preferred Shares within three months from the date on which such Tranche A Preferred Shares are fully paid up; and (iii) the Tranche B Preferred Shares and any Conversion

Shares derived as a result of the conversion of any Tranche B Preferred Shares within one year from the date on which such Tranche B Preferred Shares are fully paid up and (iv) any other Ordinary Subscription Shares, Preferred Shares and Conversion Shares derived as a result of the conversion of the Preferred Shares under the Subscription Agreement transferred from any of the other Subscribers to it within the period from the date of such transfer up to the expiry of the respective lock-up periods referred to in (i), (ii) and (iii) aforesaid, save and except: (i) that the aforesaid restrictions shall not apply to any disposal, transfer or sale of any of the Ordinary Subscription Shares, Preferred Shares, and/or Conversion Shares made with any other Subscribers, or (ii) with the consent of the Board.

Any such Ordinary Subscription Shares, Preferred Shares and/or Conversion Shares so transferred among the Subscribers and any subsequent transfers of the same block of Ordinary Subscription Shares, Preferred Shares and /or Conversion Shares among the Subscribers shall be: (i) subject to the remainder of the original lock-up period in respect of the Ordinary Subscription Shares, Preferred Shares and/or Conversion Shares to which the transferee Subscriber(s) is subject, and (ii) freely transferrable with the consent from the Board (with respect to any such transfer among Subscribers (other than New Horizon) as originally provided in the undertakings by the Subscribers other than New Horizon).

We consider that the lock-up arrangement demonstrates the support of the Subscribers to the Company and is favourable to the other Shareholders.

Our View

Although (i) the Subscription Price is at all time below the closing prices of the Ordinary Shares during the Review Period (as stated in the section headed "Historical Ordinary Share price performance); and (ii) all of the discounts to the closing price of the Ordinary Shares on the Last Trading Day, average closing price for the 5 and 10 trading days represented by the Subscription Price are larger than the mean of the Comparable Issues with discounts and the median of the Comparable Issues for the closing share price as at the last trading day immediately prior to the announcement and the average closing share price for each of the 5 and 10 trading days (as stated in the section headed "Comparable issues") taking into account that:

(1) the net amount of fund to be raised through the Subscription which is in aggregate HK$327 million which (i) provides the Group with additional cash resources for future business development in particular in the near space technology industry; (ii) finance the Group with the financial flexibility for any future investment opportunities, among others, in the field of the near space and other innovative technology sector in the PRC; and (iii) finance the research and development fee under the Outsourcing Technology Development Agreement as the Group's strategic step to participate in the near space and other innovative technology sector;

(2) the recent deteriorated and weak performance of the paper packaging business of the Group which recorded net loss of approximately HK$37.9 million for the year ended 31 March 2014 as compared to a profit of approximately HK$2.2 million for the year ended 31 March 2013;

(3) the price-to-book ratio represented by the Subscription Price is (a) within the range of discounts (from 0.19 times to 1.85 times) of the Comparables; (b) larger than the median of the Comparables; (c) slightly lower than the mean of the Comparables; and (d) higher than the price-to-book ratio of the 6 of the 9 Comparables (as stated in the section headed "Peer comparison"); and

(4) bringing in New Horizon as a solid strategic corporate investor which will assist in the development of the Group's business after the Subscription and the diversification of the Group's business portfolio into the business of the near space technology (including the near space flying apparatus) which has market potentials,

we are of the opinion that the terms of the Subscription, including the Subscription Price, are fair and reasonable.

Potential dilution on shareholdings of the Company

Reference is made to the shareholding structure of the Company as stated in the section headed "EFFECT ON SHAREHOLDING STRUCTURE" in the Board's Letter illustrating dilution effects on shareholdings of the Company immediately upon (i) Completion of the Subscription; (ii) conversion in full of the Tranche A Preferred Shares; and (iii) conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares, assuming no other Ordinary Shares will be issued between the Latest Practicable Date and the date until all Tranche A Preferred Shares and Tranche B Preferred Shares have been fully converted.

As at the Latest Practicable Date, (i) World Treasure Global Limited held 638,981,013 Ordinary Shares, representing approximately 44.08% of the total number of issued Ordinary Shares; and (ii) Mr. Ruan Yuan held 219,867,657 Ordinary Shares, representing approximately 15.17% of the total number of issued Ordinary Shares.

Immediately after the allotment and issue of the Ordinary Subscription Shares (but before the allotment and issue of any Conversion Shares), (i) the shareholdings of World Treasure Global Limited in the Company would be decreased from approximately 44.08% to approximately 20.50%; (ii) the shareholdings of Mr. Ruan Yuan in the Company would be decreased from approximately 15.17% to 7.06%, and Mr. Ruan Yuan would cease to be a substantial Shareholder and his holding in the issued Ordinary Shares will be considered as held in public hands (as save for Mr. Ruan Yuan's shareholding in the Company of 10% or more as at the Latest Practicable Date, Mr. Ruan Yuan is otherwise not a connected person of the Company); and (iii) the aggregate shareholdings of existing public Shareholders (for avoidance of doubt, excluding Mr. Ruan Yuan) would be decreased from 40.75% to approximately 18.95%.

For illustration purpose only, immediately after Completion and conversion in full of the Tranche A Preferred Shares, (i) the shareholdings of World Treasure Global Limited in the Company would be further decreased to approximately 14.33%; (ii) the shareholdings of Mr. Ruan Yuan in the Company would be further decreased to 4.93%; and (iii) the aggregate shareholdings of existing public Shareholders (for avoidance of doubt, excluding Mr. Ruan Yuan) would be further decreased to approximately 13.25%.

For illustration purpose only, immediately after completion of the Subscription and the conversion in full of the Tranche B Preferred Shares, (i) the shareholdings of World Treasure Global Limited in the Company would be further decreased to approximately 11.02%; (ii) the shareholdings of Mr. Ruan Yuan in the Company would be further decreased to 3.79%; and (iii) while the aggregate shareholdings of existing public Shareholders (for avoidance of doubt, excluding Mr. Ruan Yuan) would be further decreased to approximately 10.18%.

	As at the Latest Practicable Date		**Immediately after the allotment and issue of the Ordinary Subscription Shares and before the allotment and issue of any Conversion Shares**		**Immediately after Completion and the conversion in full of the Tranche A Preferred Shares** *(Note 3)*		**Immediately after Completion and the conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares** *(Note 3)*	
	Number of Ordinary Shares	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*	*Number of Ordinary Shares*	*%*
World Treasure Global Limited *(Note 1)*	638,981,013	44.08%	638,981,013	20.50%	638,981,013	14.33%	638,981,013	11.02%
Mr. Ruan Yuan *(Note 4)*	219,867,657	15.17%	—	—	—	—	—	—
The Subscribers								
New Horizon *(Note 5)*	—	—	1,133,333,334	36.37%	2,045,666,667	45.89%	2,958,000,000	51.01%
Starbliss	—	—	155,555,556	4.99%	280,777,778	6.30%	406,000,000	7.00%
Grand Consulting	—	—	77,777,778	2.50%	140,388,889	3.15%	203,000,000	3.50%
Lucky Time	—	—	77,777,778	2.50%	140,388,889	3.15%	203,000,000	3.50%
Cutting Edge	—	—	155,555,556	4.99%	280,777,778	6.30%	406,000,000	7.00%
REORIENT Global	—	—	66,666,666	2.14%	120,333,333	2.70%	174,000,000	3.00%
Subtotal	—	—	1,666,666,668	53.49%	3,008,333,334	67.49%	4,350,000,000	75.01%
RFML *(Note 2)*	1	—	1	—	1	—	1	—
Public Shareholders								
Existing public Shareholders	590,652,454	40.75%	590,652,454	18.95%	590,652,454	13.25%	590,652,454	10.18%
Mr. Ruan Yuan *(Note 4)*	—	—	219,867,657	7.06%	219,867,657	4.93%	219,867,657	3.79%
Subtotal	590,652,454	40.75%	810,520,111	26.01%	810,520,111	18.18%	810,520,111	13.97%
Total	1,449,501,125	100.00%	3,116,167,793	100.00%	4,457,834,459	100.00%	5,799,501,125	100.00%

Notes:

1. The 638,981,013 Ordinary Shares are beneficially owned by World Treasure Global Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong Hin Shek, an executive Director.

2. The one Ordinary Share held by RFML is a residue resulting from fractions of Ordinary Shares which were unallocated to brokerage clients of RFML when the Company conducted a bonus issue of Ordinary Shares in May 2012.

3. These columns are set out for illustration purpose only. The allotment and issue of the Conversion Shares are subject to the Tranche A Preferred Shares or the Tranche B Preferred Shares (as the case may be) having been fully paid up and the minimum public float requirements under the Listing Rules, as further set out below.

4. Save for Mr. Ruan Yuan's shareholding in the Company of 10% or more as at the Latest Practicable Date, Mr. Ruan Yuan is otherwise not a connected person of the Company. Upon Completion, Mr. Ruan Yuan's shareholding interest will fall below 10% of the number of issued Ordinary Shares and his holding in the issued Ordinary Shares will be considered as held in public hands.

5. As at the Latest Practicable Date, parties acting in concert with New Horizon (other than the Subscribers and RFML) did not hold any Ordinary Shares.

The dilution effect on the shareholdings of the Company immediately after Completion and conversion in full of the Tranche A Preferred Shares and the Tranche B Preferred Shares (as the case may be) as explained above is for illustration purpose only as the allotment and issue of the Conversion Shares are subject to the Tranche A Preferred Shares or the Tranche B Preferred Shares (as the case may be) having been fully paid up and compliance with the public float requirements under the Listing Rules as further set out in the Board's Letter.

Notwithstanding the Subscription Price represents a discount to the market price of the Ordinary Shares, taking into account that (a) the Subscription is beneficial to the Group in (i) financing the Group with additional cash inflow for future business development in particular for its business venture into the innovative technology industry; (ii) providing the Group with the financial flexibility for any future investment opportunities in exploring new business segment for diversifying its business portfolios in particular in the field of the near space and other innovative technology sector in the PRC; (iii) financing the research and development fee under the Outsourcing Technology Development Agreement, as a strategic step of the Group to participate in the near space and other innovative technology sector; and (iv) bringing in New Horizon as a solid strategic corporate investor; and (b) the fairness and reasonableness of the Subscription Price as stated in the section headed "Principal terms of the Subscription Agreement" above, we consider that the dilution caused by the Subscription is acceptable.

The Whitewash Waiver

Upon Completion, the Subscribers and parties acting in concert with New Horizon will in aggregate be interested in 1,666,666,669 Ordinary Shares, representing approximately 115% of the number of issued Ordinary Shares as at the Latest Practicable Date and approximately 53.49% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares (on the basis that no Preferred Shares have been converted into Ordinary Shares and that there is no other change in the number of issued Ordinary Shares).

Upon full conversion of the Preferred Shares, the Subscribers and parties acting in concert with New Horizon will in aggregate be interested in 4,350,000,001 Ordinary Shares, representing approximately 300.1% of the number of issued Ordinary Shares as at the Latest Practicable Date and approximately 75.01% of the number of issued Ordinary Shares as enlarged by the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares (assuming no adjustment to the conversion price is required in accordance with the terms of the Preferred Shares set out in the Subscription Agreement and that there is no other change in the number of issued Ordinary Shares).

Under Rule 26.1 of the Takeovers Code, the Subscribers would be obliged to make a mandatory general offer to the Shareholders for all the issued Ordinary Shares and other securities of the Company not already owned or agreed to be acquired by the Subscribers and parties acting in concert with New Horizon, unless the Whitewash Waiver is obtained from the Executive. In this regard, New Horizon (on its own behalf and on behalf of the other Subscribers) has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Ordinary Subscription Shares and the Conversion Shares upon full conversion of the Preferred Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. Completion of the Subscription is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. The Executive has indicated that it will grant the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders on a vote by way of poll at the SGM. World Treasure Global Limited (which is wholly and beneficially owned by Mr. Wong Hin Shek, an executive Director, who was involved in the negotiation of the Subscription for and on behalf of the Company) will abstain from voting at the SGM in respect of the resolution relating to the Whitewash Waiver. RFML (being an associate of REORIENT Global and Starbliss (being two of the Subscribers)), will abstain from voting on all resolutions at the SGM. Save for World Treasure Global Limited and RFML, none of the Shareholders had a material interest in the Whitewash Waiver as at the Latest Practicable Date.

If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of the Subscribers and parties acting in concert with New Horizon in the Company will exceed 50% upon Completion. The Subscribers and parties acting in concert with New Horizon may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Notwithstanding the dilution effect on the shareholdings of the existing Shareholders in the Company as a result of the Subscription, and the Subscription Price represents a discount to the market price of the Ordinary Shares, and having considered that (a) the reasons of and benefits for the Subscription, in particular (i) financing the Group with additional cash inflow for future business development in particular for its business venture into the innovative technology industry; (ii) providing the Group with the financial flexibility for any future investment opportunities in line with its existing business or in exploring new business segment for diversifying its business portfolios in particular in the field of the near space and other innovative technology sector in the PRC; (iii) financing the research and development fee under the Outsourcing Technology Development Agreement, as a strategic step of the Group to participate in the near space and other innovative technology sector; and (iv) bringing in New Horizon as a solid strategic corporate investor; and (b) the fairness and reasonableness of the Subscription Price as stated in the section headed "Principal terms of the Subscription Agreement" above we consider that the grant of the Whitewash Waiver (the granting of which being one of the conditions precedent to the completion of the Subscription) is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Recommendation

Notwithstanding (1) the uncertainties and risks of the new business to be engaged by the Group as detailed in the subsection headed "Risk relating to the Group's business venture into the near space and other innovative technology industry" above; and (2) the discount of the Subscription Price to the market price of the Ordinary Share taking into account the principal factors and reasons mentioned above, which included:

(1) the recent deteriorated and weak performance of the Group which recorded net loss of approximately HK$37.9 million for the year ended 31 March 2014 as compared to a profit of approximately HK$2.2 million for the year ended 31 March 2013;

(2) the net amount of fund to be raised which is in aggregate HK$327 million which (i) provides the Group with additional cash resources for future business development in particular in the civil near space flying apparatus technology industry; (ii) finance the Group with the financial flexibility for any future investment opportunities, among others, in the field of the civil near space flying apparatus and other innovative technology sector in the PRC; and (iii) finance the research and development fee under the Outsourcing Technology Development Agreement as the Group's strategic step to participate in the civil near space flying apparatus and other innovative technology sector;

(3) bringing in New Horizon as a solid strategic corporate investor which assist in the development of the Group's business after the Subscription and the diversification of the Group's business portfolio into the business of the near space technology (including the near space flying apparatus) which has market potentials;

(4) the fairness and reasonableness of the Subscription Price as detailed above so far as the Company and the Independent Shareholders are concerned; and

(5) the dilution effects on shareholdings of the Company upon completion of the Subscription is acceptable as detailed above,

we are of the view that Subscription (including the Specific Mandate) is in the interests of the Company and the Shareholders as a whole and the terms of the Subscription Agreement are fair and reasonable. We, therefore, advise the Independent Board Committee to recommend the Independent Shareholders, and the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder (including the Specific Mandate) and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Chan
Executive Director

1. FINANCIAL SUMMARY

The following is a summary of (i) the audited financial results of the Group for each of the three financial years ended 31 March 2012, 2013 and 2014; and (ii) the audited assets and liabilities of the Group as at 31 March 2012, 2013 and 2014 as extracted from the annual reports of the Company for the year ended 31 March 2013 and 2014.

(a) Consolidated statement of profit or loss

	For the year ended 31 March		
	2012	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	—	81,178	113,433
Gross profit	—	16,453	19,678
(Loss)/profit before taxation	(4,790)	3,480	(37,332)
Taxation charge	—	(1,248)	(576)
(Loss)/profit for the year	(4,790)	2,232	(37,908)
(Loss)/profit for the year attributable to:			
Owners of the Company	(4,790)	2,232	(37,908)
Non-controlling interests	—	—	—
	(4,790)	2,232	(37,908)
(Loss)/earnings per share			
Basic	HK(4.86) cents	HK0.20 cents	HK(2.70) cents
Diluted	HK(4.86) cents	HK0.20 cents	HK(2.70) cents
Dividend per share	—	—	—

(b) Consolidated statement of financial position

	As at 31 March		
	2012	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	67,739	268,371	189,715
Total liabilities	4,234	87,149	22,550
Net assets	63,505	181,222	167,165
Equity attributable to owners of the Company	63,505	181,222	167,165

The auditors of the Company for each of the three years ended 31 March 2012, 2013 and 2014, SHINEWING (HK) CPA Limited, did not issue any qualified opinion on the financial statements of the Group for each of the three years ended 31 March 2012, 2013 and 2014.

The Group did not have any items which are exceptional because of size, nature or incidence for each of the three years ended 31 March 2012, 2013 and 2014.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2014

The following is the full text of the audited consolidated financial information of the Group for the year ended 31 March 2014 as extracted from the annual report of the Company for the year ended 31 March 2014:

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 March 2014

	Notes	**2014** *HK$'000*	**2013** *HK$'000*
Turnover	*7*	113,433	81,178
Cost of sales		(93,755)	(64,725)
Gross profit		19,678	16,453
Other operating income	*7*	1,868	3,641
Selling and distribution expenses		(5,178)	(2,862)
Administrative expenses		(16,118)	(13,030)
Impairment loss recognised in respect of goodwill	*18*	(36,393)	—
Loss on changes in fair value of held for trading investments		(672)	(195)
(Loss) gain on changes in fair value of investment properties		(100)	1,250
Finance costs	*9*	(417)	(1,777)
(Loss) profit before tax		(37,332)	3,480
Income tax expense	*10*	(576)	(1,248)
(Loss) profit for the year	*11*	(37,908)	2,232
Other comprehensive income			
Item may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating of foreign operations and total other comprehensive income for the year		377	1,350
Total comprehensive (expenses) income for the year		(37,531)	3,582
(LOSS) EARNINGS PER SHARE			
Basic and diluted (loss) earnings per share (in Hong Kong cents)	*14*	(2.70)	0.20

Consolidated statement of financial position
As at 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Plant and equipment	15	28,932	33,872
Investment properties	16	25,600	27,500
Prepaid lease payments	17	8,733	8,859
Goodwill	18	47,661	84,054
		110,926	154,285
Current assets			
Inventories	19	16,835	14,669
Trade receivables, deposits and other receivables	20	13,007	26,515
Prepaid lease payments	17	216	214
Income tax recoverable		147	—
Held for trading investments	21	4,260	4,932
Cash and cash equivalents	22	44,324	67,756
		78,789	114,086
Current liabilities			
Trade and other payables	23	13,752	16,877
Amount due to a related company	24	170	15
Promissory note	25	—	55,000
Obligations under finance lease — amount due within one year	26	1,283	1,438
Bank borrowings	27	5,754	7,016
Income tax payable		34	3,654
		20,993	84,000
Net current assets		57,796	30,086
Total assets less current liabilities		168,722	184,371
Non-current liabilities			
Obligations under finance lease — amount due after one year	26	1,400	2,974
Deferred tax liabilities	28	157	175
		1,557	3,149
		167,165	181,222
Capital and reserves			
Share capital	29	14,495	12,079
Reserves		152,670	169,143
Equity attributable to owners of the Company		167,165	181,222

Consolidated statement of changes in equity
For the year ended 31 March 2014

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (note a)	Contributed surplus HK$'000 (note b)	Exchange translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2012	574	131,205	17,900	103,941	—	(190,115)	63,505
Profit for the year							
Other comprehensive income for the year	—	—	—	—	—	2,232	2,232
Exchange differences arising on translating foreign operations and total other comprehensive income	—	—	—	—	1,350	—	1,350
Total comprehensive income for the year	—	—	—	—	1,350	2,232	3,582
Issue of consideration shares *(note 29(a))*	2,000	21,762	—	—	—	—	23,762
Issue of subscription shares *(note 29(b))*	4,500	40,500	—	—	—	—	45,000
Open offer *(noted 29(c))*	4,595	41,352	—	—	—	—	45,947
Transaction costs attributable to open offer	—	(574)	—	—	—	—	(574)
Bonus shares *(note 29(d))*	410	(410)	—	—	—	—	—
	11,505	102,630	—	—	—	—	114,135
At 31 March 2013	12,079	233,835	17,900	103,941	1,350	(187,883)	181,222
Loss for the year	—	—	—	—	—	(37,908)	(37,908)
Other comprehensive income for the year							
Exchange differences arising on translating foreign operations and total other comprehensive income	—	—	—	—	377	—	377
Total comprehensive expenses for the year	—	—	—	—	377	(37,908)	(37,531)
Placing of shares *(note 29(e))*	2,416	21,742	—	—	—	—	24,158
Transaction costs attributable to placing of shares	—	(684)	—	—	—	—	(684)
	2,416	21,058	—	—	—	—	23,474
At 31 March 2014	14,495	254,893	17,900	103,941	1,727	(225,791)	167,165

Notes:

(a) The balance of capital reserve represents the capital reserve arising from the group restructuring which took place in 1992.

(b) The balance of contributed surplus arose as a result of the Company's capital reduction exercises which took place in the financial years of 2003 and 2006.

Consolidated statement of cash flows
For the year ended 31 March 2014

	2014	2013
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
(Loss) profit before tax	(37,332)	3,480
Adjustments for:		
Amortisation of prepaid lease payments rights	215	159
Depreciation of plant and equipment	4,821	4,571
Dividend income	(187)	(182)
Finance costs	417	1,777
Impairment loss recognised in respect of goodwill	36,393	—
Interest income	(310)	(740)
Loss (gain) on changes in fair value of investment properties	100	(1,250)
Loss on changes in fair value of held for trading investments	672	195
Loss on disposal of investment properties	6	—
Loss on disposal of plant and equipment	67	5
Written-back of other payables	—	(760)
Operating cash flows before movements in working capital	4,862	7,255
(Increase) decrease in inventories	(2,021)	788
Decrease in trade receivables, deposits and other receivables	13,526	368
(Decrease) increase in trade and other payables	(3,228)	144
Cash from operations	13,139	8,555
Hong Kong Profits Tax paid	(3,621)	(29)
The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT") paid	(740)	(950)
NET CASH FROM OPERATING ACTIVITIES	8,778	7,576

	Notes	2014 HK$'000	2013 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of investment property		1,794	—
Proceeds from disposal of plant and equipment		798	111
Interest received		310	740
Dividend received		187	182
Purchase of plant and equipment		(533)	(2,570)
Net cash outflow on acquisition of assets through acquisition of subsidiaries	32	—	(21,090)
Net cash outflow on acquisition of a subsidiary	31	—	(17,585)
Purchase of investment property		—	(14,250)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		2,556	(54,462)
FINANCING ACTIVITIES			
Proceeds from issue of shares	29e	24,158	—
Advanced from (repayment to) related companies		155	(10,802)
Repayment of promissory notes		(55,000)	—
Principal repayment for obligations under finance lease		(1,729)	(1,418)
Repayment of bank borrowings		(1,262)	(11,664)
Payment of transaction costs attributable to issue of new shares		(684)	(574)
Interest paid		(417)	(462)
Proceeds from open offer	29c	—	45,947
Proceeds from issue of subscription shares	29b	—	45,000
New bank borrowings raised		—	7,853
Repayment to a director		—	(6,028)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(34,779)	67,852
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(23,445)	20,966
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		67,756	46,760
Effect of foreign exchange rate changes		13	30
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		44,324	67,756

Notes to the consolidated financial statements

For the year ended 31 March 2014

1. GENERAL

Climax International Company Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporation Information" to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and those subsidiaries incorporated in Hong Kong and the British Virgin Islands (the "BVI"). The functional currency for those subsidiaries established in the PRC is Renminbi ("RMB"). The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are manufacturing and trading of packaging products and property investment. Details of the principal activities of the subsidiaries are set out in note 38.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs that issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual Improvements 2009–2011 Cycle
Amendments to HKFRS 1	Government Loans
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Interpretation ("Int") 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosure of Interests in Other Entities, HKAS 27 (as revised in 2011) Separate Financial Statements and HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact on the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation — Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor controls an investee when (a) it has power over an investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 April 2013) as to whether or not the Group has control over its investees in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors of the Company concluded that the initial application of HKFRS 10 has no material impact on the consolidated financial statements.

Impact on the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2013 comparative period (please see notes 6c and 16 for the 2014 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

HKAS 19 Employee Benefits (as revised in 2011)

In the current year, the Group has applied HKAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

HKAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net interest' amount under HKAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

Specific transitional provisions are applicable to first-time application of HKAS 19 (as revised in 2011). The application of HKAS 19 (as revised in 2011) has not had any material impact on the amounts recognised in profit or loss and other comprehensive income in prior years. In addition, HKAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
Amendments to HKAS 19	Defined Benefit Plans — Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptance Methods of Depreciation and Amortisation[4]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

3 HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Annual Improvements to HKFRSs 2010–2012 Cycle

The *Annual Improvements to HKFRSs 2010–2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010–2012 Cycle will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011–2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011–2013 Cycle will have a material effect on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will not have significant impact on amounts currently reported in respect of the Group's financial assets and financial liabilities.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted.

The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

The directors of the Company anticipated that the application of other new and revised standards, amendments or interpretation would have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Investments in subsidiaries

Investments in subsidiaries are carried on the statement of financial position of the Company at cost less accumulated impairment losses, if any.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate amounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Prepaid lease payments

Prepaid lease payments represent the up-front operating lease payments to lease medium-term leasehold land interests in the PRC and are charged to the profit or loss in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of relevant leases.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'loss on changes in fair value of held for trading investments' line item. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of ranged from 30 to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of their liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables, amount due to a related company, promissory note, obligations under finance lease and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash at banks and on hand and deposits in other financial institutions that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a shorter maturity of generally within three months when acquired.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

— the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

— the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

— the amount of revenue can be measured reliably;

— it is probable that the economic benefits associated with the transaction will flow to the Group; and

— the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue recognition for rental income is set out in the section headed "Leasing" below.

Management fee income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Retirement benefit costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange translation reserve.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "(loss) profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred tax on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that all of the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred tax on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment loss in respect of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated. The directors of the company estimate the recoverable amount based on a value-in- use calculation. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2014, the carrying amount of goodwill is approximately HK$47,661,000 (2013: HK$84,054,000), net of impairment loss of approximately HK$36,393,000 (2013: nil). Details of the recoverable amount calculation are disclosed in note 18.

Estimated impairment loss in respect of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2014, the carrying amount of trade receivable is approximately HK$12,114,000 (2013: HK$25,005,000). No impairment loss has been recognised for both years.

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of the plant and equipment and if the expectation differs from the original estimates, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Estimated impairment loss on plant and equipment

The impairment loss on plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of plant and equipment have been determined based on value-in-use calculations. In determining the recoverable amount, use of estimates such as the future cash flows and discount rates is required. As at 31 March 2014, the carrying amount of plant and equipment was approximately HK$28,932,000 (2013: HK$33,872,000). No impairment loss has been recognised for both years.

Fair value of investment properties

At the end of the reporting period, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation have reflected the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties being recognised in profit or loss. The carrying amount of investment properties measured at fair value at 31 March 2014 was approximately HK$25,600,000 (2013: HK$27,500,000).

Estimated allowance for inventories and write-down of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 March 2014, the carrying amounts of inventories were approximately HK$16,835,000 (2013: HK$14,669,000). No impairment losses has been recognised for both years.

Recognition of deferred tax on undistributed profits of subsidiaries in the PRC

As at 31 March 2014 and 31 March 2013, no deferred tax liabilities have been recognised on the undistributed profits of the group companies in the PRC as the Group plans to retain those profits in the respective entities for their daily operations and future developments. In case there is a change in such plan, additional tax liabilities will arise, which will be recognised in the profit or loss for the period in which the management intends to declare such profits in the foreseeable future or the Group's future development plan is amended, whichever is earlier.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt which includes cash and cash equivalents, bank borrowings, obligations under finance lease, promissory note and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the issuance of new shares, raising of new debts or redemption of existing debts.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2014	**2013**
	HK$'000	*HK$'000*
Financial assets		
FVTPL		
— held for trading investments	4,260	4,932
Loans and receivables (including cash and cash equivalents)	57,077	93,906
	61,337	98,838
Financial liabilities		
Other financial liabilities measured at amortised cost	22,089	83,220

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, held for trading investments, cash and cash equivalents, trade and other payables, amount due to a related company, promissory note, obligations under finance lease and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain financial assets are denominated in currencies other than the functional currency of the respective entities in the Group, which expose the Group to foreign currency risk. The Group did not have a foreign currency hedging policy as at the end of the reporting period. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's financial assets denominated in foreign currencies other than functional currencies of respective entities in the Group at the reporting date are as follows:

	2014	2013
Financial assets	*HK$'000*	*HK$'000*
HK$	—	5,120

Sensitivity analysis

The Group is mainly exposed to RMB and HK$.

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The percentages in the table are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates.

A positive number below indicates a increase in loss (2013: decrease in profit) for the year where the respective functional currencies strengthen 5% against the relevant foreign currencies. For the same percentages weakening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss (2013: profit) for the year and accumulated losses, and the balances below would be positive.

	Effect on profit or loss	
	2014	2013
	HK$'000	*HK$'000*
Respective functional currencies strengthen against — HK$ by 5%	—	192

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk primarily in relation to variable-rate cash and cash equivalents and bank borrowings. It is also exposed to fair value interest rate risk in relation to the fixed-rate obligations under finance lease. The Group currently does not have an interest rate risk hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing market interest rate arising from the Group's cash and cash equivalents and bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non- derivative instruments. The analysis is prepared assuming the financial instruments held at the end of the reporting period were held for the whole year. A 100 basis points (2013: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2013: 100 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2014 (2013: profit) would decrease/increase (2013: increase/decrease) by approximately HK$320,000 (2013: HK$506,000).

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities in Hong Kong. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments operating in telecommunication industry sector quoted in The Stock Exchange of Hong Kong Limited. The management will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 10% (2013: 10%) higher/lower, loss for the year ended 31 March 2014 (2013: profit) would decrease/increase (2013: increase/decrease) by approximately HK$426,000 (2013: HK$493,000) as a result of the changes in fair value of held for trading investments.

Credit risk

As at 31 March 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit quality of the counterparties in respect of trade receivables is assessed by taking into account their financial position, credit history and other factors. The directors of the Company are of the opinion that the risk of default by these counterparties is low.

The Group trades only with recognised and creditworthy customers. The Group's trading terms with its customers are mainly on credit. The normal credit period is generally for a period of 30 days to 60 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned measures and the fact that the Group's trade receivables relate to the customers with good creditworthiness, there is no significant credit risk.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong, which accounted for 61% (2013: 84%) of the total trade receivables as at 31 March 2014.

Besides, the Group has concentration of credit risk as 25% (2013: 72%) and 79% (2013: 86%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and financial institutions with good reputations in Hong Kong.

In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowing with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity risk table

	On demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted cash flows	Carrying amount at 31 March
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2014					
Non-derivative financial liabilities					
Trade and other payables	13,482	—	—	13,482	13,482
Amount due to a related company	170	—	—	170	170
Obligations under finance leases	1,476	1,610	—	3,086	2,683
Bank borrowings	5,754	—	—	5,754	5,754
	20,882	1,610	—	22,492	22,089
At 31 March 2013					
Non-derivative financial liabilities					
Trade and other payables	16,777	—	—	16,777	16,777
Amount due to a related company	15	—	—	15	15
Promissory note	55,000	—	—	55,000	55,000
Obligations under finance leases	1,643	1,643	1,756	5,042	4,412
Bank borrowings	7,016	—	—	7,016	7,016
	80,451	1,643	1,756	83,850	83,220

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 March 2014, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$5,575,000 (2013: HK$5,754,000) respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid more than one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately HK$7,399,000 (2013: HK$7,727,000).

c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of financial instruments.

Some of the Group's financial assets are measured at fair value at the end of each reporting period on a recurring basis. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique**
	31/3/2014	**31/3/2013**		
	HK$'000	*HK$'000*		
Held for trading non-derivative financial assets:				
Listed equity securities in Hong Kong — telecommunications service industry	4,260	4,932	Level 1	Quoted bid prices in an active market

The fair values of financial assets and financial liabilities are determined as follows:

The directors of the Company consider that the fair value of other financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their carrying amounts due to short term maturities.

The directors of the Company consider the fair value of the non-current portion of other financial liabilities approximates to their carrying amounts as they are carried at amortised cost using the effective interest method.

7. TURNOVER AND OTHER OPERATING INCOME

Turnover represents amount received and receivable from sales of paper packaging products, paper gift items and paper promotional materials, net of discounts allowed and sales related taxes, and gross rental income received during the year. An analysis of the Group's turnover and other operating income recognised during the year is as follows:

	2014	2013
Continuing operations	*HK$'000*	*HK$'000*
Turnover		
Sales of goods	112,648	80,825
Gross rental income *(note a)*	785	353
	113,433	81,178
Other operating income		
Interest income	310	740
Dividend income	187	182
Sale of scrap materials	524	436
Management fee income *(note b)*	720	660
Net exchange gain	—	774
Other rental income *(note c)*	—	66
Written-back of other payables	—	760
Others	127	23
	1,868	3,641
	115,301	84,819

Notes:

(a) An analysis of the Group's net rental income from investment properties is as follows:

	2014	2013
	HK$'000	*HK$'000*
Gross rental income	785	353
Less: Outgoings (included in cost of sales)	(18)	(11)
Net rental income	767	342

(b) For the years ended 31 March 2014 and 2013, the amount represented income from administrative services provided to a related company, New Spring Label & Packaging Limited ("New Spring Label"), of which Mr. Ng Man Chan ("Mr. Ng"), a director of the Company, and Ms. Li Mi Lai ("Ms. Li"), a close family member of Mr. Ng, are shareholders (note 36(ii)(b)).

(c) For the year ended 31 March 2013, the amount represented income from leasing a motor vehicle to a related company, New Pearl Hot Stamping & Packing Limited ("New Pearl"), of which Mr. Ng and Ms. Li are the directors and key management personnel (note 36(ii)(d)).

8. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision-makers (the "CODMs"), for the purpose of resources allocation and performance assessment focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Paper business — manufacturing and trading of paper packaging products, paper gift items and paper promotional materials

2. Property investment — leasing of property

Segment revenue and results

The following is an analysis of the Group's turnover and results by reportable and operating segment for the year under review:

For the year ended 31 March

	Paper business		**Property investment**		**Total**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	112,648	80,825	785	353	113,433	81,178
Segment (loss) profit	(29,687)	7,653	667	1,562	(29,020)	9,215
Unallocated corporate income					1,344	3,205
Unallocated corporate expenses					(9,239)	(7,163)
Finance costs					(417)	(1,777)
(Loss) profit before tax					(37,332)	3,480

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment (loss) profit represents the (loss) profit reported earned by each segment without allocation of central corporate income and expense, directors' remuneration, certain other income, dividend income and finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

Segment assets

	2014	2013
	HK$'000	*HK$'000*
Paper business	114,766	167,419
Property investment	25,895	27,841
Total segment assets	140,661	195,260
Unallocated corporate assets	49,054	73,111
Consolidated assets	189,715	268,371

Segment liabilities

	2014	2013
	HK$'000	*HK$'000*
Paper business	11,853	14,749
Property investment	125	255
Total segment liabilities	11,978	15,004
Unallocated corporate liabilities	10,572	72,145
Consolidated liabilities	22,550	87,149

For the purposes of monitoring segment performance and allocating resources between segments:

— all assets are allocated to operating segments other than income tax recoverable, held for trading investment, cash and cash equivalents and other assets for corporate use including certain plant and equipment, deposits and other receivables; and

— all liabilities are allocated to operating segments other than promissory note, bank borrowings, income tax payable, deferred tax liabilities, obligations under finance lease and certain other payables.

Other segment information
2014

	Paper business HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or segment assets:				
Addition to plant and equipment	498	35	—	533
Depreciation and amortisation	4,953	83	—	5,036
Changes in fair value of investment properties	—	100	—	100
Loss on disposal of investment properties	—	6	—	6
Loss on disposal of plant and equipment	67	—	—	67
Amounts regularly provided to the CODMs but not included in the measure of segment profit or loss or segment assets:				
Income tax expense	568	8	—	576
Interest expense on bank borrowings	19	154	—	173
Interest expense on obligations under finance leases	243	—	1	244
Loss on changes in fair value of held for trading investments	—	—	672	672
Dividend income	—	—	(187)	(187)
Interest income	—	—	(310)	(310)
Net exchange loss	—	—	1,119	1,119

2013

	Paper business HK$'000	Property investment HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or segment assets:				
Addition to investment properties	—	14,250	—	14,250
Addition to investment properties through acquisition of a subsidiary	—	12,000	—	12,000
Addition to plant and equipment	2,246	324	—	2,570
Addition to plant and equipment through acquisition of a subsidiary	34,051	—	—	34,051
Addition to prepaid lease payments through acquisition of a subsidiary	9,174	—	—	9,174
Depreciation and amortisation	4,201	17	512	4,730
Gain on changes in fair value of investment properties	—	(1,250)	—	(1,250)
Loss on disposal of plant and equipment	5	—	—	5
Amounts regularly provided to the CODMs but not included in the measure of segment profit or loss or segment assets:				
Income tax expense	1,228	20	—	1,248
Interest expense on bank borrowings	186	65	—	251
Interest expense on obligations under finance leases	210	—	1	211
Interest expense on promissory note	—	—	1,315	1,315
Changes in fair value of held for trading investments	—	—	195	195
Dividend income	—	—	(182)	(182)
Interest income	—	—	(740)	(740)
Net exchange gain	—	—	(774)	(774)
Written-back of other payables	—	—	(760)	(760)

Geographical information

The Group's operations are located in Hong Kong ("HK") and the PRC.

Information about the Group's turnover from external customers by geographical location of shipment is presented based below. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Turnover from external customers		Non-current assets	
	2014	**2013**	**2014**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK (Country of domicile)	81,316	54,578	70,016	121,464
PRC	13,457	11,339	40,910	32,821
Europe	18,660	15,182	—	—
Others	—	79	—	—
Total	113,433	81,178	110,926	154,285

Information about major customers

Turnover from customer of the corresponding years contributing over 10% of the total turnover of the Group is as follows:

	2014	**2013**
	HK$'000	*HK$'000*
Customer A[1,2]	40,842	23,965
Customer B[1]	11,353	8,861

1 Both turnover from paper business segment.

2 The customer represented one of the related parties, details of which were disclosed in note 36(ii)(a).

9. FINANCE COSTS

	2014	**2013**
	HK$'000	*HK$'000*
Interest expenses on:		
— Bank borrowings not wholly repayable within five years	173	251
— Obligations under finance lease	244	211
Imputed interest on promissory note	—	1,315
Total finance costs	417	1,777

10. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	566	598
Overprovision of Hong Kong Profits Tax in prior years	—	(175)
PRC EIT	28	745
	594	1,168
Deferred tax *(note 28)*	(18)	80
	576	1,248

During the years ended 31 March 2014 and 2013, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. During the year ended 31 March 2014, certain PRC subsidiaries were in loss- making position and accordingly did not make any provision for PRC EIT.

The income tax expense for the year can be reconciled to the (loss) profit before tax per the consolidated statement of comprehensive income as follows:

	2014	2013
	HK$'000	*HK$'000*
(Loss) profit before tax	(37,332)	3,480
Tax calculated at rates applicable to profits in the respective tax jurisdiction concerned	(6,430)	806
Tax effect of income not taxable for tax purpose	(201)	(677)
Tax effect of expenses not deductible for tax purpose	7,261	1,048
Tax effect of tax losses not recognised	—	246
Utilisation of tax losses previously not recognised	(54)	—
Overprovision in prior years	—	(175)
Income tax expense for the year	576	1,248

Details of deferred tax are set out in note 28.

11. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging:

	2014 *HK$'000*	2013 *HK$'000*
Directors' emoluments *(note 12)*	791	720
Other staff costs	35,965	25,071
Retirement benefits scheme contributions for staff	991	471
Total staff costs	37,747	26,262
Cost of inventories recognised as an expense	93,737	64,714
Amortisation of prepaid lease payment	215	159
Auditor's remuneration	800	780
Depreciation for plant and equipment	4,821	4,571
Net exchange loss	1,119	—
Loss on disposal of investment properties	6	—
Loss on disposal of plant and equipment	67	5
Operating lease rental on land and buildings	1,728	1,688

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(i) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the six (2013: six) directors and the chief executive were as follows:

	Fees *HK$'000*	Salaries and other benefit *HK$'000*	Contributions to retirement benefits scheme *HK$'000*	Total *HK$'000*
Year ended 31 March 2014				
Executive directors				
Wong Hin Shek	—	—	—	—
Ng Man Chan	360	—	11	371
Non-executive directors				
Wong Hung Ki	120	—	—	120
Independent non-executive directors				
Lau Man Tak	100	—	—	100
Man Kwok Leung	100	—	—	100
Wong Yun Kuen	100	—	—	100
	780	—	11	791

	Fees	Salaries and other benefit	Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2013				
Executive directors				
Wong Hin Shek	—	—	—	—
Ng Man Chan (appointed on 16 May 2012)	315	—	—	315
Non-executive directors				
Wong Hung Ki (appointed on 16 May 2012)	105	—	—	105
Independent non-executive directors				
Lau Man Tak	100	—	—	100
Man Kwok Leung	100	—	—	100
Wong Yun Kuen	100	—	—	100
	720	—	—	720

During the years ended 31 March 2014 and 2013, no amount was paid in respect of Mr. Wong Hin Shek's directorship. He is also the chief executive of the Company.

Neither the chief executive nor any of the directors waived or agreed to waive any emoluments during the years ended 31 March 2014 and 2013.

(ii) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2013: one) was director of the Company whose emoluments are included in the disclosures in note 12(i) above. The emoluments of the remaining four (2013: four) individuals were as follows:

	2014	2013
	HK$'000	*HK$'000*
Salaries and other benefits	2,340	1,265
Post-employment benefits	60	57
	2,400	1,322

Their emoluments were within the following bands:

	2014	2013
	Number of Individuals	*Number of Individuals*
Nil to HK$1,000,000	4	4

No emoluments have been paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 March 2014 and 2013.

13. DIVIDEND

No dividend was paid, declared or proposed during the years ended 31 March 2014 and 2013, nor has any dividend been proposed since the end of the reporting period.

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2014	2013
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share	(37,908)	2,232

	2014	2013
Number of shares		
Weighted average number ordinary shares for the purpose of basic (loss) earnings per share	1,406,480,029	1,110,653,008

The diluted (loss) earnings per share is equal to the basic (loss) earnings per share as there were no dilutive potential ordinary shares during the years ended 31 March 2014 and 2013.

15. PLANT AND EQUIPMENT

	Plant and machinery	Furniture and fixture	Office equipment	Leasehold improvements	Motor vehicle	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 April 2012	—	76	1,000	—	—	1,076
Acquisition of a subsidiary *(note 31)*	31,884	353	528	—	1,286	34,051
Additions	1,850	82	—	324	314	2,570
Disposal	—	—	—	—	(128)	(128)
Exchange realignment	1,238	32	—	—	104	1,374
At 31 March 2013	34,972	543	1,528	324	1,576	38,943
Additions	363	21	7	35	107	533
Disposal	(583)	(30)	—	—	(586)	(1,199)
Exchange realignment	276	2	—	—	17	295
At 31 March 2014	35,028	536	1,535	359	1,114	38,572
DEPRECIATION						
At 31 March 2013	—	32	417	—	—	449
Provided for the year	3,596	94	501	17	363	4,571
Eliminate on disposal	—	—	—	—	(12)	(12)
Exchange realignment	46	1	—	—	16	63
At 31 March 2013	3,642	127	918	17	367	5,071
Provided for the year	4,234	33	176	21	357	4,821
Eliminate on disposal	(101)	(25)	—	—	(208)	(334)
Exchange realignment	75	1	—	—	6	82
At 31 March 2014	7,850	136	1,094	38	522	9,640
CARRYING VALUES						
At 31 March 2014	27,178	400	441	321	592	28,932
At 31 March 2013	31,330	416	610	307	1,209	33,872

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	6.6 – 20%
Furniture and fixtures	8 – 33%
Office equipment	10 – 50%
Leasehold improvements	Over the shorter of the term of the lease or 5 years
Motor vehicle	10 – 20%

As at 31 March 2014, the carrying value of plant and machinery in respect of assets held under finance lease was approximately HK$6,053,000. As at 31 March 2013, the carrying values of plant and machinery, furniture and fixtures and motor vehicle in respect of assets held under finance lease were approximately HK$6,980,000, HK$11,000 and HK$407,000 respectively.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 April 2012	—
Additions	14,250
Acquisition of assets through acquisition of subsidiaries *(note 32(ii))*	12,000
Gain on changes in fair value recognised in profit or loss	1,250
At 31 March 2013	27,500
Disposals	(1,800)
Loss on changes in fair value recognised in profit or loss	(100)
At 31 March 2014	25,600

Notes:

(a) The fair value of the investment properties of the Group as at 31 March 2014 and 31 March 2013 has been arrived at on the basis of a valuation carried out on that date by an independent qualified professional valuer not connected with the Group. The valuer is a member of the Institute of Valuers (who had among its staff members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued). The fair value was determined based on direct comparison method that reflects recent transaction prices for similar properties, adjusted for differences in nature, location and condition of the properties under review.

As the end of each reporting period, the Group's management decides to appoint external valuer to be responsible for the valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results every year when the valuation is performed for annual financial reporting.

(b) All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes were measured using the fair value model and were classified and accounted for as investment properties.

(c) At 31 March 2014, the fair value of the Group's investment properties pledged as security for the banking facilities granted to the Group amounts to approximately HK$13,000,000 (2013: HK$15,000,000).

(d) The carrying amounts of investment properties shown above comprise:

	2014	**2013**
	HK$'000	*HK$'000*
Land in Hong Kong:		
Long-term lease	12,600	12,500
Medium-term lease	13,000	15,000
	25,600	27,500

(e) The fair value measurements for all of the Group's investment properties are categorised as level 3 (see note 3). The following table gives information about how the fair values of these investment properties as at 31 March 2014 are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised level 3 based on the degree to which the inputs to the fair value measurements is observable.

Properties	**Fair value hierarchy**	**Valuation technique & key input**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
Property 1 — located in Sai Kung, Hong Kong	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$6,190 per square feet	A slight increase in the price per square feet will increase significantly the fair value
Property 2 — located in North Point, Hong Kong	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$13,534 per square feet	A slight increase in the price per square feet will increase significantly the fair value

(f) During the year ended 31 March 2014, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

17. PREPAID LEASE PAYMENTS

	2014	**2013**
	HK$'000	*HK$'000*
Prepaid lease payments comprises of leasehold land held in the PRC under medium-term leases and are analysed for reporting purposes as:		
Current asset	216	214
Non-current asset	8,733	8,859
	8,949	9,073

The prepaid lease payments consist of cost of land use rights in respect of land located in the PRC held under medium term leases.

18. GOODWILL

	HK$'000
COST	
At 1 April 2012	—
Arising on acquisition of a subsidiary *(note 31)*	84,054
At 31 March 2013 and 2014	84,054
IMPAIRMENT	
At 1 April 2012 and 31 March 2013	—
Impairment loss recognised in the year	36,393
At 31 March 2014	36,393
CARRYING VALUES	
At 31 March 2014	47,661
At 31 March 2013	84,054

For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit ("CGU"), being the subsidiaries operating in paper business segment.

The Group conducted impairment review on goodwill attributable to the paper business segment at the end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of the paper business segment has been determined based on a value-in-use calculation and determined that impairment loss recognised in respect of the CGU of approximately HK$36,393,000 during the year ended 31 March 2014 (2013: nil) due to the unfavorable performance of the industry. The recoverable amount of the CGU, determined by using value in use, was approximately HK$93,724,000. Accordingly, the excess of the carrying amount of the assets and liabilities, including goodwill of the CGU over the recoverable amount recognising as an impairment loss, amounted to approximately HK$36,393,000.

That calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a five-year period, with discount rate of 10.04% (2013: 9.01%). The cash flows beyond the five-year period were extrapolated using a steady growth rate of 3% (2013: 3%). The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. The key assumptions for the value-in-use calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on past performance and the management's expectation for the market development. The discount rate used is pre-tax rates that reflect current market assessments of the risks specific to the relevant industry. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying values of paper business segment to exceed its aggregate recoverable amount.

An impairment loss was recognised during the year because the profit margins of the CGU had been lower than expected. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

19. INVENTORIES

	2014	**2013**
	HK$'000	*HK$'000*
Raw materials	5,630	8,115
Work in progress	9,031	5,596
Finished goods	2,174	958
	16,835	14,669

20. TRADE RECEIVABLES, DEPOSITS AND OTHER RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	12,114	25,005
Deposits and other receivables	639	1,203
Prepayments	254	307
	13,007	26,515

The Group did not hold any collateral over these balances.

Amounts due from related companies included in the above trade receivables and disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Name of related companies	Maximum amount outstanding during the year	2014	2013
	HK$'000	*HK$'000*	*HK$'000*
New Spring Label	18,025	1,840	18,025
New Pearl	6	—	6
		1,840	18,031

The amounts due from related companies are unsecured, non-interest bearing, and trading in nature with credit period of 60 days.

For the years ended 31 March 2014 and 2013, the Group allowed an average credit period of 30 to 60 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date which approximates the respective revenue recognition date, at the end of the reporting period.

Ageing of trade receivables

	2014	2013
	HK$'000	*HK$'000*
0–30 days	7,034	13,850
31–60 days	1,584	2,774
61–90 days	3,184	4,906
91–120 days	288	1,480
121–365 days	24	1,995
	12,114	25,005

Ageing of trade receivables which are past due but not impaired based on due date

	2014	2013
	HK$'000	*HK$'000*
0–30 days	3,184	4,906
31–60 days	288	1,480
61–365 days	24	1,995
	3,496	8,381

Trade receivables which are past due but not impaired related to customers that had good track records with the Group. There has not been a significant change in the credit quality and the balances were still considered fully recoverable.

At 31 March 2013, the carrying amount of the Group's trade receivables pledged as security for the banking facilities granted to the Group amounted to approximately HK$1,092,000 (2014: nil).

21. HELD FOR TRADING INVESTMENTS

The held for trading investments comprise equity securities listed in Hong Kong and are stated at fair values which are based on the quoted market bid prices on the Stock Exchange.

22. CASH AND CASH EQUIVALENTS

	2014	2013
	HK$'000	*HK$'000*
Deposits in other financial institutions *(note a)*	33,354	44,950
Bank balances and cash *(note b)*	10,970	22,806
Total cash and cash equivalents	44,324	67,756

Notes:

(a) The amounts represented deposits placed with securities brokers in Hong Kong and it is repayable on demand and carried interest at prevailing market rates as at 31 March 2014 and 2013.

(b) Bank balances and cash comprise bank balances carrying interest at market rates which range from 0.01% to 0.35% (2013: 0.01% to 0.35%) per annum. As at 31 March 2014, bank balances and cash of approximately HK$1,260,000 (2013: approximately HK$1,328,000) were denominated in RMB, which is not freely convertible currency in the international market and its exchange rate is determined by the government of the PRC.

Included in bank balances and cash in the consolidated statement of financial position are the following amounts denominated in currencies other than the functional currency to the entity to which they related:

	2014	2013
	HK$'000	*HK$'000*
HK$	—	5,120

23. TRADE AND OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Trade payables	8,044	11,377
Other payables and accruals	5,438	5,400
Deposit received from customers	270	86
Receipt in advance	—	14
	13,752	16,877

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2014	2013
	HK$'000	*HK$'000*
Within 30 days	2,074	5,290
31–60 days	865	2,263
61–90 days	1,046	1,880
Over 90 days	4,059	1,944
	8,044	11,377

The average credit period on purchases of goods was 30 to 60 days. The Group had financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. AMOUNT DUE TO A RELATED COMPANY

The amount is due to Beautiking Investments Limited (''Beautiking''), of which, Mr. Ng and Ms. Li are the directors and key management personnel. The amount is unsecured, non-interest bearing and repayable on demand.

25. PROMISSORY NOTE

On 30 November 2012, the Company issued unsecured promissory note with face value of HK$55,000,000 as part of consideration for the acquisition of Sky Will Printing & Packaging (Holdings) Limited (''Sky Will Holdings'') and its subsidiary (''Sky Will Group'') (note 31). At initial recognition, the promissory note was stated at its fair value of HK$53,685,000 which was determined by the directors of the Company with reference to a valuation performed by an independent valuer.

The promissory note was freely transferable, non-interest bearing with maturity of 2 years but can be repaid at the discretion of the Company at any time since date of issuance. The interest free promissory note resulted in discounting effect of the promissory note with an effective interest rate of 2.23% per annum. The promissory note was fully repaid during the year ended 31 March 2014.

26. OBLIGATIONS UNDER FINANCE LEASE

	2014	2013
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current liabilities	1,283	1,438
Non-current liabilities	1,400	2,974
	2,683	4,412

It is the Group's policy to lease certain of its plant and machinery, furniture and fixtures and motor vehicles under finance lease. The average contracted lease term is 4 to 5 years. Interest rates are fixed at the contract date. For the year ended 31 March 2014, the average effective borrowing rate (which was also equal to contracted interest rates) range from 3% to 7.68% (2013: 7.68%) per annum. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance lease				
Within one year	1,476	1,643	1,283	1,438
In more than one year but not more than two years	1,610	1,643	1,400	1,395
In more than two years but not more than five years	—	1,756	—	1,579
	3,086	5,042	2,683	4,412
Less: Future finance charges	(403)	(630)	N/A	N/A
Present value of lease obligations	2,683	4,412	2,683	4,412
Less: Amount due for settlement within one year shown under current liabilities			(1,283)	(1,438)
Amount due for settlement after one year			1,400	2,974

The Group's obligations under finance lease are secured by the lessors' charge over the leased asset (note 15).

27. BANK BORROWINGS

	2014	2013
	HK$'000	*HK$'000*
Secured mortgage loan	5,754	5,928
Secured trade financing loan	—	1,088
	5,754	7,016
Carrying amount repayable*		
Within one year	179	1,262
More than one year, but not exceeding two years	183	179
More than two years but not more than five years	580	564
More than five years	4,812	5,011
	5,754	7,016
Less: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	(5,575)	(5,754)
Less: Amounts due with one year shown under current liabilities	(179)	(1,262)
Amounts shown under non-current liabilities	—	—

* The amounts due are based on scheduled repayment dates as set out in the loan agreements.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's mortgage loan and trade financing loan are ranged from 2.625% to 8.1% (2013: 2.625% to 8.1%) per annum.

During the year ended 31 March 2013, the Group obtained new loans in the amount of approximately HK$7,853,000 (2014: Nil). The loans bear interest at market rates. The proceeds were used to finance the purchasing of raw materials and the acquisition of an investment property.

The secured mortgage loan and trade financing loan are secured by certain assets of the Group as set out in note 33 as at 31 March 2014 and 2013.

The secured bank borrowing and mortgage loan were guaranteed and indemnified by Mr. Ng, for approximately HK$1,875,000 as at 31 March 2014 and 2013.

The amounts of banking facilities not utilised at the end of each reporting period are set out as follows:

	2014	2013
	HK$'000	*HK$'000*
Facilities amount not utilised	—	788

28. DEFERRED TAX LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Accelerated tax depreciation *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 April 2012	86	(86)	—
Addition through acquisition of a subsidiary *(note 31)*	95	—	95
Deferred tax charged during the year	48	32	80
At 31 March 2013	229	(54)	175
Deferred tax (credited) charged during the year	(44)	26	(18)
At 31 March 2014	185	(28)	157

At the end of the reporting period, the Group had unused tax losses of approximately HK$21,580,000 (2013: approximately HK$22,065,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$170,000 (2013: HK$328,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$21,410,000 (2013: approximately HK$21,737,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$7,099,000 (2013: HK$9,720,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

	Number of ordinary shares	**Par value per ordinary share** *HK$*	**Share Capital** *HK$'000*
Authorised:			
At 1 April 2012, 31 March 2013 and 31 March 2014	10,000,000,000	0.01	100,000
Issued and fully paid:			
At 1 April 2012	57,433,057	0.01	574
Issue of consideration shares *(note (a))*	200,000,000	0.01	2,000
Issue of subscription shares *(note (b))*	450,000,000	0.01	4,500
Open offer *(note (c))*	459,464,456	0.01	4,595
Bonus shares *(note (d))*	41,023,612	0.01	410
At 31 March 2013	1,207,921,125		12,079
Placing of shares *(note (e))*	24,158,000	0.01	2,416
At 31 March 2014	1,449,501,125		14,495

Notes:

(a) Pursuant to the sale and purchase agreement ("S&P Agreement") entered into between the Company and Sky Will Printing & Packaging (BVI) Limited (the "Vendor"), 200,000,000 consideration shares ("Consideration Shares") were issued at an issue price of HK$0.10 per Consideration Share, credited as fully paid, as part of the consideration for the acquisition of equity interest in Sky Will Group (note 31). The fair value of the Consideration Shares was approximately HK$23,762,000 as at 3 May 2012 which was determined by the directors of the Company with reference to valuation carried out by an independent valuer. The share capital and share premium of the Company increased by HK$2,000,000 and HK$21,762,000 respectively.

(b) On 29 February 2012, the Company entered into a subscription agreement (the "Subscription Agreement") with World Treasure Global Limited ("World Treasure"), in which a director of the Company has beneficial interest. Pursuant to the Subscription Agreement, the Company issued 450,000,000 subscription shares ("Subscription Shares") to World Treasure at the subscription price of HK$0.10 per subscription share. The gross proceed of the subscription is HK$45,000,000. Details of the subscription were set out in the circular dated 5 March 2012. The subscription was completed on 3 May 2012.

(c) On 29 February 2012, the Company entered into an agreement with World Treasure and Kingston Securities Limited as underwriters, whereby the Company proposed to raise gross proceeds of approximately HK$45,947,000 before expenses, by way of open offer of 459,464,456 shares at the offer price of HK$0.10 per offer share, on the basis of eight offer shares for every share ("Open Offer"). A sum of net amount approximately HK$45,373,000, after deducting related expenses of approximately HK$574,000, was raised and used as working capital of the Group. Details of the Open Offer were set out in the circular dated 5 March 2012. The Open Offer was completed on 3 May 2012.

(d) On 3 May 2012, the Company has issued bonus shares ("Bonus Issue") to the existing shareholders on the basis of five bonus shares for every seven shares, as a results, 41,023,612 ordinary shares were issued and share premium decreased by approximately HK$410,000. Details of the Bonus Issue were set out in the circular of the Company dated 5 March 2012. The Bonus Issue was completed on 3 May 2012.

(e) On 13 May 2013, the Company entered into a placing agreement with a placing agent pursuant to which the Company has conditionally agreed to place aggregate maximum of 241,580,000 placing shares at the placing price of HK$0.1 per share to not fewer than six placees who and whose ultimate beneficial owners will not be connected persons of the Company and its connected persons. The placing of shares was completed on 5 June 2013.

All the new shares issued during the years ended 31 March 2014 and 2013 ranked pari passu with the existing shares in all respects.

30. SHARE OPTIONS

On 31 July 2012, the Company terminated the original share option scheme adopted on 29 August 2002 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as replacement. The purpose of the New Share Option Scheme is to provide the Company with a flexible and effective means of incentivising, rewarding, remunerating, compensating and/or providing benefits to employees, directors, any advisers, consultants, agents, contractors, customers and suppliers of any members of the Group.

There were no options outstanding under the Old Share Option Scheme during the period from 1 April 2012 up to the date of its termination. The New Share Option Scheme became effective on 31 July 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date.

During the year ended 31 March 2014 and 2013, there were no options granted under the New Share Option Scheme entitling the holders thereof to subscribe for the shares of the Company. There were no options outstanding as at 31 March 2014 and 2013.

31. ACQUISITION OF A SUBSIDIARY

On 3 May 2012, the Company acquired the entire issued capital of Sky Will Group which is engaged in the manufacture and trading of paper packaging products, paper gift items and paper promotional materials. The aggregate consideration for the acquisition was approximately HK$112,447,000 ("Consideration") and was satisfied in the forms of (i) cash of HK$35,000,000; (ii) issuance of the Consideration Shares (note 29(a)); and (iii) issuance of a promissory note (note 25). The acquisition has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was approximately HK$84,054,000.

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	HK$'000
Plant and equipment	34,051
Inventories	15,244
Trade receivables, deposits and other receivables	26,595
Bank balances and cash	2,415
Trade and other payables	(13,000)
Amounts due to related companies *(note a)*	(10,817)
Amount due to a director *(note a)*	(6,028)
Obligations under finance leases	(5,812)
Bank borrowings	(10,814)
Deferred tax liabilities	(95)
Income tax payables	(3,346)
Net identifiable assets	28,393

Goodwill arising on acquisition:

	HK$'000
Consideration transferred:	
— Cash	35,000
— Fair value of Consideration Shares	23,762
— Fair value of promissory note *(note 25)*	53,685
	112,447
Less: Net assets acquired	(28,393)
Goodwill arising on acquisition	84,054

Note:

(a) The amounts were unsecured, non-interest bearing, repayable on demand and had been repaid by the Group subsequent to the date of acquisition during the year ended 31 March 2013.

Analysis of net outflow of cash and cash equivalents in respect of the acquisition:

	HK$'000
Cash consideration paid	35,000
Less: Deposit paid for acquisition of a subsidiary in previous years	(15,000)
Less: Bank balances and cash acquired	(2,415)
Net cash outflow in respect of the acquisition for the year ended 31 March 2013	17,585

As part of the consideration for the acquisition of Sky Will Group, 200,000,000 ordinary share of the Company with par value of HK$0.01 each were issued. The fair value of the ordinary shares of the Company, determined using the valuation carried out by an independent valuer at the date of the acquisition, amounted to HK$23,762,000.

Acquisition-related costs amounting to approximately HK$359,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended 31 March 2013, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The fair value of trade receivables, deposits and other receivables at the date of acquisition amounted to approximately HK$26,595,000. The gross contractual amounts of those trade receivables, deposits and other receivables acquired amounted to approximately HK$26,595,000 at the date of acquisition.

Pursuant to the S&P Agreement, the Vendor has undertaken to the Company that the net profit of Sky Will Group for the year ended 31 March 2012 would not be less than HK$16,000,000 ("Profit Guarantee"). For any shortfall from HK$16,000,000, the Consideration would be adjusted downward by an amount equal to the shortfall multiplied by 6.875 and would be offset against the promissory note on a dollar for dollar basis and limited to HK$55,000,000. Upon the receipt of the audited accounts of Sky Will Group for the year ended 31 March 2012, the Profit Guarantee was met, hence, no consideration adjustment was made.

The directors of the Company considered the Vendor and its beneficial owners were independent third parties to the Company before the acquisition. Upon the issuance of Consideration Shares, the Vendor became a substantial shareholder of the Company.

Since its acquisition by the Group, the acquired business contributed turnover of approximately HK$80,825,000 and a profit of approximately HK$6,274,000 to the Group's turnover and profit for the year ended 31 March 2013 respectively.

Had the acquisition been completed on 1 April 2012, total Group's turnover for the year ended 31 March 2013 would have been approximately HK$84,188,000, and the Group's profit for the year ended 31 March 2013 would have been approximately HK$2,188,000.

Goodwill arose on acquisition represents the control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the anticipated profitability from the continued expansion of the Group's business, future market development and the knowledgeable and experienced key management personnel of Sky Will Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

32. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

(i) Miracle True Investments Limited ("Miracle True") and its subsidiary ("Miracle True Group")

On 5 July 2012, Sky Will Holdings, the Company's subsidiary, has entered into a contract with a related company, Glory Wing Investments Limited (''Glory Wing''), in which Mr. Ng has the beneficial interest, to acquire the entire equity interest of Miracle True Group. The aggregate consideration for the acquisition was approximately HK$9,400,000 and was satisfied in the form of cash.

Miracle True Group is principally engaged in investment holding of a land located in Huizhou (note 17). At the time of the acquisition, Miracle True Group had not actively engaged in any business. In the opinion of the directors of the Company, the acquisition of Miracle True Group does not constitute a business combination but an acquisition of assets and liabilities through acquisition of subsidiaries. The effect of the acquisition was summarised as follows:

	HK$'000
Prepaid lease payments	9,174
Bank balances	226
	9,400

Analysis of net cash outflow of cash and cash equivalents arising on acquisition of assets through acquisition of subsidiaries was as follow:

	HK$'000
Consideration paid in cash	9,400
Less: Bank balances acquired	(226)
Net cash outflow	9,174

(ii) Fanda Pacific Limited ("Fanda") and its subsidiary ("Fanda Group")

On 26 October 2012, the Company entered into a contract with an independent third party to acquire the entire equity interest of Fanda Group. The aggregate consideration for the acquisition was approximately HK$12,066,000 and to be satisfied in the form of cash.

Fanda Group is principally engaged in property investment in Hong Kong for rental income. At the time of the acquisition, the business activities performed by Fanda Group were not significant. In the opinion of the directors, the acquisition of Fanda Group does not constitute a business combination but an acquisition of assets and liabilities through acquisition of subsidiaries. The effect of the acquisition was summarised as follows:

	HK$'000
Investment properties	12,000
Other receivables	29
Bank balances and cash	150
Other payables	(64)
Income tax payables	(49)
Net assets	12,066

Analysis of net cash outflow of cash and cash equivalents arising on acquisition of assets through acquisition of subsidiaries was as follow:

	HK$'000
Consideration paid in cash	12,066
Less: Bank balances acquired	(150)
Net cash outflow	11,916

33. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Group were pledged to secure banking facilities and obligations under finance lease granted to the Group as follows:

	2014	**2013**
	HK$'000	*HK$'000*
Investment properties *(note 16c)*	13,000	15,000
Plant and equipment under finance lease *(note 15)*	6,053	7,398
Trade receivables *(note 20)*	—	1,092
	19,053	23,490

34. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$785,000 (2013: 353,000) with the expected rental yield ranged from 2.5% to 3.1%. The investment properties held had committed tenants for the next one to two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2014	**2013**
	HK$'000	*HK$'000*
Within one year	433	362
In the second to fifth year inclusive	1	94
	434	456

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follow:

	2014	**2013**
	HK$'000	*HK$'000*
Within one year	2,657	454
In the second to fifth year inclusive	722	—
	3,379	454

Operating lease payments represent rentals payable by the Group for its factory and office premises. Leases are negotiated for an average term of one to three years and rentals are fixed for the year ended 31 March 2014 (2013: one to three years).

35. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. The total costs charged to the consolidated statement of profit or loss and other comprehensive income of approximately HK$105,000 for the year ended 31 March 2014 (2013: HK$81,000) represent retirement benefit contributions payable to the MPF scheme by the Group during the year.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The total costs charged to the consolidated statement of profit or loss and other comprehensive income of approximately HK$897,000 for the year ended 31 March 2014 (2013: HK$390,000) represent retirement benefit contributions payable to this scheme by the Group during the year.

36. RELATED PARTY TRANSACTIONS

(i) Related party balances are set out in notes 20 and 24 to the consolidated financial statements.

(ii) During the year, the Group entered into the following transactions with its related companies:

Name of related companies	**Nature**	*Notes*	**2014** *HK$'000*	**2013** *HK$'000*
New Spring Label	Sales of packaging products	*(a)*	40,842	23,965
New Spring Label	Management fee income	*(b)*	720	660
Beautiking	Rental expense	*(c)*	180	165
New Pearl	Rental income	*(d)*	—	66

Notes:

(a) The sale of packaging products was mutually agreed by the Group and the related company. The outstanding balance included in note 20 is trading in nature with credit period of 60 days.

(b) The management fee income was charged on a monthly fixed amount mutually agreed by the Group and the related company.

(c) The rental expenses paid were charged on a monthly fixed amount basis as mutually agreed by the Group and the related company.

(d) The rental income was charged on a monthly fixed amount basis as mutually agreed by the Group and the related company.

(iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were follows:

	2014	2013
	HK$'000	*HK$'000*
Short-term benefits	1,339	1,685
Post-employment benefits	26	57
	1,365	1,742

(iv) Mr. Ng has provided guarantee on secured bank trade financing loan as detailed in note 27.

37. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		2014	2013
	Notes	*HK$'000*	*HK$'000*
Non-current assets			
Plant and equipment		—	83
Investments in subsidiaries (unlisted)		83,447	119,840
		83,447	119,923
Current assets			
Amounts due from subsidiaries	*(a)*	77,964	109,147
Deposits and prepayments		252	252
		78,216	109,399
Current liabilities			
Other payables and accruals		1,944	1,874
Promissory note		—	55,000
		1,944	56,874
Net current assets		76,272	52,525
Total assets less current liabilities		159,719	172,448
Capital and reserves			
Share capital		14,495	12,079
Reserves	*(b)*	145,224	160,369
Total equity		159,719	172,448

Notes:

(a) The amounts are unsecured, non-interest bearing and repayable on demand.

(b) The movement of reserves of the Company is as follows:

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 31 March 2012	131,205	103,941	(173,024)	62,122
Loss and total comprehensive expense for the year	—	—	(4,383)	(4,383)
Issue of Consideration Shares *(note 29(a))*	21,762	—	—	21,762
Issue of Subscription Shares *(note 29(b))*	40,500	—	—	40,500
Open offer *(note 29(c))*	41,352	—	—	41,352
Transaction cost attributable to open offer	(574)	—	—	(574)
Bonus shares *(note 29(d))*	(410)	—	—	(410)
At 31 March 2013	233,835	103,941	(177,407)	160,369
Placing of shares	21,742	—	—	21,742
Transaction cost attributable to placing of shares	(684)	—	—	(684)
Loss and total comprehensive expense for the year	—	—	(36,203)	(36,203)
At 31 March 2014	254,893	103,941	(213,610)	145,224

38. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries held by the Company as at 31 March 2014 and 2013 are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid share/registered capital	Percentage of nominal value of issued share/ registered capital directly held by the Company 2014	2013	Principal activities
Direct subsidiaries					
Advance Summit Limited	BVI	US$1	100%	100%	Inactive
Fanda	BVI	US$1	100%	100%	Investment holding
New Able Investments Limited	BVI	US$1	100%	100%	Investment holding
New Able Trading Limited	Hong Kong	HK$1	100%	100%	Inactive
Instant Up Limited	Hong Kong	HK$1	100%	100%	Provision of administrative services
Sky Will Holdings	BVI	US$100	100%	100%	Investment holding

Name of subsidiary	Place of incorporation	Issued and fully paid share/registered capital	Percentage of nominal value of issued share/ registered capital directly held by the Company 2014	2013	Principal activities
Indirect subsidiaries					
Get Billion Investment Limited	Hong Kong	HK$1	100%	100%	Property investment
Kingdom Wealthy Limited	Hong Kong	HK$2	100%	100%	Property investment
Miracle True	Hong Kong	HK$10,000	100%	100%	Investment holding
* New Spring Offset Printing (Shenzhen) Limited * 新高準柯式印刷(深圳)有限公司	PRC	HK$12,000,000	100%	100%	Manufacture and trading of packaging products
New Spring (SW) Printing & Packaging Limited 新高準(天安)印刷包裝有限公司	Hong Kong	HK$10,000	100%	100%	Trading of packaging products
Sky Will Printing & Packaging Limited	Hong Kong	HK$10,000	100%	100%	Investment holding and trading of packaging products
* 新博包裝製品(惠州)有限公司	PRC	HK$10,000,000	100%	100%	Inactive

* A wholly-foreign-owned enterprise established under the PRC law. The English name is for identification purpose only.

Notes:

(a) None of the subsidiaries had any debt securities outstanding as at the end of the reporting period or at any time during the reporting period.

39. EVENTS AFTER THE REPORTING PERIOD

(i) On 29 May 2014, the Company and six independent third parties (the ''Subscribers'') entered into a subscription agreement pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 4,350,000,000 subscription shares, comprising 1,666,666,668 new ordinary shares and 2,683,333,332 new preferred shares, at an issue price of HK$0.08 per subscription share. Details of which are set out in the Company's announcement dated 13 June 2014. The subscription has not yet been completed up to the date of this report.

(ii) On 20 June 2014, the Company entered into a sales and purchase agreement with an independent third party to dispose of the entire issued capital of Miracle True at consideration of approximately HK$12,000,000. The principal asset of Miracle True is the land use right of a parcel of land for industrial use located in Huizhou City, Guangdong Province, the PRC. The Group intends to use the proceeds as general working capital. The disposal has not yet been completed up to the date of this report.

3. INDEBTEDNESS STATEMENT

At the close of business on 31 May 2014, being the most recent practicable date, the Group had outstanding (i) secured bank borrowings of approximately HK$5,725,000; (ii) obligations under finance lease of approximately HK$2,450,000; and (iii) unsecured amount due to a related company of approximately HK$185,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 May 2014 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.

4. MATERIAL CHANGE

Save for the Subscription which will enhance the net assets and liquidity position of the Group and the incoming of New Horizon as the new majority shareholder and its intention to develop new businesses as detailed in the paragraph headed "Future intentions of New Horizon regarding the Group" in the letter from the Board, the Directors confirm that, there had been no material change in the financial or trading position or outlook of the Group since 31 March 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

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 (other than information relating to the Subscribers and parties acting in concert with New Horizon) 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.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Subscribers and parties acting in concert with New Horizon) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Subscribers and parties acting in concert with New Horizon) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to the Subscribers and parties acting in concert with New Horizon contained in this circular has been supplied by the directors of the Subscribers. The sole director of New Horizon accepts full responsibility for the accuracy of the information in relation to the Subscribers and parties acting in concert with New Horizon contained in this circular and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed by the Subscribers and parties acting in concert with New Horizon in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

The closing prices of the Ordinary Shares quoted on the Stock Exchange (i) at the end of each of the calendar months during the Relevant Period; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date.

Date	**Closing price per Ordinary Share** *HK$*
31 December 2013	0.232
30 January 2014	0.218
28 February 2014	0.240
31 March 2014	0.275
30 April 2014	0.305
29 May 2014 (being the Last Trading Day)	0.335
30 May 2014	Trading suspended
30 June 2014	1.100
25 July 2014 (being the Latest Practicable Date)	3.260

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK$0.198 on 7 January 2014 and HK$3.57 on 24 July 2014, respectively.

3. SHARE CAPITAL, OPTIONS, WARRANTS AND CONVERTIBLE SECURITIES

(a) Share capital

Set out below were the authorised and issued share capital of the Company as at the Latest Practicable Date:

Authorised:

10,000,000,000	Ordinary Shares	HK$100,000,000

Issued and fully paid or credited as fully paid:

1,449,501,125	Ordinary Shares	HK$14,495,011.25

All the issued Ordinary Shares rank pari passu with each other in all respects including the rights in respect of capital, dividend and voting.

Since 31 March 2014 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Ordinary Shares had been issued by the Company.

(b) Options, warrants and convertible securities

As at the Latest Practicable Date, the Company had no outstanding options, warrants or conversion rights affecting the Ordinary Shares.

4. DISCLOSURE OF INTERESTS

Interests of Directors and chief executives

As at the Latest Practicable Date, the following Directors or chief executive of the Company or their associates had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interest and short positions which were taken or deemed to have been taken under such provisions of the SFO; (ii) recorded in the register to be kept under Section 352 of the SFO; (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company; or (iv) disclosed in this circular pursuant to the requirements of the Takeovers Code.

Long positions in shares and underlying shares of the Company

Name of Director	Number of Ordinary Shares held	Approximate percentage of Ordinary Shares in issue
Mr. Wong Hin Shek *(Note)*	638,981,013	44.08%

Note: The 638,981,013 Ordinary Shares are beneficially owned by World Treasure Global Limited ("World Treasure"), a company incorporated in the BVI, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong Hin Shek, an executive Director. By virtue of the SFO, Mr. Wong Hin Shek is deemed to be interested in the Ordinary Shares held by World Treasure.

Save as disclosed above, at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 which were taken or deemed to have been taken under such provisions of the SFO) or the Model Code adopted by the Company; (ii) entered in the register required to be kept under section 352 of the SFO; or (iii) disclosed in this circular pursuant to the requirements of the Takeovers Code.

5. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

(a) save for the share charge under the Loan Agreement as disclosed under the section headed "Information on the Subscribers" in the letter from the Board of this circular, no Ordinary Shares or Preferred Shares acquired by the Subscribers in pursuance of the Subscription or Conversion Shares to be allotted and issued to the Subscribers upon conversion of any of the Preferred Shares will be transferred, charged or pledged to any other persons;

(b) no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Subscribers or parties acting in concert with New Horizon; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and/or the Whitewash Waiver;

(c) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription and/or the Whitewash Waiver;

(d) there was no agreement or arrangement between any Directors and any other persons which is conditional on or dependent upon the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver;

(e) there was no material contract entered into by any of the Subscribers in which any Director had a material personal interest;

(f) the directors of the Subscribers were not interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company or had not dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(g) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Subscription and/or the Whitewash Waiver;

(h) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company had been borrowed or lent by any of the Company and the Directors;

(i) the Company did not have any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers and had no dealings in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers during the Relevant Period;

(j) none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Subscribers during the Relevant Period;

(k) save as disclosed in the section headed "Effects on shareholding structure" in the letter from the Board of this circular, none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(l) Mr. Wong Hin Shek, an executive Director, was involved in the negotiation of the Subscription for and on behalf of the Company. Accordingly, World Treasure Global Limited (which is wholly and beneficially owned by Mr. Wong Hin Shek) will abstain from voting at the SGM in respect of the resolution relating to the Whitewash Waiver;

(m) none of the Directors had dealt in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(n) save for the one Ordinary Share owned by RFML disclosed in the section headed "Effect on shareholding structure" in the letter from the Board of this circular, none of the subsidiaries of the Company and none of the pension funds of the Company or its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code, owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

(o) save for the Subscription Agreement, the Loan Agreement and the lock-up undertakings disclosed in the section headed "Lock-up undertakings" in the letter from the Board of this circular, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code; and

(p) no fund which was managed on a discretionary basis by any fund manager connected with the Company had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies:

(a) which (including both continuous and fixed term contracts) had been entered into or amended within six months before the date of the Announcement;

(b) which were continuous contracts with a notice period of 12 months or more; or

(c) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor its subsidiaries was involved in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, the following material contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group, had been entered into by the Company or any of its subsidiaries:

(a) the Subscription Agreement;

(b) the sale and purchase agreement dated 5 July 2012 entered into between Sky Will Printing & Packaging (Holdings) Limited ("Sky Will"), a wholly-owned subsidiary of the Company, and Glory Wing Investments Limited (a company owned as to 51% by Mr. Ng Man Chan, an executive Director, and as to 49% by Ms. Li Mi Lai, the spouse of Mr. Ng Man Chan) in respect of the acquisition by Sky Will of the entire issued share capital of Miracle True Investment Limited ("Miracle True") at a total consideration of HK$9,400,000;

(c) the sale and purchase agreement dated 15 August 2012 entered into between Get Billion Investment Limited, a wholly-owned subsidiary of the Company, and Mr. Tsang Tsz Chun, in respect of the acquisition by Get Billion Investment Limited of a property at a total consideration of approximately HK$12,000,000;

(d) the sale and purchase agreement dated 26 October 2012 entered into between the Company and Mrs. Chu Yuet Wah ("Mrs. Chu"), in respect of the acquisition by the Company of the entire issued share capital of Fanda Pacific Limited ("Fanda") and the shareholder's loan due from Fanda to Mrs. Chu at a total consideration of HK$12,000,000 (subject to adjustment);

(e) the placing agreement dated 13 May 2013 entered into between the Company and Kingston Securities Limited as placing agent in relation to the placing of a maximum of 241,580,000 Ordinary Shares at an issue price of HK$0.10 per Ordinary Share to not less than six independent placees; and

(f) the sale and purchase agreement dated 20 June 2014 entered into between Sky Will and Amplewood International Limited, in respect of the disposal by Sky Will of the entire issued capital of Miracle True at a total consideration of approximately HK$12,000,000.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Unit 906, 9/F, Wings Building, 110–116 Queen's Road Central, Central, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of SGM. Copy of the following documents will also be available for inspection on the website of the SFC at http://www.sfc.hk and the website of the Company at http://www.climaxintl-co.com from the date of this circular up to and including the date of the SGM.

(a) the memorandum of association of the Company and the Bye-laws;

(b) the memorandum and articles of association of each of the Subscribers;

(c) the annual reports of the Company for the each of two financial years ended 31 March 2013 and 2014;

(d) the letter from the Board, the text of which is set out on pages 7 to 43 of this circular;

(e) the letter from the Independent Board Committee, the text of which is set out on pages 44 to 45 of this circular;

(f) the written consent from Kingston Corporate Finance Limited that it has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name in the form and context in which it appears;

(g) the written consent from RFML that it has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name in the form and context in which it appears;

(h) the letter from the Independent Financial Adviser, the text of which is set out on pages 46 to 80 of this circular;

(i) the written consent from the Independent Financial Adviser that it has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear; and

(j) the material contracts as referred to in the section headed "Material contracts" in this appendix.

10. MISCELLANEOUS

(a) The address of New Horizon is 171 Main Street Road Street, Tortola VG1110, BVI.

(b) The address of each of Starbliss, Grand Consulting, Lucky Time and Cutting Edge is c/o Suite 3901 Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

(c) The address of REORIENT Global is Suites 1102–03 Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

(d) The sole director and the ultimate controlling shareholder of New Horizon is Dr. Liu Ruopeng.

(e) The sole director and the ultimate sole shareholder of Starbliss is Mr. Ko Chun Shun, Johnson.

(f) The sole director and the ultimate sole shareholder of Grand Consulting is Ms. Liu Shu Ling.

(g) The sole director and the ultimate sole shareholder of Lucky Time is Ms. Guo Shanling.

(h) The sole director and the ultimate sole shareholder of Cutting Edge is Ms. Yu Nan.

(i) The sole director of REORIENT Global is Mr. Cecil Te-hwai Ho. REORIENT Global is a wholly-owned subsidiary REORIENT Group Limited, a company listed on the Main Board of the Stock Exchange. The directors of REORIENT Group Limited are Mr. Ko Chun Shun, Johnson, Mr. Jason Boyer, Mr. Brett McGonegal, Mr. Chen Shengjie, Ms. Ko Wing Yan, Samantha and Mr. Tsoi Tong Hoo, Tony (each of whom are executive directors), Mr. Dorian M. Barak (who is a non-executive director), and Mr. Liu Zhengui, Mr. Ding Kebai, Mr. Chu Chung Yue, Howard and Dr. Wong Yau Kar, David, BBS, JP (each of whom are independent non-executive directors). Mr. Ko Chun Shun, Johnson is also the ultimate controlling shareholder of REORIENT Group Limited.

(j) The English text of this circular shall prevail over the Chinese text in case of consistency.

(a) The following new definitions be inserted in the existing Bye-law 1 in their appropriate alphabetical order:

"Ordinary Shares"	the ordinary shares of HK$0.01 each in the capital of the Company;
"Preferred Shares"	the limited voting convertible preferred shares of HK$0.01 each in the capital of the Company;
"Shares" or "shares"	shares in the capital of the Company (being the Ordinary Shares and the Preferred Shares or either one of them as the context may require);

(b) The following bye-law be inserted immediately after Bye-law 9 as Bye-law 9A:

9A.(1) Definitions

For the purpose of this Bye-law 9A, unless the context otherwise requires, the words standing in the first column of the following table shall bear the meaning set opposite them respectively in the second column.

"Business Day"	a day (other than Saturday or Sunday or public holiday) and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licenced banks in Hong Kong are open for general banking business;
"Completion"	means completion of the issue and subscription of the Subscription Shares in accordance with clause 6 of the Subscription Agreement;
"Completion Date"	means the fifth (5th) Business Day from and excluding the day on which the last of the Completion Conditions has been fulfilled or waived pursuant to Clause 4.1 to the Subscription Agreement *(Completion Conditions and waiver)* (as the case may be) (or such other date as the Parties may agree in writing);
"Completion Conditions"	means the conditions precedent to Completion set out in Clause 4.1 to the Subscription Agreement *(Completion Conditions and waiver)* and Schedule 5 to the Subscription Agreement *(Conditions Precedent)*;

"Conversion"	together, completion of the conversion of the Tranche A Preferred Shares in accordance with this Bye-law 9A and completion of the conversion of the Tranche B Preferred Shares in accordance with this Bye-law 9A;
"Conversion Event"	the conversion of Preferred Shares by a Preferred Shareholder pursuant to Bye-law 9A.(6.1) *(Conversion)*;
"Conversion Notice"	the notice of conversion (in such form as may be required by the Company from time to time);
"Conversion Period"	the period commencing from the Issue Date and ending on the second anniversary of the Issue Date;
"Conversion Price"	HK$0.08 per Conversion Share, as adjusted in accordance with Bye-law 9A.(7) *(Conversion adjustments)*;
"Conversion Rate"	the rate for conversion of the Preferred Shares into Ordinary Shares as determined in accordance with Bye-law 9A.(6.3) *(Conversion)*;
"Conversion Right"	the right of Preferred Shareholders to convert their Preferred Shares into Ordinary Shares;
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Shareholders"	(a) for the purpose of the Subscription (including the Specific Mandate), the Redesignation Resolution (as defined in the Subscription Agreement) and the amendment to bye-laws, shareholders of the Company other than the Subscribers, their respective associates and other shareholders of the Company who have a material interest in the Subscription (including the Specific Mandate), the Redesignation Resolution (as defined in the Subscription Agreement) and the amendment to bye-laws of the Company; and (b) for the purpose of the Whitewash Waiver, shareholders of the Company other than the Subscribers and parties acting in concert with New Horizon Wireless Technology Limited and any other shareholders of the Company who are interested or involved in the Subscription (including the Specific Mandate) and/or the Whitewash Waiver;

"Initial Tranche A Consideration"	the first instalment amount of the subscription price payable at Completion in respect of the Tranche A Preferred Shares to be subscribed; for the avoidance of doubt, the Initial Tranche A Consideration payable by the respective Subscribers in respect of its respective Tranche A Preferred Shares to be subscribed by it are set out opposite to the name of the respective Subscribers in the fifth column of the table set out in Bye-law 9A.(10)(1A.2);
"Initial Tranche B Consideration"	the first instalment amount of the subscription price payable at Completion in respect of the Tranche B Preferred Shares to be subscribed; for the avoidance of doubt, the Initial Tranche B Consideration payable by the respective Subscribers in respect of its respective Tranche B Preferred Shares to be subscribed by it are set out opposite to the name of the respective Subscribers in the fifth column of the table set out in Bye-law 9A.(10)(1A.3);
"Issue Date"	the date of Completion, being the date of allotment and issue of the Tranche A Preferred Shares and the Tranche B Preferred Shares;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Ordinary Subscriptions Shares"	an aggregate of 1,666,666,668 new Ordinary Shares to be issued by the Company and subscribed by the relevant Subscriber(s) at Completion;
"Parties"	the parties to the Subscription Agreement and their successors and permitted assigns;
"Preferred Shareholder"	a person registered from time to time in the register of members of the Company as a holder of any Preferred Share(s);
"SFC"	the Securities and Futures Commission of Hong Kong;
"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders to the Board at the general meeting of the Company to allot and issue new Ordinary Shares and Preferred Shares to satisfy the allotment and issue of all the Subscription Shares to each of the Subscribers and the allotment and issue of such number of Ordinary Shares (as adjusted (if any) pursuant to mechanism to this Bye-law 9A) arising from conversion of all the Preferred Shares;

"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"Subscription"	means the subscription of the Subscription Shares under the Subscription Agreement;
"Subscription Agreement"	means the agreement for the subscription of shares in the Company dated 29 May 2014 made between the Company and the persons named in Schedule 1 thereto, namely, New Horizon Wireless Technology Limited, Starbliss Holdings Limited, Grand Consulting Management S.A., Lucky Time Global Limited, Cutting Edge Global Limited and Reorient Global Limited as subscribers (each a "Subscriber" and collectively the "Subscribers");
"Subscription Price"	HK$0.08 per Preferred Share (being the subscription price of the Tranche A Preferred Share per share and the subscription price of the Tranche B Preferred Share per share);
"Subscription Shares"	the aggregate of the Ordinary Subscription Shares, the Tranche A Preferred Shares and the Tranche B Preferred Shares, and "Subscription Share" means any of them;
"trading day"	any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities and on which the Ordinary Shares can be traded on the Hong Kong Stock Exchange;
"Takeovers Code"	The Code on Takeovers and Mergers issued by the SFC as amended from time to time;
"Tranche A Consideration"	the consideration for the subscription of the Tranche A Preferred Shares as set out in the fourth column of the table set out in Bye-law 9A.(10)(1A.2); for the avoidance of doubt, the Tranche A Consideration payable by the respective Subscribers are set out opposite to the name of the respective Subscribers in the fourth column of the table set out in Bye-law 9A.(10)(1A.2);
"Tranche A Payment Conditions"	the conditions precedent to payment of the balance of the Tranche A Consideration set out in Bye-law 9A.(10)(1B.1);

"Tranche A Payment Date"	in relation to a Subscriber's payment of its Tranche A Preferred Shares, a date (being a Business Day) falling within 6 months after the date on which Completion took place specified by such Subscriber by written notice to the Company, provided that if no written notice has been received by the Company, the date falling on the last day of such 6-month period after the date on which Completion took place (or such other date as the Parties may agree in writing), and subject further to the right to defer payment exercisable by holders of the Preferred Shares or the Company (as the case may be) in Bye-laws 9A.(10)(1B.3)(a), (1B.4)(a) and (1B.5)(a);
"Tranche A Preferred Shares"	such number of new Preferred Shares as set out in the second column of the table set out in Bye-law 9A.(10)(1A.2) to be issued by the Company and subscribed for by the Subscribers at Completion; for the avoidance of doubt, the number of the Tranche A Preferred Shares to be subscribed by each Subscriber is set out opposite to the name of each such Subscriber in the second column of the table set out in Bye-law 9A.(10)(1A.2);
"Tranche B Consideration"	the consideration for the subscription of the Tranche B Preferred Shares as set out in the fourth column of the table set out in Bye-law 9A.(10)(1A.3); for the avoidance of doubt, the Tranche B Consideration payable by the respective Subscribers are set out opposite to the name of the respective Subscribers in the fourth column of the table set out in Bye-law 9A.(10)(1A.3);
"Tranche B Payment Conditions"	the conditions precedent to payment of the balance of the Tranche B Consideration set out in Bye-law 9A.(10)(1B.2);
"Tranche B Payment Date"	in relation to a Subscriber's payment of its Tranche B Preferred Shares, a date (being a Business Day) falling before the first anniversary of the date on which Completion took place specified by such Subscriber by written notice to the Company, provided that if no such written notice is received by the Company, the first anniversary of the date on which Completion took place (or such other date as the Parties may agree in writing), and subject further to the right to defer payment exercisable by holders of the Preferred Shares or the Company (as the case may be) in Bye-laws 9A.(10) (1B.4)(a) and (1B.5)(a);

"Tranche B Preferred Shares"	such number of new Preferred Shares as set out in the second column of the table set out in Bye-law 9A.(10)(1A.3) to be issued by the Company and subscribed for by the Subscribers at Completion; for the avoidance of doubt, the number of the Tranche B Preferred Shares to be subscribed by each Subscriber is set out opposite to the name of each such Subscriber in the second column of the table set out in Bye-law 9A.(10)(1A.3);
"Whitewash Waiver"	a waiver from the Executive Director of the Corporate Finance Division of the SFC (or any delegate of such Executive Director) pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscribers to make a mandatory general offer for all of the shares not already owned or agreed to be acquired by the Subscribers and parties acting in concert with New Horizon which would, if the Subscription or Conversion(s) proceeds, otherwise arise as a result of the Subscription or Conversion(s).

9A.(2) Dividend

None of the Preferred Shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution.

9A.(3) Return of Capital

The Preferred Shares shall rank *pari passu* in all respects for return of capital on liquidation, winding up or dissolution of the Company and participation in the distribution of surplus assets of the Company with all other shares in the capital of the Company for the time being in issue.

9A.(4) Transferability

Any Preferred Share, subject to it having been fully paid up, shall be freely transferable. For the avoidance of doubt, no partly-paid Preferred Shares can be transferred.

9A.(5) Voting

The holder(s) of the Preferred Shares will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her/its being the holder(s) of the Preferred Shares, unless a resolution is to be proposed at a general meeting for winding up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Preferred Shares, in which event the Preferred Shares shall confer on the holder thereof the right to receive notice of, and to attend and vote at, the general meeting, save that such holders may not vote upon any business dealt with at such general meeting except the election of a chairman, any motion for adjournment or relating to the proceedings of the general meeting and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights and privileges of the holder(s) of the Preferred Shares. In such event, the votes of holders of Preferred Shares will be counted on as converted basis.

9A.(6) Conversion

9A.(6.1) *Conversion.* Subject to Bye-law 9A.(6.8) *(Conversion subject to public float requirement)* and (i) subject further to payment in full of the Subscription Price of the Tranche A Preferred Shares, the Tranche A Preferred Shares shall be convertible into Ordinary Shares by such Preferred Shareholder serving the Conversion Notice to the Company on any Business Day within the Conversion Period, or (ii) subject further to payment in full of the Subscription Price of the Tranche B Preferred Shares, the Tranche B Preferred Shares shall be convertible into Ordinary Shares by such Preferred Shareholder serving the Conversion Notice to the Company on any Business Day within the Conversion Period, in each case without the payment of any additional consideration therefor, into such number of fully-paid Ordinary Shares as determined in accordance with this Bye-law.

9A.(6.2) *Number of Ordinary Shares upon conversion.* The number of Ordinary Shares to which a holder of Preferred Shares shall be entitled upon conversion following a Conversion Event shall be the number obtained by multiplying the Conversion Rate then in effect by the number of Preferred Shares being converted.

9A.(6.3) *Conversion Rate.* The Conversion Rate of each Preferred Share shall be determined by dividing the Subscription Price by the Conversion Price in effect at the time of conversion, provided that the Conversion Price shall not be less than the then subsisting par value of an Ordinary Share into which such Preferred Share is convertible. The Conversion Price shall be subject to adjustment in accordance with Bye-law 9A.(7) *(Conversion adjustments).*

9A.(6.4) *Mechanism for conversion.*

Upon delivery of the Conversion Notice and certificate(s) evidencing the Preferred Shares to be converted by the holder thereof to the Company, the Company shall promptly and, in any event no later than 10 Business Days after the date of receipt of the Conversion Notice and such certificate(s):

(i) issue and deliver to such holder (a) certificate(s) for the number of Ordinary Shares into which the Preferred Shares are converted in the name as shown on the certificate(s) evidencing the Preferred Shares so surrendered to the Company; or

(ii) cause to be credited into the relevant Preferred Shareholder's brokers' account such number of Ordinary Shares into which the Preferred Shares are converted.

9A.(6.5) *Fractional Shares.* No fraction of an Ordinary Share shall be issued upon conversion of the Preferred Shares. Fractional entitlement shall be ignored by the holder of the Preferred Shares and any sum paid in respect of such subscription shall be retained by the Company for its own benefit.

9A.(6.6) *Sufficient authorized share capital.* The Company shall ensure that at all times there is a sufficient number of unissued Ordinary Shares in its authorized share capital to be issued in satisfaction of the Conversion Right pursuant to Bye-law 9A.(6.1) *(Conversion)*.

9A.(6.7) *Entry into register of members.* Upon the issue of the Ordinary Shares into which the Preferred Shares are converted, the Company shall enter such member of the Company in its register of members in respect of the relevant number of Ordinary Shares arising from such conversion, and the Preferred Shares which have been converted into Ordinary Shares shall be treated as cancelled.

9A.(6.8) *Conversion subject to public float requirement.*

(i) Notwithstanding any provisions in Bye-law 9A, the Company's obligation to effect conversion of fully-paid Preferred Shares into Ordinary Shares in respect of which Conversion Notice has been served ("Outstanding Preferred Shares"), shall be subject to the Company's compliance with Rule 8.08(1)(a) of the Listing Rules.

(ii) The Company undertakes with the Preferred Shareholders that in the event that the Company is unable to effect conversion of any Outstanding Preferred Shares for the reason of compliance with Rule 8.08(1)(a) of the Listing Rules, it shall, once headroom for conversion of such Outstanding Preferred Shares is available, effect conversion of such Outstanding Preferred Shares into Ordinary Shares to the maximum extent possible.

(iii) In the event the Outstanding Preferred Shares are held by more than one Preferred Shareholders and the headroom for conversion by the Company under Bye-law 9A.(6.8)(ii) *(Conversion subject to public float requirement)* is insufficient to enable all of such Outstanding Preferred Shares be converted in one batch, the Outstanding Preferred Shares held by the relevant Preferred Shareholders shall be converted by the Company on a pro-rata basis.

9A.(7) Conversion adjustments

9A.(7.1) The Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of Bye-laws 9A.(7.1)(a) to (f) inclusive *(Conversion adjustments)*, it shall fall within the first of the applicable clauses to the exclusion of the remaining clauses:

(a) if and whenever the Ordinary Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or reclassification becomes effective;

(b) if and whenever the Company shall:

(i) issue (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account); or

(ii) issue Ordinary Shares paid out of distributable profits or reserves and/or share premium accounts issued in lieu of the whole or any part of a cash dividend, being a dividend which the holders of the Ordinary Shares concerned would or could otherwise have received but only to the extent that the market value of such Ordinary Shares exceeds 110% of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash and which would not have constituted a capital distribution (as defined in Bye-law 9A.(7.2) *(Conversion adjustments))* (for which purpose the "market value" of an Ordinary Share shall mean the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet for one Ordinary Share for 5 trading days ending an the last trading day immediately preceding the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash); then the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Ordinary Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Ordinary Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for such issue;

(c) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the closing price published in the Hong Kong Stock Exchange in respect of one Ordinary Share on the trading day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or failing any such announcement, the date of the capital distribution or the grant, as the case may be, as determined in good faith by the independent financial adviser appointed by the Company, of the portion of the capital distribution or of such rights which is/are attributable to one Ordinary Share,

Provided that:

(i) if, in the opinion of the relevant independent financial adviser appointed by the Company, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Hong Kong Stock Exchange's Daily Quotation Sheet of one Ordinary Share which should properly be attributed to the value of the capital distribution or rights; and

(ii) this Bye-law 9A.(7.1)(c) *(Conversion adjustments)* shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day following the record date for the capital distribution or grant;

(d) If and whenever the Company shall offer to all holders of Ordinary Shares new Ordinary Shares for subscription by way of rights, or shall grant to all holders of Ordinary Shares any options or warrants to subscribe for new Ordinary Shares, at a price per new Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Ordinary Shares or other persons), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + H}{G + I}$$

where:

G = the number of Ordinary Shares in issue immediately before the date of such announcement;

H = the number of Ordinary Shares which the aggregate of the two following amounts would purchase at such market price:

(i) the total amount (if any) payable to the rights, options or warrants being offered or granted; and

(ii) the total amount payable for all of the new Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted; and

I = the aggregate number of Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant.

(e) (i) If and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares, and the total Effective Consideration per new Ordinary Share initially receivable for such securities is less than 90% of the market price at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Shares of other persons), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{J + K}{J + L}$$

where:

J = the number of Ordinary Shares in issue immediately before the date of the issue of such securities;

K = the number of Ordinary Shares which the total Effective Consideration receivable for such securities would purchase at such market price; and

L = the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

(ii) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned in Bye-law 9A.(7.1)(e)(i) *(Conversion adjustments)* are modified so that the total Effective Consideration per new Ordinary Share initially receivable for such securities shall be less than 90% of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{M + N}{M + O}$$

where:

M = the number of Ordinary Shares in issue immediately before the date of such modification;

N = the number of Ordinary Shares which the total Effective Consideration receivable for such securities at the modified conversion or exchange rate or subscription price would purchase at such market prices; and

O = the maximum number of new Ordinary Shares to be issued upon full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

(iii) For the purposes of this Bye-law 9A.(7.1)(e) *(Conversion adjustments):*

(aa) the "total Effective Consideration" receivable for the securities issued shall be deemed to be the aggregate consideration receivable by the issuer for such securities for the issue thereof plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto; and (bb) the "total Effective Consideration per new Ordinary Share" initially receivable for such securities shall be such aggregate consideration divided by the maximum number of new Ordinary Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial subscription price, in each case, without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof.

(f) If and whenever the Company shall issue wholly for cash any Ordinary Shares at a price per Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall he adjusted by multiplying the Conversion Price in force immediately prior to the date of such announcement by the following fraction:

$$\frac{P + Q}{P + R}$$

where:

P = the number of Ordinary Shares in issue immediately before the date of such announcement;

Q = the number of Ordinary Shares which the aggregate amount payable for such issue would purchase at such market price; and

R = the number of Ordinary Shares allotted pursuant to such issue. Such adjustment shall become effective on the date of the issue.

Such adjustment shall become effective (if appropriate retroactively) from the date of issue of such securities.

9A.(7.2) For the purposes of Bye-law 9A.(7.1) *(Conversion adjustments):*

"**announcement**" shall mean the publication of an announcement on the website of the Stock Exchange, "**date of announcement**" shall mean the date of the announcement and "**announce**" shall be construed accordingly;

"**capital distribution**" shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if:

(a) it is paid out of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended 31 March 2013 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or

(b) to the extent that (a) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the independent financial adviser appointed by the Company appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially;

"**issue**" shall include allot;

"**market price**" means the average of the closing prices published in the Hong Kong Stock Exchange's Daily Quotation Sheet for one Ordinary Share for the 5 trading days ending on the last trading day immediately preceding the day on or as of which such price is to be ascertained PROVIDED THAT if at any day during the said 5 trading days, the Share shall have been quoted ex-dividend and during some other part of that period, the Ordinary Shares shall have been quoted cum-dividend, then:

(1) if the Ordinary Shares to be issued do not rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; and

(2) if the Ordinary Shares to be issued rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Ordinary Share; and PROVIDED FURTHER THAT if the Ordinary Shares on each of the said five trading days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Ordinary Shares to be issued or purchased do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share;

"**Shares**" includes, for the purposes of Ordinary Shares comprised in any issue, distribution, offer or grant pursuant in Bye-laws 9A.(7.1)(b), (c), (d), (e) and (f) *(Conversion adjustments)* above, any such shares of the Company as, when fully paid, shall be Ordinary Shares;

"**rights**" includes rights in whatsoever form issued.

9A.(7.3) if the Conversion Price is adjusted with effect (retroactively or otherwise) from a date on or before the date on which the names of the Preferred Shareholders whose Preferred Shares are converted into Ordinary Shares pursuant hereto or such other persons as they may direct are entered into the register of holders of Ordinary Shares of the Company and such Preferred Shareholders' entitlement were arrived at on the basis of unadjusted Conversion Price, the Company shall procure that such number of Ordinary Shares which would have been required to be issued on conversion of such Preferred Shares if the relevant adjustment had been given effect to as at the date of conversion shall be allotted and issued to such Preferred Shareholders or such other persons as they may direct.

9A.(7.4) The provisions of Bye-law 9A.(7.1) *(Conversion adjustments)* shall not apply to:

(a) an issue of fully-paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares that exist at the date of issue of the Preferred Shares;

(b) an issue of Ordinary Shares or other securities of the Company or any subsidiary wholly or partly convertible into, of carrying rights to acquire, Ordinary Shares to the eligible participants pursuant to share option scheme adopted by the Company in compliance with Chapter 17 of the Listing Rules; and

(c) an issue by the Company of Ordinary Shares or by the Company or its subsidiary of securities wholly or partly convertible into or carrying rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business.

9A.(7.5) Notwithstanding the provisions of Bye-law 9A.(7.1) *(Conversion adjustments)*, in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the provisions, the Company may appoint the an independent financial adviser, to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if the independent financial adviser appointed by the Company shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time as shall be certified by the independent financial adviser appointed by the Company to be in its opinion appropriate.

9A.(7.6) Any adjustment to the Conversion Price shall be made to the nearest cent so that any amount under half a cent shall be rounded down and an amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into shares of a larger nominal amount or upon a repurchase of Ordinary Shares) involve an increase in the Conversion Price.

9A.(7.7) No adjustment shall be made to the Conversion Price in any case in which the Conversion Price so reduced in accordance with the foregoing provisions would be less than its nominal value.

9A.(7.8) Whenever the Conversion Price is adjusted, the Company shall give notice to the Preferred Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof).

9A.(8) Redemption

Other than the circumstances set out in Bye-law 9A.(10)(1B.3)(b) and Bye-law 9A.(10)(1B.4)(b) *(Failure by the relevant Preferred Shareholders to pay its balance of the Tranche A Consideration or its balance of the Tranche B Consideration)*, the Preferred Shares shall be non-redeemable.

9A.(9) Listing

The Preferred Shares will not be listed on any stock exchange.

9A.(10)(1A) Issue and Payment

9A.(10)(1A.1) Subject to the Initial Tranche A Consideration and Initial Tranche B Consideration having been made, and subject further to the passing of the Redesignation Resolutions (as defined in the Subscription Agreement), all the Tranche A Preferred Shares and the Tranche B Preferred Shares shall be issued on the Issue Date, credited as partly paid in respect of the Initial Tranche A Consideration and the Initial Tranche B Consideration paid.

9A.(10)(1A.2) Subject to Bye-law 9A.(10)(1B.1) *(Conditions precedent to payment and waiver)*, on a Tranche A Payment Date, the relevant Preferred Shareholder in respect of the Tranche A Preferred Shares shall (severally and not jointly) pay (the whole and not part of) its balance of the Tranche A Consideration (i.e. Tranche A Consideration minus the Initial Tranche A Consideration) as set out below:

Name of the Subscribers	**Number of Tranche A Preferred Shares to be subscribed at Completion ("Tranche A Preferred Shares")**	**Subscription price per Tranche A Preferred Share** *(HK$)*	**Total consideration to be paid (HK$) ("Tranche A Consideration")** *(HK$)*	**Partial consideration payable at Completion ("Initial Tranche A Consideration")** *(HK$)*	**Balance of Tranche A Consideration (i.e. Tranche A Consideration minus Initial Tranche A Consideration) payable at Tranche A Payment Date** *(HK$)*
New Horizon Wireless Technology Limited	912,333,333	0.08	72,986,666.64	3,649,333.33	69,337,333.31
Starbliss Holdings Limited	125,222,222	0.08	10,017,777.76	500,888.89	9,516,888.87
Grand Consulting Management S.A.	62,611,111	0.08	5,008,888.88	250,444.44	4,758,444.44
Lucky Time Global Limited	62,611,111	0.08	5,008,888.88	250,444.44	4,758,444.44
Cutting Edge Global Limited	125,222,222	0.08	10,017,777.76	500,888.89	9,516,888.87
Reorient Global Limited	53,666,667	0.08	4,293,333.36	214,666.67	4,078,666.69
Sub-total	1,341,666,666		107,333,333.28	5,366,666.66	101,966,666.62

9A.(10)(1A.3) Subject to Bye-law 9A.(10)(1B.2) *(Conditions precedent to payment and waiver)*, on a Tranche B Payment Date, the relevant Preferred Shareholder in respect of the Tranche B Preferred Shares shall (severally and not jointly) pay (the whole and not part of) its balance of the Tranche B Consideration (i.e. Tranche B Consideration minus the Initial Tranche B Consideration) as set out below:

Name of the Subscribers	Number of Tranche B Preferred Shares to be subscribed at Completion ("Tranche B Preferred Shares")	Subscription price per Tranche B Preferred Share *(HK$)*	Total consideration to be paid (HK$) ("Tranche B Consideration") *(HK$)*	Partial consideration payable at Completion ("Initial Tranche B Consideration") *(HK$)*	Balance of Tranche B Consideration (i.e. Tranche B Consideration minus Initial Tranche B Consideration) payable at Tranche B Payment Date *(HK$)*
New Horizon Wireless Technology Limited	912,333,333	0.08	72,986,666.64	3,649,333.33	69,337,333.31
Starbliss Holdings Limited	125,222,222	0.08	10,017,777.76	500,888.89	9,516,888.87
Grand Consulting Management S.A.	62,611,111	0.08	5,008,888.88	250,444.44	4,758,444.44
Lucky Time Global Limited	62,611,111	0.08	5,008,888.88	250,444.44	4,758,444.44
Cutting Edge Global Limited	125,222,222	0.08	10,017,777.76	500,888.89	9,516,888.87
Reorient Global Limited	53,666,667	0.08	4,293,333.36	214,666.67	4,078,666.69
Sub-total	1,341,666,666		107,333,333.28	5,366,666.66	101,966,666.62

9A.(10)(1B) Conditions precedent to payment and waiver

9A.(10)(1B.1) The payment of the balance of the Tranche A Consideration by a Preferred Shareholder with respect of its Tranche A Preferred Shares to the Company is conditional on the following conditions having been satisfied (or waived) prior to its Tranche A Payment Date:

(a) Completion having occurred in accordance with the terms and conditions of the Subscription Agreement ("Waivable Condition for Tranche A Payment");

(b) the approval by the Independent Shareholders in general meeting for the Specific Mandate not having been or proposed to be withdrawn, amended or revoked; and

(c) the current listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on the Stock Exchange at all times from the Completion Date to the Tranche A Payment Date (save for any temporary suspension not more than 5 trading days (or such other period as such Subscriber may agree), and the Stock Exchange approval with respect to the listing and dealing in of such Ordinary Shares arising from the conversion of the Preferred Shares not having been revoked or cancelled or amended.

(The conditions as set out in (a), (b) and (c) above, collectively, "the Tranche A Payment Conditions".)

The Company undertakes to such Preferred Shareholder to use its best endeavours to ensure that the Tranche A Payment Conditions are fulfilled (if not waived by such Preferred Shareholder) to the satisfaction of such Preferred Shareholder on and immediately prior to the relevant Tranche A Payment Date applicable to such Preferred Shareholder (or such other date as may be agreed by the Company and such Preferred Shareholder). Such Preferred Shareholder shall each give a written notice to the Company specifying its respective Tranche A Payment Date by no later than 5 days prior to such designated date provided that no written notice shall be required to be given by a Preferred Shareholder if the Tranche A Payment Date so intended by such Preferred Shareholder shall be the last day permitted under the definition of the Tranche A Payment Date. Such Preferred Shareholder may, severally, in its absolute discretion waive the Waivable Condition for Tranche A Payment applicable to it at any time by notice in writing to the Company. The Tranche A Payment Conditions (other than the Waivable Condition for Tranche A Payment are not waiveable by any Preferred Shareholder in respect of the Tranche A Preferred Shares.

9A.(10)(1B.2) The payment of the balance of the Tranche B Consideration by a Preferred Shareholder with respect of its Tranche B Preferred Shares to the Company is conditional on the following conditions having been satisfied (or waived) prior to its Tranche B Payment Date:

(a) Completion having occurred in accordance with the terms and conditions of the Subscription Agreement ("Waivable Condition for Tranche B Payment");

(b) the approval by the Independent Shareholders in general meeting for the Specific Mandate not having been or proposed to be withdrawn, amended or revoked; and

(c) the current listing of the Ordinary Shares not having been cancelled or withdrawn, the Ordinary Shares continuing to be traded on the Stock Exchange at all times from the Completion Date to the Tranche B Payment Date (save for any temporary suspension not more than 5 trading days (or such other period as such Subscriber may agree), and the Stock Exchange approval with respect to the listing and dealing in of such Ordinary Shares arising from the conversion of the Preferred Shares not having been revoked or cancelled or amended.

(The conditions as set out in (a), (b) and (c) above, collectively, "the Tranche B Payment Conditions".)

The Company undertakes to such Preferred Shareholder to use its best endeavours to ensure that the Tranche B Payment Conditions are fulfilled (if not waived by such Preferred Shareholder) to the satisfaction of such Preferred Shareholder on and immediately prior to the relevant Tranche B Payment Date applicable to such

Preferred Shareholder (or such other date as may be agreed by the Company and such Preferred Shareholder). Such Preferred Shareholder shall each give a written notice to the Company specifying its respective Tranche B Payment Date by no later than 5 days prior to such designated date provided that no written notice shall be required to be given by a Preferred Shareholder if the Tranche B Payment Date so intended by such Preferred Shareholder shall be the last day permitted under the definition of the Tranche B Payment Date. Such Preferred Shareholder may, severally, in its absolute discretion waive the Waivable Condition for Tranche B Payment at any time by notice in writing to the Company. The Tranche B Payment Conditions are not waiveable by any Preferred Shareholder in respect of the Tranche B Preferred Shares.

FAILURE BY THE COMPANY TO SATISFY PAYMENT CONDITIONS

(I) Failure to satisfy Tranche A Payment Conditions

9A.(10)(1B.3) Without prejudice to any other remedies available to the relevant Preferred Shareholders, if the obligations of the Company under provisions of Bye-law 9A.(10)(1B.1) *(Conditions precedent to payment and waiver)* are not complied with by the Company in any respect on or immediately before the relevant Tranche A Payment Date, the relevant Preferred Shareholders with respect to Tranche A Preferred Shares shall not be obliged to pay to the Company the balance of the Tranche A Consideration and may in their absolute discretion (in addition and without prejudice to any other right or remedy available to them):

(a) by written notice to the Company defer payment of such balance of the Tranche A Consideration by a period of not more than 28 days to such other date as such Preferred Shareholder may specify in such notice (and so that the provisions of Bye-laws 9A.(10)(1A.2) and (1B.1) *(Conditions precedent to payment and waiver)* other than as to timing shall apply to payment of such balance of the Tranche A Consideration as so deferred, provided that such Preferred Shareholder shall be entitled to further defer payment of such balance of the Tranche A Consideration on one or more instances by further written notice to the Company upon expiry of the aforesaid period so deferred; or

(b) by written notice to the Company and the other Preferred Shareholders that it elects not to proceed further with its outstanding payment obligation of its balance of the Tranche A Consideration and its balance of the Tranche B Consideration and whereupon, the Parties agree that such Preferred Shareholder shall not be bound to perform its outstanding payment obligation in respect of its balance of the Tranche A Consideration and its balance of the Tranche B Consideration, and accordingly, the Company shall repurchase the Tranche A Preferred Shares and the Tranche B Preferred Shares (as the case may be) at an amount equivalent to the Initial

Tranche A Consideration and the Initial Tranche B Consideration paid by such Preferred Shareholder, and such Tranche A Preferred Shares and Tranche B Preferred Shares so repurchased shall be cancelled.

(II) Failure to satisfy Tranche B Payment Conditions

9A.(10)(1B.4) Subject to Bye-law 9A.(10)(1B.3)(b) *(Failure to satisfy Tranche A Payment Conditions)* not being applicable, without prejudice to any other remedies available to the relevant Preferred Shareholders, if the obligations of the Company under provisions of, Bye-law 9A.(10)(1B.2) *(Conditions precedent to payment and waiver)* are not complied with by the Company in any respect on or immediately before the relevant Tranche B Payment Date, the relevant Preferred Shareholders with respect to Tranche B Preferred Shares shall not be obliged to pay to the Company the balance of the Tranche B Consideration and may in their absolute discretion (in addition and without prejudice to any other right or remedy available to them):

(a) by written notice to the Company defer payment of such balance of the Tranche B Consideration by a period of not more than 28 days to such other date as such Preferred Shareholder may specify in such notice (and so that the provisions of Bye-laws 9A.(10)(1A.3) and (1B.2) other than as to timing shall apply to payment of such balance of the Tranche B Consideration as so deferred, provided that such Preferred Shareholder shall be entitled to further defer payment of such balance of the Tranche B Consideration on one or more instances by further written notice to the Company upon expiry of the aforesaid period so deferred); or

(b) by written notice to the Company and the other Preferred Shareholders that it elects not to proceed further with its outstanding payment obligation of its balance of the Tranche B Consideration and whereupon, the Parties agree that such Preferred Shareholder shall not be bound to perform its outstanding payment obligation in respect of its balance of the Tranche B Consideration, and accordingly, the Company shall repurchase the Tranche B Preferred Shares at an amount equivalent to the Initial Tranche B Consideration paid by such Preferred Shareholder, and such Tranche B Preferred Shares so repurchased shall be cancelled.

FAILURE BY THE RELEVANT PREFERRED SHAREHOLDERS TO PAY ITS BALANCE OF THE TRANCHE A CONSIDERATION OR ITS BALANCE OF THE TRANCHE B CONSIDERATION

9A.(10)(1B.5) Without prejudice to any other remedies available to the Company, if the obligations of a Preferred Shareholder under Bye-laws 9A.(10)(1A.1), (1A.2) or (1B.1) (as the case may be) are not complied with by such Preferred Shareholder on its Tranche A Payment Date or the Tranche B Payment Date (as the case may be), the Company shall not be obliged to proceed to convert such Tranche A Preferred Shares or Tranche B Preferred Shares (as the case may be) applicable to such Preferred Shareholder into Ordinary Shares in accordance with Bye-law 9A.(6) *(Conversion)* and may in its absolute discretion (in addition and without prejudice to any other right or remedy available to it) by written notice to such Preferred Shareholder:

(a) defer payment of the balance of the Tranche A Consideration or payment of the balance of the Tranche B Consideration (as the case may be) by a period of not more than 28 days to such other date as it may specify in such notice (and so that the provisions of Bye-law 9A.(10)(1A.2) or Bye-law 9A.(10)(1A.3) (as the case may be), other than as to timing, shall apply to payment of its balance of the Tranche A Consideration and payment of its balance of the Tranche B Consideration (as the case may be) as so deferred);

(b) in the event by the last date of the Tranche A Payment Date or the last date of the Tranche B Payment Date such Preferred Shareholder shall not have paid in full its balance of the Tranche A Consideration or its balance of the Tranche B Consideration (as the case may be) the Company shall be entitled to exercise its right to forfeit such Tranche A Preferred Shares or such Tranche B Preferred Shares (as the case may be) issued to such Preferred Shareholder, and whereupon all such Tranche A Preferred Shares or Tranche B Preferred Shares (as the case may be) so issued to such Preferred Shareholder shall be deemed to be so forfeited by the Company and accordingly such Preferred Shareholder shall no longer have any right to repay its balance of the Tranche A Consideration or its balance of the Tranche B Consideration (as the case may be) or convert any such Tranche A Preferred Shares or Tranche B Preferred Shares (as the case may be) into Ordinary Shares.

9A.(11) Inconsistency

If there is any inconsistency between any provisions of this Bye-law 9A and any other provisions of these Bye-laws, then this Bye-law 9A prevails to the extent of the inconsistency except where this would result in a breach of the Act or any other applicable law.

CLIMAX INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that the special general meeting of Climax International Company Limited (the ''Company'') to be held at Lavender, Level 3, Three Pacific Place, 1 Queen's Road East, Admiralty, Hong Kong on 21 August 2014 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions of the Company.

ORDINARY RESOLUTIONS

1. ''**THAT**, each of the 10,000,000,000 shares of the Company of HK$0.01 each in the authorised share capital of the Company be and are hereby reclassified and redesignated into 7,316,666,668 ordinary shares of the Company of HK$0.01 each (''Ordinary Shares'') and 2,683,333,332 preferred shares of HK$0.01 each (''Preferred Shares''), and 1,449,501,125 shares of HK$0.01 each in the issued share capital of the Company be and are hereby reclassified and redesignated as 1,449,501,125 Ordinary Shares, such that following such redesignation and reclassification, the authorised share capital of the Company shall become HK$100,000,000 divided into 7,316,666,668 Ordinary Shares and 2,683,333,332 Preferred Shares with the rights, privileges and restrictions set out in the Subscription Agreement (as defined in ordinary resolution no. 2 below) and in the amendments to the bye-laws of the Company to be adopted by the Company as referred to in Appendix III of the circular of the Company dated 29 July 2014, and that the directors of the Company be and are hereby authorised to do all other acts, matters and things and execute all documents as they consider necessary, desirable or appropriate for the implementation of and giving effect to the transactions contemplated under this resolution.''

2. ''**THAT**, subject to and conditional on the passing of ordinary resolution no. 1,

   (a) the subscription agreement (the ''Subscription Agreement'') dated 29 May 2014 entered into between (i) the Company, and (ii) New Horizon Wireless Technology Limited (''New Horizon''), Starbliss Holdings Limited, Grand Consulting Management S.A., Lucky Time Global Limited, Cutting Edge Global Limited and REORIENT Global Limited (collectively the ''Subscribers'') in relation to the subscription of 1,666,666,668 new Ordinary Shares (the ''Ordinary Subscription Shares'') and 2,683,333,332 new Preferred Shares (collectively, the ''Subscription Shares'') at an issue price of HK$0.08 per Subscription Share (a copy of the Subscription Agreement is tabled at the meeting and marked "A" by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;

(b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Ordinary Subscription Shares and the new ordinary shares of the Company to be issued upon conversion of the Preferred Shares, the specific mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and deal with the Subscription Shares and the new ordinary shares of the Company to be issued upon conversion of the Preferred Shares pursuant to the terms of the Preferred Shares set out in the Subscription Agreement be and is hereby approved;

(c) any director(s) of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the transactions contemplated by the Subscription Agreement, the allotment and issue of the Subscription Shares and the new ordinary shares of the Company to be issued upon conversion of the Preferred Shares, and subject to approval from the Independent Shareholders (as defined in the circular of the Company dated 29 July 2014) in accordance with the Listing Rules for any material variation of the terms of the Subscription Agreement, to approve or agree to any amendment, variation or modification of the terms and conditions of the Subscription Agreement on such terms and conditions as any director(s) of the Company may think fit."

3. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the waiver granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to note 1 on dispensations for Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation of the Subscribers to make a mandatory general offer to acquire all the issued ordinary shares of the Company and other securities of the Company not already owned or agreed to be acquired by the Subscribers and parties acting in concert with New Horizon, as a result of the allotment and issue of the Subscription Shares and issue of the new ordinary shares of the Company upon full conversion of the Preferred Shares to the Subscribers be and is hereby approved."

4. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1, no. 2 and no. 3, and subject further to completion of the Subscription (as defined in the circular of the Company dated 29 July 2014), the appointment of Dr. Liu Ruopeng as an executive director of the Company with effect from completion of the Subscription be and is hereby approved."

5. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1, no. 2 and no. 3, and subject further to completion of the Subscription (as defined in the circular of the Company dated 29 July 2014), the appointment of Dr. Luan Lin as an executive director of the Company with effect from completion of the Subscription be and is hereby approved."

6. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1, no. 2 and no. 3, and subject further to completion of the Subscription (as defined in the circular of the Company dated 29 July 2014), the appointment of Dr. Zhang Yangyang as an executive director of the Company with effect from completion of the Subscription be and is hereby approved."

7. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1, no. 2 and no. 3, and subject further to completion of the Subscription (as defined in the circular of the Company dated 29 July 2014), the appointment of Mr. Ko Chun Shun, Johnson as an executive director of the Company with effect from completion of the Subscription be and is hereby approved."

8. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1, no. 2 and no. 3, and subject further to completion of the Subscription, the appointment of Dr. Liu Jun as an independent non-executive director of the Company with effect from completion of the Subscription be and is hereby approved."

9. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1, no. 2 and no. 3, and subject further to completion of the Subscription, the appointment of Dr. Wong Kai Kit as an independent non-executive director of the Company with effect from completion of the Subscription be and is hereby approved."

SPECIAL RESOLUTIONS

10. "**THAT**, subject to and conditional on the passing of ordinary resolution no. 1, the proposed amendments to the bye-laws of the Company as set out in Appendix III of the circular of the Company dated 29 July 2014 be and are hereby approved by the Company, such amendments to take effect from the date of this resolution."

11. "**THAT**, subject to and conditional upon (i) the passing of all of the ordinary resolutions of the Company set out in this notice of the SGM of which this resolution forms part; (ii) the completion of the Subscription; and (iii) the approval of the Registrar of Companies in Bermuda being obtained in respect of the proposed change of name of the Company as set out in paragraph (a) below:

    (a) the English name of the Company be and is hereby changed from "Climax International Company Limited" to "KuangChi Science Limited", and the Chinese name of "光啟科學有限公司" be adopted as the secondary name of the Company in place of the existing Chinese name "英發國際有限公司" which was previously adopted for identification purposes only, and that such documents in connection with the change of name of the Company be filed and registered with the Registrar of Companies in Hong Kong under Part 16 of the Companies Ordinance); and

(b) any directors of the Company be and are hereby authorised for and on behalf of the Company to sign, seal, execute and deliver all such documents and deeds, and do all such acts, matters and things as they may in their discretion consider necessary or desirable to implement and/or effect the change of name of the Company."

By order of the Board
Climax International Company Limited
Wong Hin Shek
Executive Director

Hong Kong, 29 July 2014

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business of Hong Kong:
Unit 906, 9/F
Wings Building
110–116 Queen's Road Central
Central
Hong Kong

Notes:

1. Every member of the Company entitled to attend and vote at the above meeting is entitled to appoint more than one proxy (if a member who is holder of two or more shares) to attend and vote for him/her on his/her behalf of the meeting. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the Company's share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof.

3. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or any adjourned meeting thereof.